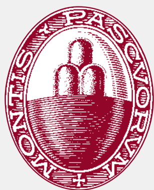

BANCA MONTE DEI PASCHI DI SIENA S.P.A.

2013 ANNUAL REPORT

Monte dei Paschi di Siena Group – Consolidated Annual Report 2013

Banca Monte dei Paschi di Siena S.p.a.
Share capital: € 7,484,508,171.088 fully paid in
Siena Companies' Register no. and tax code 00884060526
Member of the Italian Interbank Deposit Protection Fund. Banks Register no. 5274
Monte dei Paschi di Siena Banking Group, registered with the Banking Groups Register

NOTICE OF ORDINARY SHAREHOLDERS' MEETING

The shareholders of Banca Monte dei Paschi di Siena S.p.A. ("**BMPS**" or "**Company**" or "**Bank**") are called to the Extraordinary and Ordinary Shareholders' Meeting on **28 April 2014** at **9:30** am in Siena, Viale Mazzini 23, and if necessary, on second call on **29 April 2014**, at the same time and same location, and if necessary, on third call for the extraordinary session on **30 April 2014** at the same time and same location to resolve on the following

AGENDA

Ordinary session:

1. Separate and consolidated financial statements at 31 December 2013, resolutions pertaining thereto and resulting therefrom;
2. Remuneration report in accordance with Article 123-*ter* of Italian Legislative Decree no. 58/98 (Consolidated Law on Financial Intermediation).

Extraordinary session:

1. Amendments to Articles 15 and 26 of the Articles of Association.

The full version of the notice is available on the following web page:

http://www.mps.it/NR/rdonlyres/7651961A-F5BA-409C-8D39-AEC4AA2C7A9D/71744/AVVISODICONVOCAZIONEIT.pdf

The Notice of the Shareholders' Meeting can be found at: www.mps.it under Investors & Research – Corporate Governance – Shareholders' Meetings.

Siena, 11 March 2014

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GOVERNING AND CONTROL BODIES

BOARD OF DIRECTORS

Alessandro PROFUMO	Chairman
Fabrizio VIOLA	Chief Executive Officer
Marco TURCHI	Deputy Chairman
Pietro Giovanni CORSA	Deputy Chairman from 29.04.2013
Alberto Giovanni ALEOTTI	Director
Beatrice BERNARD	Director from 28.12.2013
Paola DEMARTINI	Director
Daniele DISCEPOLO	Director from 28.12.2013
Angelo DRINGOLI	Director
Lorenzo GORGONI	Director
Marco MICCINESI	Director from 28.12.2013
Marina RUBINI	Director from 28.12.2013

BOARD OF STATUTORY AUDITORS

Paolo SALVADORI	Chairman
Paola SERPI	Standing Auditor
Claudio GASPERINI SIGNORINI	Standing Auditor
Stefano ANDREADIS	Alternative Auditor
Franco MICHELOTTI	Alternative Auditor from 18.07.2013

SENIOR MANAGEMENT

Fabrizio VIOLA	General Manager
Antonio Marino	Deputy General Manager from 28.05.2012 to 31.01.2014
Bernardo MINGRONE	Deputy General Manager from 01.02.2014
Angelo BARBARULO	Deputy General Manager from 01.02.2014.

INDEPENDENT AUDITORS **RECONTA ERNST & YOUNG S.p.A.**

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Basis of preparation

The Consolidated Report on Operations as at 31 December 2013 provides a snapshot of the activities and results which largely characterised the Montepaschi Group's operations in 2013, both as a whole and in the various business sectors into which consolidated operations are organised.

In particular, the economic and financial indicators, based on accounting data, are those used in the internal systems of performance management and management reporting and are consistent with the most commonly used metrics within the banking industry in order to ensure the comparability of figures presented.

In addition, the Report incorporates non-financial information providing the details on resources, risk and customer relations that are significant to the Group's current and future performance. This information is analysed in more depth within the "Sustainability Report" - which provides a complete update on the implementation of corporate sustainability policies - as well as in other relevant corporate communications found within the website of the Bank www.mps.it, such as: the Report on Corporate Governance and Ownership Structure, the Remuneration Report, Pillar 3 Disclosure.

Description of the Group and its business model

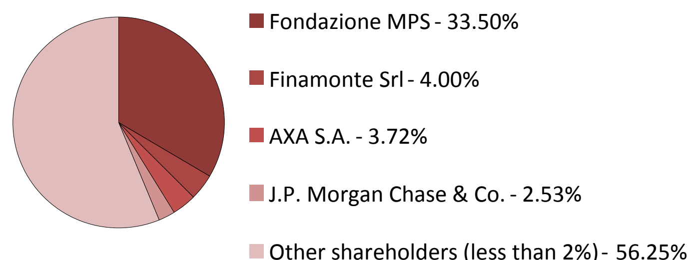
The Montepaschi Group (hereinafter referred to as the "Group") is one of the leading Italian banking institutions with 28,417 employees, approx. 5.5 million customers, assets of approx. EUR 199 bn and significant market shares in all the areas of business in which it operates.

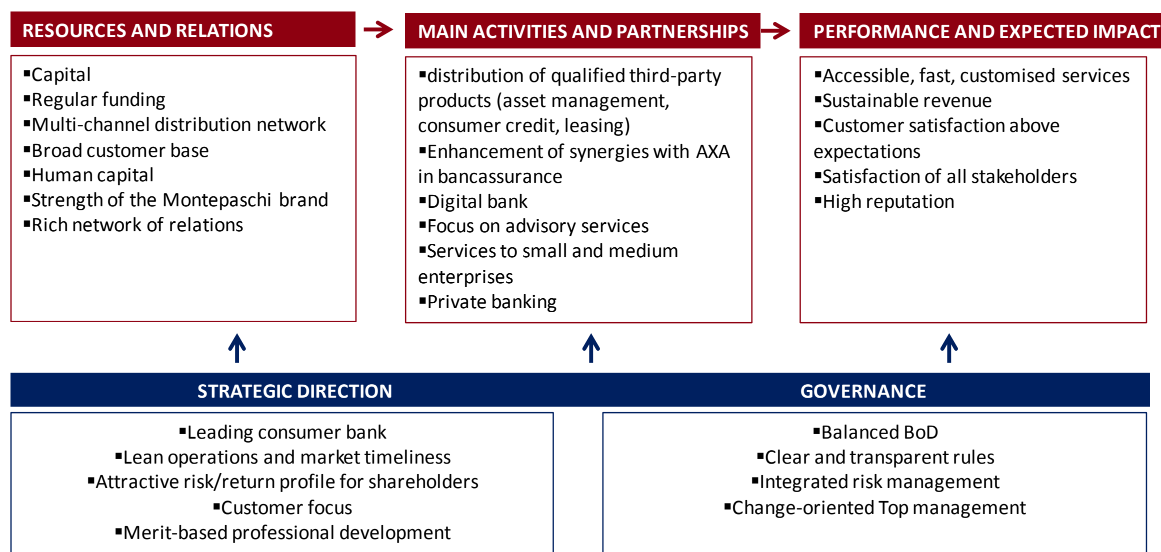
Breakdown as at 31/12/2013	
Employees	28,417
Branches (Italy)	2,334
Customers	approx. 5.5 million
Total assets (mln €)	199,106
Shareholders' equity (mln €)	6,155
Income from banking and insurance (mln €)	3,957

Ownership structure

The role of the Parent Company is carried out by Banca Monte dei Paschi di Siena SpA. Founded in 1472 as a public pawnbroking establishment (Monte di Pietà), the Bank is a member of FTSE MIB40 with market capitalisation in the region of EUR 2,049 mln as at 31/12/2013. The major shareholders[1] of the Bank hold a total of 43.75% in ordinary share capital.

Breakdown of Bmps share capital as at 31/12/2013



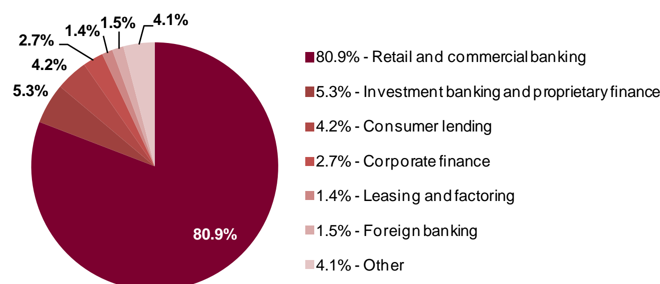


[1] Shareholders with shareholdings of more than 2%

Primary activities and partnerships

The Group's main activity is consumer banking, with a particularly strong retail vocation. The Group is also active through specialised product companies in business areas such as leasing, factoring, corporate finance, investment banking and consumer credit (this division was further strengthened through the agreement stipulated with Compass-Mediobanca Group in February 2014). On the distribution side, the insurance-pension sector is covered by a strategic partnership with AXA while asset management activities are based on the offer of independent third-party investment products to customers.

Breakdown of Group revenues by key business area as at 31/12/2013



The chart does not include cancellation of intragroup entries.

During the course of the year, the merger by absorption of Banca Antonveneta and MPS Gestione Crediti Banca into Banca Monte dei Paschi di Siena was completed; in addition, the transfer of the administrative and accounting business unit to the company Fruendo Srl (formed by way of a joint venture between Bassilichi SpA and Accenture Italia) was stipulated with effectiveness as of 1 January 2014.

Markets of operation

The Group mainly operates in Italy through a network of 2,334 branches, 287 specialised centres and 125 financial advisory offices open to the public.

Foreign banking operations are focused on supporting the internationalisation processes of Italian corporate clients in all major foreign financial markets as well as some emerging countries that have business relations with Italy.

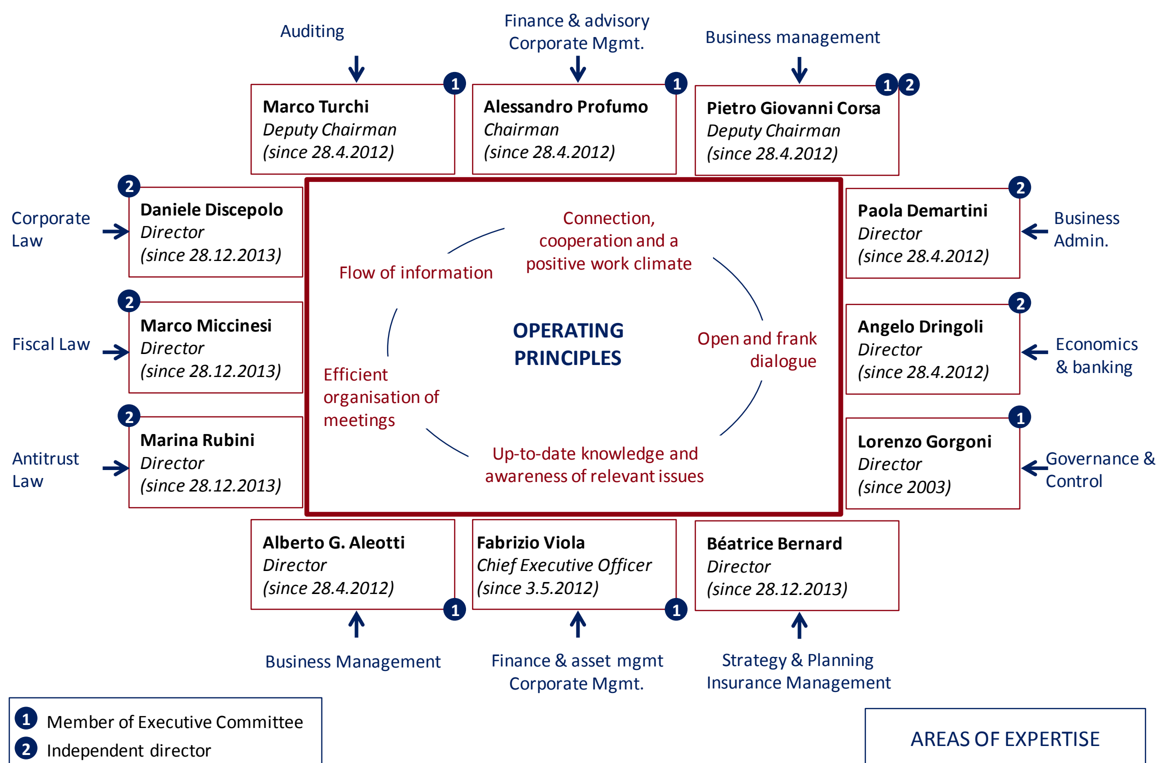
Governance

Board of Directors of the Bank

The Bank's Board of Directors has an appropriate and balanced composition, with a set of diversified and complementary skills. The working environment is positive and characterised by intense and genuine debates in which all directors have ample opportunities to contribute to the decision-taking process. They are able to express their points of view openly in a spirit of constructive criticism.

In 2013, in a particularly complex environment, the BoD was led authoritatively and decisively by the Chairman, with the proactive support of the Chief Executive Officer. Despite the extraordinary emergency situation, the Chairman effectively performed his management responsibilities, guiding the development of the Bank's strategic policies while relying on the appropriate internal reporting and timely updates on the most relevant and current banking issues.

Board of Directors– Operating principles and areas of expertise



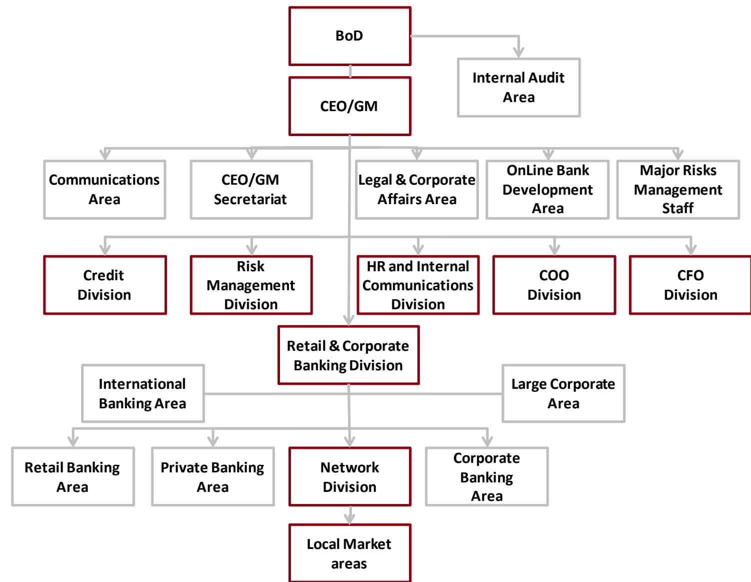
For further information on the professional profiles of the directors, refer to the Bank's website: http://www.mps.it/Area+Media/

Management team and structure

In less than two years, the management team was completely renewed (20 new executives in key positions of the Bank). The new managers hail from highly innovative business sectors.

The Parent Company is the central management and operational coordinating structure, which also performs operating activities on behalf of the sales & distribution network. During the year, various organisational restructuring actions were undertaken. Specifically, controls for strategic business sectors, such as private banking, were strengthened with the establishment of an ad-hoc Area within the Retail and Corporate Division. Internet banking was supported through the project to develop a new on-line bank, assigned to an Area that reports directly to the Chief Executive Officer.

The Parent Company's organisation chart as at 31/12/2013



On 30.1.2014, the Board of Directors approved the guidelines for the re-organisation of the Parent Company, with the aim of strengthening the sales & distribution functions as well as the integrated and coordinated supervision of governance and business support functions.

Sales and distribution functions – Business departments will be directly managed by the CEO, strengthening the specialization of the departments dedicated to the individual business segments. The following departments will report directly to the CEO: the Retail and Network Division (for the Retail and Private segments, as well as the coordination of the Sales Network) and the Corporate and Investment Banking Division (for the Corporate, Major Groups, International Activities and Private Equity segments).

Governance and business support function – The following will be established: the General Finance and Operations Division, to which the following will report: Chief Financial Officer Division and Chief Operating Officer Division; the Human Resources, Organisation and Communications Division, which will directly report to the CEO in order to promote effective interoperability between human resources management, business organisational structures and internal/external communications.

Resources and relations

In order to support the Group's value and performance, it is not only important to guarantee the adequate availability of financial resources (capital, liquidity, cash flow, etc.) but also to be able to rely on high-level non-financial resources, such as: the customer base, human capital, operating efficiency, reputation and social responsibility.

The management and development of these resources over the year are examined in the chapter "Management of non-financial strategic resources".

As part of Group value and performance, it is also important to develop effective relationships with stakeholders and succeed in combining the goal of meeting their different expectations with the delivery of business objectives.

To this effect, the relationships particularly focused on by the Group in 2013 were those with:

- the European Commission, the Italian Government and the Supervisory Authorities, particularly in the area of capital strategy;
- human resources, in order to constantly involve employees in business developments, clarify the typical behaviours of the Group and its resources (the so-called DNA of the Group), as well as understand the needs and expectations of employees as part of the relative managerial plans;

- trade unions, through second-level bargaining processes, meetings and the relative agreements stipulated to manage the effects of the Business Plan projects on personnel;
- customers, in order to assist them in properly assessing their relationship with the Bank and to determine their needs, as a fundamental element for adjusting the offer and developing services;
- analysts and investors, in order to transparently and effectively communicate business decisions that are, in particular, relevant to the Restructuring Plan and the scheduled capital strengthening transaction;
- the media, in order to ensure that the public has an accurate perception of corporate matters and to detect and resolve any issues that affect the Group's reputation resulting from reports in the media or social networks.

Strategic orientation and Business Plan

The 2013-2017 Business Plan, approved by the BoD on 28 November 2013, outlines the strategic and operational policies contained in the Restructuring Plan, approved by the BoD on 7 October 2013 and by the European Commission on 27 November 2013.

Having also taken into account the international competitive market, the Plan provides for a radical transformation in the "way of banking", anticipating changes underway in the banking industry which will alter the Bank's P&L and business model.

Objectives by 2017

1. Achieve sustainable levels of profitability (RoTE at 9%).
2. Strengthen capital quantity and quality (Basel III common equity at 10%).
3. Structural rebalancing of liquidity (loans/deposits ratio at 90%).

Operational priorities

- A new distribution model geared towards customer satisfaction, with fewer branches but more relationship-oriented, flexible sale points with increased customer interaction.
- An evolution in the intermediation model with more third-party products offered and a leaner balance sheet, aiming at an expansion of distribution agreements with third parties (consumer credit, leasing), an additional boost to "bancassurance" and innovative solutions to support SMEs.
- Improved operating efficiency with initiatives aimed at making the Bank leaner, more productive and "digital".
- HR enhancement and development with a merit-based approach.
- Increasing commercial productivity in the Retail, Private and Corporate segments. With regards to the latter, the objective is to become the bank of choice for SMEs.
- Improving loan book quality through a stronger monitoring process and prevention actions on performing loans, reduction in substandard/doubtful loan stock, maximisation of debt collection and new organisational setup for the loan disbursement and credit monitoring process.
- Increasing quantity and quality of capital, with a capital increase of up to EUR 3 bn and full repayment of the New Financial Instruments by 2017.
- A conservative risk management strategy and rationalisation of the asset portfolio.
- Renewal of operating and cost management models with a substantial upturn in efficiency and sustainable optimisation of the entire operating cost base.

Performance and outcomes

Scenario

During 2013, there was a gradual strengthening in developed economies, in particular in the United States, accompanied by a reduction in risk premiums on government securities in the Eurozone, where economic activity began a fragile recovery. However, the recovery is slow and inconsistent across the various Eurozone countries, burdened by unemployment that remains stable at historically high levels as well as prolonged low inflation.

Certain emerging growth drivers

- *Innovation and the new way of banking* - the traditional model based on the physical branch, although still a central feature, will be enhanced by new service models, such as online and mobile.
- *Customer focus* - investments to innovate customer service and improve customer experience and satisfaction will continue to grow.
- *Community involvement* - new forms of interaction between the Bank, customers and the community will develop and transform the manner in which products are designed and distributed, creating shared value.
- *Sustainable finance* - combining profit objectives with meeting the requirements of stakeholders will be a new important leverage of competitiveness and innovation for banks. In particular, the most interesting changes concern migrant banking and green finance, and the social investment sector will receive additional impetus.

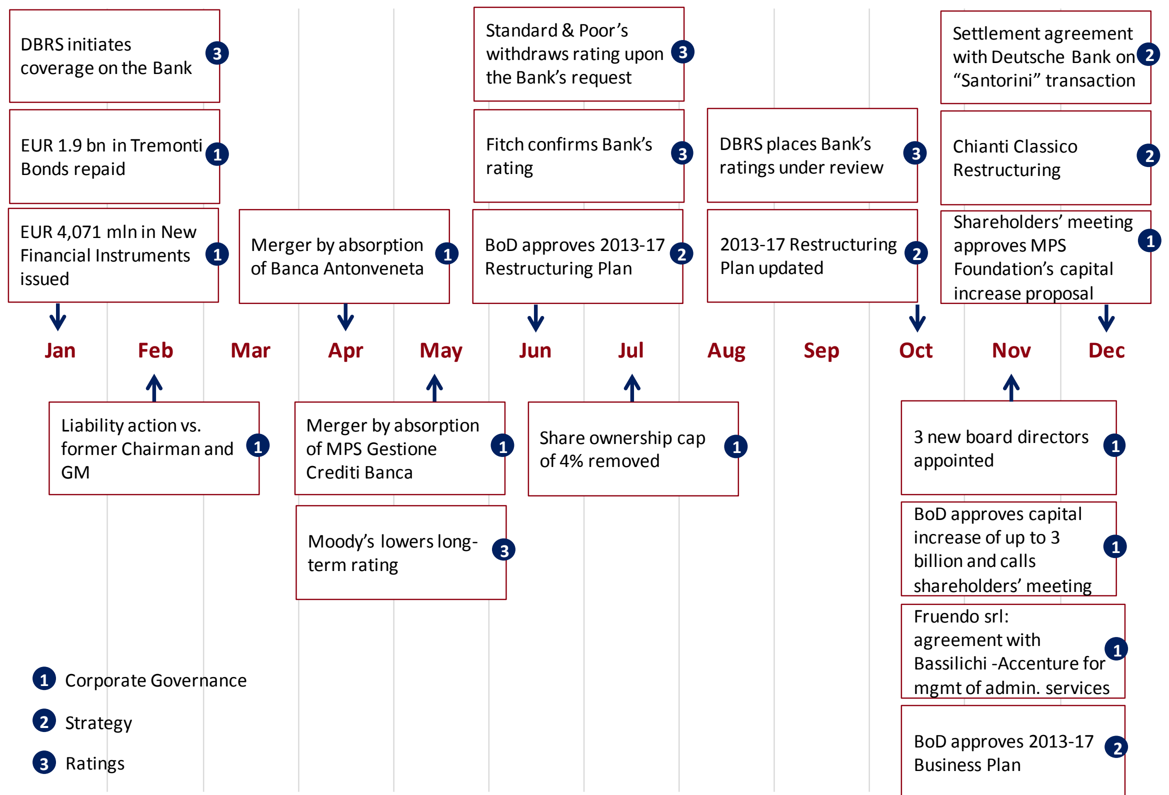
On the other hand, international markets were affected by considerable uncertainty. Firstly, in mid July 2013, the **Federal Reserve announced a gradual decrease in securities purchases** followed later by signs of a slowdown in China, which affected emerging markets, particularly those with structural problems and issues relating to short-term financing. As a result, in November 2013, the **ECB's Governing Council reduced the official rates to 0.25%**, reiterating that these rates will remain at this level, or lower, for the foreseeable future.

In Italy, qualitative reports suggest a gradual improvement, showing continued expansion in manufacturing activities as well as the imminent return to growth in the services sector. Industrial production, which has been decreasing since the summer of 2011, increased by 1% in the fourth quarter of 2013, with sales and orders growing moderately since last summer. A recovery in net capital flows from abroad was also reported, with Bank of Italy's debt position in the Target2 payment system falling by almost one third compared to the peak reached in the summer of 2012. GDP grew by a few tenths of a percentage point in the fourth quarter of 2013, reversing the trend recorded through the previous quarter.

Long-term interest rates on Italian government securities fell below 4%, with a spread relative to the ten-year Bund of circa 200 basis points (compared to the 350 basis points in March 2013). With regard to interbank rates, on the other hand, the 1M Euribor – after having been stable at minimum levels for most of the year – closed at around 0.24% (quarterly average of the 1-month Euribor was 0.15%) due to decreased liquidity in the system.

In the banking system, loans to businesses have not yet benefited from the improvement in financial market conditions, continuing to fall in the last quarter by more than 8% on an annual basis. On the one hand, there is low demand for investments, and on the other, continued high risk for the loan portfolio, which is affected by slow changes in the domestic economy. (For more information on the banking sector, refer to the Bank of Italy Economic Bulletin for January 2014.)

Key events in 2013



Further information is available on the Bank's website: http://www.mps.it/Area+Media/ and in the Notes to the Consolidated Financial Statements.

Significant events after 31/12/2013

January

- The sale of the business unit consisting of administrative and back office activities to Fruendo Srl, a joint venture between Bassilichi SpA and Accenture Italia, became effective as of 1 January 2014.
- Banca Monte dei Paschi di Siena sold its entire shareholding in Sorin SpA - equivalent to 27,458,403 ordinary shares, or 5.7% of share capital – through an accelerated book-building procedure exclusively targeted to qualified investors in Italy, as defined by art. 34-ter, para. 1, letter b, of Consob Regulation no. 11971/1999, as well as foreign institutional investors.
- The Board of Directors of Banca Monte dei Paschi di Siena resolved the organisational restructuring plan of the Parent Company, with the objective of strengthening the sales presence and integrating governance and business support functions.

February

- Banca Monte dei Paschi di Siena and Compass - a leading consumer credit company of the Mediobanca Group - signed an agreement for the distribution of Compass lending products in over 2,300 branches of Montepaschi Group. The agreement is already operational and allows the Group to supplement the current range of products offered by Consum.it, the Group's consumer credit company, with additional solutions in terms of duration, amount and types of loans.
- A memorandum of understanding was stipulated between Banca Monte dei Paschi di Siena, the MPS Small Shareholders Associations, the MPS Good Governance Association and CONAPA, the National Coordinating Association for Small Shareholders. The memorandum represents a significant step toward a more productive dialogue with small shareholders through their associations, which seeks to facilitate their participation in the Bank's shareholders' meetings and render it more constructive.

CONSOLIDATED REPORT ON OPERATIONS

Highlights at 31/12/13

INCOME STATEMENT AND BALANCE SHEET FIGURES AND KEY INDICATORS

MPS GROUP			
INCOME STATEMENT FIGURES (EUR mln)	**31/12/13**	**31/12/12** (*)	**% chg**
Income from banking activities	3,810.9	4,462.4	-14.6%
Income from banking and insurance activities	3,957.4	4,994.9	-20.8%
Net operating income	(1,677.4)	(1,118.5)	50.0%
Parent company's net profit (loss) for the period	(1,439.0)	(3,168.2)	-54.6%
BALANCE SHEET FIGURES AND INDICATORS (EUR mln)	**31/12/13**	**31/12/12**	**% chg**
Direct funding	129,963	135,670	-4.2%
Indirect funding	103,397	114,176	-9.4%
of which: assets under management	*45,106*	*44,540*	*1.3%*
of which: assets under custody	*58,292*	*69,636*	*-16.3%*
Loans to customers	131,218	142,015	-7.6%
Group net equity	6,155	6,320	-2.6%
KEY CREDIT QUALITY RATIOS (%)	**31/12/13**	**31/12/12**	**Abs. chg**
Net doubtful loans/Loans to Customers	6.8	5.1	1.6
Net substandard loans/Loans to Customers	5.7	4.2	1.5
PROFITABILITY RATIOS (%)	**31/12/13**	**31/12/12**	**Abs. chg**
Cost/Income ratio	71.0	64.4	6.60
Net loan loss provisions / End-of-period loans	2.10	1.88	0.22
CAPITAL RATIOS (%)	**31/12/13**	**31/12/12**	**Abs. chg**
Solvency ratio	15.2	13.7	1.5
Tier 1 ratio	10.6	9.5	1.1
INFORMATION ON BMPS STOCK	**31/12/13**	**31/12/12**	
Number of ordinary shares outstanding	11,681,539,706	11,681,539,706	
Price per ordinary share:	**from 31/12/12 to 31/12/13**	**from 31/12/11 to 31/12/12**	**% chg**
average	0.22	0.25	-12.1%
low	0.15	0.16	-1.5%
high	0.30	0.424	-29.2%
OPERATING STRUCTURE	**31/12/13**	**31/12/12**	**Abs. chg**
Total head count - end of period (**)	28,417	30,303	(1,886)
Number of branches in Italy	2,334	2,671	(337)
Number of specialised centres	287	270	17
Financial advisory branches	125	138	(13)
Number of branches & representative offices abroad	39	39	-

(*) The reclassified 2012 Balance Sheet and Income Statement were restated, in accordance with the accounting schedules, in order to take into account certain phenomena (IAS 19 - "Employee benefits", sale of the business unit pertaining to administrative and auxiliary activities to Fruendo Srl, accounting reclassification of a portion of reserves in deposits from banks in relation to an in-depth analysis of the "Fresh 2008" transaction); for a description of these elements, refer to the Notes to the Consolidated Financial Statements.
(**) 2012 figures have been restated following extension of the operational monitoring scope to the companies MPS Tenimenti and Magazzini Generali Fiduciari di Mantova. The number of Group employees as at 31/12/2013 includes 1,064 individuals in the business unit related to administrative and auxiliary activities and sold to Fruendo Srl, effective 1/1/2014.

Results in brief

Changes in the key items of the financial statements of Montepaschi Group as at 31 December 2013 are summarised below.

- **Total funding** volumes for the Group – amounting to **EUR 233 bn** - declined 6.6% with respect to the previous year, due to trends in both direct funding (particularly penalised by the decline in bonds) and assets under custody, which were mainly affected by changes in shares under custody by some of the Group's Key Clients and other institutional customers.
- Group **loans to customers** amounted to **EUR 131 bn**, down 7.6% with respect to 31/12/2012, as a result of both the decline in demand for loans due to the recessive economic cycle and a selective credit-granting policy, which particularly affected current accounts (-16.3% YoY) and medium-long term loans (-10.4% YoY).
- With respect to credit quality, **non-performing loan coverage** was **41.8%**, an increase over the previous year (+80 bps), with coverage of doubtful loans equal to 58.8% (57.9% as at 31/12/2012) while the annual decrease in the coverage of substandard loans (from 21.9% to 20.4%) reflects a higher ratio of "objective substandard loans" that require more limited writedowns.
- With regard to capital ratios, as at 31/12/13 the **Core Tier 1 Ratio stood at 10.6%** (9.5% as at 31 December 2012) and **Total Capital Ratio at 15.2%** (13.7% as at 31 December 2012).
- The Group's **net income from banking and insurance activities** was **EUR 3,957 mln,** down 20.8% on the same period of the previous year. **Net interest income** amounted to **EUR 2,153 mln**, down 23.9% from the previous year. This change was not only influenced by the decrease in market rates and loan levels, but also by the increased amount of New Financial Instruments (NFIs) that were issued in February 2013 (equal to EUR 4,071 mln) compared to the so-called "Tremonti Bonds" held in 2012 (totalling EUR 1,900 mln), resulting in a negative effect on net interest income of EUR 162 [2] mln, as well as the cancellation, in September 2012, of income from the "urgent facility fee" and revised methods for calculating interest payable on overdrawn amounts. **Net fees and commissions** came to **EUR 1,658 mln**, slightly higher than the previous year (+ EUR 25 mln, +1.5%) due to the opposing effects deriving from a significant growth in placement fees on wealth management products (particularly, an increase in fees and commissions for portfolio management, trading and investment advice as well as product distribution), offset by the decrease in net income from services, which was primarily affected by the lower demand for loans.
- With regard to cost of credit, the ratio of loan loss provisions for the year over total customer loans reflects a **provisioning rate** of **210 bps**, up 22 bps from the end of 2012 when it stood at 188 bps.
- In 2013, **operating expenses** totalled **EUR 2,811.5 mln**, down 12.7% on the same period of the previous year (-1.5% QoQ). **Net provisions for risks and charges and other operating expenses/income** were negative for EUR 243.1 mln, down 25.5% from the previous year with a negative contribution in Q4 of EUR 225.8 mln.
- The consolidated net result before Purchase Price Allocation (PPA) shows a loss of EUR 1,399.2 mln (loss of EUR 1,463.6 mln as at the end of December 2012). Considering the effects of PPA, the Group's loss for the period totalled EUR 1,439 mln (loss of EUR 3,168.2 mln as at the end of December 2012).

[2] This amount represents the difference between EUR 333.1 mln in interest accrued in 2013 on the New Financial Instruments/former Tremonti Bonds (refer to section 1.4 of the Notes to the Financial Statements – Part C – Information on the consolidated income statement) and EUR 171 mln relative to 2012.

Implementation of the Business Plan

Performance monitoring

For each draft Business Plan, a planning and measurement system for short-term and medium/long-term quantitative and qualitative performance indicators is used. This system associates the economic/financial results with the actions taken to achieve these results (value tree).

Summary of progress

In view of the challenging market for both the market and the Group, management has significantly stepped up the execution of the Business Plan, especially in the areas of cost management, Branch Network structure and overall efficiency. In particular:

Capital and governance - Disposal of Biverbanca (in 2012) and merger by absorption of Banca Antonveneta (effective as of 29/04/2013) and Mps Gestione Crediti Banca (effective as of 13/05/2013). The plan to rationalise the equity investments portfolio is underway. Risk Management activities continued to develop the ALM measurement model (methodologies, systems and actions to boost net interest income).

Liquidity - Structural liquidity strengthening confirmed. A new calculation model was defined for liquidity indicators (operational, structural, managerial and regulatory).

Credit – Operational functioning of the entire credit supply chain revised (in particular, decision-making powers, portfolio management and Credit Risk Mitigation). Projects for the roll out of the new model for issuing and monitoring credit, as well as the new credit recovery model, have been defined.

Sales & distribution - New breakdown of the Bank's Regional Areas and Local Market Units implemented. 400 branches closed since the start of the Plan. New micro-based sales governance model for head office/network defined and new local planning and marketing strategies introduced, with roll-out of new processes underway (Regata Project). The new service model for SMEs has been designed. The new internet banking, new on-line trading system and new mobile banking applications on various platforms have been defined. The new acquiring and issuing platform has been launched (with migration of all retailers). New pricing models and strategies defined. The new advisory services (Advice) have been launched. The WIDIBA online banking project has been initiated as part of the re-positioning of the Bank's business model.

Operational excellence - Organisational models re-defined for Head Office units, the Network, administrative services and information technology. Paperless processes (mass processing, digital customer files, new access to the Document On Line service) and new document transportation model put in place. Workshop launched for the digitisation of accounting in the branches. New Demand Management model for ICT spending was consolidated. More efficient mechanisms introduced for implementing strategic projects and managing costs, saving initiatives and internal services. Ongoing efficiency initiatives on administrative processes. The business unit for administrative and back office activities was sold to Fruendo Srl, a joint venture between Bassilichi SpA and Accenture Italia.

Human capital - Scheme to reduce the number of executives in the workforce and related salary expenditures continued. The plan to release approximately 1,660 resources by activating the banking industry's Solidarity Fund was completed. New talent and performance management model became fully operational. Structural and one-off actions implemented to reduce labour costs in accordance with Business Plan forecasts (including the 4-6 day work suspension per year per employee for the period 2013-2015).

WIDIBA, the Group's new on-line bank
The new online bank project is one of the foundational pillars for re-launching and re-positioning the Group's business model.

Objectives

WIDIBA's mission is to create a new service model by integrating a simple and complete self-service offer with the know-how and interpersonal skills of the Group's network of financial advisors. The objectives are as follows:

- meet the needs of the most advanced customers by creating an innovative business approach that is capable of triggering custom-designed product and process chains;
- design a specific business model, exclusively focused on the synergies between out-of-branch offers and the self-service channel, providing customers with higher performance levels and distinctive services;
- respond to initiatives of direct and indirect competitors who are investing in integrated technology/consulting platform models;
- consolidate, relaunch and develop the current out-of-branch offer;
- ensure efficient growth of the Group's banking transaction volumes through constant and proactive monitoring of low cost/income channels.

Target customers

WIDIBA targets a range of customers who, despite a propensity towards independent relations with their bank, have complex needs in terms of the services they require and their expectations for the interpersonal relationship. The new system will result in the achievement of important commercial synergies with the network of financial advisers and will allow the Bank to propose a versatile service to the market that allows customers to choose between handling their affairs independently or delegating them.

Project status

WIDIBA was founded as an Italian joint stock corporation (SpA) on 8 November 2013. Authorisation for banking activity is pending.

During the second half of the year, the first project team was established and the development environment was set up. Work then began on designing the service and, simultaneously, the first activities to support the development period and create early visibility in the market were initiated.

Thus, a "Human Digital Banking Platform" was launched, created with the direct participation of users and through an ongoing dialogue to design the service within the distribution scope of a modern bank.

As a first step in this direction, the name and logo of the company was decided through a specific contest. An innovative debut which, from the very outset, has aimed to embody "how" the new online initiative will develop: a step forward in the digital world and a major advance in customer relations, based on the suggestions, goals and expectations of individuals who are looking for a new way of banking.

Following the creation of the brand, WIDIBA began the process of interacting with users in both a virtual and physical environment, reaching almost 50 thousand users in just a few weeks, in both social media as well as in the proprietary "Say&Play" community.

Prospects and outlook on operations

Despite modest improvement, the macro-economic environment in which the Group operates is still weak with continued uncertainty regarding possible future scenarios:

- the economy reported slight signs of recovery in the last months of the year but there are still critical issues for manufacturing activities in general, particularly small/medium-sized firms;
- labour market conditions remain difficult, with unemployment rates that are still very high, hindering consumption and savings;
- the high credit risk on banks' portfolios has not decreased while loan demand for investments remains low;
- in November 2013, the European Central Bank initiated the Comprehensive Assessment covering 130 European institutions, including Monte dei Paschi di Siena Group. These activities – whose results will be reported by November 2014 – primarily consist of the following: a qualitative/quantitative evaluation of the intrinsic risk profile of the Bank (Supervisory Risk Assessment); an in-depth analysis of on- balance and off-balance sheet exposures for all asset classes (Asset Quality Review); an evaluation of the Bank's capacity to absorb exogenous shocks during periods of stress (Stress Test).

Despite an environment which is still uncertain and fragile, by 2017 the Group plans to create solid foundations for long-term growth by achieving the Business Plan objectives, including the share capital increase approved by the Extraordinary Shareholders' Meeting of 28/12/2013 for a maximum amount of EUR 3 bn, which is a central element of the plan.

Given the above, and in view of the Group's outlook following the implementation of the Business Plan and the assessments carried out on its current and prospective level of capital adequacy, no elements exist which cast doubt on the ability of the company to continue operating as a going concern.

Key economic-financial indicators

Reclassified accounts

Income statement and balance sheet reclassification principles

The following accounting statements illustrate balance sheet and income statement accounts reclassified on the basis of operating criteria.

The following are the reclassifications made to the consolidated income statement as at 31 December 2013:

a) "**Net profit (loss) from trading/valuation/repurchase of financial assets/liabilities**" in the reclassified income statement includes Item 80 "Net profit (loss) from trading", Item 100 "Gains (losses) on disposal/repurchase of loans, financial assets available for sale or held to maturity and financial liabilities" and Item 110 "Net profit (loss) on financial assets and liabilities designated at fair value". The item incorporates dividends earned on securities held in the Group's securities and derivatives portfolio (approx. EUR 12 mln).

b) "**Dividends, similar income and gains (losses) on investments**" in the reclassified income statement incorporates item 70 "Dividends and similar income" and a portion of item 240 "Gains (losses) on investments" (approx. EUR 125 mln, corresponding to the share of profit and loss for the period contributed by investments in associates - AXA, Intermonte Sim and Asset Management Holding - consolidated at equity). Dividends earned on securities held in the securities portfolio, as outlined under the item above, have also been eliminated from the aggregate.

c) "**Net impairment losses (reversals) of financial assets**" includes items 130b "Financial assets available for sale", 130c "Financial assets held to maturity" and 130d "Other financial transactions".

d) The income statement item "**Personnel expenses**" was reduced by EUR 25 mln in restructuring charges referring to revised estimates of early-retirement incentives already put in place following the trade union agreement of 19 December 2012. The amount was reclassified under "Restructuring costs/One-off charges".

e) "**Other administrative expenses**" in the reclassified income statement was deducted of the portion of stamp duty and client expense recovery (EUR 296 million) posted under item 220 "Other operating expenses (income)".

f) The item "**Net provisions for risks and charges and other operating income (expenses)**" in the reclassified income statement, which incorporates item 190 "Net provisions for risks and charges" and item 220 "Other operating expenses (income)", excludes stamp duty and customer expense recoveries as described under item e) above ("**Other administrative expenses**").

g) The income statement item "**Restructuring costs/One-off charges**" includes one-off charges for EUR 25 mln associated with revised estimates of early-retirement incentives already put in place following the trade union agreement of 19 December 2012 and reclassified out of Personnel expenses (see item d).

h) "**Gains (losses) on investments**" was cleared of components reclassified as "Dividends and similar income" (see item b).

i) The effects of Purchase Price Allocation (PPA) posted to this specific account were reclassified out of other items (in particular "**Interest income**" for EUR 32 mln and **Depreciation/amortisation** for EUR 28 mln, net of a theoretical tax burden of - EUR 20 mln which integrates the item).

Listed below are the major reclassifications made to the consolidated **Balance Sheet**:

a) “**Tradable financial assets**” on the assets side of the reclassified balance sheet includes item 20 "Financial assets held for trading", item 30 "Financial assets designated at fair value" and item 40 "Financial assets available for sale".

b) “**Other assets**” on the assets side of the reclassified balance sheet incorporates item 80 "Hedging derivatives", item 90 "Changes in value of macro-hedged financial assets", item 140 "Tax assets", item 150 "Non-current assets held for sale and discontinued operations" and item 160 "Other assets".

c) “**Deposits from customers and debt securities issued**” on the liabilities side of the reclassified balance sheet includes item 20 "Deposits from customers", item 30 "Debt securities issued" and item 50 "Financial liabilities designated at fair value".

d) “**Other liabilities**” on the liabilities side of the reclassified balance sheet incorporates item 60 “Hedging derivatives”, item 70 “Changes in value of macro-hedged financial liabilities", item 80 “Tax liabilities”, item 90 “Liabilities included in disposal groups held for sale and discontinued operations” and item 100 “Other liabilities”.

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The accounting statements and the comparative statements of the reclassified consolidated income statement and balance sheet are enclosed in the “Annexes” section.

Reclassified income statement (EUR mln)

Montepaschi Group	31/12/13	31/12/12 (*)	Change Abs.	Change %
Net interest income	2,153.4	2,829.6	(676.2)	-23.9%
Net fee and commission income	1,657.6	1,632.8	24.7	1.5%
Income from banking activities	**3,810.9**	**4,462.4**	**(651.5)**	**-14.6%**
Dividends, similar income and gains (losses) on investments	129.9	75.1	54.7	72.8%
Net profit (loss) from trading	9.3	454.3	(445.0)	-97.9%
Net profit (loss) from hedging	7.2	3.1	4.2	n.s.
Income from banking and insurance activities	**3,957.4**	**4,994.9**	**(1,037.6)**	**-20.8%**
Net impairment losses (reversals) on:	**(2,823.3)**	**(2,894.2)**	**70.9**	**-2.4%**
a) loans	(2,749.8)	(2,671.6)	(78.2)	2.9%
b) financial assets	(73.5)	(222.6)	149.1	-67.0%
Net income from financial and insurance activities	**1,134.1**	**2,100.7**	**(966.6)**	**-46.0%**
Administrative expenses:	(2,656.5)	(3,020.4)	363.9	-12.0%
a) personnel expenses	(1,718.7)	(1,918.3)	199.7	-10.4%
b) other administrative expenses	(937.8)	(1,102.1)	164.3	-14.9%
Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(155.1)	(198.8)	43.7	-22.0%
Operating expenses	**(2,811.5)**	**(3,219.2)**	**407.7**	**-12.7%**
Net operating income	**(1,677.4)**	**(1,118.5)**	**(559.0)**	**50.0%**
Net provisions for risks and charges and other operating expenses/income	(243.1)	(326.2)	83.1	-25.5%
Gains (losses) on investments	(56.4)	(58.1)	1.7	-2.9%
Restructuring charges / One-off charges	(24.5)	(311.0)	286.4	n.s.
Gains (losses) on disposal of investments	1.4	7.3	(5.9)	-80.6%
Profit (loss) before tax from continuing operations	**(2,000.1)**	**(1,806.5)**	**(193.6)**	**10.7%**
Tax expense (recovery) on income from continuing operations	652.3	363.0	289.3	79.7%
Profit (loss) after tax from continuing operations	**(1,347.9)**	**(1,443.5)**	**95.7**	**-6.6%**
Profit (loss) after tax from groups of assets held for sale and discontinued operations	(51.2)	(41.7)	(9.5)	22.8%
Net profit (loss) for the period including non-controlling interests	**(1,399.1)**	**(1,485.2)**	**86.1**	**-5.8%**
Net profit (loss) attributable to non-controlling interests	(0.1)	21.6	(21.7)	n.s.
Profit (loss) for the period before PPA, impairment on goodwill, intangibles and writedown of investment in AM Holding	**(1,399.2)**	**(1,463.6)**	**64.4**	**-4.4%**
PPA (Purchase Price Allocation)	(39.8)	(50.2)	10.4	-20.7%
Impairment on goodwill, intangibles and writedown of investment in AM Holding	-	(1,654.4)	1,654.4	n.s.
Parent company's net profit (loss) for the period	**(1,439.0)**	**(3,168.2)**	**1,729.2**	**-54.6%**

(*) Figures were restated in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) by retrospectively applying IAS 19 "Employee benefits"and in order to take into account the transfer of a business unit (auxiliary, administrative and accounting activities) to the company Fruendo.

Quarterly trend in reclassified income statement (EUR mln)

Montepaschi Group	2013 (*)				2012 (*)			
	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q
Net interest income	563.3	506.6	486.5	597.0	434.5	724.0	788.5	882.6
Net fee and commission income	404.8	404.2	417.3	431.3	382.9	413.1	412.6	424.3
Income from banking activities	**968.1**	**910.8**	**903.7**	**1,028.3**	**817.4**	**1,137.1**	**1,201.0**	**1,306.9**
Dividends, similar income and gains (losses) on investments	32.9	31.1	38.6	27.2	18.5	17.5	28.5	10.6
Net profit (loss) from trading	(277.5)	90.5	75.5	120.8	(59.2)	255.1	76.5	182.0
Net profit (loss) from hedging	5.1	7.0	(0.9)	(4.0)	1.6	(3.6)	1.9	3.2
Income from banking and insurance activities	**728.6**	**1,039.4**	**1,017.0**	**1,172.3**	**778.3**	**1,406.2**	**1,307.8**	**1,502.7**
Net impairment losses (reversals) on:	**(1,252.8)**	**(519.4)**	**(556.6)**	**(494.5)**	**(1,464.8)**	**(474.8)**	**(518.8)**	**(435.8)**
a) loans	(1,209.7)	(511.0)	(544.8)	(484.2)	(1,371.6)	(461.0)	(408.7)	(430.3)
b) financial assets	(43.1)	(8.3)	(11.7)	(10.3)	(93.2)	(13.8)	(110.1)	(5.5)
Net income from financial and insurance activities	**(524.2)**	**520.0**	**460.4**	**677.8**	**(686.5)**	**931.4**	**789.0**	**1,066.8**
Administrative expenses:	(640.5)	(658.4)	(668.3)	(689.3)	(754.4)	(754.1)	(762.3)	(749.6)
a) personnel expenses	(414.3)	(429.0)	(422.6)	(452.9)	(453.5)	(468.7)	(508.7)	(487.4)
b) other administrative expenses	(226.3)	(229.5)	(245.7)	(236.4)	(300.9)	(285.4)	(253.6)	(262.1)
Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(44.5)	(37.1)	(35.1)	(38.3)	(59.2)	(48.5)	(45.7)	(45.4)
Operating expenses	**(685.0)**	**(695.6)**	**(703.4)**	**(727.6)**	**(813.6)**	**(802.7)**	**(808.0)**	**(795.0)**
Net operating income	**(1,209.2)**	**(175.5)**	**(242.9)**	**(49.8)**	**(1,500.1)**	**128.7**	**(19.0)**	**271.8**
Net provisions for risks and charges and other operating expenses/income	(225.8)	(31.9)	8.8	5.8	(185.1)	(46.8)	(66.0)	(28.3)
Gains (losses) on investments	(25.5)	(0.1)	(32.2)	1.4	(57.8)	1.5	(5.8)	4.0
Restructuring charges / One off charges	(6.7)	(0.2)	(17.6)	-	(278.2)	(11.7)	(20.0)	(1.1)
Gains (losses) on disposal of investments	1.9	1.2	(1.9)	0.2	0.1	6.4	0.6	0.3
Profit (loss) before tax from continuing operations	**(1,465.3)**	**(206.6)**	**(285.8)**	**(42.4)**	**(2,021.1)**	**78.2**	**(110.2)**	**246.7**
Tax expense (recovery) on income from continuing operations	566.3	90.4	32.5	(36.9)	511.2	(82.2)	66.5	(132.5)
Profit (loss) after tax from continuing operations	**(899.0)**	**(116.2)**	**(253.3)**	**(79.3)**	**(1,509.9)**	**(4.0)**	**(43.8)**	**114.2**
Profit (loss) after tax from groups of assets held for sale and discontinued operations	(12.6)	(12.9)	(12.9)	(12.9)	(16.2)	(10.0)	(6.5)	(9.1)
Net profit (loss) for the period including non-controlling interests	**(911.6)**	**(129.1)**	**(266.2)**	**(92.2)**	**(1,526.1)**	**(14.0)**	**(50.2)**	**105.1**
Net profit (loss) attributable to non-controlling interests	(0.0)	(0.0)	(0.0)	(0.0)	27.0	(1.1)	(2.7)	(1.7)
Profit (loss) for the period before PPA, impairment on goodwill, intangibles and writedown of investment in AM Holding	**(911.6)**	**(129.1)**	**(266.2)**	**(92.3)**	**(1,499.1)**	**(15.0)**	**(52.9)**	**103.4**
PPA (Purchase Price Allocation)	(9.1)	(9.2)	(13.0)	(8.5)	(11.7)	(10.9)	(13.3)	(14.4)
Impairment on goodwill, intangibles and writedown of investment in AM Holding	-	-	-	-	(80.0)	-	(1,574.3)	-
Parent company's net profit (loss) for the period	**(920.7)**	**(138.3)**	**(279.3)**	**(100.7)**	**(1,590.8)**	**(25.9)**	**(1,640.5)**	**89.0**

(*) 2012 figures were restated in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) by retrospectively applying IAS 19 "Employee benefits". Figures for 2012 and the first three quarters of 2013 were also re-stated in order to take into account the transfer of a business unit (auxiliary, administrative and accounting activities) to the company Fruendo while assuming a uniform distribution across quarters of the effects recorded on an annual basis.

Reclassified balance sheet (EUR mln)

ASSETS	31/12/13	31/12/12 (*)	Chg vs 31/12/12 abs.	%
Cash and cash equivalents	877	2,433	(1,556)	-63.9%
Receivables :			-	
a) Loans to customers	131,218	142,015	(10,797)	-7.6%
b) Loans to banks	9,914	11,225	(1,311)	-11.7%
Financial assets held for trading	43,618	49,163	(5,545)	-11.3%
Financial assets held to maturity	-	-	-	
Equity investments	989	1,040	(51)	-4.9%
Property, plant and equipment / Intangible assets	3,924	2,526	1,398	55.3%
of which:			-	
a) goodwill	*670*	*670*	*(0)*	0.0%
Other assets	8,566	10,484	(1,918)	-18.3%
Total assets	**199,106**	**218,886**	**(19,780)**	**-9.0%**

LIABILITIES	31/12/13	31/12/12 (*)	Chg vs 31/12/12 abs.	%
Payables				
a) Deposits from customers and securities issued	129,963	135,670	(5,707)	-4.2%
b) Deposits from banks	37,279	43,399	(6,120)	-14.1%
Financial liabilities held for trading	17,038	21,517	(4,479)	-20.8%
Provisions for specific use			-	
a) Provisions for staff severance indemnities	261	317	(56)	-17.6%
b) Pensions and other post retirement benefit obligations	61	48	13	27.3%
c) Other provisions	1,066	1,401	(334)	-23.9%
Other liabilities	7,274	10,212	(2,938)	-28.8%
Group net equity	6,155	6,320	(165)	-2.6%
a) Valuation reserves	(1,056)	(2,285)	1,229	-53.8%
c) Equity instruments carried at equity	3	3	-	
d) Reserves	1,187	4,055	(2,867)	-70.7%
e) Share premium	-	255	(255)	n.s.
f) Share capital	7,485	7,485	-	
g) Treasury shares (-)	(25)	(25)	-	
h) Net profit (loss) for the year	(1,439)	(3,168)	1,729	-54.6%
Non-controlling interests	8	3	5	n.s.
Total Liabilities and Shareholders' Equity	**199,106**	**218,886**	**(19,780)**	**-9.0%**

(*) 2012 figures were restated in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) by retrospectively applying IAS 19 "Employee benefits" and in order to take into account the reclassification of a portion of reserves to deposits from banks following further analysis performed on the "Fresh 2008" transaction.

Reclassified balance sheet- Quarterly Trend (EUR mln)

ASSETS	31/12/13	30/09/13 (*)	30/06/13 (*)	31/03/13 (*)	31/12/12 (*)	30/09/12 (*)	30/06/12 (*)	31/03/12 (*)
Cash and cash equivalents	877	785	684	697	2,433	750	678	676
Receivables :								
a) Loans to customers	131,218	135,564	138,082	140,510	142,015	145,329	144,462	146,628
b) Loans to banks	9,914	11,439	12,240	13,676	11,225	12,371	17,130	14,877
Financial assets held for trading	43,618	46,267	50,702	47,732	49,163	47,704	51,565	52,341
Financial assets held to maturity	-	-	-	-	-	0	0	0
Equity investments	989	994	971	1,029	1,040	972	931	940
Property, plant and equipment / Intangible assets	3,924	2,441	2,465	2,496	2,526	2,662	2,685	4,369
of which:								
a) goodwill	*670*	*670*	*670*	*670*	*670*	*670*	*670*	*2,216*
Other assets	8,566	9,447	9,774	10,086	10,484	14,316	14,717	10,895
Total assets	**199,106**	**206,936**	**214,916**	**216,226**	**218,886**	**224,102**	**232,168**	**230,726**

LIABILITIES	31/12/13	30/09/13 (*)	30/06/13 (*)	31/03/13 (*)	31/12/12 (*)	30/09/12 (*)	30/06/12 (*)	31/03/12 (*)
Payables								
a) Deposits from customers and securities issued	129,963	132,286	137,078	135,311	135,670	135,570	132,673	137,604
b) Deposits from banks	37,279	42,377	41,741	42,753	43,399	41,327	46,995	45,173
Financial liabilities held for trading	17,038	15,399	19,677	20,914	21,517	24,301	30,161	26,399
Provisions for specific use	-	-	-	-	-	-	-	-
a) Provisions for staff severance indemnities	261	282	269	291	317	321	320	335
b) Pensions and other post retirement benefit obligations	61	47	48	40	48	39	40	193
c) Other provisions	1,066	1,185	1,207	1,124	1,401	961	939	1,000
Other liabilities	7,274	8,922	8,339	9,595	10,212	12,061	11,977	8,329
Group net equity	6,155	6,435	6,555	6,195	6,320	9,294	8,840	11,459
a) Valuation reserves	(1,056)	(1,697)	(1,714)	(2,309)	(2,285)	(2,880)	(3,359)	(2,441)
c) Equity instruments carried at equity	3	3	3	3	3	1,903	1,903	1,903
d) Reserves	1,187	1,187	1,187	886	4,055	4,133	4,133	1,083
e) Share premium	-	-	-	255	255	255	255	3,366
f) Share capital	7,485	7,485	7,485	7,485	7,485	7,485	7,485	7,485
g) Treasury shares (-)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)
h) Net profit (loss) for the period	(1,439)	(518)	(380)	(101)	(3,168)	(1,578)	(1,552)	89
Non-controlling interests	8	3	3	3	3	230	223	234
Total Liabilities and Shareholders' Equity	**199,106**	**206,936**	**214,916**	**216,226**	**218,886**	**224,102**	**232,168**	**230,726**

(*)2012 figures were restated in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) by retrospectively applying IAS 19 "Employee benefits". Figures as at 31/12/2012 and for the first three quarters of 2013 were also restated in order to take into account the reclassification of a portion of reserves to deposits from banks following further analysis performed on the "Fresh 2008" transaction.

Balance Sheet

Direct funding

As at 31 December 2013, the Group's **total funding volumes** amounted to **EUR 233 bn**, essentially in line with the result at the end of September 2013, due to the upturn in both assets under management and under custody. Compared to 31 December 2012, however, total funding decreased 6.6%, attributable to both direct funding (particularly affected by the reduction in bonds) and assets under custody, which were mainly affected by movements in shares under custody by some of the Group's Key Clients and other institutional customers.

Background
The choices of savers continue to focus on the preservation of capital given the uncertain context and risk aversion.
At the end of 2013, funding fell slightly (-1.76%, YoY), with deposits partially compensating the sharp decline in bonds (-9.43% YoY in December). Compared to December 2012, funding fell by EUR 31 bn.
The average return on bank funding in December decreased (1.89% vs. 2.08% in the same period of the previous year) while bond yields grew slightly.
The asset management sector reported a positive trend, consolidating the growth of net funding, even though 2013 closed with a slight slowdown that did not, however, have an impact on mutual funds, which reported a positive balance of more than EUR 48.7 bn during the year. 2013 closed with record assets of EUR 1,331 bn for the asset management sector and with the highest net funding in the last decade (EUR 64.9 bn). In the life insurance sector, there was an increase for all product categories with the exception of index-linked and IV policies[3]

Customer funding (EUR mln)

	31/12/13	30/09/13	30/06/13	31/12/12	Chg % vs 30/09/13	Chg % vs 31/12/12
Direct funding	**129,963**	**132,286**	**137,078**	**135,670**	**-1.8%**	**-4.2%**
Indirect funding	**103,397**	**101,378**	**104,434**	**114,176**	**2.0%**	**-9.4%**
assets under management	*45,106*	*44,038*	*42,828*	*44,540*	*2.4%*	*1.3%*
assets under custody	*58,292*	*57,340*	*61,606*	*69,636*	*1.7%*	*-16.3%*
Total funding	**233,360**	**233,665**	**241,512**	**249,846**	**-0.1%**	**-6.6%**

More specifically:

- **Direct funding** for the Group, totalling **EUR 130 bn,** was down 1.8% compared to 30/09/2013 and 4.2% compared to the end of 2012, with a market share of 5.92%[4], down 32 bps from the previous year. In 2013, the aggregate was primarily affected by a downturn in **bonds**, - 25.7%, largely due to the loss of access to international funding markets and the suspension of retail issues, for a substantial portion of the year, following the request for several supplements to the base prospectuses and registration document as a result of highly publicised legal events that concerned the Group and the consequently unfavourable media environment. Conversely, balances increased in **time deposits** (+39% YoY) due to the "Conto Italiano di Deposito" product, **reverse repurchase agreements** (+16.3% YoY), which is almost entirely made up of a form of guaranteed funding on the institutional market, and **"Other forms of Direct Funding"**" (+52% YoY). The latter item was affected by both the issue of EUR 4 bn in New Financial Instruments subscribed by the Ministry of Economy and Finance[5] to replace the so-called

[3] Permanent Health Insurance and Long Term Care Insurance Policies.

[4] The market share is calculated on deposits (excluding those associated with securitisations), repurchase agreements (excluding central counterparties) and bonds (net of buybacks) placed with resident consumer clients as first-instance borrowers.

[5] On 28 February 2013, Banca Monte dei Paschi di Siena S.p.A. completed the issue of New Financial Instruments provided for by art. 23-sexies of Law Decree no. 95 of 6 July 2012, converted, with amendments, into Law no. 135 of 7 August 2012, as subsequently amended (the "New Financial Instruments"). In particular, the Ministry of Economy and Finance subscribed to the New Financial Instruments issued by the Bank for a total of EUR 4.071 bn, of which EUR 1.9 bn allocated to full replacement of the Tremonti Bonds issued by the Bank in 2009 (and included, as of the end of December 2012, in "Other forms of direct funding") and EUR 0.171 bn, due on 1 July.

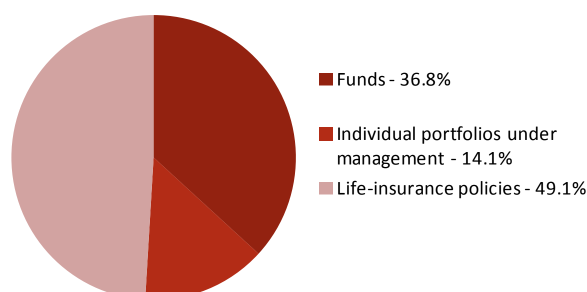
"Tremonti Bonds" (amounting to EUR 1.9 bn), as well as by funding with institutional counterparties including the Cassa Depositi e Prestiti for specifically funded loan disbursements.

The following table shows a breakdown of major types of direct funding from customers:

Direct funding (EUR mln)								
					Change Q/Q		Change Y/Y	
Type of transaction	31/12/13	30/09/13	30/06/13	31/12/12	Abs.	%	Abs.	%
Current accounts	55,076	57,264	57,536	56,006	(2,187)	-3.8%	(930)	-1.7%
Time deposits	8,064	8,759	8,766	5,802	(695)	-7.9%	2,262	39.0%
Reverse repurchase agreements	16,096	13,465	14,868	13,839	2,631	19.5%	2,258	16.3%
Bonds	38,706	41,781	45,958	52,115	(3,075)	-7.4%	(13,409)	-25.7%
Other types of direct funding (**)	12,021	11,017	9,950	7,908	1,004	9.1%	4,113	52.0%
Total	**129,963**	**132,286**	**137,078**	**135,670**	**(2,323)**	**-1.8%**	**(5,707)**	**-4.2%**

(*) The value as at 31/12/12 includes the Tremonti Bonds for EUR 1.9 bn while the figure as at 31/03/13 includes NFIs in the amount of EUR 4.071 bn.

- As at 31/12/2013, the Group's **indirect funding**, totalling **EUR 103 bn**, was down 9.4% from the previous year (+2% QoQ). More specifically:
  - **Asset under management** closed the year 2013 with volumes totalling **EUR 45 bn**, up 1.3% compared to 31/12/2012 (+2.4% QoQ). A breakdown of the aggregate shows:
    - an **insurance component** of **EUR 21.7 bn** (-2.8% compared to 31/12/2012; +1.8% compared to the previous quarter), having benefitted from insurance premiums collected in the year for EUR 4.2 bn, driven by Unit Linked products. The Group's Bancassurance market share came to 7.14% (8.66% at the end of 2012);
    - **Mutual investment funds and (SICAV)**, amounting to **EUR 17.4 bn**, up 9.6% compared to 31/12/2012, with net inflows in the region of EUR 1 bn and Group market share of 3.78% (most recent data available as at September 2013), down 41 bps from the end of 2012;
    - **Individual portfolios under management**, totalling **EUR 6 bn**, was down from the previous year (-5.2% YoY) with a Group market share of 3.90% (4.87% at the end of 2012).



  - **Assets under custody**, amounting to EUR 58 bn, registered a drop of 16.3% on previous year end (+1.7% QoQ), owing principally to movements in shares under custody by some of the Group's Key Clients and other institutional customers, however, the impact was not significant.

2013, for advance payment of interest accrued on Tremonti Bonds up to 31 December 2012, in consideration of the Bank's negative results as at 31 December 2012. From a Capital Adequacy standpoint, although included in Direct Funding, the NFIs qualify as Core Tier 1, by reason of their subordination pari passu with ordinary shares, in the event of both voluntary liquidation or bankruptcy proceedings and under going concern assumptions.

Loans to customers

As at 31/12/2013, Group **loans to customers** amounted to **EUR 131 bn**, down 3.2% with respect to the previous quarter and 7.6% with respect to the end of 2012. This trend should be seen in correlation with both the decline in demand for loans as a consequence of the recessive economic cycle and a selective credit-granting policy, which have particularly affected current accounts (-16.3% YoY) and medium-long term loans (-10.4% YoY). The decrease in "Other loans" (-14.3% YoY) was also due to the completed sale of a portfolio of "fifth-of-salary-backed and delegation of payment" loans held by the subsidiary Consum.it to a third party at the end of previous year. The disposal is part of a wider programme to deleverage the Group's portfolio of receivables and strategically reposition the Company[6].

Background

Lending continued to be weak in both demand and supply and the quality of the portfolio deteriorated significantly. Bank loans to businesses and households decreased as of August of 2012 (-4.27% YoY as of December 2013). The causes of this change include a weakness in demand as well as offer policies that are still restrictive, in addition to a significant decrease in investments.

Credit quality continues to be affected by the difficult economic conditions. Doubtful loans grew, exceeding EUR 149 bn in November (+23% YoY); the net doubtful loans to total loans ratio stood at 4.08% vs 3.26% in December 2012, the highest figure since April 2011.

The weighted average interest rate on total loans to households and non-financial businesses was at 3.83% in December, an all-time low (+4 bps since the end of last year).

As at December 2013, the Group's market share of total loans, calculated net of repurchase agreements with institutional counterparties, stood at 7.22%, essentially stable with respect to the end of 2012.

Loans to customers (EUR mln)

Type of transaction	31/12/13	30/09/13	30/06/13	31/12/12	Chg vs 30/09/2013 Abs.	Chg vs 30/09/2013 %	Chg vs 31/12/2012 Abs.	Chg vs 31/12/2012 %
Current accounts	10,962	12,060	12,028	13,099	(1,099)	-9.1%	(2,137)	-16.3%
Mortgages	64,822	66,735	69,231	72,329	(1,913)	-2.9%	(7,507)	-10.4%
Other forms of lending	29,782	31,345	31,807	34,770	(1,563)	-5.0%	(4,989)	-14.3%
Repurchase agreements	2,737	3,384	3,835	2,199	(647)	-19.1%	538	24.4%
Securities lending	1,924	1,978	2,142	2,221	(54)	-2.7%	(297)	-13.4%
Non performing loans	20,992	20,061	19,039	17,397	931	4.6%	3,595	20.7%
Total	**131,218**	**135,564**	**138,082**	**142,015**	**(4,346)**	**-3.2%**	**(10,797)**	**-7.6%**

As for special-purpose loans, EUR 690.5 mln of new loans was granted by MPS Capital Services as at 31/12/2013, down 46.9% from the previous year, with Q4 contributing approximately EUR 166 mln.

Inflows from leasing contracts totalled EUR 603 mln as at 31/12/2013 (-30% YoY), with Q4 contributing EUR 164 mln, up 10.7% on Q3 2013. Factoring Turnover, equal to EUR 5.8 bn, fell by 24.9% with respect to the previous year (EUR 1.2 bn contribution from Q4 of 2013; -18.2% QoQ).

In consumer lending, disbursements totalled EUR 1,615 mln as at 31/12/2013 (-33.6% YoY), with Q4 contributing approximately EUR 337 mln, an increase of 11.9% from the previous quarter, largely due to personal and special-purpose loans.

Special purpose loans and corporate finance (EUR mln)	31/12/13	4Q2013	3Q2013	2Q2013	1Q2013	31/12/12	Chg 4Q2013 vs 3Q2013 Abs.	Chg 4Q2013 vs 3Q2013 %	Chg Y/Y Abs.	Chg Y/Y %
MPS Capital Services (disbursements)	690.5	166.1	138.5	265.3	120.6	1,301.0	27.6	19.9%	-610.5	-46.9%
MPS Leasing & Factoring	6,450.0	1,356.2	1,605.5	1,736.1	1,752.2	8,650.4	-249.4	-15.5%	-2,200.4	-25.4%
leases negotiated	*603.4*	*164.2*	*148.4*	*155.8*	*135.0*	*861.8*	*15.9*	*10.7%*	*-258.4*	*-30.0%*
factoring turnover	*5,846.6*	*1,192.0*	*1,457.2*	*1,580.3*	*1,617.1*	*7,788.5*	*-265.2*	*-18.2%*	*-1,942.0*	*-24.9%*
Consumit (disbursements)	1,614.6	337.5	301.6	422.9	552.6	2,431.9	35.9	11.9%	-817.2	-33.6%

[6] The transaction in question, which concerned loans for a total book value of approx. EUR 550 mln, entailed a loss of EUR 40 mln.

Non-performing loans

As at the end of 2013, the Group's net exposure to non-performing loans totalled **EUR 21 bn**, an increase of EUR 3.6 bn from the end of the previous year. Doubtful loans increased 21.7% while substandard loans increased 26%; restructured loans also grew (+20.4% YoY) as did past-due exposures, though to a lesser degree (+6.6%). 2013 trends continued to feel the brunt of the current economic cycle amid a prolonged recession and uncertain growth prospects.

Loans to customers								
Risk category - Net book values	31/12/13	30/09/13	30/06/13	31/12/12	Change Q/Q		Change Y/Y	
(EUR mln)					Ass.	%	Ass.	%
A) Non performing loans	**20,992**	**20,061**	**19,039**	**17,397**	**931**	**4.6%**	**3,595**	**20.7%**
a1) Doubtful loans	8,880	8,393	7,987	7,299	487	5.8%	1,581	21.7%
a2) Substandard loans	7,511	7,229	6,872	5,963	281	3.9%	1,548	26.0%
a3) Restructured	1,683	1,476	1,322	1,399	207	14.0%	285	20.4%
a4) Past due	2,918	2,963	2,859	2,737	-45	-1.5%	182	6.6%
B) Performing loans	**110,226**	**115,502**	**119,043**	**124,618**	**-5,276**	**-4.6%**	**-14,392**	**-11.5%**
Total customer loans	**131,218**	**135,564**	**138,082**	**142,015**	**-4,346**	**-3.2%**	**-10,797**	**-7.6%**

Consequently, as at 31 December 2013, **coverage of non-performing loans** stood at **41.8%**, up from the previous year (+80 bps YoY), with doubtful loan coverage amounting to 58.8% (+90 bps YoY). The annual decrease in the percentage coverage of substandard loans (-150 bps) must be considered in light of the higher proportion of "objectively substandard" components which are characterised by more contained write-downs.

Provisioning ratios				
	31/12/13	30/09/13	30/06/13	31/12/12
"provisions for NPLs " / "gross NPLs"	41.8%	40.8%	41.1%	41.0%
"provisions for substandard loans" / "gross substandard loans"	20.4%	20.0%	20.4%	21.9%
"provisions for doubtful loans" / "gross doubtful loans"	58.8%	58.0%	58.1%	57.9%

The table below reports the figures for the Group's major companies, within which Parent Company BMPS shows a provisioning to doubtful loans ratio of approximately 61.1% vs. 41.9% for MPS Capital Services, which specialises in medium-long term loan directly supported by collateral.

Risk category - Net values at 31/12/2013	Group	BMPS	MPS Capital Services	MPS Leasing & Factoring	Consum.it
(EUR mln)					
Net doubtful loans	8,880	6,133	2,091	514	92
% of total customer loans	6.77%	4.92%	16.00%	7.74%	2.07%
"loan loss provisions" / "gross doubtful loans"	**58.8%**	**61.1%**	**41.9%**	**56.7%**	**89.5%**
Net sub standard loans	7,511	5,910	1,052	452	88
% of total customer loans	5.72%	4.74%	8.05%	6.81%	1.99%
"loan loss provisions" / "gross substandard loans"	**20.4%**	**20.7%**	**15.7%**	**20.7%**	**44.5%**

With regard to **performing loans**, provisions continued to stand at 0.60%, in line with the previous year.

The Group's securities and derivatives portfolio

The Group's securities and derivatives portfolio, amounting to EUR 35.5 bn, was down EUR 3 bn on 31/12/2013 (-7.5% YoY). AFS portfolio optimisation activities continued on both government bonds, which decreased by EUR 2 bn, and on private equity positions with the sale of 6 funds (a further 10 funds are currently being sold). As for bonds classified in L&R, the slight decrease is primarily in connection with some positions coming to natural maturity.

Portfolio of treasury securities and derivatives (exact year-end figures in EUR mln)

MONTEPASCHI GROUP	31/12/13	30/09/13	30/06/13	31/12/12	Chg Q/Q		Chg Y/Y	
Type of portfolio					Abs.	%	Abs.	%
Held For Trading (HFT) [1]	9,252	8,268	11,487	9,568	984	11.9%	(316)	-3.3%
Available For Sale (AFS) [2]	23,680	25,617	26,159	25,649	(1,937)	-7.6%	(1,968)	-7.7%
Loans & Receivable (L&R) [3]	2,604	2,689	2,861	3,216	(84)	-3.1%	(612)	-19.0%
Total	**35,536**	**36,573**	**40,507**	**38,433**	**(1,037)**	**-2.8%**	**(2,897)**	**-7.5%**

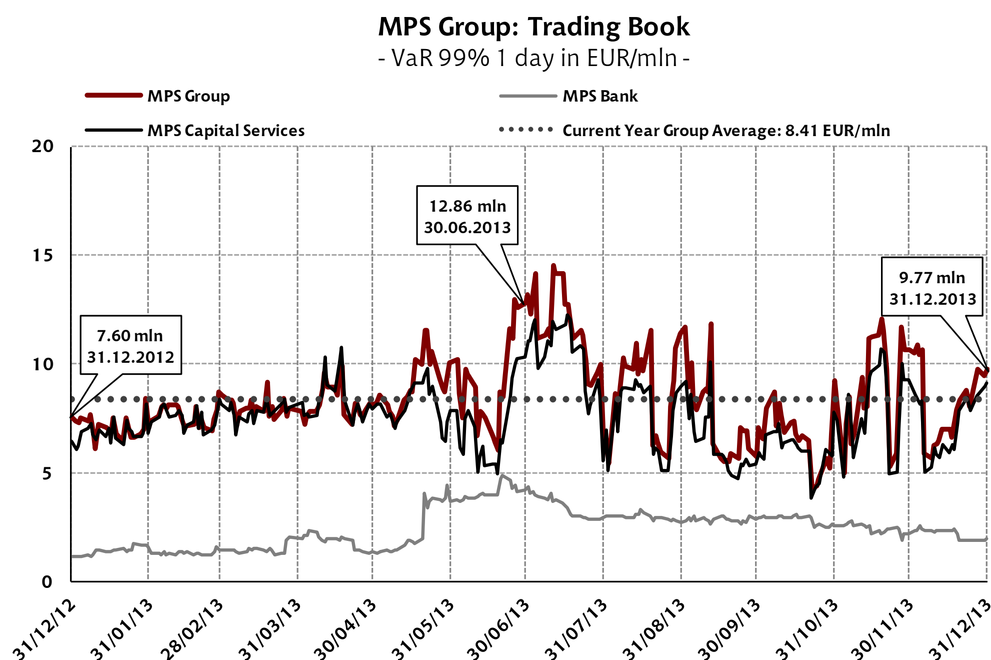
(1) "Financial assets held for trading" excluding "Loans" and net of the value of derivatives posted to "Financial liabilities held for trading". The aggregate is not net of uncovered short positions classified under "Financial liabilities held for trading".

(2) "Financial assets held for sale" excluding "Loans" including equity investments.

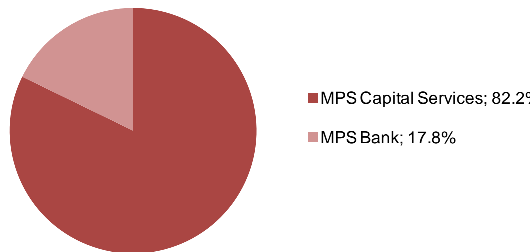
(3) Securities classified under "Loans & Receivables" posted to "Loans to customers" and "Loans to banks".

The Group's Regulatory Trading Book

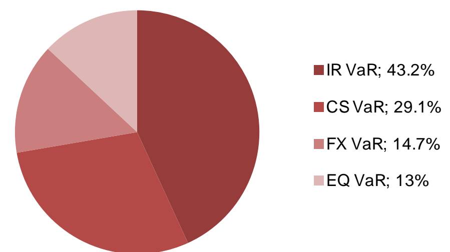
During the course of 2013, market risk in the Group's Regulatory Trading Book (RTB) in terms of VaR showed an upward trend marked by a significant level of volatility compared to the previous year and stood at EUR 9.77 mln as at 31/12/2013. In absolute terms, the VaR was influenced by the IR segment of the subsidiary, MPSCS, in connection with trading, primarily in Long Futures and Interest Rate Future Options, as well as by activities linked to the structuring and coverage of policies by MPSCS and by the change in market parameters (credit spreads and rates).



VaR breakdown



MPS Capital Services accounts for 82.2% of overall risk, the Parent Company accounts for 17.8%.



43.2% of the Group's portfolio is allocated to interest rate risk factors (IS VaR), 29.1% is absorbed by credit spread risk factors (CS VaR), 14.7% is absorbed by equity risk factors (FX VaR) and the remaining 13.0% by foreign exchange risk factors (EQ VaR).

VaR trendline

During 2013, the Group's VaR fluctuated between a low of EUR 4.34 mln recorded on 23 October 2013 and a high of EUR 14.56 mln on 11 July 2013, with an average value of EUR 8.41 mln. The Group's RTB VaR as at 31 December 2013 was EUR 9.77 mln.

MPS Group: Trading Book
VaR 99% 1 day in EUR/mln

	VaR	Date
End of Period	9.77	31/12/2013
Min	4.34	23/10/2013
Max	14.56	11/07/2013
Average	8.41	

Interbank position

As at 31 December 2013, the Group's net interbank position stood at EUR 27 bn, an improvement of EUR 3.6 bn compared to 30/09/2013 and EUR 4.8 bn with respect to 31/12/2012. This trend is to be seen in relation with the decrease in the Deposits from banks (EUR -6.1 bn, -14.1% YoY) due to the first repayment of EUR 1 bn of ECB exposure - consisting of two three-year Long Term Refinancing Operations (LTRO) which dropped to EUR 28 bn at the end of 2013 – and the decrease in repurchase agreements. Loans to banks also fell (EUR -1.3 bn, -11.7% YoY), primarily due to the decrease in deposits paid as collateral for operations in OTC derivatives.

Interbank balances (end-of-period; EUR mln)

	31/12/13	(*) 30/09/13	(*) 30/06/13	(*) 31/12/12	Change Q/Q Abs.	Change Q/Q %	Change Y/Y Abs.	Change Y/Y %
Loans to banks	9,914	11,439	12,240	11,225	(1,525)	-13.3%	(1,311)	-11.7%
Deposits from banks	37,279	42,377	41,741	43,399	(5,099)	-12.0%	(6,120)	-14.1%
Net position	**(27,365)**	**(30,938)**	**(29,502)**	**(32,174)**	**3,573**	**-11.5%**	**4,809**	**-14.9%**

(*) Figures as at 31/12/2012 and for the first three quarters of 2013 were restated in order to take into account the reclassification of a portion of reserves to deposits from banks following further analysis performed on the "Fresh 2008" transaction.

At the end of 2013, the operational liquidity position had an **unencumbered Counterbalancing Capacity** of EUR 16 bn, in line with the levels reported at the end of December of the previous year (the 1-month liquidity balance increased from EUR 13 bn on 31/12/2012 to EUR 17.5 bn as at 31/12/2013).

Shareholders' equity

As at 31/12/2013, the Group's shareholders' equity and non-controlling interests came to EUR 6.2 bn, sliding by approximately EUR 159 mln compared to the end of 2012. The result was mainly affected by the loss for the year (EUR -1,439 mln), though positively impacted by the improved valuation reserves (EUR +1,229 mln) which benefitted from writebacks on the AFS portfolio as a result of the narrower spread. As for the individual items under shareholders' equity, reserves and share premiums were reduced and brought to zero primarily to cover 2012 losses, whereas non-controlling interests increased as a result of the Perimetro/Casaforte consolidation.

Reclassified Balance Sheet (EUR mln)

ASSETS	31/12/13	30/09/13 (*)	30/06/13 (*)	31/12/12 (*)	Chg vs 30/09/2013 Abs.	Chg vs 30/09/2013 %	Chg vs 31/12/2012 Abs.	Chg vs 31/12/2012 %
Group net equity	6,155	6,435	6,555	6,320	(279)	-4.3%	(165)	-2.6%
a) Valuation reserves	(1,056)	(1,697)	(1,714)	(2,285)	641	-37.8%	1,229	-53.8%
c) Equity instruments carried at equity	3	3	3	3	-		-	
d) Reserves	1,187	1,187	1,187	4,055	1	0.1%	(2,867)	-70.7%
e) Share premium	-	-	-	255	-	n.s.	(255)	-100.0%
f) Share capital	7,485	7,485	7,485	7,485	-		-	
g) Treasury shares (-)	(25)	(25)	(25)	(25)	-		-	
h) Net profit (loss) for the period	(1,439)	(518)	(380)	(3,168)	(921)	177.6%	1,729	-54.6%
Non-controlling interests	8	3	3	3	5	173.0%	5	n.s.
Total Liabilities and Shareholders' Equity	**6,163**	**6,438**	**6,558**	**6,323**	**(274)**	**-4.3%**	**(159)**	**-2.5%**

(*) Figures as at 31/12/12 and those for the first three quarters of 2013 have been restated to reflect the reclassification of a part of reserves in deposits from banks in relation to reviews conducted on the so-called "Fresh 2008" transaction.

Capital adequacy

Capital for regulatory purposes and capital ratios

Regulatory Capital was estimated on the basis of calculation metrics introduced by the Basel Accord (Advanced Internal Rating Based (IRB) and Advanced Measurement Approach (AMA) methodologies for portfolios and legal entities covered by validated internal models). Comparative data as at 31 December 2012 was restated and differs from data published in the year-end Report on Operations because, on 7 May 2013, the Bank was requested by the Supervisory Authority to implement a retroactive change to Tier 1, reducing it by EUR 76 mln. The change refers to regulatory treatment of the "Fresh 2008" transaction.

Background

At the end of the year, the EU's Economics and Finance Ministers approved a compromise agreement on a single mechanism for resolving banking crises, to be approved by the end of May. The Banking Union envisages that the ECB will assume exclusive responsibility for oversight by the end of 2014. During the year, the ECB will perform a risk analysis, an asset quality review on 120 banking institutions as well as a stress test coordinated with the EBA.

In December 2013, the Basel Committee approved proposals for a common definition of the leverage ratio formulated to overcome accounting differences that have so far hindered a comparison of ratios of banks from different countries. The Basel Committee will also initiate a consultation on the proposal to modify the Net Stable Funding Ratio (NSFR). The NSFR is another important element of Basel III: it complements the short-term indicator (Liquidity Coverage Ratio) and promotes the adoption by banks of prudent financing structures by avoiding, in particular, excessive use of short-term wholesale funding.

Regulatory capital (EUR mln)

	31/12/13	31/12/12	*Change*	*Chg %*
Core Tier 1	8,354	8,237	117	1.4%
Tier 1 capital	8,973	8,841	132	1.5%
Tier 2 capital	3,866	4,446	-580	-13.1%
Items to be deducted	-	-564	564	n.s.
Total regulatory capital	**12,839**	**12,724**	**115**	**0.9%**
Risk Weighted Assets	**84,499**	**92,828**	**-8,329**	**-9.0%**
Core Tier 1 Ratio	9.9%	8.9%	1.0%	n.s.
Tier 1 Ratio	10.6%	9.5%	1.1%	n.s.
Total Capital Ratio	15.2%	13.7%	1.5%	n.s.

As at 31/12/2013, the Group's capital ratios showed an increase with respect to December 2012, primarily due to the EUR 8.3 bn decrease in risk-weighted assets (RWA). This decrease was, in turn, due to a significant reduction in credit and counterparty risk (EUR -9.2 bn) attributable to the decline in loans (deleverage and default risk), which was partially mitigated by a slight increase in other risks (overall EUR +0.9 bn).

Risk Weighted Assets - RWA (EUR mln)

	31/12/13	31/12/12	*Var. Ass.*	*Var. %*
Credit and Counterparty risk	62,025	71,261	-9,236	-13.0%
Market risk	6,486	6,048	439	7.3%
Operational risk	8,243	8,347	-105	-1.3%
Other risk (securitization)	1,663	1,285	379	29.5%
Floor Basel I	6,082	5,887	195	3.3%
Risk Weighted Assets - RWA	**84,499**	**92,828**	**-8,329**	**-9.0%**

Core Tier 1 registered an increase of EUR 117 mln from 31/12/2012, driven mainly by a positive impact from the issue of New Financial Instruments for a total of EUR 4,071 mln, which, net of the Tremonti Bonds repayment (EUR 1,900 mln), provided EUR 2.171 mln in additional capital. Negative effects were the result of:

- the income statement loss for the period (EUR -1,439 mln);
- higher deductions (EUR -292 mln) relating to investments in insurance companies (held prior to 20/07/2006), following expiry of the transitional rule which allowed for their overall deduction from total Regulatory Capital (now 50% from Tier 1 and 50% from Tier 2);
- the increase in prudential filters (EUR -344 mln), mainly in relation to the multiple tax deduction of goodwill (Notice of 09/05/2013 by the Supervisory Authorities) and sterilisation of the positive net P&L result, totalling EUR 165.0 mln, following derecognition of the pre-existing shareholding in the Bank of Italy.
- the higher deduction from the surplus of expected losses against value adjustments on loans (EUR -56 mln, 50% of the total value).

The reduction in Tier 2 Capital (EUR -580 mln) in 2013 was primarily due to:

- higher deductions relating to investments in insurance and financial companies (EUR -292 mln, which represents 50% of the total);
- regulatory amortisation of certain subordinated securities (EUR -157 mln);
- a decrease in valuation reserves net of negative filters for a total of EUR -86 mln;
- the surplus of expected losses against value adjustments on loans (EUR -56 mln for the remaining 50% value not deducted from Core Tier 1).

The elimination of the transitional rule pertaining to the deduction of the value of equity investments from overall capital (now 50% deductible from Core Tier 1 and 50% from Tier 2 Capital) ensures that the deductible elements cancel each other out with respect to the EUR -564 mln calculated as at 31/12/2012.

Capital strengthening processes and alignment with EBA requirements

The exercise conducted by the EBA in the second half of 2011 (aimed at restoring confidence in the European banking sector following tensions in the sovereign bond markets), concluded with the verification of data as at 30 June 2012 and revealed a residual capital shortfall for the Group of EUR 1,728 mln. In agreement with the Italian Supervisory Authority and Ministry of Economy and Finance, Banca Monte dei Paschi di Siena has identified recourse to "State-aid measures" as a measure to plug its residual capital shortfall (pursuant to Legislative Decree no. 87 "Urgent measures for increased efficiency, value creation and disposal of public assets and rationalisation of corporate assets of companies in the banking industry" of 27/6/2012), i.e., government-backed financial instruments subscribed by the Ministry of Economy and Finance (MEF) and included in Common Equity Tier 1 capital.

On 28 February 2013, the issuance of New Financial Instruments was completed, as provided for by art. 23-sexies of Law Decree no. 95 of 6 July 2012, converted, with amendments, into Law no. 135 of 7 August 2012, as subsequently amended. The MEF underwrote the New Financial Instruments issued by the Bank for a total of EUR 4,071 mln, of which:

- EUR 1,900 mln to fully replace the so-called Tremonti Bonds (previously issued by the Bank in 2009);
- EUR 171 mln, with payment date on 1 July 2013, as payment on interest accrued up to 31 December 2012 on the Tremonti Bonds.

On 07/10/2013, the Bank's Board of Directors approved the **Restructuring Plan** (also approved by the European Commission on 27/11/2013), drafted under the procedure for issuance of the New Financial Instruments and within the European framework for State Aid. The strategic guidelines of the Plan can essentially be summarised as follows:

- quantitative and qualitative strengthening of capital;
- structural re-balancing of liquidity;
- attainment of sustainable levels of profitability.

On 28/12/2013, the Extraordinary Shareholders' Meeting approved the proposal presented by the Monte dei Paschi di Siena Foundation – as an alternative to that of the Board of Directors – regarding a paid share capital increase for a maximum amount of EUR 3 bn. The transaction will be completed no earlier than 12 May 2014 and no later than 31 March 2015, in divisible form and through the issue of shares to be offered in option to shareholders. The objective is to improve the quality of capital and reimburse the New Financial Instruments, no earlier than May 2014.

Income statement

Trends in operating revenues: generation of net income from banking and insurance activities

As at 31 December 2013, the Group's **net income from banking and insurance** was EUR 3,957 **mln**, down 20.8% on the same period of the previous year. 4Q2013 contributed EUR 728.6 mln, -29.9% as compared to 3Q2013.

Financial and insurance income (EUR mln)							Chg 4Q2013 vs 3Q2013		Chg Y/Y	
	31/12/13	4Q13	3Q13	2Q13	1Q13	31/12/12	Abs.	%	Abs.	%
Net interest income	2,153.4	563.3	506.6	486.5	597.0	2,829.6	56.7	11.2%	(676.2)	-23.9%
Net fee and commission income	1,657.6	404.8	404.2	417.3	431.3	1,632.8	0.6	0.1%	24.7	1.5%
Income from banking activities	**3,810.9**	**968.1**	**910.8**	**903.7**	**1,028.3**	**4,462.4**	**57.3**	**6.3%**	**(651.5)**	**-14.6%**
Dividends, similar income and gains (losses) on equity investments	129.9	32.9	31.1	38.6	27.2	75.1	1.8	5.9%	54.7	72.8%
Net trading income (loss) / valuation of financial assets	9.3	(277.5)	90.5	75.5	120.8	454.3	(368.0)	n.s.	(445.0)	-97.9%
net profit (loss) from hedging	7.2	5.1	7.0	(0.9)	(4.0)	3.1	(1.9)	-27.3%	4.2	n.s.
Financial and insurance income	**3,957.4**	**728.6**	**1,039.4**	**1,017.0**	**1,172.3**	**4,994.9**	**(310.8)**	**-29.9%**	**(1,037.6)**	**-20.8%**

A closer look at the aggregate reveals the following:

- **Net interest income** amounted to EUR 2,153 million, down 23.9% on the same period of the previous year. The following factors influenced this result:
  - the increased stock of NFIs issued in February 2013 (equal to EUR 4,071 mln) with respect to the so-called "Tremonti Bonds" held in 2012 (equal to EUR 1,900 mln), resulting in a negative impact on net interest income of EUR 162 mln;
  - the cancellation of income from the so-called "urgent facility fee" in September 2012 and revised methods for calculating the interest payable on overdrawn amounts[7].

  Given these factors, the residual annual variation in net interest income (-15%) is attributable, on the one hand, to falling asset volumes and, on the other, to a reduced funding/lending spread owing to lower market rates (average 1-month Euribor down 20 bps YoY), which primarily affected index-linked lending, and a shift towards more costly funding sources.

  The fourth quarter contributed EUR 563 mln, an increase of 11.2% on the previous quarter, primarily as a result of management actions to contain the cost of funding, particularly for corporate customers with low interest rates, only partly compensating for the decline in interest-bearing loans.

- **Net fee and commission income** came to EUR 1,658 mln, slightly higher than the previous year (EUR +24.7 mln, +1.5%), due to the opposing effects from a significant growth in placement fees on asset management products (particularly, an increase in fees and commissions for portfolio management, trading and investment advice as well as product distribution), offset by the decrease in net income from services, which was primarily affected by the lower demand for loans. The contribution of Q4, totalling EUR 405 mln, is largely in line with results from Q3 2013.

- **Net profit/loss from trading/valuation/repurchase of financial assets/liabilities** as at 31/12/2013 totalled EUR 9.3 mln (EUR 454 mln in the previous year) and included:
  - **Net profit from trading** at EUR 83.1 mln, down from the same period of the previous year (EUR -35.6 mln);

[7] New legislation referred to in art. 117-bis of the Consolidated Law on Banking, effective as of 1 July 2012, introduced major changes in interest and fees payable on lines of credit and overdraft current accounts. With regard to the latter and in accordance with recent provisions, the Group eliminated the "urgent facility fee" and reformulated methods for calculating interest payable on overdrawn amounts in the fourth quarter of 2012. At the same time, pursuant to the aforementioned article, a "fast-track facility fee" was introduced, commensurate with the costs incurred on average by the Bank for preliminary activities necessary to properly assess the granting of overdraft facilities (the new fee is accounted for under "Other operating income").

- **Disposal/repurchase of loans and available-for-sale financial assets and liabilities** of EUR -84 mln compared to a positive result of EUR 218 mln as at 31/12/2012, which was negatively affected by the accounting of certain non-recurring items in the last quarter, such as the closure of the Santorini transaction, the impact from the adjusted value of the shareholding in the Bank of Italy[8] and the disposal of Consum.it's "fifth-of-salary-backed" loan portfolio.[9]. It should be recalled that the 2012 result was mainly attributable to the capital gain arising from the public exchange offer on a number of subordinated securities for fixed-rate senior notes;
- **Net profit (loss) on financial assets and liabilities designated at fair value,** amounting to EUR 10.1 mln, against EUR +117 mln as at December 2012, is mainly attributable to the reduction in fair value of certain bonds issued with retail and institutional customers.

In the fourth quarter of 2013, **net income from trading/valuation/repurchase of financial assets/liabilities** totalled EUR -278 mln, mainly weighted down by the effects of the aforementioned non-recurring components and by the revaluation of liabilities designated at fair value, with the item "Net profit (loss) on financial assets and liabilities designated at fair value" registering EUR -41.3 mln.

Net trading income (loss) / valuation of financial assets (EUR mln)							Chg 4Q2013 vs 3Q2013		Chg Y/Y	
	31/12/13	4Q13	3Q13	2Q13	1Q13	31/12/12	Abs.	%	Abs.	%
Net profit (loss) from trading	83.1	(117.3)	78.2	58.7	63.5	118.7	(195.5)	n.s.	(35.6)	-30.0%
Gains (losses) on disposal/repurchase of loans, financial assets available for sale and financial liabilities	(83.9)	(118.9)	(16.5)	27.5	24.0	218.3	(102.4)	n.s.	(302.2)	n.s.
Net profit (loss) from financial assets and liabilities designated at fair value	10.1	(41.3)	28.8	(10.6)	33.3	117.3	(70.1)	n.s.	(107.2)	-91.4%
Net profit (loss) from trading	**9.3**	**(277.5)**	**90.5**	**75.5**	**120.8**	**454.3**	**(368.0)**	**n.s.**	**(445.0)**	**-97.9%**

Net income from financial and insurance activities also includes:

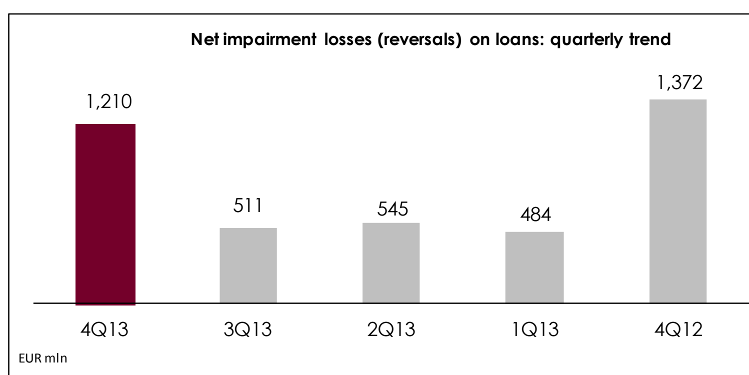
- **Dividends, similar income and gains (losses) on equity investments**: positive balance of **EUR 130 mln** (EUR 75.1 mln as at 31/12/2012), with the last quarter of 2013 contributing EUR 33 mln (EUR +1.8 mln on the third quarter of 2013, +5.9%). These results are primarily attributable to gains from equity investments consolidated at equity, with AXA-MPS insurance contributing EUR 97 mln (EUR +28 mln compared to 31/12/2012) and AM Holding insurance contributing EUR 26 mln;
- **Net income from hedging:** positive balance of **EUR 7.2 mln** with Q4 2013 contributing approx. EUR 5 mln.

[8] Please refer to the press release of 23 December 2013 of the Extraordinary Shareholders' Meeting of Bank of Italy, which approved amendments to the Bank's Articles of Association, aimed at aligning the Articles with the provisions contained in Law Decree no. 133/2013. The adjusted value of the share capital of Bank of Italy was set by the Law Decree at a total of EUR 7.5 bn, the upper limit of the EUR 5-7.5 bn range estimated by the technical report drafted with the aid of three external and high-profile experts, which Bank of Italy delivered to the Ministry of the Economy and Finance on 23 October 2013.

[9] Refer to the section "Customer loans".

Cost of credit: net impairment losses (reversals) on loans and financial assets

In 2013, the Group **booked net impairment losses (reversals) on loans** for a total EUR 2,750 mln, an increase with respect to the previous year, with Q4 2013 contributing EUR 1,210 mln. The year-on-year variation is due to the mix of gross impaired loans characterised by a higher number of NPLs compared to 2012, as a result of the prolonged crisis and still uncertain recovery. The ratio of loan loss provisions for the period over total customer loans shows a ***provisioning* rate of 210 bps**, up 22 bps from the end of 2012 when it stood at 188 bps.



Net impairment losses (reversals) on financial assets showed a **negative balance of EUR 73.5 mln** (EUR -222.6 mln as at 31/12/2012; EUR -43.1 mln in Q4 2013) mainly due to the depreciation of equity investments and UCITS units classified in the AFS portfolio.

As a result, **income from banking and insurance totalled EUR 1,134.1 mln** (EUR 2,101 mln as at 31/12/2012; -46%), with Q4 2013 contributing EUR 524.2 mln.

Operating costs: operating expenses

As at 31 December 2013, **operating expenses** totalled **EUR 2,811.5 mln**, down 12.7% from the previous year (-1.5% YoY).

Operating expenses (EUR mln)										
			(*)	(*)	(*)	(*)	Chg 4Q2013 vs 3Q2013		Chg Y/Y	
	31/12/13	4Q13	3Q13	2Q13	1Q13	31/12/12	Abs.	%	Abs.	%
Personnel expenses	1,718.7	414.3	429.0	422.6	452.9	1,918.3	(14.7)	-3.4%	(199.7)	-10.4%
Other administrative expenses	937.8	226.3	229.5	245.7	236.4	1,102.1	(3.2)	-1.4%	(164.3)	-14.9%
Administrative expenses	**2,656.5**	**640.5**	**658.4**	**668.3**	**689.3**	**3,020.4**	**(17.9)**	**-2.7%**	**(363.9)**	**-12.0%**
Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible assets	155.1	44.5	37.1	35.1	38.3	198.8	7.4	19.9%	(43.7)	-22.0%
Operating expenses	**2,811.5**	**685.0**	**695.6**	**703.4**	**727.6**	**3,219.2**	**(10.6)**	**-1.5%**	**(407.7)**	**-12.7%**

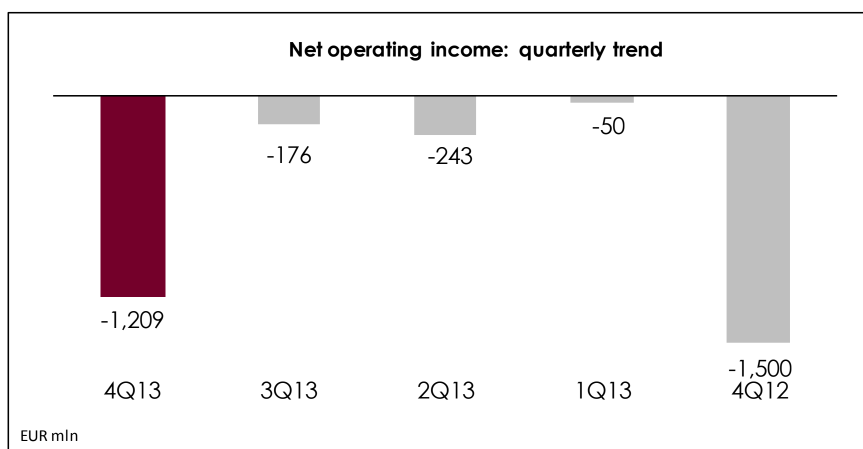
(*) 2012 figures were restated in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) by retrospectively applying IAS 19 "Employee benefits". Figures for 2012 and the first three quarters of 2013 were also re-stated in order to take into account the transfer of a business unit (auxiliary, administrative and accounting activities) to Fruendo Srl.

In particular:

- **Administrative expenses** stood at EUR 2,656.5 mln, down 12% from 31/12/2012, with Q4 2013 contributing EUR 640.5 mln, a drop of 2.7% on Q3 2013. More specifically:

- **Personnel expenses**, totalling **EUR 1,718.7 mln**, were down 10.4% on 31/12/2012 (-3.4% QoQ), due to headcount reduction and the positive effects from agreements with trade unions signed at the end of 2012 which, overall, absorbed the higher 2013 costs arising from the latest renewal of the National Collective Labour Agreement;
- **Other administrative expenses** (net of customer expense recovery), totalling **EUR 938 mln**, were down 14.9% YoY and 1.4% QoQ, thanks to structural cutbacks in spending, particularly on rental expenses, advertising, sponsorships and events, business trips and facility management and office supplies.

- **Net value adjustments to tangible and intangible assets** were **EUR 155 mln**, down 22% compared to the previous year, due to write-downs of intangible assets at the end of 2012.



On the back of these factors, **Net Operating Income** totalled EUR -1,677.4 mln (vs. EUR -1,185.5 as at 31/12/2012). Cost/income stood at 71% (vs. 64.4% as at 31/12/2012), owing to a sharper reduction in revenues than in operating expenses.

Non-operating income, tax and net profit for the period

The result for the period included:

- **Net provisions for risks and charges and other operating expenses/income**, totalling EUR 243.1 mln, down 25.5% from the previous year with a negative contribution in Q4 of EUR 225.8 mln. As at 31 December 2013, the aggregate included EUR -30 mln in net provisions for risks and charges, primarily covering lawsuits and claw-back actions, as well as other operating expenses (income), totalling EUR -213 mln, positively impacted by revenues from the "fast-track facility fee" (EUR +112 mln) but affected by charges in connection with lawsuit settlements and writedowns on improvements of leasehold properties as well as non-recurring components, such as the effect from Perimetro/Casaforte consolidation (EUR 224 mln);
- **Gains (losses) on equity investments**, showing a net negative balance of EUR 56.4 mln, primarily attributable to decreases in net equity of investments in associates**;**
- **Restructuring costs/One-off charges**, amounting to EUR 24.5 mln, associated with revised early-retirement incentives already put in place following trade union agreement of 19 December 2012.
- **Gains on disposal of investments**, for EUR 1.4 mln.

As a result of the above, a **loss before tax from continuing operations** of **EUR 2,000 mln** was posted as at 31/12/2013 (vs. a loss of EUR 1,806.5 mln in December 2012).

Profit (loss) before tax from continuing operations (EUR mln)							Chg 4Q2013 vs 3Q2013		Chg Y/Y	
	31/12/13	4Q13	3Q13	2Q13	1Q13	31/12/12	Abs.	%	Abs.	%
Net operating income	**(1,677.4)**	**(1,209.2)**	**(175.5)**	**(242.9)**	**(49.8)**	**(1,118.5)**	**(1,033.7)**	**n.s.**	**(559.0)**	**50.0%**
Net provisions for risks and charges and other operating expenses/income	(243.1)	(225.8)	(31.9)	8.8	5.8	(326.2)	(193.8)	n.s.	83.1	-25.5%
Gains (losses) from Investments	(56.4)	(25.5)	(0.1)	(32.2)	1.4	(58.1)	(25.4)	n.s.	1.7	-2.9%
Restructuring charges / One off charges	(24.5)	(6.7)	(0.2)	(17.6)	-	(311.0)	(6.5)	n.s.	286.4	-92.1%
Gains (losses) on disposal of investments	1.4	1.9	1.2	(1.9)	0.2	7.3	0.7	58.4%	(5.9)	-80.6%
Profit (Loss) before tax from continuing operations	**(2,000.1)**	**(1,465.3)**	**(206.6)**	**(285.8)**	**(42.4)**	**(1,806.5)**	**(1,258.8)**	**n.s.**	**(193.6)**	**10.7%**

Taxes on profit (loss) for the year from continuing operations shows a positive balance of EUR 652 mln (compared to a positive balance of EUR 363 mln as at 31/12/2012). The item includes an overall positive impact of EUR 63.5 million from correcting accounting errors in previous years.

The consolidated net result before Purchase Price Allocation (PPA) shows a loss of EUR 1,399.2 mln (loss of EUR 1,485.2 mln as at the end of December 2012). Considering the effects of PPA, the Group's loss for the period totalled EUR 1,439 million (EUR -3,168.2 million at the end of December 2012, which also included the impairment on goodwill and intangible assets for EUR 1,654 million).

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In compliance with Consob instructions, below is a reconciliation of the Shareholders' equity and the Net proft and loss of the period between the Parent Company's and the consolidated values.

Reconciliation between Parent Company and Consolidated Net Equity and Profit (Loss) for the period

EUR Thousands	**Shareholders' equity**	**Net profit (loss)**
Balance as per Parent Company's Accounts	4,544,493	(1,633,246)
including Parent Company's valuation reserves	*(1,159,480)*	-
Impact of line-by-line consolidation of subsidiaries	1,005,234	(63,071)
Impact of associates	385,410	128,344
Reversal of dividends from subsidiaries	-	(145,273)
Other adjustments	116,558	274,203
Subsidiaries' valuation reserves	103,570	-
Consolidated balance	**6,155,265**	**(1,439,043)**
including valuation reserves	*(1,055,910)*	

Results by operating segment

Identification of operating segments

For the purpose of identifying the Operating Segments provided for by IFRS 8, the Group has adopted the so-called business approach. Consolidated income statement and balance sheet data are broken down and re-aggregated based on criteria including: business area monitored, operating structure of reference, relevance and strategic importance of activities carried out, and customer clusters served.

The following Operating Segments, reporting to the highest decision-making level, were thus identified: the Retail & Corporate division, made up by the Retail Banking and Corporate Banking segments, and the Corporate Centre.

Segment reporting process

With a view to accurately defining the performance of the various business units in relation to the Group's overall results, rules for calculating the internal cost of funding (Internal Transfer Rates) have been updated as of the start of 2013, in accordance with the most recent national regulatory instructions and international guidelines. This change led to a reduction in net interest income from Banking Book owing largely to the higher cost of demand deposits in Retail and Corporate Banking.

Results in brief

The following table reports the main income statement and balance sheet items that characterised the Operating Segments as at 31 December 2013[10].

SEGMENT REPORTING Primary segment	Retail banking		Corporate banking		Total		Corporate Center		Total MPS Group	
(EUR mln)	31/12/13	Chg % Y/Y	31/12/13	Chg % Y/Y	31/12/13	Chg % Y/Y	31/12/13	Chg % Y/Y	31/12/13	Chg % Y/Y
PROFIT AND LOSS AGGREGATES										
Income from banking and insurance	3,940.2	18.1%	1,787.9	-14.4%	5,728.0	5.6%	(1,770.6)	n.s.	3,957.4	-20.8%
Net impairment losses (reversals) on loans and financial assets	(981.8)	8.2%	(1,808.3)	-4.9%	-2,790.1	-0.7%	(33.2)	-61.0%	(2,823.3)	-2.4%
Operating expenses	(2,134.2)	-13.6%	(611.3)	-9.0%	-2,745.5	-12.6%	(66.0)	-14.7%	(2,811.5)	-12.7%
Net operating income	824.1	n.s.	-631.7	30.6%	192.4	-136.6%	(1,869.9)	n.s.	(1,677.4)	50.0%
BALANCE SHEET AGGREGATES										
Interest-bearing loans to customers	55,169	-8.1%	56,921	-10.8%	112,090	-9.5%	10,249	-5.4%	122,338	-9.2%
Deposits from customers and debt securities issued(*)	65,328	-10.6%	21,440	3.1%	86,768	-7.6%	43,195	3.3%	129,963	-4.2%
Indirect funding	66,757	-1.5%	24,000	-15.1%	90,756	-5.5%	12,641	-30.4%	103,397	-9.4%
Assets under management	*41,499*	*1.7%*	*1,245*	*-7.6%*	42,744	*1.4%*	*2,362*	*-1.0%*	*45,106*	*1.3%*
Assets under custody	*25,257*	*-6.3%*	*22,755*	*-15.4%*	48,013	*-10.9%*	*10,279*	*-34.8%*	*58,292*	*-16.3%*

(*)Retail Banking and Corporate Banking data refers to the distribution network alone. It is noted that these figures do not include intercompany balances for the legal entities reporting to their respective business segments (typically intragroup funding).

"N.B.: Y/Y changes are on a like-for-like basis in that figures for comparison as at 31/12/2012 were restated to include changes made in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors). 1H12 values for P&L items "Operating Expenses" and "Net Operating Income" also take account of the application of IAS 19 "Employee benefits".
It should be noted that the comparative data has been restated to reflect the effects from the merger by absorption of MPS Gestione Crediti Banca into the Parent Company. As a result, the cost of bad debt collection management activities has been transferred from fee and commission expense to operating expenses.

[10] As of 2013, the Management Report on Retail and Corporate Banking reclassified EUR 3 bn in bonds to assets under custody (from Customer Deposits and Securities). For a correct analysis of the data, this approach has also been applied to the 2012 comparison period.

Retail & Corporate Banking Division

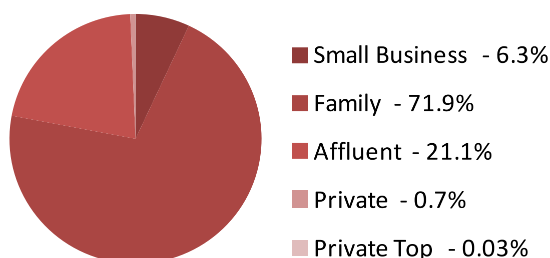
Retail banking

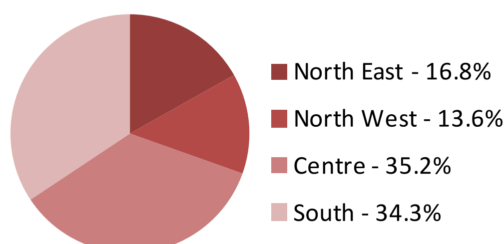
Areas of business

- Funding, lending, the provision of insurance products, financial and non-financial services (including through electronic payment instruments) to Retail customers.
- Services and products for high-standing customers in the areas of wealth management, financial planning, consultancy on non-strictly financial services (including through the subsidiary, MPS Fiduciaria) and financial advisory.
- Consumer lending, through the subsidiary, Consum.it, and, as a result of a final agreement signed in February 2014, with Compass-Mediobanca Group.

Target customers

Retail customers amount to around 5.1 mln.





Retail Banking also includes customers managed by the financial advisory network (aprrox.102 thousand customers, partly shared with the Network).

Profit & loss and balance sheet results

As at 31/12/2013, **total funding from Retail Banking customers** stood at **EUR 132 bn**, down 0.7% from the previous quarter and 6.2% from 31/12/2012. **Direct funding**, totalling **EUR 65 bn,** reported an annual decrease of 10.6% (-3.8% QoQ) which was distributed across the various customer segments, particularly affluent customers, and was ascribable to the downward trend in bonds. The decrease for the quarter was due to a shift in liquidity by retail customers towards asset management products and other forms of investment which were supported by a slight recovery in financial markets during the last part of the year.

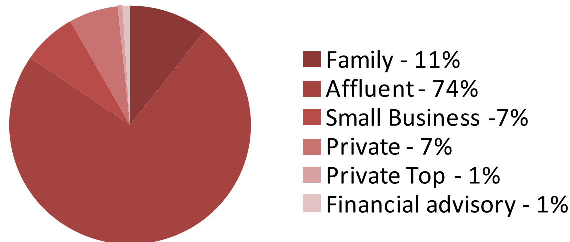
Indirect funding, totalling circa **EUR 67 bn,** decreased in the year by 1.5% due to the decline in assets under custody (-6.3% YoY), with a recovery in the last quarter of the year, both in relation to assets under management (+2.7% QoQ) – sustained by both mutual funds and open-ended collective investment schemes (+4.6%, QoQ) – as well as the marketing of bancassurance products (+1.9%, QoQ).

With regard to credit management, **"interest-bearing loans",** which stood at **EUR 55 bn**, were down during the year by 8.1% (-3.1% from 30/09/2013) primarily due a to lower demand for medium/long term credit by households and small businesses, reflective of the continuing difficult economic situation.

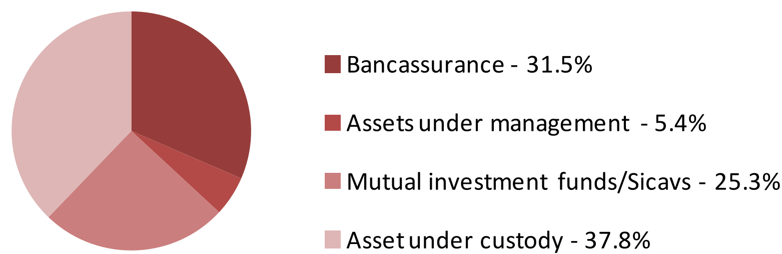
RETAIL BANKING - BALANCE SHEET AGGREGATES

(Eur mln)	31/12/13	30/09/13	31/12/12	Chg %Q/Q	Chg %Y/Y
Deposits from customers and debt securities issued - Distribution Network	**65,328**	**67,886**	**73,073**	**-3.8%**	**-10.6%**
Assets under management	*41,499*	*40,416*	*40,807*	*2.7%*	*1.7%*
Assets under custody	*25,257*	*24,731*	*26,955*	*2.1%*	*-6.3%*
Indirect Funding - Distribution Network	**66,757**	**65,147**	**67,762**	**2.5%**	**-1.5%**
Total Funding - Distribution Network	**132,084**	**133,033**	**140,835**	**-0.7%**	**-6.2%**
Interest-Bearing Loans to Customers	**55,169**	**56,935**	**60,042**	**-3.1%**	**-8.1%**

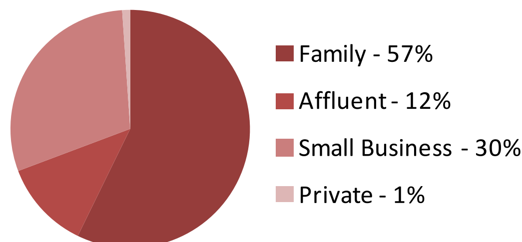
Retail banking - Distribution network
Direct funding breakdown



Retail banking - Distribution network
Indirect funding breakdown



Retail banking - Distribution network
Interest-bearing loans



With regard to profit and loss, Retail Banking achieved **total revenues** of **EUR 3,940 mln** in 2013, up 18.1% with respect to 2012. The aggregate includes:

- a rise in net interest income (+35%), primarily due to the higher cost of demand deposits, which rewards the stable behaviour of retail customers;
- an increase in net fee and commission income (+3.1%), boosted by positive trends in revenues from the placement of wealth management products;
- a reduction of 40.6% in "other revenues".

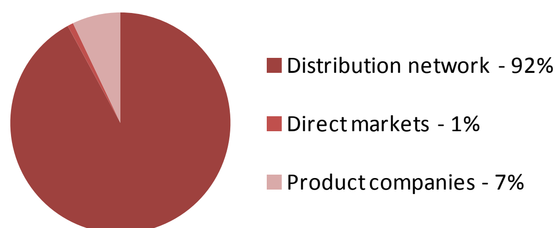
As for cost components, there was an increase in both net impairment losses (reversals) on loans and financial assets (+8.2%) and a decrease in operating expenses (-13.6%).

As a result of the above components, as at 31 December 2013, Retail Banking posted a **Net Operating Income** of **EUR 824.1 mln (loss of EUR 41.5 mln as at 31/12/2012)**, with a **cost-to-income ratio of 54.2%**.

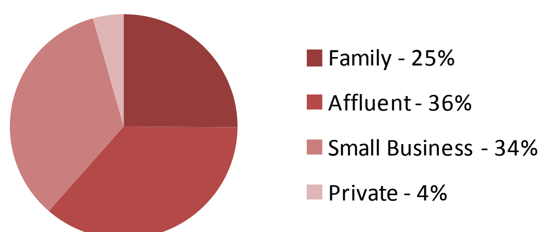
RETAIL BANKING - PROFIT AND LOSS AGGREGATES			
(EUR mln)	31/12/13	(*) 31/12/12	Chg %Y/Y
Net interest income	*2,480.6*	*1,838.0*	*35.0%*
Net fee and commission income	*1,343.9*	*1,303.6*	*3.1%*
Other income	*115.7*	*194.9*	*-40.6%*
INCOME FROM BANKING AND INSURANCE	**3,940.2**	**3,336.5**	**18.1%**
Net impairment losses (reversals) on loans and financial assets	*(981.8)*	*(907.7)*	*8.2%*
Operating expenses	*(2,134.2)*	*(2,470.3)*	*-13.6%*
NET OPERATING INCOME	**824.1**	***(41.5)***	**n.s.**

(*) Figures restated in line with criteria adopted for debt collection activities in 2013.

Consumer banking
Breakdown of revenues



Consumer banking - Distribution network
Breakdown of revenues



PERFORMANCE OF COMPANIES (net profit/loss for the period)			
(EUR mln)	31/12/13	31/12/12	Chg %Y/Y
Consum.it	(85.4)	9.7	n.s.
MPS Fiduciaria	0.8	0.9	-13.1%

Retail Banking strategy

The 2013 Retail Banking strategy was developed on the basis of the following guidelines:

Growth in balance sheet aggregates and the customer base – activate marketing and promotional initiatives in order to acquire new relationships, develop existing ones and monitor retention.

Re-launching of asset management and further strengthening of bancassurance.

Development of the offer for protected/non-guaranteed investment solutions – this objective is aligned with customers' needs and aims to increase exposure to riskier markets in a controlled manner. In support of this objective, an advisory approach was applied in a structured manner to help customers re-balance their portfolios with more efficient asset allocations as well as move towards a more appropriate asset mix.

Background
Market ▪ Macroeconomic recession and weak dynamics in loans. ▪ Spread between Italian/German government bonds decreasing, with a subsequent decrease in yields. ▪ Positive returns in stock markets. ▪ Customer preference for forms of investment that protect capital and/or with guaranteed minimum returns. ▪ Spread of advisory services in response to demand and regulatory policies. ▪ Greater focus on pricing trends by customers.
Regulatory framework ▪ Focus on sales practices that link different products. ▪ Heavier tax burdens (VAT on asset management, Tobin Tax, etc.) as well as pressure on margins for payment systems.
Competitive framework ▪ Funding market share below the total Group potential, with specific margins of recovery in certain areas of asset management, deposits and e-money services. ▪ Equity investments on the part of customers are lower than the banking average, with a particularly high percentage in low risk areas. ▪ Percentage of asset management products in customer portfolios was lower than that of primary competitors. ▪ Good positioning of the offer within product areas that have high innovation/growth.

Development of customer services – focus on areas with greatest growth prospects (in particular, e-money, payments, protection/insurance, consulting on investments) by exploiting partnerships with CartaSI and AXA-MPS.

Main initiatives

Marketing activities for the network involved diversified objectives across three target markets: family, small business, and affluent.

Within the **family** market, particular focus was given to the areas of protection/insurance, e-money and pension schemes. Marketing targets were defined with a "micro-based" approach, i.e., based on an in-depth analyses of customer needs and their relative purchasing propensity. Campaigns pertaining to protection/insurance were particularly intensive and spread throughout the local areas, while e-money services focused on the placement of the Montepaschi credit card.

Within the **small business** market, activities to support financial stability were implemented, particularly through measures aiming to develop and support direct funding and through loyalty programs targeting customers with greater risk of leaving the Bank For loans, focus was placed on short-term financing needs of companies, which were coupled with medium-term disbursements using Cassa Depositi e Prestiti (Deposits and Loans Fund) funding. The revenue diversification objectives were mainly pursued in the protection/insurance department through the launch of a new multi-guarantee product dedicated to small firms, while promotional initiatives for payment systems have had positive results, both in terms of new customer acquisition as well as volumes transacted through POS.

In the **affluent** market, there was a significant commitment to expand the customer base, including through promotions that specifically target new account holders, in addition to initiatives carried out in the protection/insurance sector, similar to those for the family sector, and the development of the offer of investment solutions for portfolio optimisation.

As for activities concerning implementation of the Business Plan, these largely focused on the innovation of business products and services in the following areas.

Business productivity

A new sales and distribution governance model for central and network units was defined and the initial applications of new planning and regional sales marketing strategies were launched in order to maximise the specific potential of each customer and their related socio-economic background across all regional areas.

The results obtained so far, from the branches involved, indicate improved productivity levels, superior to the rest of the Network.

Marketing Factory and Multichannels

In order to strengthen the role of marketing and enhance the access channels for banking services, activities were developed that included:

- the formulation of new growth policies for Retail customer service models;
- improvement of the customer information base (the number of customers which can be contacted for marketing purposes by the Bank has increased by 15%) and the use of the "customer lifecycle" concept to achieve more effective customer segmentation;
- re-launching the web-banking platform (new Internet Banking; new Trading On Line; new Mobile Banking features and apps), with positive results in terms of increasing transaction volume and number of active customers on these channels;
- strengthening of Direct Marketing in the insurance sector (the number of policies sold has increased by 36%) with implementation of an internal Telemarketing unit and increased availability of offered products;
- implementing a variety of innovative sales promotions enabling the transfer of assets and acquisition of new customers (more than 40 thousand new bank accounts were opened); in particular, a description of some of the many initiatives implemented during the year is provided below:
    - "Un Monte di Risparmi", ("A Mountain of Savings"), initiated in January in order to attract new deposits in exchange for customer benefits in the form of expense reimbursement, commissions and stamp duties;
    - "Il Gusto del Risparmio" ("The Taste of Savings"), developed as a co-marketing initiative with Lavazza SpA in order to attract new clientele through the awarding of prizes for current customers who provide the Bank with new commercial relationships;
    - "Un Monte di Hi Tech" ("A High Tech Mountain"), initiated in November, which provides a new customer with a Samsung smartphone or tablet if he/she opens a bank account and invests liquid funds in a time deposit account, with remuneration at competitive rates;
    - "Uno di Noi" ("One of Us"), which provides employees of the Group the possibility to provide "non customers" with vouchers that allow them to have favourable conditions for opening a bank account;
    - "RendiMonte" - customers who participate in the initiative by transferring additional funds to their current accounts are granted promotional interest rates depending on the amount of new funds brought in and duration of deposit with the bank.

Bancassurance

The Group's offering in the bancassurance segment (both savings-investment and insurance) was further developed with the:

- issue of investment products from the lines "AXA-MPS Valore Performance" (principal-protected Unit Linked), "AXA-MPS Valore Selezione Plus" (Unit Linked to multibrand external funds), and "AXA-MPS Doppio Vantaggio" (guaranteed multi-branch Unit policy);
- launch of "AXAMPS Protezione Business", which simplifies and streamlines the range of protection/insurance for companies, especially small businesses; the innovative nature of this product has been recognised by the 2013 Milano Finanza Innovation Award;
- further expansion of the range of professionals included in the scope of professional liability insurance (Garanzia RC Professionale);
- enrichment of the product catalogue with the Direct Marketing channel;
- release of the "AXA MPS Multiprotezione" product (a multi-risk insurance policy bundled with credit cards issued by the Bank);
- placement of the Motor product 'AXA MPS Guidare Protetti' for targeted SME customers;
- activation of a new Internet banking function which allows users to receive a rapid budget estimate for motor vehicle insurance policies.

E-money, Payments and Collections

- Payment and collection systems are being revised for the forthcoming regulations deadline of the Single Euro Payments Area (SEPA);
- The new acquiring platform was launched to provide new value-added services to customers/users on POS (27x7 call centres, user portal, online account statement);
- The new issuing platform was activated through the marketing of the Group's credit card – Carta Montepaschi, with numerous innovations in terms of product (contactless technology, Chip & PIN and a single PIN for use both as a domestic debt card and an international credit card) and services (24x7 contact centre, new online Portals for Cardholders and Businesses, new "Montepaschi Club" loyalty program).
- The new 'Maestro WEB' debit card products were launched, which can also be used for on-line purchases by customers registered with the "3D secure code" service on the Bank's website.

Asset management

In order to strengthen the Group's competitive positioning in the asset management segment:

- the partnership with Anima Sgr was enhanced with a wider offer of coupon bonds (known as "Traguardo");
- the individual portfolio management offer and the range of services for private, top private, and financial consulting have been further strengthened.

Advice

Advisory activities for investment services were strengthened through the increasingly widespread use of the dedicated MPS Advice platform. During the course of the year, Advice transactions affected 40% of placements (26% in 2012), with improved average performance for participating customers and additional profitability for the Bank.

Private Banking

Over the course of the year, a plan to re-launch the Group's Private Banking was launched, through the development of a new organisational model and introducing a new commercial planning system in order to improve the service level to customers. In particular, sales and marketing processes have been strengthened and rendered more efficient through the creation of a parent company area as well as the identification of a dedicated supply chain and new coordination/support figures.

Initiatives undertaken include:

- a new weekly sales planning approach for each individual Private and Top Private Centre which, with a view to increasing the daily/weekly contact opportunities with customers, is designed to boost asset volumes and improve retention and cross selling;
- enhancement of synergies with other business segments, with an acquisition-oriented objective. In particular, Private Banking growth opportunities were sought among entrepreneurs who are already Group customers, in their role as representatives of their companies;
- initiatives geared to support sales levers available to the Private and Top Private network and acquire new assets, including through the use of new communication channels such as Direct E-mail Marketing (e.g. “Un Monte di Risparmi”);
- sales and distribution actions based on developing a multibrand model that introduced new investment opportunities to customers, particularly including certificates issued by third parties;
- special focus was placed on the skills of the Private Banking network, with the launch of a targeted training path which will be completed by the end of the year;
- finally, as part of the diversification of non-financial advisory, services for investing in diamonds were positively received.

Financial Advisory

During the course of the year, the Financial Advisory Network was involved in marketing and promotional initiatives with the aim of expanding the customer base, developing new asset streams, and increasing cross selling. The main initiatives include:

- the “Integrated Multichannel” sales campaign to foster the use of electronic services and promote a more widespread customer interest in new on-line advisory services;
- the promotions “Un Monte dei Risparmi”, “Il Gusto del Risparmio”, “Un Monte di Hi-Tech”, as well as various other initiatives, with awards and discounts for participating customers;
- sales campaigns for pension schemes and savings plans;
- creation of 'Personal Websites' for financial advisors, a dedicated portal where each advisor can promote their professional skills and advisory projects.

Key developments in the product/service catalogue include:

- expanding the asset management commercial offer and of the UCITS portfolio available to the Financial Advisory Network;
- extending the range of products marketed to include "CID Cedola Crescente (Step-up Coupon)", the new variable return line of the 'Conto Italiano di Deposito' deposit account;
- expanding the range of open-end collective investment schemes range, Sicav M&G, to include 'income funds', placed in Italy for the first time. This addition has made it possible to align the UCITS range with major competitors' offerings;

- launch of 'DWS Invest' open-end collective investment scheme (Sicav) and DWS Investment SA Mutual Funds under Luxembourg law, as a result of the new partnership with the international asset management company DeAWM (Deutsche Asset & Wealth Management), with the objective of strengthening the multi-brand range of products and services that characterises Financial Advisory;
- completion of the 'AXA Investment Manager' offering to include the new Sicav “Axa Fixed Income Investment Strategies".

Numerous other projects have also undertaken, with the aim of improving the technology and functional support available to financial advisors and monitoring their performance more efficiently. These include the new MPS Start PF app, which aims to facilitate customer relationships, making them more flexible and interactive.

Consum.it

This company, operating in the consumer lending business, was affected by two significant transactions, which contributed to the Group’s objective of rationalising loans and liquidity sources:

- the transfer of the loans portfolio relative to “fifth-of-salary backed loans” to an international investment fund;
- the securitisation of car loans, personal loans and other targeted loans.

MPS Fiduciaria

During the course of the year, activities focused on:

- training private managers in order to maintain of IVASS (Istituto per la Vigilanza sulle Assicurazioni, “Insurance Monitoring Institute”) registration requirements;
- conducting numerous sales meetings with private clients;
- completing the sales campaign with target SMEs.

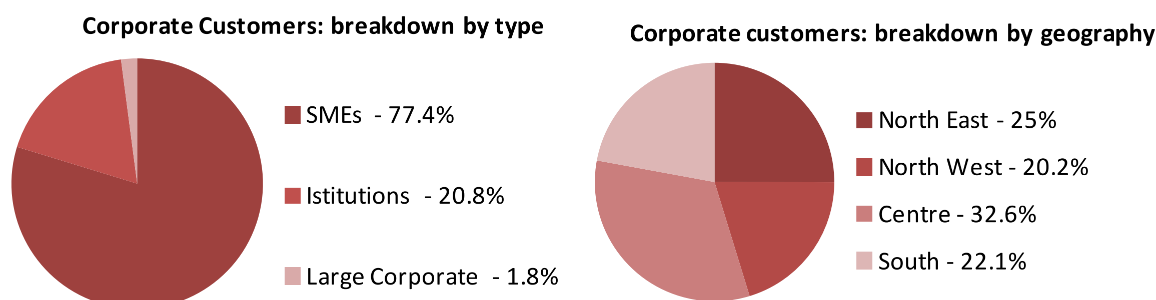
Corporate banking

Areas of business

- Lending and offering financial products and services to businesses, including through strategic partnerships with trade associations and Confidi credit guarantee consortia, with Guarantee Institutions (including public) and Institutional Entities, through which the Bank acquires funding at favourable terms.
- Offer of integrated leasing and factoring packages for businesses, artisans and professionals (through the subsidiary MPS Leasing & Factoring).
- Corporate finance – medium-long term credit facilities, corporate finance, capital markets and structured finance (through the subsidiary MPS Capital Services).
- Products and services issued by the Bank's foreign branches to support business expansion and investments by Italian companies abroad.

Target customers

Corporate Banking customers amount to approximately 68,500.



Breakdown of corporate clientele by activity sector (%)	31/12/2013
Wholesaling	12.1
Credit and insurance, services to client companies	10.8
Food, textile, leather, clothing industries	10.0
Construction and building system installation industries	9.6
Manufacturing, metalworking, precision mechanics industries	9.5
Retail sales, public businesses and repairs	7.1
Public administration, public/private services	6.9
Agriculture, hunting and fishing	4.9
Extractive, chemical and mineral processing industry	3.7
Transportation and communications	3.1
Energy, gas and water	1.8
Not classified	20.5

Profit & loss and balance sheet results

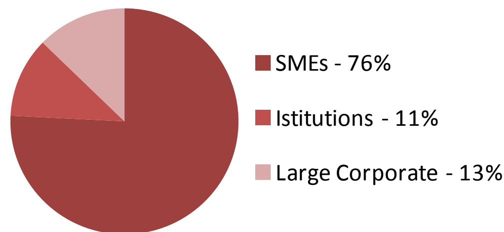
As at 31 December 2013, **total funding from Corporate Banking customers** stood at **EUR 45 bn,** down 7.4% from the previous year and 4.2% from 30/09/13. **Direct funding**, totalling **EUR 21 bn,** reported an increase of 3.1% with respect to the end of 2012 (-11.2% QoQ) boosted by deposits on demand from Institutional customers.

Indirect funding, consisting largely of assets under custody, stood at **EUR 24 bn** as at 31/12/2013, (-15.1% from 31/12/12; +3.1% as compared to 30/09/2012), which was considerably affected by changes in deposits from some of the Group's Key Clients, however, the impact was not significant.

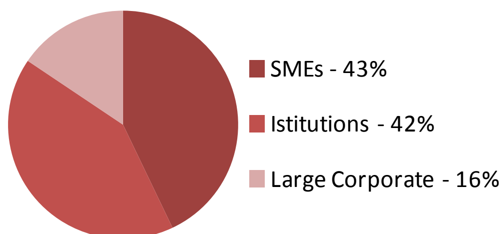
With regard to lending, as at 31 December 2013, **interest-bearing loans** stood at **EUR 57 bn**, down 10.8% on 31/12/12 (-3.8% QoQ), particularly with regard to the SME customer segment.

CORPORATE BANKING - BALANCE SHEET AGGREGATES					
(EUR mln)	31/12/13	30/09/13	31/12/12	Chg %Q/Q	Chg %Y/Y
Deposits form customers and debt securities issued - Distribution Network	**21,440**	**24,144**	**20,799**	**-11.2%**	**3.1%**
Assets under management	*1,245*	*1,252*	*1,347*	*-0.6%*	*-7.6%*
Assets under custody	*22,755*	*22,028*	*26,908*	*3.3%*	*-15.4%*
Indirect Funding - Distribution Network	**24,000**	**23,280**	**28,255**	**3.1%**	**-15.1%**
Total Funding - Distribution Network	**45,440**	**47,424**	**49,055**	**-4.2%**	**-7.4%**
Interest-Bearing Loans to Customers	**56,921**	**59,188**	**63,837**	**-3.8%**	**-10.8%**

Corporate banking - Distribution network
Interest-bearing loans



Corporate banking - Distribution network
Direct funding breakdown

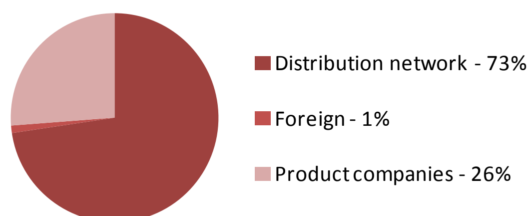


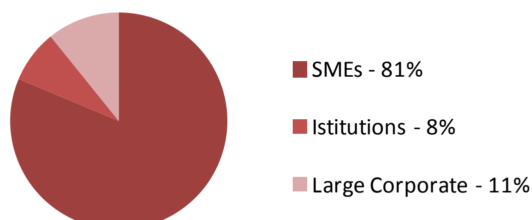
With regard to profit and loss aggregates, as at 31 December 2013 **total revenues** for the Corporate Banking division came to **EUR 1,787.9 mln** (-14.4% YoY), with net interest income falling 18.3% as a result of both a decrease in transaction volumes as well as the new internal rates transfer system cited above. Net fee and commission income shrunk 4%, mainly reflecting the gradual slowdown in lending transactions. A 15.8% downturn was posted for other revenues, attributable to reduced market volatility and lower risk profiles for the Global Markets Division of MPS Capital Services.

Net operating income was negative by **EUR 631.7 mln** despite reductions in net impairment losses on loans and financial assets and operating costs, -4.9% and -9%, respectively, compared to the end of the previous year. The **Corporate Banking cost-income ratio stands at 34.2%.**

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES			
(EUR mln)	31/12/13	(*) 31/12/12	Chg % Y/Y
Net interest income	*1,102.5*	*1,348.7*	*-18.3%*
Net fee and commission income	*504.4*	*525.5*	*-4.0%*
Other income	*181.0*	*214.9*	*-15.8%*
INCOME FROM BANKING AND INSURANCE	**1,787.9**	**2,089.0**	**-14.4%**
Net impairment losses (reversals) on loans and financial assets	*(1,808.3)*	*(1,901.3)*	*-4.9%*
Operating expenses	*(611.3)*	*(671.5)*	*-9.0%*
NET OPERATING INCOME	**(631.7)**	**-483.8**	**30.6%**

(*) Values have been restated to reflect the effects from the merger by absorption of MPS Gestione Crediti Banca into the Parent Company with the reallocation of NPL collection-related costs from fee and commission expense to operating expenses.





PERFORMANCE OF COMPANIES (net profit/loss for the period)			
(EUR mln)	31/12/13	31/12/12	Chg % Y/Y
MPS Capital Services	48.6	1.3	n.s.
MPS Leasing & Factoring	(70.8)	(32.9)	115.4%

Corporate Banking strategy

The 2013 Corporate Banking strategy was developed on the basis of the following guidelines:

SME Market

- joint management of profitability and liquidity;
- control over the cost of risk;
- increasing commercial productivity;
- innovation and improved efficiency for productive processes.

Background
SME Market The market was characterized by strong tensions due to a variety of negative factors, including: ▪ the economic recession; ▪ lower availability of funding. ▪ problematic loans that are constantly growing.
Market for Institutions and Public Administration The market was characterized by the following factors: ▪ the economic recession; ▪ strengthening of competitors in their offer of collection services with simultaneous change in the legislative framework (e.g. introduction of Tares). ▪ Development of customer needs: dedicated collection products that are in line with the offers of competitors as well as related services in addition to collection and payment systems such as POS and prepaid cards.

Market for Institutions and Public Administration

- joint management of profitability and increase in liquidity;
- control over the cost of funding and stabilisation of direct funding deposits;
- increase in commercial productivity resulting in terms of financial margins and commissions;
- innovation and optimisation of processes with the introduction of new services (e.g., online payments against notice) and/or their adjustment to new legislative regulations (e.g., migration of collection and payment systems in accordance with SEPA regulations).

Main initiatives

The focus on the SME market primarily resulted in the following initiatives:

- various types of advances on receivables owed to companies by the Public Administration;
- Crescita di Valore (Value Growth) - initiative launched in June with the aim of rebalancing lending/funding positions having negative added value, starting from the 150 most critical cases, for which it has been decided to implement direct tracking by the relevant Head Office units;
- credit to SMEs – strengthening the ability to support the globalisation of small-medium businesses with the launch of a new medium-term product "Finanziamento SACE–Credit Enhancement", with funds from the Cassa Depositi e Prestiti (Deposits and Loans Fund);
- revision of the SME service model and the related marketing strategies that are heavily based on sector and territorial strategies;
- pricing: work continued on the implementation of advanced price management tools, pricing strategies that are diversified by customer, product and market, and to modify autonomies along the entire sales value chain;
- Italian Banking Association (ABI) Agreement, "Banche 2020" – aiming to promote a more efficient use of EU funds allocated to Italy through greater awareness by banks of the means by which businesses can access said funds;
- Italian Banking Association (ABI) Agreement "Credito 2013" – initiative (joined on 26/9/2013) involving a new grace period during which banks may renegotiate rate terms & conditions, with increases not exceeding 200 bps, in the event of medium and long term loan extensions;

- Mpsponsor-Minibond - the Group has supported the establishment of a closed investment fund, named "Fondo Minibond PMI Italia", whose assets are to be primarily invested in minibonds issued by corporate clients, with an appropriate legal and creditworthiness structure. Management of the fund has been outsourced to a third party asset management company, Finanziaria Internazionale Investment SGR. The Group will subscribe a portion of the fund, assist customers in the phases of issuance and subscription to the fund and contribute to placement of the relevant shares with qualified traders. With regard to the latter point, activities related to the placement of the fund as well as specific internal training activities were initiated in the third quarter;
- hedging derivatives – 1) defining a standard method for post-sales management in the event of changes in the underlying risk; 2) developing a specific IT tool to support the assessment of the hedging objective for OTC derivatives; 3) enabling new tools to support the Network in identifying customers potentially interested in the derivatives offering; 4) drafting the final contract documentation so that informational disclosures to customers are clear and complete; 5) creating a recurrent report that analyses the most significant mark to market positions in relation to the notional amount;
- facilitated finance agreement with the company Warrant Group;
- agreement with the insurance companies Euler Hermes and Coface to offer customers a tool for protecting income related to trade receivables.

Other initiatives involved:

- the Market for Institutions and Public Administration, by means of the following: 1) re-pricing of demand deposits; 2) expansion of collection services and SEPA migration; 3) further development of “third sector” customer base;
- credit guarantee and funding agencies – introduction of a credit ceiling for SME customers with medium-high credit standing in conjunction with the use of funding from the Cassa Depositi e Prestiti (Deposits and Loans Fund), with the aim of remixing the loan book through the use of subsidised funds and risk mitigation instruments;
- the agrifood sector, with the establishment of a system of offers for zootechnical enterprises through important cooperatives in the industry;
- international activities aimed at increasing the placement of foreign exchange risk hedging products and broadening the portfolio of customers with international operations. These activities involved both small enterprises (Small Business customer segment) and larger enterprises (Corporate customer segment), who were also targeted in the “Sconto Pro-Soluto di Effetti” (discount without recourse on notes) marketing initiative with the “SACE e Crediti di firma Estero” policy.

Furthermore, the Bank continued to offer products and services with a significant environmental and social impact (see “Social Value” section).

MPS Capital Services

Corporate finance

Project Financing - Despite the difficult economic and financial scenario, consolidated operations within the sectors of infrastructure, utilities and renewable energy were maintained. In particular, the following deals were completed: 1) the “Brebemi” (Brescia-Bergamo-Milano) maxi-loan, a project financing structured as a syndicate loan of five leading domestic banks and institutions, including EIB, CDP and SACE, for the construction of a new motorway between Brescia and Milan (the transaction has received an international award as the “European Infrastructure Deal of the Year”); 2) support for the construction of a new hospital in Garbagnate Milanese (Milan).

A letter of commitment was also drafted to expand the tramway network in Florence, and mandates for the structuring of the following transactions were undersigned: 1) the construction and management of two thermoelectric plants in L'Aquila and Sedegliano (Udine) as well as a vegetable biomass waste incinerator in Terni; 2) the expansion and restructuring of hospital facilities in Verona; 3) the realisation and management of new correctional facilities in Bolzano.

With regard to consulting activities, six asseverations were implemented for transactions to be carried out in the sectors of infrastructure and renewable energy.

Structured Finance – the undersigning of two mandates to structure transactions for the construction and management of the gas distribution network in certain areas in Sardinia. In particular, the structuring of medium to long-term financing for a project is nearly complete.

Syndication – four financing transactions were placed on the market and, specifically, the primary syndication activity for the financing granted to Lillo SpA was completed in the fourth quarter.

Acquisition Financing - MPS Capital Services acted as Mandated Lead Arranger, amongst other roles, for the following transactions: 1) acquisition of the hard discount chain under the LD brand by Lillo Group (GDO through hard discount); 2) acquisition of Unieuro by SGM Distribuzione (distribution of consumer electronics); 3) acquisition of the Caffita System Group (production and marketing of coffee capsules and machinery) by the private equity fund Alpha; 4) acquisition of Codyeco (production and marketing of chemical components for the tanning industry) by the private equity fund, Star Capital; 5) the acquisition of CastFutura (production and marketing of components for boilers and kitchens) by the private equity fund, Star Capital.

Investment banking

In the bond market, MPS Capital Services acted as Dealer in the fifth issue of BTP Italia, the largest transaction ever carried out in Europe by a sovereign issuing entity (more than EUR 22 bn). It also acted as a Dealer in seven covered bonds totalling EUR 3.6 bn, which were issued by the Parent Company, and acted as Arranger in a securitisation transaction relative to a portfolio of consumer loans issued by Consum.it SpA. The senior tranches were placed privately with an important institutional investor. Activities as Placement Arranger for the 'Fondo Immobiliare Socrate' real estate fund continued, in relation to opening the sixth and last window for underwritings and reimbursements.

With regard to advisory activities, MPS Capital Services was given the role of financial advisor to a leading Italian construction company for the planning and structuring of an equity transaction concerning the business unit that operates in the sector of special construction works. It also acted as sole financial advisor for the Parent Company in the transaction for disposal of the private equity portfolio.

Subsidised financing

In this area, activities continued as "managing body" of the largest sources of public assistance for research and industrialisation, on behalf of the Ministry of Economic Development and the Ministry of Education, Universities and Research. At the end of 2012, operations were launched as part of the 'temporary consortium of companies' (RTI), created with MCC-Banca del Mezzogiorno as lead arranger to manage the Guarantee Fund for SMEs, for which MPS Capital Services is involved in promoting and developing subsidised financing.

In the second half of the year, a group of subsidised transactions pertaining to the "Technological Innovation Fund – negotiated procedure" entered the final phase of completion and management. The Fund was established for large-scale industrial research activities and is supported by important firms in various industrial sectors.

The preliminary activities for the Ministry of Education, Universities and Research relative to the following projects were completed: four projects of the "Smart Cities" call for proposals, financed with national funds from 60 entities, including companies and public research entities (PREs); 14 projects of the "Start Up" call for proposals relative to 47 entities, including companies and PREs, reserved for university spin-offs or companies recently founded for the implementation of a specific research project; and 19 projects of the call for proposals for National Districts Operational Programme, with EUR 154 mln worth of initiatives.

Global Markets

2013 was characterised by a gradual decrease in risk and improvement in liquidity conditions in the system. On one hand, MPS Capital Services significantly reduced the use of its risk delegation and the use of unsecured liquidity while, on the other hand, it was forced to manage a significant decrease in customer activity. Within this context, the overall economic result was satisfactory and with the following strengths: bancassurance products, transactions in government securities, secured financing activities and corporate hedging (with the exception of interest rates). Moreover, the tactical positioning allowed the Bank to take advantage of opportunities that arose during the year in order to locally increase risk levels (for example, for the possibility that monetary policy authorities undertake an accelerated retreat from their expansive policies and the gradual weakening of the economic cycle in emerging nations).

MPS Leasing & Factoring

- Through its Parent Company, MPS Leasing&Factoring has joined the Fourth Agreement between the Italian Banking Association (ABI) and the Cassa Depositi e Prestiti (CDP), thereby having the possibility to draw from the specific credit pool to finance leasing transactions under favourable terms & conditions.
- Factoring activities continued with advances on receivables owed to companies by the Public Administration through the use of loan acquisition, both with and without recourse (public debtors).
- On 20 September 2013, an agreement was signed with Finlombarda ("Credito in Cassa" for the Lombardy Region) to provide businesses in the region who are creditors of local institutions, with necessary liquidity through the disposal of credit without recourse, in favour of factoring companies.

The Corporate Centre

Reporting scope

The segment includes the cancellation of intragroup entries as well as the results of the following:

- Banks governed by foreign law (MP Banque and MP Belgio);
- Head office units (including governance and support functions, proprietary finance, the 'asset centre' of divisionalised entities, which comprises ALM, Treasury and Capital Management);
- Business service and support units - development and management of information systems (Consorzio Operativo di Gruppo), collection of doubtful loans and value creation from the Group's real estate (MPS Immobiliare);
- Companies consolidated at equity and companies held for sale;
- Operating units which, on an individual basis, are below the benchmarks required for primary reporting.

Main initiatives

For a description of key actions in the areas of proprietary finance and NPL management, see the "Balance Sheet" section. For actions aimed at improving the efficiency of the operating model and Group processes as well as developing human capital, see the "Operational Efficiency" and "Human Resources" sections.

ALM and Capital Management

Objectives

Structural re-balancing of the liquidity position and implementation of strategic policies for managing interest rate risk.

Optimal management of liquidity

A growth plan for the aggregates has been initiated, maintaining financial stability in the long-term and guaranteeing compliance with liquidity requirements.

With regard to access to the institutional market, the Bank did not have access to the unsecured market and therefore focused on collateralised funding transactions and/or collateral swap transactions, while primarily utilising ABS that it issued, or securities that it issued with government backing, as underlying assets.

Interest risk management

ALM policy focused on corrective actions for managing the position which aimed to maintain a stable risk profile for the Bank and to benefit from the continuing low rate levels, all in compliance with operational limits.

Equity investment management

Policy

Management of the Group's equity investment portfolio aims to optimise risk/return, in accordance with the risk appetite policies established by the Board. A rationalisation process is currently underway.

2013 primary transactions

Transactions carried out by the Parent Company:

- Acquisitions
- As part of Prelios ex L. F. Recovery Plan, the Bank acquired a 4.057% investment in Prelios SpA subscribing to the share capital increase through the conversion of the company's debt.
- The Bank also acquired an equity investment in the share capital of Interporto Toscano Vespucci Spa totalling 21.82%. This transaction, which occurred through the conversion of debt owed by the company, led to a total shareholding of 40.82% held by the Group.
- During the course of November, Wise Dialog Bank SpA ("WIDIBA"), a company entirely controlled by the Bank, was founded. After obtaining authorisation for banking activities from Bank of Italy, WIDIBA will carry out the Group's online banking activities.
- Finally, the Bank underwrote 10% of the share capital of Siena Consumer Srl, a special purpose company used for the securitisation of the consumer loan portfolio of Consum.it.

Mergers by absorption

- Banca Antonveneta SpA, legally effective as of 29/04/2013, and with accounting effectiveness as of 1/1/2013;
- MPS Gestione Crediti Banca SpA, legally effective as of 13/05/13, and with accounting effectiveness as of 1/1/2013.

Divestments

- 0.76% shareholding in United Bank of Africa PLC;
- 1.46% shareholding in Palladio Corporate Finance SpA;
- 15% shareholding in Docutel Communication Services SpA;
- 50% shareholding in Antoniana Veneta Popolare Assicurazioni SpA;
- 27.27% shareholding in Bios SpA;
- Partial divestment of the shares held in Agriform SCA, Cantina Sociale di Arceto SCA, and Bilanciai International SpA.

In addition: 1) in December 2013, the Bank signed an agreement with the other shareholders of SIA SpA (Società Interbancaria per l'Automazione) for the sale of its 4.5% shareholding within the first half of 2014; 2) in January 2014, the Bank sold its entire shareholding in Sorin SpA, totalling approximately 5.7% of the share capital.

Transactions by other Group companies

- MPS Capital Services SpA divested the following shareholdings: in RE.GE.IM. Realizzazioni e gestioni immobili di qualità SpA, equal to 40%; in Bioera SpA, equal to 2.83%; in DBI Service Srl, equal to 30%; in Moncada Solar Equipment Srl (partial divestment with the ownership percentage falling from 21.66% to 14.52%)
- The company Monte Paschi Invest, which ended its operations on 31/12/2012, was closed in March 2013 with the consequent full transfer of financial obligations to the parent company Monte Paschi Banque (100% ownership).

Management of non-financial strategic resources

This chapter provides an overview of the levels and trends of some of the most important non-financial resources that support Group performance and value, in line with the expectations of stakeholders: operating efficiency, human capital, customer base, reputation and social value.

The customer base

Our customers

The Group has approximately 5.5 million customers:

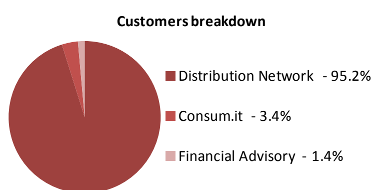
- Roughly 5.3 million are managed by the sales & distribution networks of Banca Mps and the Financial Advisory network;
- Approximately 186 thousand customers are managed exclusively by Consum.it, the Group company specialised in consumer loans.

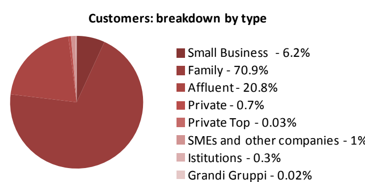
As of the beginning of 2013 it was decided to apply more stringent requirements in monitoring the customer base volume, excluding the so-called "active-status customers" from the scope of analysis. The data as at 31/12/2013 is thus not immediately comparable with the one reported in the Consolidated Annual Report as at 31/12/2012.

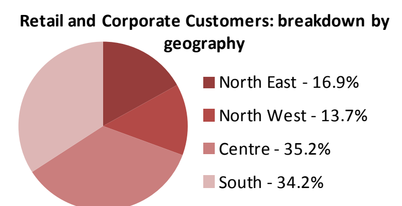
Retail & Corporate customers are evenly distributed across the country, with a greater concentration in the central and southern areas. They are sub-divided into customer clusters, each of which is associated with a specific service model.

Indicators	31/12/2013	31/12/2012
Branches in Italy	**2,334**	2,671
ATMs	**3,043**	3,426
Active remote banking users	**922,502**	907,426
Acquisition (%)*	**4,0**	5,3
Retention (%)*	**94.0**	94.3
Complaints received	**10,844**	9,740
Complaints-average response time (days)		
- *Simplified procedure*	**14**	19
- *Accelerated procedure*	**17**	10
- *Ordinary procedure*	**26**	23

**Data as at 31/12/2012 was restated to allow for a like-for-like comparison subsequent to the use of a new IT system as of 2013 and due to the effects of the incorporation of Banca Antonveneta in April 2013.*







Despite the effects of the Bank's negative media coverage earlier on in the year, "Core banking" figures fell only slightly, with customer retention of 94% and an acquisition rate of 4%.

Distribution channels

Customers are served through an integrated combination of "physical" and "remote" distribution channels.

Physical channels

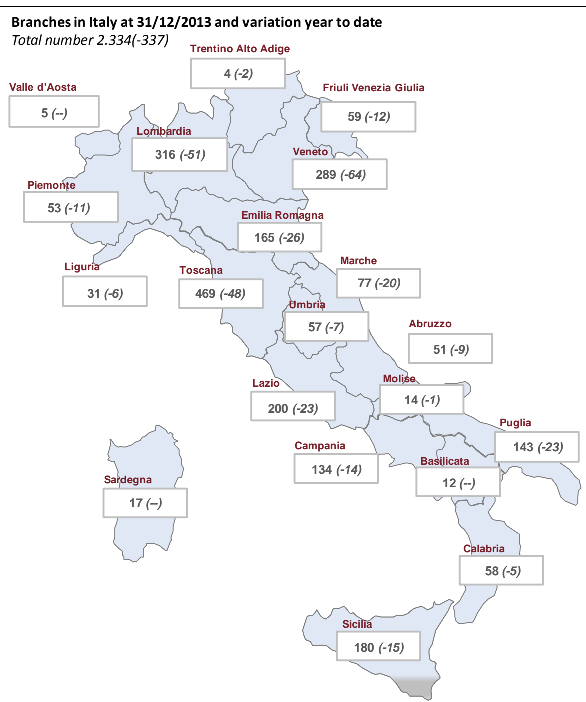
In Italy there are 2,334 branches, 287 specialised centres dedicated to SME customers (131), Private/Top Private customers (90), Institutions (66), and 12 branches of the subsidiary company, MPS Leasing&Factoring.

Customers belonging to the Large Corporate segment are managed through dedicated resources distributed across the country.

Operations include a further 668 Financial Advisors supported by 125 regional offices.

Finally, the distribution structure also comprises the network of 3,043 ATMs (-383 units in the year).

During the course of 2013, the project to re-launch and rationalise the branch network was completed with the closure of 400 branches. The assessment to close an additional 150 branches in the 2014-2015 two-year period was also initiated.

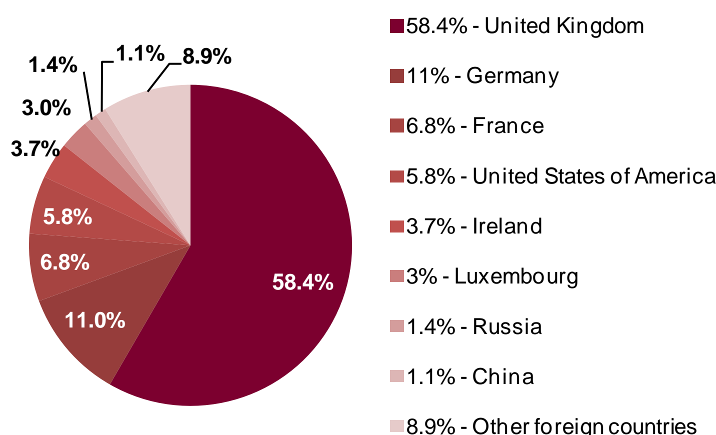


The organisational structure of the **Foreign Network** remains unchanged and includes: 4 operational branches (London, New York, Hong Kong and Shanghai), 10 representative offices located in various “target areas” (EU, Central-Eastern Europe, North Africa, India and China), 2 banks under foreign law - MP Belgio (8 branches, one SME centre, one Private centre in Belgium), MP Banque (17 branches, 4 SME centres, 2 Private centres, 1 Major Groups centre in France). In addition, several employees of the Group in Italy are employed in international activities with over 3 thousand correspondent relationships with foreign banks in countries not directly covered by the Group's network.

International operations, which rely on cooperative relationships with leading institutions operating in international trade (SACE, SIMEST, EBRD, IFC, etc.), are carried out with the aim of:

- providing Italian customers with services in support of foreign trade and globalisation;
- ‘capturing’ trade finance flows;
- participating in the economic activities of developed or high-growth markets so as to diversify the revenue base, using a prudential approach.

Foreign operations



Operations of the Group's foreign banks and Banca MPS branches as at 31/12/2013 (EUR/mln)

Company/Branch	Country	Lending	Funding	MAGFA
MP Banque	Francia	1,024	991	46.5
MP Belgio	Belgium	759	744	22.5
MP Ireland	Ireland	2,582	0	-5.4
Banca MPS - Foreign branches				
London branch	United Kingdom	*2,057*	*2,052*	*9.4*
New York branch	United States of Amer	*774*	*752*	*7.6*
Hong Kong branch	China	*367*	*369*	*2.3*
Shanghai branch	China	*124*	*123*	*3.3*
Total		**7,687**	**5,031**	**86**

Remote channels

In addition to its presence across the country, the Group also offers banking services to customers through remote channels, which are developed with the objective of expanding the distribution of electronic services, particularly through the promotion of integrated multichannel contracts. These contracts include internet banking, mobile banking and phone banking services.

As at 31/12/2013, integrated multichannel and home banking agreements totalled 1,623,814 (+6.8%) with 833,053 active users (+3.5%). Internet Corporate Banking agreements totalled 184,415 (+0.6%) with 89,449 active users (-12.8%). In total, agreements relative to all electronic services totalled 1,808,229 (+6.1%) with 922,502 active users (+1.7%).

Key developments during the year:

- Paskey Mercati Online: trading platform available to all customers.
- Release of the new Internet Banking platform to all customers completed.
- New version of the iPhone app and updated apps for iPad and Android tablets.
- Activation of the DocumentiOnLIne service for all electronic contracts.
- Marketing initiatives launched to increase the use of integrated multichannels.
- Integration between internet banking and AXA MPS for online consultation of policy data and contractual documentation; activation of new functionalities that allows users to receive a rapid estimate for motor vehicle insurance policies.
- Project for the new Internet Corporate Banking platform was initiated; the platform will have an authentication system that is more effective at combatting attempts at fraud.

Customer care and satisfaction

Strategic guidelines

- Improve the service offer by enhancing the customers' perceived quality, in accordance with best practices.
- Carefully and attentively listen to changes in customer needs.
- Ensure a high quality service that is consistent across all communication and distribution channels (rapid response times, satisfactory accessibility, customised service).
- Ensure customer experience and satisfaction levels that are above expectations, in order to generate loyalty and proactive support on the part of customers.

Management systems

Customer satisfaction is monitored and enhanced primarily through a cohesive system of tools and processes that make up an important framework of reference for sales and organisational functions in implementing their improvement plans. This system includes:

- Quality Tableau de Bord (Dashboard) – system of KPIs to monitor the effectiveness and efficiency of customer care activities;
- periodic sample surveys;
- after-sales and contact centre services – relationship managers and customers can receive clarification and assistance, providing feedback through dedicated phone lines and e-mail addresses.

With regard to the latter, a Network Help Desk (Isola della Rete) and Customer Help Desk (Isola della Clientela) are operational:

- **Network Help Desk** – collects and resolves problems reported by the network (347 during the year, of which 77% for operational anomalies and 23% for marketing proposals) while simultaneously activating the relevant Parent Company functions; provides business assistance and advisory to the network (almost 200 thousand contacts year-to-date, by telephone or email); conducts training for the front office (11,400 resources participating in 402 web-based training sessions); handles requests for information made directly by customers via email, to info@banca.mps.it (more than 11 thousand emails received year-to-date).
- **Customer Service Desk** – provides assistance to customers for direct banking/telephone services (circa 650 thousand calls received during the year and more than 95 thousands requests dispatched by operators), acts as the technical help desk for Internet Banking services (more than 150 thousand incoming telephone calls and more than 50 thousand emails managed during the year) as well as other inbound services made available to customers (more than 100 thousand outgoing calls by operators).

Customer satisfaction surveys

Methodology

Customer Satisfaction surveys aim to determine the degree of customer satisfaction, generally, at the level of regional Market Areas, local Market Units and for service models. On a sample basis, the surveys are conducted through the use of questionnaires. The customer sample size is usually determined as a multiple of the target number of questionnaires to be collected. In turn, the number of questionnaires depends on the intended scope of analysis (e.g. service model, regional size, products). For each scope of analysis, a Customer Perception Index (CPI) is determined as the weighted average of Satisfaction, Price/Quality, Loyalty and 'Word of Mouth' on a 20:100 scale. The degree of

satisfaction with respect to specific elements subject to investigation is also verified, such as operational, relational and reputational factors, in addition to evaluations of products and services.

Survey findings identify any areas of vulnerability that require corrective actions to be adopted to increase the level of customer service. Prioritising the actions may also indicate opportunities for further analysis through one or more additional surveys focusing, for example, on a specific customer segment, product, and geography.

Data analysis and improvement plans

Findings from the 2012 survey of Retail customers were processed during the first part of the year.

The survey was conducted via web on a sample of approximately 130,000 customers, who were invited to participate through an email communication containing a link to the on-line questionnaire.

Results indicate a CPI of 70.2, down 8 points from the previous survey, partly due to the different channel used to interact with the customer for data collection (from telephone to the web). More specifically:

- Buzz marketing/word-of-mouth (propensity to recommend the Bank to friends/acquaintances): 74.4;
- Satisfaction (customer's overall perception of quality): 73.7;
- Loyalty (propensity to select the Bank again): 71.3;
- Price/Quality (product value for money vs. quality of service): 58.2.

The points of strength include: quality of branch service and efficiency/reliability of remote channels. More critical opinions were expressed on the product offering, clarity of terms and conditions and suitability of proposals. To address these issues, specific actions have been launched as part of sales plans and Business Plan projects (e.g. service model review, new methods of sales process management, product range optimisation and enhancement, improvement and optimisation of the offering for specific segments, stepped up roll-out of MPS Advice).

In the last part of the year, the 2013 survey was conducted for both Retail and Corporate markets (online, with a sample of 155 thousand customers) as well as the Private segment (through an internal call centre focusing on 5 thousand customers).

The results will be available in the first part of 2014.

Monitoring from the Quality Tableau de Bord revealed certain areas for improvement in services to customers: average reimbursement times for incorrect debits on cards; average time periods to access credit; frequency of contacts with customers and in contact centre services.

Complaints management

In order to increase overall efficiency in complaints management and reduce response times to customers, procedures were simplified (for minor disputes and amounts below EUR 5 thousand) and accelerated (in more complex cases and for amounts between EUR 5 and EUR 10 thousand). In addition, as of the last part of the year it has become easier and quicker to communicate to the Network the data required to more effectively analyse customer complaints.

During the course of the year, 10,844 complaints were received, an 11% increase with respect to 2012. The primary causes of this negative trend were as follows:

- with regard to bank accounts, disputes relative to compound interest, the application of a fast-track facility fee and the delayed/omitted cancellation of accounts;
- with regard to mortgages, the new conditions on usury and late payment rates in mortgage agreements represented the critical elements.

The average complaint resolution time was below the limits set by Bank of Italy (30 days): 14 days with the simplified procedure, 17 days with the accelerated procedure and 26 days with the ordinary procedure.

In addition, 720 petitions (734 in 2012) were filed by customers with independent bodies (Ombudsman, Consob, Bank of Italy, Arbitro Bancario Finanziario), while 578 disputes were settled by Alternative Dispute Resolution procedures (1,438 in 2012).

Human resources

The Group employed 28,417 people as at 31/12/2013. Since the start of the year, and given the same scope of consolidation, there have been 108 new hirings and 1,994 dismissals (including 227 with resignation incentives and 1,386 through participation in the Solidarity Fund). Exits included 92 executive exits (156 exits in total since the start of the Business Plan), accounting for 1.3% of total headcount, well below the industry average (2.1%). The Group's workforce allocation was further improved to favour structures with direct customer contact, which stands at 74.1% (does not include the international banking division).

It should also be noted that, as of the date of closing of the year and effective as of 1/1/2014, the business unit relative to back office activities was transferred to Fruendo Srl. This resulted in an additional decrease in staff of 1,064 individuals.

Indicators	**31/12/2013**	31/12/2012
Headcount*	**28,417**	30,303
Operational location (%)		
Head Offices	**24.0**	32.5
Italy Network	**74.1**	65.7
Foreign Network	**1.9**	1.8
Professional/occupational level (%)		
Executives	**1.3**	1.5
Middle Managers	**38.3**	38.8
Other	**60.4**	59.7
Other indicators		
Training per capita (hours)	**35**	36
Training costs (Millions of euro)	**2.1**	4.8
Female staff (%)	**46.2**	45.1
Female executives (%)	**5.6**	5.2
Rate of absence (%)**	**7.59**	7.31

** 2012 figures have been restated in order to include the human resources of the companies MPS Tenimenti and Magazzini Generali Fiduciari di Mantova. The number of employees of the Group, as at 31/12/2013, includes 1,064 individuals in the company branch relative to administrative and auxiliary activities and transferred to the Fruendo company with effectiveness as of 1/1/2014.*
**Days absent due to illness or injury in relation to total days worked during the year (not including absences relative to authorized days of leave for vacations, study, maternity/paternity and other family-related permits). Low absence rates are generally linked to a positive trend in the morale of personnel and productivity. Data as at 31/12/2012 was restated in order to align it with the calculation method used in the ABI – Sustainability work group.*

Human resource management, development and training

The strategy for managing and developing human resources focuses, in particular, on promoting a meritocratic culture that is results-oriented, as well as on development policies that aim for continual improvement. The new Business Plan includes this strategy, in line with the managerial policies implemented in the previous year, in accordance with the following guidelines:

- a new merit-based reward system (Work By Objectives - WBO) based on merit-based criteria, which is more effective in providing incentives for team and individual performance in attaining the economic/financial, qualitative, and behavioural objectives that aim to create value in the long-term;
- a plan to enhance employee engagement;
- a new management model (Talent & Performance Management) based on a new shared code of conduct (the Group's DNA) as well as a new performance evaluation system to direct activities;

- strategic planning of human resources for the purposes of career development, through job rotation and job posting plans that are supported by the new training system (MPS for personnel) that includes: 1) the introduction of remuneration systems based on roles and willingness to relocate; 2) the consolidation of employee welfare with the introduction of benefits for individuals and families; 3) transparency and involvement of personnel in human resource policies.

Group DNA

- **Management**
- Openness to change
- Determination
- Rigor and professionalism
- **Execution**
- Organization
- Determination to achieve results
- Central focus on customers
- **People**
- Communications
- Team work
- Developing others

In this area, systems for managing the following areas are also important:

- workplace health and safety, including protecting workers from criminal events, which are monitored through a specific organisational model compliant with the OHSAS18001 standard.
- equal opportunity and the balancing of work with personal and family needs.

Talent & Performance Management

The new Talent & Performance Management system aims to increase productivity and employees' engagement in the Group's strategic objectives.

Having identified - with the involvement of all corporate roles - the **"Group DNA" (i.e. the 9 basic behaviours for the concrete implementation of corporate values)**, the new performance evaluation process was activated, focusing on "how" to achieve company objectives and "to what extent" they are achieved (i.e. the effective monitoring of activities). Manager-employee interviews were thus carried out with the resulting definition of an agreed Action Plan for each individual, focusing on the main qualitative/quantitative and behavioural objectives for the year.

The initial phases of the process were launched at the start of the year: 70% of employees submitted an optional self-appraisal and an Action Plan was identified with 94% of staff members. All key initiatives were supported by targeted training and communication events.

Management systems

- Managerial model - identification of behaviours that serve as the foundation for the Group's management and value system.
- Performance management model - evaluation of performance, including through the preparation of a summary indicator of the level of activity oversight, behaviours and specialised know-how for a given position.
- Talent management model - definition of customised action and development plans based on the outcomes of performance and job potential evaluations (career paths, job rotation, job induction, monitoring actions, etc.).
- Self-development workshops - helping employees recognise their skills and grow professionally while creating a pool of resources from which the Group's future management will be generated.
- HR business partner - an important reference for the widespread implementation of strategies for human resource management and development.
- Succession plans - in order to ensure constant improvement in managerial roles, the skills and capacities of middle managers and supervisors are constantly monitored and enhanced through specific development and training plans.

Activities supporting change management will also continue with integrated training and communication initiatives that will reinforce a management culture based on merit, transparency and engagement.

Training

Investment in training is a fundamental tool for the Bank to ensure the professional development of its human resources.

Training activities have been restructured into the “MPS Academy”, which is organised into three primary areas (People, Business, and Compliance, Security and Health and Safety) and implemented through specialised and contextualised development initiatives that aim to transfer and expand training options beyond the classroom, with an integrated approach in order to identify training needs and plan activities over time through structured development paths but without binding time periods and locations. Within the three areas, the activities can be summarised as follows:

People

- Strengthening of leadership through interactive learning experiences that allow all human resource managers to communicate and support the Group’s DNA.
- A training course for all human resource managers on the new Talent & Performance Management system.

Business

- Technical training courses dedicated to the different professional areas based on shared competency models and diversified teaching methods, to encourage innovation and knowledge sharing, with specific emphasis given to on-the-job training.
- Modular training programs that aim to strengthen the ability to effectively manage customer needs (for example, the course “Objective Insurance Protection”, a technical and behavioural 4-day training course that aims to most effectively meet customers’ needs in relation to bancassurance).
- Technical training and on-the-job learning provided through certified steps that aim to increase and monitor awareness of credit risk (Credit Academy).
- Remote assessment of basic knowledge of finance as well as subsequent classroom training for standard targets.

Compliance, Security, Health and Safety

- Adequate and constant oversight of operational risks.
- Providing mandatory training.
- Specific focus on transparency (more than 15,000 staff members trained) and anti-money laundering.

During 2013, and in accordance with the guidelines of the Business Plan:

- “on-the-job” training has been strengthened and optimised, by structured on-the-job mentoring, online multimedia courses, webinars and home access of the MPS Training Library for all personnel (500 titles, including online courses, reading materials that can be shared with family members of employees), with a consequent decrease in the use of classroom space;
- constant monitoring of teaching activities has been ensured by strengthening the MPS Faculty (“certified” internal trainers). Approximately 59% of the training hours were conducted by internal teachers;
- • training activities are constantly measured and verified. Moreover, they are linked to assessment/evaluation tools which monitor the effectiveness of training (average customer satisfaction rating of 5.1 on a scale from 1 to 6) and learning results (30% recovery of training gap on technical know-how);
- activities involved around 96% of employees for a total of 986,051 hours;

- on average, each employee involved in training took part in approximately 35 hours of training during the course of 2013 (52% classroom-based and 48% on the job);
- the training investment was equal to EUR 2.1 mln;
- training included thorough internal communications with the objective of maximising knowledge sharing, involvement and participation and to support the change processes underway.

Equal opportunities

The professional development of human resources is oriented towards principles of equal opportunity. In particular, the following are in place as a support to female staff:

- regarding work-life balance, contractual measures which are additional to or improve on those required by law or the national labour agreement (flexible working hours, conversion to part-time, including temporarily, paid and unpaid leaves of absence for child care etc.);
- reintegration support and retraining for female staff returning to the workplace after maternity/paternity leave. For example, this year the Bank took advantage of the opportunities offered by the Lombardy Region welfare program for Bank employees in that region; by participating in the "Settlement Allowance" initiative, they were able to receive a lump-sum contribution after returning from a mandatory or optional period of work leave;
- analysis of Equal Opportunities issues in collaboration with trade unions through an ad hoc Joint Commission.

The percentage of female staff was 46% as at 31/12/2013 (an increase of 8.2 percentage points in ten years).

Other equal opportunity indicators also show improvement. These include: women in managerial positions (approx. 41%) and the percentage of female executives (5.6% which, while still low, was less than half this amount in 2002).

Organisational restructuring and managing impacts on personnel

Since the start of the year, projects to reorganise the Network and Head Office have been implemented, and organisational structures that support the resignation of human resources for early retirement schemes or the solidarity fund have been improved. With regard to the Network, this involved:

- closure of around 400 branches with consequent reallocation of personnel to nearby branches;
- activation of a sales task force of approx. 200 resources for extension development;
- the rationalisation/improved efficiency of Regional Area organisational structures;
- activation of the "Regata" Project (with the assignment of 100 staff members) to increase business productivity through the structuring of new sales processes.

As for the Head Office Unit, focus was given to the repercussions on personnel resulting from certain major M&A/organisational events (in particular:, the absorption of Banca Antonveneta and of MPS Gestione Crediti Banca; overall reorganisation of the Chief Operating Officer Division and of the Credit Division in order to promote the development of the Business Plan).

Against this background, a significant number of personnel was mobilised, prioritised according to the need to replace exits from the Network. These actions were funded by recouping resources from branch closures and re-qualifying personnel released by central and outer Head Office units to front-line roles.

In the Network alone, there were 7,500 personnel changes, including 4,000 involving territorial mobility; this mobility took account of the skills, motivation, goals and training needs of resources involved.

Objectives for cost and personnel decreases were managed through measures that aimed to contain employment impacts: redundancies were managed through the activation of a Solidarity Fund which – by means of a trade union agreement in the Business Plan signed by the majority of trade unions – was also financed by temporary solidarity initiatives (through 2015) and which allowed employees to receive an economic supplement and support until their retirement age. In addition, the use of the Fund for a more extended range of employees allowed a decrease in the scope of outsourcing operations (from 2,360 to approximately 1,100).

Sector redundancy benefits remain the most important tool for managing staff objectives in the new Business Plan.

Industrial relations

The Business Plan encourages communications with trade unions in order to more effectively manage the relative effects on employees and to protect employment. This exchange aims to consolidate the corporate welfare system and is characterised by second-level Bargaining Agreement.

In 2013, industrial relations were characterised by an environment of heightened tensions that was, on one hand, due to the separate trade union negotiations on issues directly connected to the Group's Business Plan Agreement and Second-level Bargaining Agreement and, on the other hand, due to the cancellations - on the part of ABI (Italian Banking Association) – of the national collective employment contract and the representation agreement for workplace safety. These cancellations resulted in the suspension, in the last part of the year, of trade union relations at the national and corporate level.

Given this environment, the parties met, in any case, to responsibly examine the effects of the Business Plan on personnel. In particular, the following procedures were initiated and completed: activation of the sector Solidarity Fund to receive all requests for participation resulting from redundancy management for the purpose of protecting employment levels; the absorption of Banca Antonveneta and MPS Gestione Crediti Banca; the completed closures of the branches, in accordance with the Business Plan; the transfer of the business unit relative to administrative, accounting and auxiliary activities of the Group.

The latter transaction, effective as of 1/1/2014, involved a total of 1,064 staff members and was completed on 21/12/2013, following intense trade union consultations, with an agreement between the company, the transferee Fruendo Srl and the trade union organisations which signed the agreement dated 19/12/2013. This agreement provides for continued employment with application of the National Collective Employment Agreement for the credit sector, the maintenance of positions and compensation levels as well as an overall benefits system that is similar to the Bank's (insurance coverage, supplementary social security contributions, etc.).

Additionally, in 2013, the planned phases of trade union reporting/negotiations on organisational restructuring transactions, as well as on new professional development and enhancement initiatives, were implemented. These initiatives were particularly in reference to job postings, the 2013 Training Plan and specific training plans financed by the Sector Fund, the phases for implementation of the Talent & Performance Management project and the new strategies for managing transfer requests.

Operational efficiency

Attainment of operational excellence initiatives envisaged in the Business Plan continues to be in line with the objectives both in terms of operational efficiency and cost optimisation.

As part of operational efficiency, the revision of the Organisational Models for Head Office and Network as well as the revision of organisational processes have allowed for the "release" of 3,027 staff members and the funding of early retirements as well as the upgrading of business and support services.

Cost Optimisation is being achieved with the complete reconfiguration of the Bank's spending practices in terms of the operating model, volumes and prices that reduced other administrative expenses base by approximately 15% in 2013. In particular, all cost items were re-designed on the basis of a catalogue of 170 specific ideas, with particular focus on the logistics, real estate, IT and paperless sectors.

Indicators	31/12/2013	31/12/2012
Cost/Income ratio (%)	**71.0**	64.4
Personnel expenses (EUR/mln)	**1,718.7**	1,918.3
Other administrative expenses (EUR/mln)	**937.8**	1,102.1
ATM service level (%)*	**95.8**	96.4
Accident rate **	**1,737**	1,797
Accident seriousness ratio**	**59,093**	54,675
Energy consumption (GJoule)***	**967,206**	1,049,683
Paper consumption (T)	**2,954**	3,480
CO2 emissions (T)***	**20,778**	21,127

**Measure of effective availability of ATM functionalities.*
***Accident rate = (total number of accidents/total number of worked hours) x 200,000; Accident seriousness ratio = (total work days lost as a result of an accident / total number of worked hours) x 200,000.*
These indicators monitor practices for managing the health and safety of Bank workers. Low accident rates are generally linked to a positive trend in productivity.
**** The data as at 31/12/2012 were re-stated since they were underestimated. The indicators/ratios measure the quality and eco-efficiency of operations. In particular, CO_2 Emissions include "scope 1" and "scope 2" greenhouse gas emissions according to the international GHG Protocol classification.*

Innovation in the business model

- **Structural reorganisation of the Bank** (Head Office and Network) and simplification/improved efficiency of the company's structure. In particular: the planned closure of 400 branch offices was completed along with the reorganisation of both the Credit Division (to optimise the credit supply chain) and the Chief Operating Officer Division (to support development of the Bank's operational model and thereby optimise service costs and quality).
- **Optimised use of real estate properties** through space management measures. In particular, 50 real estate units rented by third parties were released in 2013 and cancellations to release an additional 12 leasing contracts were sent during the course of 2014; these activities supplemented the 15 releases completed in 2012. In January 2014, two real estate units were released and an additional three cancellations were sent with release within the current year.
- **Value creation from real estate** with the expected sale of 229 properties from the asset disposal catalogue. As at 31/12/2013, 79 sales had been authorised since the beginning of the plan, 20 of which during 2013; of the 79 authorised sales, 57 were implemented with notarial deeds (15 during the course of 2013).
- **Redesign of accounting, administrative, management and operating systems** of the Head Office and of the Network. In particular, an ad hoc organisational division was set up and several actions were planned to improve operational efficiency and related risk monitoring.
- Development and distribution of advanced communication tools to deliver **"paperless" operations management**.
- **Reduction in the use of natural resources** and associated environmental impacts.
- Further improvement in the protection of health and safety in the workplace.

Cost optimisation

The Bank's Relaunch Plan attaches great importance to cost rationalisation. During 2013, cost actions have been further intensified through:

- **strengthening of spending management**, as a result of a specific structure and task force (Cost Optimisation Room) to reinforce existing structures, reorganised according to a logic of efficiency;
- a **reduction of other administrative expenses**, through the identification of 170 savings actions, for a total of EUR 218 mln;
- **wider scope for renegotiation of vendor agreements**, achieving improved service levels and average savings of 17%;
- review of requirements in the different areas of spending: IT, property and facility management support, consumables and other business materials.

Environmental sustainability of operations

The Group's direct impact on the environment is monitored through an specific management system compliant with ISO 14001.

An Operations Sustainability Plan was implemented in synergy with cost optimisation and organisational efficiency business initiatives. The environmental performance objectives for 2014 include the following: reducing electricity consumption by 20%, use of paper for in-house communications (-50%) and communications to customers (-40%); CO_2 emissions relating to the running of the workplace (-10%) and business trips (-15%); recycling 100% of waste from office activities (paper, plastic, toner cartridges).

Reduced paper consumption

Total paper consumption decreased by around 15% compared to 2012. In particular, the paperless project resulted in the saving of more than 18 million sheets of paper through the following measures: extension of use of paperless working tools and methods; rationalisation of printers; digitisation of accounting documentation relative to bank counter slips and active guarantees; digital customer folders; promotion of the “Documenti On Line" service and the relative automatic activation of internet banking for new contracts.

Energy savings and the carbon footprint

Energy consumption and resulting greenhouses gas emissions (the so-called Carbon Footprint) are regularly monitored in relevant operational areas such as property & facility management, information technology and business travel.

During the year, 20,778 tonnes of CO_2 relative to Scope 1 and 2 of the GHG Protocol were produced (-1.6% in one year), equal to 746 Kg per employee. This confirms the positive trend seen in recent years of a gradual decline in these emissions as a result of the Bank now using electricity exclusively from renewable sources and the resulting energy savings achieved. During the year, approximately 967,206 GJoules were consumed (-7.8% compared to 2012).

Key measures implemented in the course of the year included:

- space management activities (optimisation of spaces within real estate properties with release of a series of offices) as well as the reorganisation of real estate structures;
- monitoring and automatic control of consumption;
- virtualisation of servers and of nearly 2 thousand desktop work stations;
- optimisation of workstations and of air conditioning systems;
- actions to rationalise the car fleet and the use of automobiles as fringe benefits;
- reduction of business trips from central facilities and of sales meetings across the territory.

Zero Waste Project

This project was initiated during the year in order to extend – in a more systematic and efficient manner – the current waste recycling processes for office activities (toner cartridges, paper and plastic) to all Group offices. In particular, and with regard to paper and plastic waste, specific container distributions were implemented and activities for monitoring and creating awareness amongst employees were developed.

Health & safety in the workplace

A system is in place to address the issues relating to employee health and safety in compliance with standard OHSAS18001.

During the year, this system was further improved as part of the overall governance of company safety and was subjected to regular internal and third party audits.

Additional investments were made to create awareness about work ergonomics and the use of cell phones as well as standard training and refresher activities through internal courses that, during 2013, involved approximately 4,700 employees on issues such as: fire prevention, first aid, radon risk and risk of robbery.

With regard to the latter – and after having experienced, in the first part of the year, an increase in criminal actions with respect to the Bank - the robbery prevention plan has been intensified by activating the following measures in 100 branch offices with the greatest risk of robbery: manual control of branch access during certain times of the day, a decrease in the maximum amount of cash available to bank counter operators, and the supply of new roller cash systems.

Reputation

Management system

Vision

The Bank is aware of the importance of the brand as a driving factor for consumer choices and for the business performance in the long-term. The Bank is involved in managing, protecting and improving the identity and image of the company through institutional and commercial communications.

Governance

- Board of Directors: defines the guidelines for attaining the objectives of strategic management of the brand.
- Communications Area: coordinates and monitors, at an operational level, the development of the brand.
- Operating procedures: internal rules which ensure the efficacy of all communication processes that target customers, the financial markets and stakeholders in general. The operating procedures also aim to ensure that the external image of the Group is aligned with its values.

Management system

- Strategic orientation and definition of targets for each business segment.
- Monitoring and comparative analysis of brand value.
- Data analysis, deviation analysis and areas of improvement.

Monitoring and analysis systems

- Market analysis on target customers and the public in order to measure the brand both in economic/quantitative as well as qualitative terms (e.g. brand personality).
- Comparative analyses with the primary competitors.
- Constant monitoring of the web and participation in social media in order to analyse and specify solutions for potentially critical reputation issues.

Main initiatives

During the first part of the year, the Group was forced to manage the media implications resulting from legal investigations. The Bank defended its reputation by using every means of communication to provide relevant and transparent information on these events and working to help the network respond to the legitimate questions of customers. This was followed by the Bank's commitment to enhance its presence at a local level, through meetings with local institutions, trade associations and customers.

In the final part of the year, new communications and advertising campaigns were initiated in order to promote commercial initiatives and support the company's strategic positioning.

Findings from monitoring and evaluation activities

The Bank's brand withstood the impact of the crisis. Third-party research clearly reveals that the Bank was able to rely on the strength of its brand and its history to face its reputational crisis during year.

In October, a study of a representative sample of the Italian population that uses banking services was conducted in order to analyse the perception of the Bank and its primary competitors.

An initial analysis of the data collected revealed that the elements which were most appreciated were those linked to the long-standing value of the brand and the quality of its staff. In addition, the offered products and services were positively identified as "simple and user-friendly" (for the "Private" segment) and "multiple and specifically dedicated to company needs" (for the "Corporate" segment). The sample, on the other hand, identified financial returns and transparency as the elements which require the most attention from management.

Main awards and recognition received

The Chief Executive Officer, Fabrizio Viola, was the winner of the 'Premio Capalbio Economia 2013' award, organised and conferred by the Municipality of Capalbio and Confindustria Toscana. The prize was awarded in recognition of the CEO's efforts to relaunch a leading banking institute and to satisfy the needs of entrepreneurs, as well as for his intellectual and professional contribution to the launching of innovative products and solutions to modernise the financial industry, in particular with the Minibond project for SMEs.

In addition, the Bank received the Innovation Award of the Editoriale Class Group for the category “Financing services for companies” due to the innovative offer of the Italian minibond SME fund, and was ranked second in the field of “Personal loans” with its product ReStart Siena.

Social value

Apart from the economic function of credit and other typical banking activities, the Group carried out corporate citizenship activities as part of its business, creating added value for society and emphasising long-term profit objectives.

Indicators	31/12/2013	31/12/2012
Financial inclusion *(disadvantaged customers)*		
-Young customers (no.)	511,396	622,112
-Immigrants (no.)	281,633	312,444
-Small business (no.)	321,374	366,996
- Non-profit organisations	9,983	9,088
Social welfare		
-Contributions (millions of euro)*	18.5	34.9
-Microcredit (no.)	851	731
Corporate sustainability		
-Loans for environmental purposes (millions of euro)	298	1.044

**Figures include disbursements in the form of sponsorships and donations.*

Financial inclusion and protection

In order to meet specific customer needs, various product and service solutions are to provide the more vulnerable sectors of society with social benefits, in addition to standard banking products and services.

Within the realm of **credit access** programmes, 851 microcredit loans were issued for a total of EUR 3.4 mln, and the following institutional agreements were stipulated:

- agreements with various provinces (Latina, Lucca, Mantova, Padua, Siena) for advance payments or derogation of the extraordinary redundancy fund;
- an agreement with the Microcredit department of the Tuscany Region for workers in difficulty.

In addition, the Group - by means of the **Insurance Protection** program - has continually supported its customers through a broad and innovative range of insurance products which serve as an important complement to government welfare.

Finally, the Group continued its emergency assistance for populations affected by natural disasters. In 2013, this consisted of a suspension of premium payments for insurance policies and the activation of specific CDP financing in order to allow companies with headquarters and operational markets in the areas affected by the earthquake of May 2012 (Bologna, Ferrara, Modena, Reggio Emilia, Mantova and Rovigo) to invest and pay – in a facilitated form – any fiscal, social security and insurance charges.

Financial education

Key initiatives in this area included projects carried out in collaboration with consumer associations as part of ConsumerLab (the workshop organised by the Group to address the more relevant issues of the bank-customer relationship):

- BancAscuola - 8 meetings/events in high schools that were completed during the first half of the year;
- ConsumerLab at home -7 meetings/debates held at various Group locations – including three in the first half of the year - to promote dialogue between employees, consumer associations and customers on the more important banking and financial issues, also by opening specific information desks to the public.

In addition, the Bank continued to promote financial education, particularly on the "Culture of Protection/Pension" (www.previsionari.it), through internet and the social networks (Facebook, Twitter, YouTube), including with the use of videos.

Participation in public works within local communities

The Group contributes to the activities of public institutions and non-profit organisations for the protection of basic economic and social rights.

Despite the general administrative cost containment effort, the Group continued to provide a direct contribution to the community with:

- sponsorships totalling EUR 14.9 mln (approx. 105 initiatives), including EUR 0.5 mln (48 initiatives) for cultural, social and ecological initiatives;
- donations towards research, medical and hospital services, social welfare and humanitarian programmes (EUR 1 mln);
- contributions towards social projects promoted by local government bodies with whom the Bank has a business relationship (EUR 2.7 mln).

Additional contributions included funds raised through donations made by customers and other voluntary contributors through various channels (specifically designated current accounts, branches, ATMs, etc.). During the course of the year, these funds were allocated to ACRA (Association for Rural Cooperation in Africa and Latin America) and to support the communities in Sardinia that were affected by the flooding.

Promotion of corporate and environmental sustainability amongst customers and suppliers

Within its relationship with other businesses, its lending & distribution activities and the provision of goods and services, the Bank takes into account social and environmental issues in order to promote a responsible corporate culture and more sustainable business processes.

In particular, the Group was active in the sector of green finance through:

- investments in the share capital of companies operating in the sector of renewable energies;
- the financing of plants to produce electricity from renewable energy sources;
- a range of products for private citizens, companies and institutions that includes medium to long-term loans, leasing services and personal loans at advantageous rates.

During the year, approximately 450 environmental investments were made (especially regarding energy efficiency and renewable energy) in the amount of more than EUR 300 mln.

The primary product innovations included the following: Re-start Siena (recognised by Milano Finanza) and Siena Carbon Free. With regard to the latter, a protocol agreement was stipulated in October with the Province of Siena to promote new investments in the renewable energy and energy efficiency sector that will also contribute to the reduction of CO_2 across Siena's territory. The agreement commits the Bank to identifying specific financial instruments with more favourable economic conditions than the standard conditions applied to similar products. These include Montepaschi Energie Pulite–Siena Carbon Free, a medium-long term loan designed specifically for companies that intend to build innovative plants powered by renewable sources other than solar energy.

Additional initiatives in this field consisted in the activation of the CDP financing product for SME/Renewable energy investments, the launch of the new specific "Renewable energy" coverage against damages caused to photovoltaic plants financed by the Group and the completion of significant structured financing operations on the part of the subsidiary MPS Capital Services.

Governance & Control systems

This section provides a summary of the Group's approach to governance, compliance, risk management and compensation of managers, which are important factors in ensuring sound and prudent banking and are the foundation of processes that generate value both within and outside the company.

Corporate Governance

For further information on this subject, please see the "Report on Corporate Governance and Ownership Structure", prepared in compliance with the guidelines contained in the Corporate Governance code for listed companies issued by the Italian Stock Exchange as well as the specific Provisions of the Bank of Italy. Further information is available within the web site of the Bank:

http://www.mps.it/Investor+Relations/Corporate+Governance/Relazioni+di+Corporate+Governance.htm.

Policy	
Ethics Code	✓
Related-party transactions	✓
Internal dealing	✓
Board induction	✓
Board evaluation	**annual**
Gender diversity (female quotas, %)	✓
Maximum age of directors	**75**
Maximum limit of consecutive mandates	**3**
Maximum limit of non-Group mandates	**4**
Board of Directors	
No. of directors	**12**
Average age	**55**
Non-executive Chairman	✓
No. of female directors	**3**
No. of executive directors	**1**
No. of independent directors	**6**
Shareholder rights	
No of directors representing minority shareholder interests	**6**
Possibility to present resolutions in the shareholders' meeting	✓

The Bank's corporate governance system

The overall corporate governance system is characterised by: a clear delineation of roles and responsibilities, the appropriate separation of powers, balanced composition of the corporate bodies, effective controls, monitoring of all business risks, adequacy of information flows and corporate social responsibility.

The administration and control system follows a traditional model and includes the following:

- a Board of Directors with strategic policy and supervisory functions;
- the Board of Statutory Auditors which monitors compliance with legal, regulatory and statutory norms as well as on proper administration, adequacy of the company's organisational, control and administrative/accounting structures and the methods for effectively implementing corporate governance rules, pursuant to the Code and Legislative Decree no. 58/98 (Consolidated Law on Financial Intermediation);
- the Shareholders' Meeting, which retains the right to deliberate during ordinary and extraordinary sessions in relation to: the appointment and revocation of members of the Board of Directors and of the Board of Statutory Auditors, their relative remuneration and responsibilities, the approval of the financial statements and the allocation of net income, certain extraordinary operations, share capital increases and changes to the Articles of Association. All of the above without prejudice to the competency of the Board of Directors in relation to amendments to the Articles of Association in compliance with regulatory provisions and the appointment of Indipendent Auditors.

The Board of Directors appointed the following internal committees for the purposes of support and assistance, and which are primarily composed of independent directors:

- Appointments and Remuneration Committee;
- Control and Risk Committee;
- Committee for Related-party Transactions.

Significant changes during the year

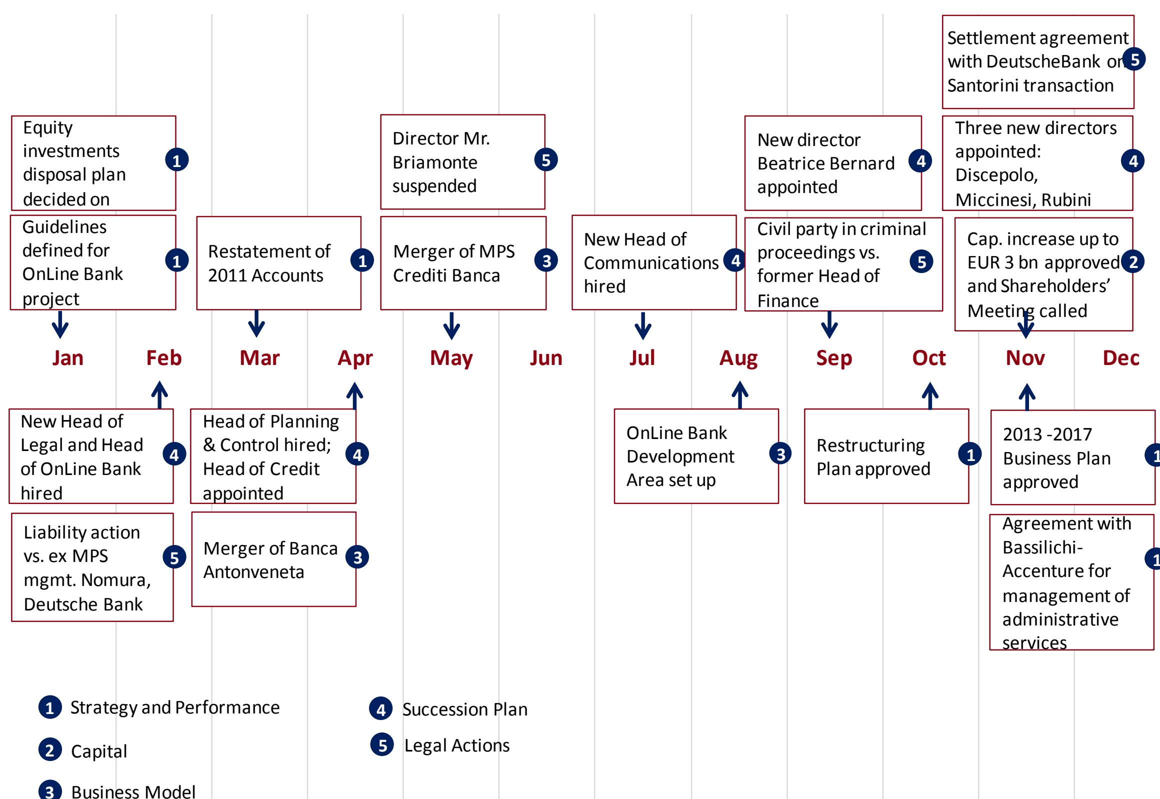
The Extraordinary Shareholders' Meeting of 18/7/2013 approved the following resolutions that amended various articles in the Articles of Association and led to significant changes in the structure and functioning of the corporate governance system:

- removal of the 4% shareholding limit for shareholders other than the Fondazione Monte dei Paschi di Siena;
- introduction of a maximum limit of two consecutive terms after the first mandate for non-executive members of the Board of Directors;
- introduction of gender quotas: the members of the Board of Directors and the Board of Statutory Auditors must reflect a balance between genders, in accordance with the Consolidated Law on Financial Intermediation;
- application of a maximum age limit, at the time of appointment, for assuming the office of director, Chairman and CEO;
- decrease in deadlines for both convening and adding topics to the agenda for Board meetings from 48 to 24 hours;
- introduction of an obligation for members of the Board of Directors and the Executive Committee to inform the Board and the Board of Statutory Auditors of any transactions in which they may retain an interest or third-party interest, without imposing any obligation to abstain during resolutions;
- assignment of powers to the Board of Directors to determine the remuneration of directors invested with specific powers, in accordance with the Articles of Association.

Activities of the Board of Directors

During the course of 2013, Board activities focused on identifying solutions for overcoming the difficult market conditions and issues within the Group by initiating various transactions that primarily included managerial changes, organisational rationalisations and financial strengthening of the Group.

Key decisions of the BoD during the year



Further information is available within the web site of the Bank: http://www.mps.it/Area+Media/

Remuneration policies

Non-executive members of the Board of Directors

- Remuneration is not linked to the Group's economic results.
- There are no incentive plans.
- No golden parachutes are provided in the case of resignations/dismissals.

Executive members (key personnel)

- The remuneration and incentives policies for key personnel are defined by the Board of Directors through the Appointments and Remuneration Committee as part of the guidelines established by the Shareholders' Meeting and in accordance with company objectives for creating value over time. These are in compliance with the regulatory, contractual and internal norms framework.
- In 2013, due to the Group's difficulties, no incentive plans were implemented for executives and for key personnel.
- As a result of the 2013-2017 Restructuring Plan - approved by the BoD in October and the European Commission on 27 November 2013 - a maximum remuneration limit for each member of top management of EUR 500,000 will be applied, with immediate effectiveness and until the completion of the share capital increase or full repayment of the New Financial Instruments.

For further information on the Group's remuneration/incentive policies and practices, please refer to the "Remuneration Report", prepared under Article 123-ter of the Consolidate Law on Finance and available within the website of the Bank: http://www.mps.it/Investor+Relations/

Compliance and business ethics

Policy

In compliance with the law, fairness and professional ethics are prerequisites in each of the Group's undertakings. These are the values that are integrated into the Group's activities and serve as a constant reference for managing compliance and corporate reputation.

In light of the above, the regulatory areas which most affect the activities of the Group include: anti-usury, transparency in banking transactions, protection of privacy (Legislative Decree 196/2003), administrative liability of institutions and stopping corruption (Legislative Decree 231/2001), management of conflicts of interest and related-party transactions, market abuse, investment services and the application of European Directive MiFID, anti-money laundering and counter-terrorism (Legislative Decree 231/2007), and consumer protection (so-called high impact issues).

In order to ensure the management is consistent with regulations cited, specific procedures have been identified and their effective application is verified through risk assessments and internal controls.

In carrying out its activities, the Group also considers social and environmental standards. These standards are set out in the Code of Ethics and at times, more specifically, in internal policies and procedures.

The compliance management system

The Parent Company Compliance Area oversees and governs the compliance process and adherence to supervisory rules and regulations across the Group. This business area also implements operational activities pertaining to: managing claims and Alternative Dispute Resolution with customers; assessing the quality of services provided; overseeing the application of legal obligations in relation to anti-money laundering and counter-terrorism (know-your-customer checks strengthened); requirements related to protecting customers' personal data (drafting of reports, management of results pursuant to Article 13 of the Privacy Code, management of legal formalities with respect to the Italian Anti-trust Authority).

Indicators	31/12/2013
Compliance* *(scale 1 to 6)*	
Anti-usury	**4.46**
Transparency in banking transactions	**3.95**
Privacy	**3.77**
Administrative liability	**4.56**
Related-party transactions	**4.23**
Market abuse	**5.27**
Investment services	**3.79**
Anti-money laundering and counter-terrorism	**3.44**
Consumer protection	**4.30**

Compliance Status Assessment (CSA) for company processes pertaining to regulatory issues that are relevant for the protection of customers. Quali-quantitative assessment implemented on a quarterly basis by the Compliance Department in relation to exposure to risk of non-compliance and on the effective application of the relative internal oversight mechanisms. Data updated as at 30.9.2013

Compliance of business processes with laws and internal regulations is monitored by conducting direct surveys with the support of appropriate remote monitoring and control tools, in line with industry best practices and recent guidelines issued by the relevant supervisory authorities. This department also makes use of information originating in other corporate functions, internal audit in particular.

In relation to the outcomes of these activities, the department identifies and provides for improvement actions to be implemented while ensuring information flows to corporate bodies.

Actions to improve compliance management continued. In particular:

- in light of new Supervisory Instructions regarding the Internal Controls System, update of internal rules on the management and control of non-compliance risk continued – and will continue in the first half of 2014 - in order to further extend their scope of application and align them with new corporate guidelines for the drafting of regulations;

- the review of Model 231/2001 and the Group's Code of Ethics was completed and approved by the Board of Directors in October;
- transparency initiatives continued, in accordance with the observations of the Bank of Italy;
- a variety of activities for strengthening anti-money laundering were undertaken, both in terms of human resources and IT tools;
- synergies with the Internal Audit and Risk Management departments were further strengthened to increase the effectiveness of compliance audits, partly through remote monitoring techniques.

Monitoring policy and control of non-compliance

Non-compliance sanctions in the management of issues with material impact

With regard to regulatory issues that have the most impact on the Group and are monitored by the Compliance Area, certain sanctioning procedures were initiated during the year, or sanctions were applied to the Bank or company employees (in particular, for anti-money laundering and the related procedures for reporting suspect transactions). Although their economic impact is not very significant with respect to the Bank's volumes and their relative preventive allocations, the necessary investigations were initiated for each of these events and corrective actions were undertaken in order to further improve legal compliance safeguards and contribute to customer satisfaction.

Legal proceedings

In the course of its ordinary activities, the Group has been involved in legal proceedings relating to disputes concerning: compound interest, the placement of bonds issued by countries or companies that later defaulted and placement of financial plans and products. The Group believes that such proceedings do not have a significant impact on its activities or on its economic and financial situation.

For a description of the main legal and arbitration proceedings in progress, see Part E of the Notes to the Financial Statements.

It should also be noted that:

- in accordance with notifications received from judicial authorities, investigations are currently being conducted by magistrates into financial transactions and resources behind the acquisition of Banca Antonveneta and existing loans to the Monte dei Paschi di Siena Foundation. In this matter, the Bank initiated a series of preliminary actions for compensation of damages against previous management personnel and third parties involved in the same investigations, conditional upon positive developments in civil lawsuits already instituted and any potential criminal lawsuits the Bank may file or in which it may claim damages as a civil party. However, as part of the same civil proceedings instituted by the Bank for liability actions and claims for damages, it cannot be excluded that the Bank may possibly be claimed against for further damages in a cross-action, which may reduce, potentially significantly, the prospects for compensation in its favour. The Bank is the defendant party in claims for compensation of damages by investors who entered into financial transactions connected with the capital strengthening initiatives put in place by the Bank in prior years. These claims were lodged on the basis of purportedly inaccurate disclosure of information by the Bank to the market in the course of the transactions;
- on 28/1/2013 Codacons filed an appeal to the Lazio Regional Administrative Court (TAR) seeking annulment of the resolution with which the Executive Board of the Bank of Italy gave the permission for the issue of "Monti bonds" in favour of the Bank. In the course of the proceedings, all petitions for precautionary measures submitted by Codacons during the individual hearings were rejected by the Regional Administrative Court and the Italian State Council. In its closed session on 3 April 2013, the Regional Administrative Court of Lazio adjourned the hearing indefinitely;

- given that the Italian Antitrust Authority ("AGCM"), with its resolution of 15 July 2009, initiated proceedings to ascertain whether art. 81 of the EC Treaty had been breached by certain companies and banking institutions, including the Bank, the latter has rejected all commitments undertaken in the meantime by all parties involved, as it considered them inappropriate in resolving the anti-competitive concerns that are at issue in the proceedings. AGCM imposed an administrative fine of EUR 910 thousand on the Bank, with the order to abstain "from applying the circuit rules to which the license agreements are referred, and of contractual clauses with merchants that restrict competitive freedom in the acquiring market." The proceeding was appealed before the First Section of the Regional Administrative Court of Lazio, which accepted the appeal on 11 July 2011, partly declaring the challenged deeds null and void. In turn, AGCM has lodged a counter-appeal, requesting a review of the case. The hearing has not yet been set.

Integrated risk and capital management

Risk governance system

The risk governance system adopted by the Group is characterised by a clear-cut distinction of roles and responsibilities of the different functions at first, second and third levels of control. In 2013, the organisational structure was further improved to ensure that the Group's internal control system is more robust, risk management actions are more incisive and the entire risk management and control process is effective.

Policies relative to the assumption, management, coverage, monitoring and control of risks are defined by the statutory bodies of the Parent Company. In particular:

- The Parent Company Board of Directors defines and approves strategic guidelines and risk management policies and, at least once a year, quantitatively expresses the Group's overall risk appetite in terms of economic capital;
- The Board of Statutory Auditors and the Control and Risk Committee evaluate the level of efficiency and adequacy of the internal control system, with particular regard to risk control;
- The CEO/General Manager is responsible for ensuring compliance with risk policies and procedures.

In addition, the Director in charge of the internal control and risk management system, appointed in compliance with the Corporate Governance Code for listed companies, is responsible for creating and maintaining an effective system of internal control and risk management.

- Specific management committees responsible for risk issues have been established in order to promote efficiency and flexibility in the decision-making process and facilitate interactions between the various company departments involved.
- The Risk Committee establishes risk management policies and ensures overall compliance with the limits defined for the various operating levels; evaluates the effective risk profile and, therefore, the capital consumption (Regulatory and Economic) at both Group level and individual Group company level; analyses the risk-return performance indicators.
- The Finance and Liquidity Committee formulates the principles and strategic guidelines relating to proprietary finance; resolves on and submits proposals regarding exposure to interest rate and liquidity risk in the banking book and defines capital management actions.
- The Credit, Credit Policies and Credit Assessment Committee formulates policies in relation to credit processes and formulates an opinion, at least once per year, on credit policies by verifying their commercial sustainability and consistency with risk appetite levels; approves, at last annually, company policies pertaining to credit assessment, including for the purposes of subsequently reporting these in the financial statements.

As part of the internal control system, third-level controls are carried out by the Internal Audit Area, second-level controls by the Risk Management Division and first-level controls by the Business Control Units (BCUs).

- The Internal Audit Area performs an independent and objective "assurance" and advising activity, aimed both at monitoring operations compliance and risk trends (including through on-site audits) as well as assessing the efficiency of the overall internal control system in order to improve the effectiveness and efficiency of the organisation.
- The Risk Division, which reports directly to the CEO, includes a risk management department, a compliance department, an anti-money laundering department and an internal approval department. This Division therefore has the following tasks:
  - guarantee the overall functioning of the risk management system;
  - oversee the capital adequacy assessment and the risk appetite definition; define strategic policies for the loan portfolio;
  - perform the compliance and anti-money laundering duties envisaged in governing regulation.

The Risk Division also ensures the necessary reporting flows to the Group's Top Management and Governance bodies. The organisational structure within these functions will be developed in accordance with the provisions of the 15th update of Circular 263/06 of the Bank of Italy.

In particular, the Risk Management Area within the Risk Division defines the integrated methods of risk measurement/analysis and ensures they are constantly monitored. It develops the internal risk models and monitors compliance with the operational limits established by the BoD.

The Business Control Units (BCUs) which are internal to the business and operating units of the Parent Company and Group subsidiaries, carry out compliance checks on the transactions for which they are responsible and are the first level of organisational supervision of transactions within the broader internal control system.

As part of the more general process of communicating and spreading the Group’s "culture" and distinctive values, the development of a "risk culture" within the Bank has so far been guaranteed through the publication of glossaries and process regulations pertaining to risk management. Specific initiatives of the Risk Division also targeted company bodies through Board induction on risks and information flows.

Requirements of autonomy and independence of the Risk Division

Autonomy and independence of the Risk Division are ensured by specific requirements which include:

- the appointment/revocation and definition of remuneration structure for the Head of the Risk Division by the BoD on the advice of the Director in charge of the Internal Control and Risk Management System, in agreement with the Chairman of the Board of Directors, on the favourable opinion of the Control and Risk Committee, having obtained the opinion of the Board of Statutory Auditors and with the support of the Human Resources and Internal Communications Division.

Activities relating to the international Regulatory framework

- Pillar 1: Since 2008, the Group has used internal models validated by the Bank of Italy for the measurement and management of credit risk (AIRB - Advanced Internal Rating Based) and operational risk (AMA - Advanced Measurement Approach). Over time, and in collaboration with the Supervisory Authorities, these models have been further enhanced and their scope of application extended to Group entities not originally included in the initial validation scope. In addition, activities aiming at improving internal managerial models for market and counterparty risks continued.
- Pillar 2: During the year, the internal managerial models were further enhanced and certain actions were taken to improve the Group's Internal Capital Adequacy Assessment Process (ICAAP), which was disclosed to the Bank of Italy as required.

- Pillar 3: Public disclosure is provided on a quarterly basis through the Group's internet site www.mps.it/Investor+Relations and is continuously updated in accordance with regulatory developments.

During the course of 2013, the in-depth methodological and application analyses required by new international regulations ("Basel III") continued, with a particular focus on the management of liquidity, counterparty and market risk and the relative adjustments to reporting databases.

The Group also undertakes self-assessments (Gap Analysis), with reference to the 15th update of Bank of Italy Circular no. 263/06 of 2 July 2013, on the internal controls system, information system and business continuity.

An analysis of the Group's Economic Capital

The Overall Economic Capital (or Overall Absorbed Capital) is the minimum amount of capital resources required to cover economic losses resulting from unforeseen events caused by the simultaneous exposure to different types of risk.

Key risks for the Group

Credit risk (including concentration risk); counterparty risk; issuer risk; market risk (price, rate and foreign exchange) of the Trading Book; interest rate risk of the Banking Book (Asset & Liability Management - ALM); liquidity risk; equity investment risk; UCITS risk (alternative funds); operational risk; business risk; real estate risk; reputational risk.

Risks inherent in investment products/services for the Group's customers are also monitored, in order to protect the customer and preventing any potential repercussions in terms of reputation.

All of the types of risk mentioned above are involved in quantifying the overall Economic Capital, with the exception of liquidity and reputational risk that, instead, are mitigated through organisational policies and processes.

Risk assessment model

The Risk Management Area regularly quantifies the Group's Economic Capital for each type of risk and periodically reports these to the Risk Committee and Governing Bodies as part of the reporting flows prepared by the Risk Division.

The measurements models used are mainly internally developed and based on a Value-at-risk (VaR) approach.

In the calculation of Overall Economic Capital, the measures relating to each type of risk are standardised both in terms of time horizons (yearly holding period) and selected confidence interval – in line with the Group's target rating of the Group – and are subjected to intra-risk and inter-risk diversification processes.

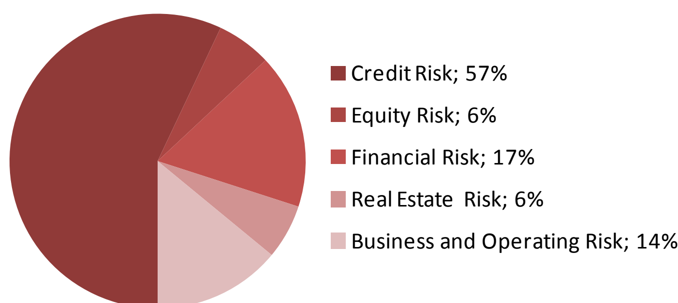
The table below illustrates the salient features of the individual internal models used by risk type, with the final column showing how risk integration is handled for purposes of calculating overall Economic Capital.

Risk measurement models - key features

Type of risks	Measure	Model	Risk factors	Correlation	Economic Capital Treatment
Performing loans	1Y VaR, 99.93%	Credit VaR Internal model	PD and LGD differentiated by type of counterparty, CCF differentiated by product	Correlation based on multivariate analysis between internal default macroeconomic variables	t-Student Copula
Equity investments	3M VaR, 99%	Montecarlo VaR	Volatility in stock prices and comparable indices	Correlations between Stock prices Correlation between proxy indices	1Y, 99.93%, t-Student Copula
Market (Banking Book)	1Y, shift 25bp sensitivity	Maturity Gap	Bucketing on parallel and twist shift nodes of Interest rates		1Y, 99.93%, t-Student Copula
Market (Trading Book)	1day VaR 99%	VaR hystorical simulation – full Revaluation	All market risk factors (IR, EQ, FX, CS,...)	Implicit in the full revaluation historical simulation	1Y, 99.93%, t-Student Copula
Operational	1Y VaR, 99.9%	LDA integrated with external data, in addition to qualitative self assessment	Frequency and *severity* by *event type*	Perfect correlation for conservative reasons	99.93%, t-Student Copula
Business	1Y EaR 99%	Parametric EaR	Volatility of costs and revenues	Correlation between costs and revenues	99.93%, t-Student Copula
Real Estate	1Y VaR, 99%	Parametric VaR	Volatility of real estate indices	Correlation between proxy indices	99.93%, t-Student Copula

Other measurable risk factors of significance (e.g. Issuer Risk, UCITS risk) are included in Economic Capital, on an add-on, non-diversified basis. Their quantification for Economic Capital purposes is carried out on the basis of methodologies borrowed from the regulatory supervisory approaches.

Additional information on the measurement systems for each risk type is reported in Part E of the Notes to the Financial Statements.



Financial Risk includes risks inherent in the trading portfolio and the ALM Banking Book.

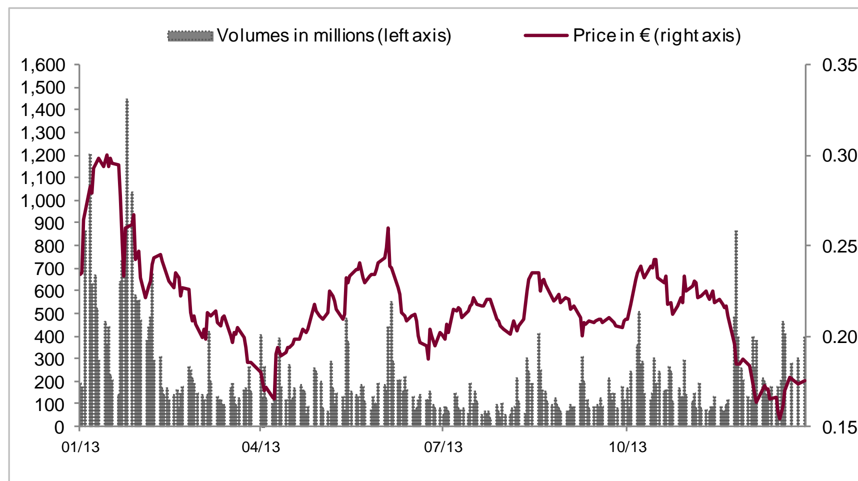
BMPS share price

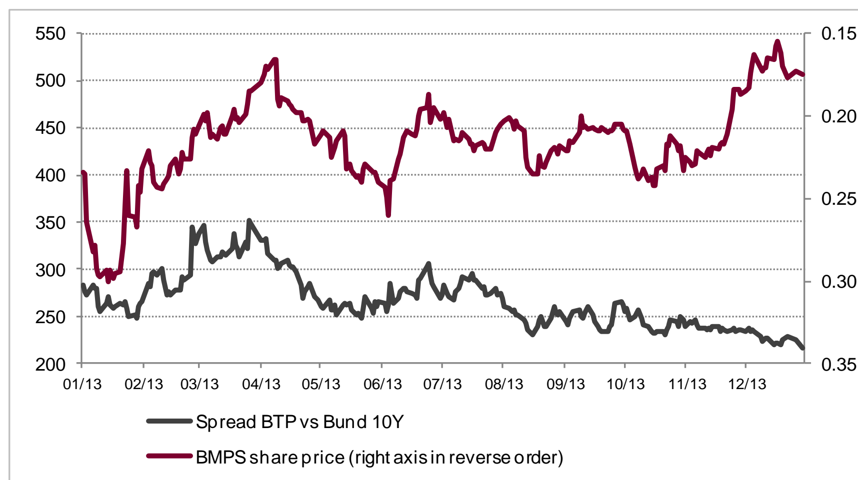
Share price and trends

The year 2013 ended with improved performance in European stock indices compared to 2012: Frankfurt +25.5%, Madrid +21%, Paris +18%, Milan +16.6%, London +14.3%.

BMPS stock closed at EUR 0.175, down 22.3%, i.e. a reverse trend in relation to its competitors. In the first months of the year, the trend was affected by the media climate surrounding the Group's legal proceedings. Instead in the final months of the year, share price was affected by news about capital transactions and the consequent changes in the shareholder structure.

BMPS SHARE PRICE (from 31/12/2012 to 31/12/2013)





STATISTICAL SUMMARY (from 31/12/2012 to 31/12/2013) - Euro

Average	0.22
Lowest	0.15
Highest	0.30

As at 31 December 2013, there were 11,681,539,706 ordinary shares in issue. The number of BMPS shares traded on a daily basis averaged approximately 211.7 million over the course of 2013, with a peak of 1,449.2 million in January and a low of 37.6 million in July.

MONTHLY VOLUMES OF SHARES TRADED
2013 volumes summary (EUR mln)

January	12,797
February	5,305
March	3,176
April	3,927
May	3,591
June	3,676
July	1,974
August	3,041
September	2,668
October	2,558
November	2,557
December	2,502

Rating

Rating Agency	Short-term debt	Outlook	Long-term debt	Outlook	Latest update
DBRS	R-2(mid)	Under review	BBB	Under review	8/2/2013
Moody's	NP	-	B2	Negative	9/5/2013
Fitch Ratings	F3	-	BBB	Negative	28/11/2013

- At the Bank's request, Standard & Poor's communicated their withdrawal of the rating on 14/6/2013. At the time of the withdrawal, long and short term ratings were 'B' with 'Negative' Outlook.
- On 18/10/2013, DBRS placed the Bank's long and short term ratings under review, and on 9/1/2014 it confirmed their "under review" status.
- On 28/11/2013 Fitch confirmed the long and short term ratings assigned to the Bank as 'BBB'/'F3'. The outlook is negative and it reflects the assessment on Italy's long-term IDR - Issuer Default Rating.

With regard to the assessments of specialised ESG (Environment, Society, Governance) rating agencies, the reviews conducted on BMPS since the beginning of the year have revealed certain gaps with respect to industry best practices. Consequently, while the BMPS stock was confirmed as a component of the investment portfolios selected by the German agencies Oekom and Imug, and by the British Eiris-FTSE4Good, it was downgraded by the French agency Vigeo, by the Dutch Sustanalytics and by the Swiss/Dutch Robeco-SAM, which excluded the Bank from the connected financial indices of the Dow Jones Sustainability Indices series.

The gaps were internally assessed to define possible improvement actions to be adopted.

Investor relations

Relationship strategy

In general terms, communication and relationship management with the various stakeholders are not carried out unilaterally, but rather they are seen by the Bank as opportunities for dialogue, useful for providing perspectives for reflections and continuous improvement.

In particular, in marketing activities, the Investor Relations team diversifies the approach on the basis of the Group's investor profiles:

- **institutional investors** – an ample flow of information is provided through the direct relationship with the top management; during the year, road shows, one-on-one meetings and conference calls were organised;
- **retail investors** – informed about major news pertaining to the Bank through the website, http://www.mps.it/Investor+Relations/;
- **financial analysts and rating agencies** - the Investor Relations team assures constant communication and a detailed flow of information, comprising both historical data and indications on the Bank's outlook and forecast performance.

Price sensitive information is disclosed in compliance with the Lines of Conduct dictated by Consob and Borsa Italiana.

Activities during the year and main topics discussed

The Investor Relations team continued to proactively focus on its relations with the financial community. In particular, not only was top management involved in meetings at the Bank (Investor Day) and road shows abroad (Italy, UK, France, United States), but also in international meetings and conference calls dedicated to investors who requested them.

During the year, the attention of the financial community shifted from the New Financial Instruments (issued on 28 February) to the presentation of the 2013-2017 Restructuring Plan, to the capital strengthening operation announced with the press release of 28 November.

Credit Structured products

Management Model

The Group allocates a part of its capital to equity investments, with the following objectives:

- attain a risk-adjusted return that is significantly higher than the cost of allocated capital so as to create value for shareholders;
- diversify risks with respect to other risks that are typical of its business;
- maintain in-depth and up-to-date knowledge of financial market trends, which inevitably affect the domestic markets in which the Group mainly operates.

Activities are supervised by an ad hoc organisational structure within the Finance, Treasury and Capital Management Area and are carried out under a broad spectrum of possible financial market areas in order diversify risk and decrease exposure to individual sectors. Investments may range from investments in government securities markets, equities and foreign exchanges to corporate bonds and credit derivatives.

In this context, investments in Credit Structured Products are made in accordance with the principle of diversification and the support of a "specialist desk" within the subsidiary, Mps Capital Services. The investment process starts with the bottom up analyses carried out by traders and is part of the overall monitoring of risk at portfolio level. As with all equity market operations, these investments are subject to risk limits set by the BoD and monitored daily by the bank's Business Control Units and Risk Management. The Bank defines Stop Loss, risk and nominal limits for maximum exposure for major issuer categories, broken down by rating.

The data reported in this section refer to the entire Group and cover a broad category of Credit Structured Products: from investments in securities issued by special-purpose vehicles and not included in the information on consolidated “Special Purpose Entities” to structured credit derivatives. (In order to facilitate understanding, a glossary of investment types can be found at the end of this section).

In particular:

- Positions in securities, mainly in the form of cash instruments, have a total book value of EUR 1,097.54 mln, accounting for 0.55% of consolidated assets, broken down as follows: EUR 887.97 mln (81%) posted to Item 60 "Loans to banks" and 70 "Loans to customers"; EUR 190.90 mln (17%) to Item 20 "Financial assets held for trading" and EUR 18.67 mln (2%) to Item 40 "Financial assets available for sale". It should be noted that not all Credit Structured Products have embedded credit derivatives that need to be separated from their host cost contract for IAS/IFRS purposes. For this reason, they differ from the "Structured securities" reported in the Notes to the Financial Statements;
- Derivative positions, held through credit derivatives on standardised indices, have a total book value of EUR -11.68 mln.

Securities Positions

As at 31/12/2013, positions in securities on structured credit products amounted to a nominal value of EUR 1,217.51 mln, in decline compared to the end of 2012 (book value of EUR 1,097.54 mln).

The positions are mainly allocated to the Banking Book (book value of EUR 973.35 mln; 89% of total) with a predominant portion in CLN structures (54%) and to a lesser extent CDOs (25%) and ABSs and Leveraged Finance (21%).

Investments in the Regulatory Trading Book, for a book value of EUR 124.19 mln (11% of total), consist of CDOs (55%) and ABSs (45%).

2013 transactions generated a positive income statement impact of EUR 19.76 mln..

Structured Credit products: total exposure

Securities positions

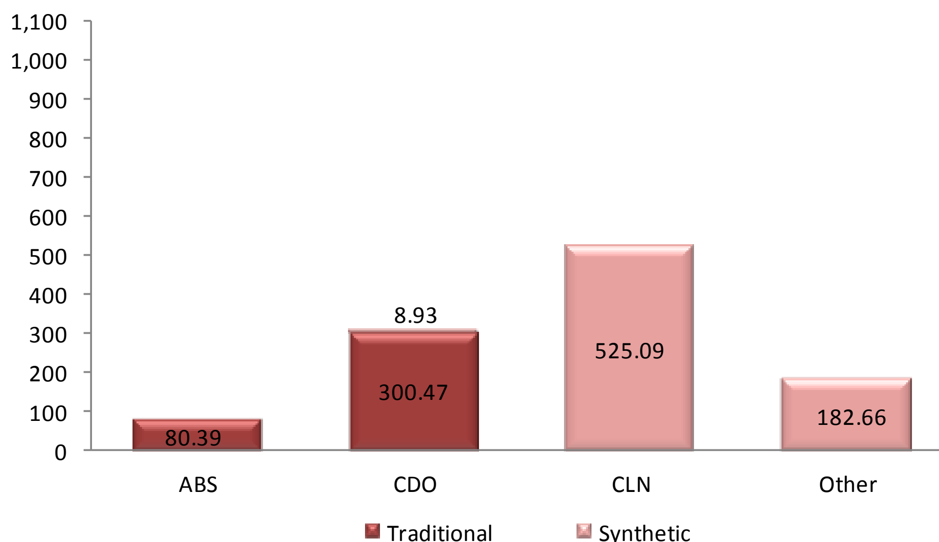
(EUR/mln as at 31/12/2013)

Classification	Instrument Category	Nominal	Risk Exposure	Realised Profit/Loss	Unrealised Profit/Loss	Effect on Net Equity
Banking Book	ABS	24.16	24.91	-0.60	-0.24	1.43
	CDO	260.28	240.69	-1.36	-0.19	0.00
	CLN	558.35	525.09	19.96	-5.34	0.00
	Leveraged Finance	200.00	182.66	0.00	4.07	0.00
	Banking Book Total	**1,042.79**	**973.35**	**18.00**	**-1.70**	**1.43**
Trading Book	ABS	61.79	55.48	1.70	3.41	0.00
	CDO	112.93	68.71	9.81	-11.46	0.00
	Trading Book Total	**174.72**	**124.19**	**11.51**	**-8.05**	**0.00**
Structured Credit products total - 31/12/2013		**1,217.51**	**1,097.54**	**29.51**	**-9.75**	**1.43**

The data are divided into macro categories of structured credit products, and indicate the nominal value, risk exposure and the realised and unrealised profit or loss for the year 2013. In particular, the "risk exposure" of securities positions shows the book value because it is representative of the loss in case of default, with the highly conservative hypothesis of zero recovery value. "Realised Profit/Loss" consist s in results from trading in the reference period. “Unrealised Profit/Loss” show the change in book value directly posted to P&L. In the case of instruments classified as Available For Sale (AFS), Effect on Net Equity shows the change in book value posted under net equity reserve.

Due to the limited significance of the positions in the Regulatory Trading Book, the analysis reports the details of all positions without breaking them down by supervisory criteria..

Key changes in 2013 include: in January, the Parent Company’s restructuring of “Nota Italia” notes by removing the component linked to Italy's sovereign risk. As a result of the restructuring, the derivative payable was settled.



Traditional Structure: investments in funded structures that do not include credit derivatives.
Synthetic Structure: funded and unfunded structures that incorporate credit derivatives.
Traditional structures account for 35% and synthetic for 65% of total risk exposure

Structured Credit products – breakdown by rating
(EUR/mln as at 31/12/2013)

Rating	Nominal	Risk Exposure	Reliese Profit/Loss	Unrealise Profit/Loss	Effect on Net Equity
AA+	0.00	0.00	0.21	0.00	0.00
AA	2.52	2.37	0.13	0.07	0.00
AA-	200.00	182.66	0.00	4.07	0.00
A+	0.00	0.00	-1.06	0.00	0.00
A	18.39	17.76	0.28	0.26	0.00
A-	463.35	461.94	21.17	0.00	0.00
BBB+	155.08	149.82	-0.99	6.35	1.31
BBB	129.85	94.15	0.64	-2.34	0.00
BBB-	50.00	49.87	0.12	0.00	0.00
BB+	0.00	0.00	0.39	0.00	0.00
B	56.20	52.30	5.49	0.00	0.00
B-	1.36	1.17	0.01	0.56	0.12
CCC-	15.50	1.24	3.73	-0.98	0.00
Not Rated	125.26	84.26	-0.61	-17.74	0.00
Total	**1217.51**	**1097.54**	**29.51**	**-9.75**	**1.43**

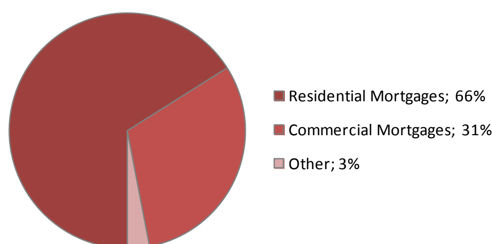
84% of nominal exposures are made up by investment grade securities (with rating up to BBB-) with subinvestment grade and unrated securities making up the remaining 16%.

ABS Exposures

Breakdown by type
(EUR/mln as at 31/12/2013)

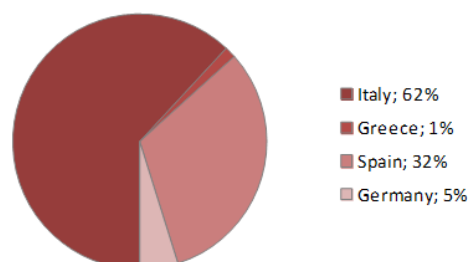
Classification	Nominal	Risk Exposure	Realised Profit/Loss	Unrealised Profit/Loss	Effect on Net Equity
RMBS	54.09	53.21	1.14	0.72	1.31
CMBS	29	24.9	-0.13	1.92	0
Other ABS	2.86	2.28	0.09	0.53	0.12
Total	**85.95**	**80.39**	**1.10**	**3.17**	**1.43**

Breakdown of underlying assets by segment



97% of the book value refers to positions with underlying residential and commercial mortgages which make up 66% and 31% respectively.

Breakdown of underlying assets by geographic area



In terms of book value, 62% of ABS exposures are associated with Italian underlying assets, 32% with Spanish and 5% with German. Exposures towards Greek underlying assets are negligible while there are no exposures to underlying assets originated by US vehicles.

CDO Exposures

CDO Exposure - Breakdown by type of product and tranche seniority
(EUR/mln as at 31/12/2013)

Classification	Seniority	Nominal	Risk Exposure	Realised Profit/Loss	Unrealised Profit/Loss	Effect on Net Equity
CBO	JUNIOR	4.58	3.56	0.00	-0.21	0.00
CBO	SENIOR	96.58	59.78	-0.23	-17.50	0.00
CDO di ABS	SENIOR	235.98	217.82	-1.37	0.00	0.00
CLO	MEZZANINE	19.72	19.31	0.01	0.02	0.00
Managed CDO	MEZZANINE	1.35	0.00	0.00	0.00	0.00
Managed CDO	SENIOR	15.00	8.93	10.04	6.04	0.00
Total		**373.21**	**309.40**	**8.45**	**-11.65**	**0.00**

The prevalent type of product is the ABS CDO (70%). Senior tranches account for approximately 93% of the entire portfolio. There are no positions with underlying assets originated by US vehicles..

CLN exposures and Leveraged Finance

The nominal value of CLN exposures as at 31/12/2013 was EUR 558.35 mln (entirely contained in the Banking Book), a decrease with respect to the end of 2012 as a result of the sale of a security in May for a nominal amount of EUR 100 mln.

CLN Exposure
(EUR/mln as at 31/12/2013)

Classification	Nominal	Risk Exposure	Realized Profit/Loss	Unrealized Profit/Loss	Effect on Net Equity
SPE CLN	558.35	525.09	19.96	-5.34	0.00
Total	**558.35**	**525.09**	**19.96**	**-5.34**	**0.00**

As at 31/12/2013, there was only one security classified as a Leveraged Loan (LL) for a total nominal amount of EUR 200 mln.

Leveraged Finance
(EUR/mln as at 31/12/2013)

Classification	Nominal	Risk Exposure	Realized Profit/Loss	Unrealized Profit/Loss	Effect on Net Equity
LL	200.00	182.66	0.00	4.07	0.00
Total	**200.00**	**182.66**	**0.00**	**4.07**	**0.00**

Credit Derivative Positions

Credit Index Positions

(EUR/mln as at 31/12/2013)

Index	Nominal	Risk Exposure	Profit/Loss
CDX Investment grade	32.44	0.02	1.12
Credit index option	200.00	0.38	0.15
Itrax Sovereign EMEA	0.00	0.01	0.03
Itrax Sovereing WE	-152.25	-1.14	-1.60
Itraxx Europe	89.83	0.79	-4.98
iTraxx Europe Crossover	-0.01	-0.02	0.66
Itraxx Financial Senior	-65.00	-0.52	0.15
Itraxx Financial Sub	-10.02	-1.58	0.61
Itraxx Hivol	0.00	-0.01	0.00
Synthetic cdo tranche	-7.86	-9.61	-3.97
Total	**87.13**	**-11.68**	**-7.83**

All exposures comprise derivatives on standardised credit indices and are all attributable to the Trading Book. More specifically, there are positions on indices such as iTraxx (European market) and CDX (US market and emerging markets). Positions with a negative nominal value mitigate the overall portfolio risk since they benefit from the deterioration of creditworthiness of underlying assets, as represented by the expansion of related credit spreads. Positions with a positive nominal value are added to the securities portfolio, in terms of risk exposure. Overall, derivative net exposures came to a notional amount of EUR 87.13 mln for a book value of EUR -11.68 mln as at 31/12/2013. 2013 transactions generated limited negative income statement impact of EUR 7.83 mln.

Glossary of terms

Term	Description	Definition
ABS	Asset Backed Security	Security which guarantees reimbursement and coupon flows based on income generated by a set of financial assets. Typically, they are broken down into RMBS and CMBS.
AFS	Available For Sale	IAS category used to classify assets available for sale
CBO	Collateralized Bond Obligation	CDO in which the portfolio of underlying positions primarily consists in bonds.
CDO	Collateralized Debt Obligation	Securities issued in differentiated risk classes with payment in order of seniority (tranches), subsequent to the securitisation of a portfolio of credit-risk embedding securities. Typically characterised by a certain degree of financial leverage.
CDO of ABS	CDO of ABS	CDO in which the portfolio of underlying positions primarily consists in ABSs.
CDO2	CDO Squared	CDO in which the portfolio of underlying positions primarily consists in other CDOs.
CDO3	CDO Cubed	CDO in which the portfolio of underlying positions primarily consists in CDO squared.
CLN	Credit Linked Note	Security embedding a credit derivative, typically a credit default swap (CDS).
CLN Basket	Basket Credit Linked Note	A CLN which references to a basket of underlying entities (multiple single name CDSs, or one or multiple basket CDSs)
CLO	Collateralized Loan Obligation	CDO in which the portfolio of underlying positions primarily consists in loans.
CMBS	Commercial Mortage Backed Securities	ABS with underlying commercial mortgages.
CPPI	Constant Proportion Portfolio Insurance	Guaranteed capital security that incorporates a dynamic trading strategy in order to participate in the performance of a certain underlying asset
Dynamic Managed Portfolio	Dynamic Managed Portfolio	Products with dynamically managed underlying assets such as CPPI/SPI.
HFT	Held For Trading	IAS category used to classify assets and liabilities held for trading
L&R	Loans & Receivables	IAS category used to classify loans and receivables
LL	Leveraged Loan Exposure	Structured Credit Securities whose principal repayment and interest payout are conditional upon the occurrence of default events in the underlying portfolio of Leveraged Loans (loans granted to sub-investment grade businesses).
LSS	Leveraged Super Senior	CDO through which the investor becomes exposed to the entire super senior tranche through a derivative contract characterised by a leverage effect.
Managed CDO	Managed CDO	CDO in which the portfolio of underlying positions is managed.
Monoline insurer	Monoline insurer	Insurance companies specialised in guaranteeing payment of interests and notional of bonds in the event of issuer default. They are thus named because they generally apply to one industrial sector only.
Other ABS	Other Asset Backed Security	Security which guarantees the reimbursement and income flows based on income generated for a group of other assets: consumer and leasing loans that only include loans for consumers (for example, cars, credit cards), student loans, lease financing, etc.
RMBS	Residential Mortage Backed Securities	ABS with underlying residential mortgages.
SCDO	Synthetic CDO	CDO whose portfolio of underlying positions primarily consists in credit default swaps (CDS).
Seniority	Seniority	Level of subordination in the repayment of securities, generally broken down into Super Senior, Senior, Mezzanine and Junior.
SLCDO	Synthetic Loan CDO	CDO whose portfolio of underlying positions primarily consists in Synthetic Loan CDS.
SPE	Special Purpose Entity	corporate vehicle incorporated to attain specific objectives, primarily to isolate financial risks. Assets consist in a portfolio whose profits are used for the servicing of bond loans issued.
SPE CLN	SPE Crediti Linked Note	CLN issued by a SPE.
SPI	Synthetic Portfolio Insurance	Synthetic version of a CPPI, obtained through derivatives.
Vintage	Vintage	Commonly understood as the year of origination for the assets underlying a structured credit product.

Sustainability report

The Report provides organic disclosure on the Group's 2013 policies and activities to enhance the quality and sustainability of its performance. It describes the ways in which it acted on the main value factors pertaining to governance and corporate social responsibility, also in consideration of stakeholders' expectations.

The Report is organised in accordance with the "Sustainability Reporting Guidelines & Financial Services Sector Supplement" defined by the Global Reporting Initiative (GRI) in 2008, and its subsequent amendments (GRI G3.1). The text that follows refers to the codes provided therein. The information already provided in the previous chapters of the Consolidated Report on Operations is duly pointed out, as are references to any additional content available on the Bank's website: http://www.mps.it/I+Nostri+Valori/.

Strategy and materiality analysis

Code 1.1; 1.2 / To steer the Group's management of sustainability issues highlighted by research, public debate and regulatory developments, the significance of its actions is assessed by analysing the importance of a given issue in relation to corporate performance and from the stakeholder perspective (see on the website – Strategy/Relevant issues).

Priorities:
- fair business - strengthen management of the Bank's administrative responsibilities and its Code of Ethics;
- skills and success at work - develop new talent & performance management and incentive systems;
- corporate welfare - maintain the company's welfare system within a context of major workforce restructuring;
- equal opportunities - introduce tools to boost value generation through greater involvement of female staff;
- consumer protection - increase the ability to satisfy customer needs through local micro-based marketing models and a simpler and more user-friendly product/service offer;
- financial inclusion - continue to focus on factors that may limit access to banking services for the more vulnerable sections of society;
- business growth and innovation - increase business credit quality with the integration of sustainability-centric assessment models;
- climate change - implement programmes with more efficient and environmentally-friendly management of energy and paper.

Organisational Profile

Codes 2.1 – 2.9 / See the section "Description of the Group and business model"

Code 2.10 / See the section "Management of non-financial strategic resources – Reputation"

Report Parameters

Codes 3.1 – 3.5 / The Report is an integral part of the Consolidated Report on Operations. Thus, it is prepared on a yearly basis with reference to the Guidelines of the Global Reporting Initiative. Additional information on the issues discussed in the Report may be requested via email to csr@banca.mps.it.

Code 3.6 – 3.11 / The scope and boundary of the Report is the entire Montepaschi Group, as identified in the Consolidated Financial Statements as at 31/12/2013, with the exclusion of the insurance sector (managed by the AXA Group), asset management (not operationally controlled by the Group) and subsidiaries which, by scale and operations sector, are not considered relevant for the purposes of sustainability reporting. Moreover, unless otherwise indicated, foreign banks and branches are also excluded from the scope of the report.

The data presented in the report are mainly identified through:

- Extraction from corporate IT systems: general ledger, management control, loan and product reporting, customer database, complaints application, employee data management platform, electronic procurement procedure, etc.
- Invoices and other statements produced by suppliers, for example in the case of some environmental data such as energy consumption and waste.
- Questionnaires and surveys to measure customer satisfaction, employee perception, suppliers' sustainability, etc.

Part of this information, for which there is currently no unified Group management, has been taken from corporate and local sources and then aggregated centrally by the appropriate Parent Company functions.
In order to give an accurate representation of the Group's performance, inclusion of directly measurable information in the Report was preferred, avoiding as far as possible the use of estimates that, where used, were made on the basis of the best available methodologies.

Governance and commitments

Codes 4.1 – 4.3; 4.5; 4.10 / See the section "Governance and Control Systems – Governance"

Code 4.4 / Shareholders' and employees' participation in business decisions is made possible through provisions including:

- Shareholders who, separately or jointly, represent at least one fortieth of the share capital with voting rights may request that items be added to the agenda, specifying the proposed new items in their request.
- Shareholders, including employees holding ordinary shares in the Bank, may speak at Shareholder Meetings about the items on the agenda. In February 2014, a protocol was signed by the Bank and small shareholders with the purpose, *inter alia*, of identifying any additional measures to facilitate the expression of employee shareholders' vote, as prescribed by Article 137 of the Italian Consolidated Law on Financial Intermediation.

Code 4.6 / Pursuant to the Italian Civil Code, industry legislation and collective labour agreements, the Bank's directors and employees must behave at all times in such a way as to avoid damaging the company as a result of conflicts of interest.
In particular, with regard to Related Party transactions, the Bank operates in compliance with specific rules, as amended by Consob Regulation no. 17221 of 12 March 2010, through the application of the "Procedure for transactions with related parties".

Code 4.7 / The professional qualifications of the Bank's Directors are available from the Bank's website, http://www.mps.it/Area+Media/.

Code 4.8 / The Group's mission and system of values for the Group were defined by the Board of Directors in 2000-2001 and there is continual training and internal communication activities focused on these values. Subsequently, they were included in the corporate Code of Ethics as a reference base for the corporate social responsibility principles that the Group follows in accordance with the relevant international standards (see the website – Compliance & Business Ethics).

Code 4.9 / The measurement of sustainability issues provides the basis for their management by the Group. They are included in information disclosure to stakeholders and are considered a part of core Planning & Control activities.

Code 4.11 / The rules of corporate governance and the Group's organisational structure are defined in such a way as to ensure sound and prudent management. In this respect, the following is in place:

- The Code of Ethics was revised during the year, to provide further assurance of lawful and proper behaviour at all levels.
- The internal control system – the Internal Audit Function reports directly to the BoD for maximum effectiveness.
- The risk governance system is characterised by a clear-cut distinction of roles and responsibilities of the different functions at first, second and third levels of control; the Chief Risk Officer reports directly to the CEO.

Code 4.12 / The Bank supports and is engaged in promoting, within the scope of its responsibility, the corporate sustainability principles indicated by the European Commission and by the United Nations (through the Global Compact initiative).

Code 4.13 / The Bank participates with its top managers in the Executive Committee of the Italian Banking Association (ABI) and, with its representatives, follows the work of committees and issue-based working groups promoted by the ABI, including activities pertaining to corporate sustainability.

Stakeholder Engagement

Code 4.17 / Some of the main engagement activities carried out with stakeholders in 2013 were with:

- the European Commission, the Italian Government and the Supervisory Authorities, especially in the area of capital strategy;
- human resources, for the constant involvement of employees in business developments, to communicate the Group's characteristic behaviours and resources (the Group's "DNA"), to listen to employees' needs and expectations within the scope of employee management plans;
- the unions, through the second-level bargaining processes, meetings and agreements to manage the effects of Business Plan projects on personnel;
- customers, to assist them in a correct evaluation of their relationship with the Bank and to identify their needs, as an essential support to calibrate the offer and develop services;
- analysts and investors, to represent in a transparent and effective manner the corporate decisions pertaining, in particular, to the Restructuring Plan and the expected capital strengthening transaction;
- the media, to ensure that corporate events are perceived correctly by the public, and to identify and resolve any critical issues for the Group's reputation that may stem from reports in the media and on social networks.

(see the website – Approach/Stakeholder involvement).

FS – Sector specific social and environmental issues

Codes FS1; FS2 / In carrying out its business activities, the Group also takes account of social and environmental criteria. These criteria are set out in the Code of Ethics and at times, more specifically, in internal policies and procedures (see the website – Approach/Compliance & Business Ethics).

Code FS3 / Customers' social and environmental impacts are verified and checked, particularly in project financing contracts and in loans granted to large businesses. In these cases, specific contractual clauses are provided, differentiating them according to the type of investment, which commit the borrowing firm to comply with the laws and regulations established by local authorities as well as any other standards of quality regarding environmental protection, workplace health and safety, employment agreements and transparency in tender contracts. Compliance with the agreed standards is monitored before, during and after contract performance, using the documentation provided by the customer or through due diligence carried out by external consultants. In the event of failure to comply with these agreements, the Bank reserves the right to withdraw the loans. The projects assessed in 2013 by the subsidiary MPS Capital Services (68 transactions with a total value of EUR 502 mln) received a positive or highly positive environmental rating in 73% of the cases. None of them was placed in a high risk category.

Code FS4 / Investments are made in training, with the aim of developing and continually upgrading the skills necessary to pursue corporate objectives (see the section "Management of non-financial strategic resources – Human Capital").
Special attention is devoted to training personnel involved in managing social and environmental policies applicable to the business, including rules on transparency, preventing conflicts of interest, anti-money laundering, corruption prevention (see Code SO3).

Code FS5 / (see Code. 4.17).

Code FS6 / Transactions with enterprises by business line, region, size and sector (see the section "Segment reporting – Corporate banking" and the section "Management of non-financial strategic resources – Customer Base").
The share of loans to ethically controversial countries and sectors is marginal:

- Controversial countries (with high rates of corruption, poor human rights records and preferential tax regimes) account for 0.22% of all loans;
- Controversial sectors (tobacco, alcoholic beverages, furs) account for 0.69% of total loans. As regards transactions with companies in the arms industry, in accordance with specific company policy, in 2013 no authorisations for new transactions regulated by Law 185/90 were issued.

Additionally, 23.5% of loans are concentrated in sectors with potentially high environmental impact, to which the Group pays particular attention when assessing credit risk (see Codes FS1, FS2).

Codes FS7; FS8 / (see the section "Management of non-financial strategic resources – Social value")
For an overview of the Group's products/services associated with additional social/environmental benefits compared to the standard bank offering, see the website – Customers/Sustainability related products.

Code FS9 / Audits of the implementation of environmental and social policies and risk assessment procedures. The internal control approach is risk-based and the risk management system, structured on three levels, ensures an independent assessment of the effectiveness and efficiency of the processes.
As part of routine audits conducted by the Internal Audit Function and the Compliance Function, attention is also paid to the effective implementation of the commitments contained in the Code of Ethics and internal policies and procedures that focus on topics with significant environmental and social implications.

In 2013, a total of 714 "ordinary" audits were conducted. In addition, approximately 140 specialised internal audits were carried out on the effective functioning of certified management systems: ISO14001 for the environment and OHSAS18001 for occupational health and safety.

Code FS10 / Group subsidiaries have adopted the Code of Ethics and carry out their business in accordance with internal policies and procedures that focus on topics with significant social and environmental implications. The same points of reference are used in dealing with business customers.
The Group holds equity investments in businesses, organisations and associations engaged in regional development and the promotion of social and environmental sustainability. In most cases, the Group participates in the governing bodies of these firms/associations, through a representative, and takes part in the definition of objectives and strategies. At the end of 2013, there were approximately twenty major investments of this type.

Code FS11 / Assets subject to environmental and social screening:

- Approach - Positive screening of mutual investment funds distributed by the Group through the use of data provided by the Vigeo rating agency and subsequent assignment of specific ESG (Environment, Society, Governance) ratings; offer of relevant funds within a specific category of products available for sale.
- Coverage – in 2013, screening activities were applied to a set of funds with AuM totalling EUR 15.4 bn (equivalent to 34% of Assets under Management); in 2012, AuM subject to screening were EUR 14.5 bn (33% of the total).
- SRI products – in 2013, a sub-set of funds included among those subject to screening, totalling EUR 9.5 bn of AuM (21% of total Assets under Management) received an ESG rating above the pre-set threshold; in 2012, these funds accounted for 2.9% of total Assets under Management, i.e. EUR 1.3 bn.

Code FS12 / Social and environmental policies for companies in which the reporting organisation exercises voting right:

- No specific policies have been defined with regard to voting rights in investees.
- In the asset management sector, no active shareholder policies have been implemented, because the Group merely places investment products, on which it does not exercise management control.

Code FS13 / The Group is present in Italy with an extensive network of branches and ATMs that ensure service coverage, even in sparsely populated or economically disadvantaged areas (small communities, regions with lower growth rate, etc.):

- Presence in small towns (fewer than 5 thousand inhabitants) - 12.4% of branches and 11% of ATMs.
- Presence in low-growth regions (EU classification: Campania, Basilicata, Puglia, Calabria, Sicily, Sardinia) – 23.3% of branches and 24.8% of ATMs.

Code FS14 / Initiatives to improve access to financial services for persons with disabilities:

- 94% of ATMs have been equipped with software that allows them to be used by visually-impaired persons.
- 68% of ATMs are accessible to persons with mobility disabilities.
- The new Internet Banking platform (PasKey) is also operational in a simplified HTML version that, while not designed according to formal accessibility standards (W3C – WCAG), does meet the needs of users with visual or cognitive disabilities who, for example, use voice-activated Web browsers.

Code FS15 / To ensure that products are in line with the interests, financial knowledge and risk appetite of customers targeted by the offer, the following points are considered:

- Compliance with the provisions of the European MiFID Directive.

- Product selection support through an ad hoc service and advisory platform.
- "Multi-branded" investment products, partly to protect from potential conflicts of interest.
- Specialised training of sales network managers.
- Pursuit of customer satisfaction objectives and KPI performance quality monitoring.

Code FS16 / Financial education activities (see the section "Management of non-financial strategic resources – Social value").

EC – Economic performance

Management Approach

The Code of Ethics states that "the Group's foremost responsibility is to create value for shareholders, mainly by establishing a solid and lasting relationship with customers based on the quality of services offered, and to deliver value to all stakeholders, through the payment of salaries to employees, sustaining the savings achieved and fulfilling all tax obligations".

Economic and financial management is achieved through solid planning, control and reporting systems, supervised by the Chief Financial Officer.

The financial impacts on stakeholders and local economic systems are managed according to specific company policies, which include:

- Human resource management (See Code LA).
- Financial inclusion (See Code FS7).
- Environmental protection and combating climate change (See Codes FS8; EC2).
- Supply chain sustainability (See Codes EC6; EN26; HR2).
- Investments for the economic and social growth of local communities (See Code EC8).

Code EC1 / Direct economic value generated and distributed. In 2013, the extraordinarily challenging market environment significantly influenced the Group's income statement and balance sheet performance.

Financial and economic performance was also reflected in the Group's ability to deliver value to benefit stakeholders and local economies: the Economic Value Generated in the year, calculated on the basis of the Financial Statement data through the specific methodology proposed by ABI, amounted to EUR 1.4 billion (EUR 2.4 billion in 2012).

Code EC2 / Financial implications and other risks and opportunities for the organisation's activities due to climate change (see the website – Environment/Climate change).

Code EC3 / The Bank provides its employees (in service and retired) with a pension scheme designed to supplement the INPS - Italian National Social Security Institute pension. The scheme consists of two main pension funds, each of which has independent legal status, known as "defined benefit" and "defined contribution" regimes. Other minor funds (internal unfunded/funded and external unfunded/funded) and some residual pre-existing supplementary schemes are represented in the balance sheet of the financial statements, under item 120 a) – Pensions and other post retirement benefit obligations, and described in detail in Part B of the Notes to the Consolidated Financial Statements as at 31/12/2013.

The total assets managed by the two main corporate pension funds alone exceeds EUR 2 billion and increases every year by the proceeds from the assets themselves and the company's contributions and those of the individual participants. Cash is invested in consideration of the characteristics and goals of the separate and autonomous asset management entities. The company's contribution is equal to 2.5% of the employee's salary (4% for new hires with "entry-level professional salary"), in accordance with the National Collective Labour Agreement).

Concerning the capital to fund the pension benefits that ensure a given fixed amount to beneficiaries, actuarial reserves are determined according to prudential criteria in compliance with the principles set out by current regulations, as identified in the financial reports prepared by an independent actuary.

The asset allocation policy calls for constantly checking the adequacy of issuers' sustainability and social responsibility profiles through specific ESG (Environment, Society, Governance) parameters, monitored by the Vigeo rating agency.

Code EC4 / In 2013, the Group's companies did not receive any significant contributions from the Public Administration. Data regarding tax assets and tax liabilities are reported in Part B of the Notes to the Consolidated Financial Statements as at 31/12/2013.

Code EC5 / In accordance with the Collective Labour Agreement for the banking industry, newly hired personnel with entry-level professional salaries receive an additional amount from the company of EUR 60 per month per 13-month salary year and an increased contribution to the supplementary pension scheme.

Code EC6 / The Group has a supply chain that includes approximately 1,200 companies, from which it purchased EUR 938 mln worth of goods and services in 2013 (real estate, ICT, logistics, telecommunications, tax, communications, advisory etc.).

All suppliers are based Italy, mostly in the regions of Tuscany, Lombardy and Lazio (approx. 72% of total sales).

Supplier assessment and selection is based on price and factors such as quality of supply, supplier reliability, time required for completion/delivery, the overall business and financial relationship with the counterparty, and performance sustainability.

Code EC7 / The Group does not implement specific policies with regard to hiring personnel in their places of residence.

Code EC8 / Development of infrastructure investments and public interest services, charitable contributions or pro bono activities (see the section "Management of non-financial strategic resources – Social value").

Code EC9 / The areas of social added value with an indirect economic impact on which the Group concentrates its efforts include: financial inclusion (see code FS7); environmental protection and combating climate change (see codes FS8, EC2); supply chain sustainability (see codes EC6, EN26, HR2); contributions to community social investments (see code EC8).

EN – Environmental performance

Management Approach

The Group is committed to the increasingly efficient and organised management of activities that may impact the environment. Since 2002, a specific ISO14001-compliant management system has been in place and necessary internal skills have been continuously developed. In this regard, in 2013 introductory training courses were conducted for newly-hired employees, in addition to refresher courses for personnel more heavily involved in environmental management at operational level (approx. 140 participants in 2013). Moreover, constant internal communications and employee sensitisation was carried out on the subject of an "environmentally-friendly office".

For a complete overview of the environmental performance KPIs, see the website, under Performance/KPIs.

Code EN1 / Paper consumption: 2,954 tonnes (-15.1% in one year). In particular, the Paperless project led to savings of 18.2 million sheets of paper in 2013 (-56% in one year, exceeding the target, which had been set to -40%).

Code EN2 / Purchase of recycled toner cartridges: 11.7%; Use of recycled toner cartridges: 99% (91% in 2012).

Code EN3 / 342,110 GJoule of direct energy were consumed (substantially in line with the 2012 figure): 85% for heating work premises and the remaining 15% in company cars.

Code EN4 /625,096 GJoules of indirect energy (electricity) were consumed, all from renewable sources. In one year, consumption was reduced by 11.5% (exceeding the target, set at -10%).

Code EN5 / Total energy consumption amounted to 967,206 GJoules, down by 7.8% as a result of the energy efficiency plan implemented during the year.

Code EN6 / (see Code FS8).

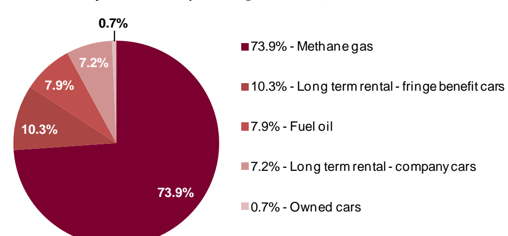
Code EN7 / Initiatives to reduce direct and indirect energy consumption (see the section "Management of non-financial strategic resources – Operational efficiency").

Code EN8 / In 2013, 1,010,232 m³ of water were used for health and sanitation purposes and, in some premises, for the air-conditioning systems and the irrigation of landscaped areas (+4.21% compared to 2012).

Code EN11 / The Group's agricultural firm (MPS Tenimenti Poggio Bonelli e Chigi Saracini Spa) owns and operates the company by the same name, located in Castelnuovo Berardenga (Siena), whose activity is concentrated on the production of grapes and wine, olive oil and cereal grains. The firm covers a surface area of approximately 837 hectares in a beautiful natural setting, but not classified as "protected area".

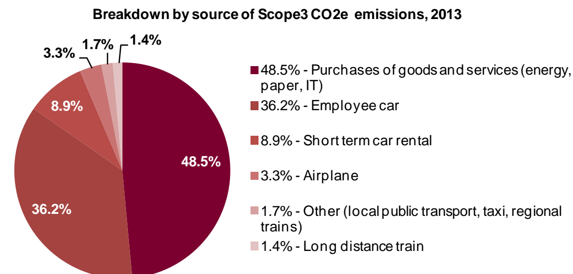
Code EN12; EN14 / (see Code FS1; FS2).

Code EN16 / 20,778 tonnes of CO_2 relating to Scopes 1 and 2 of the GHG Protocol were produced (approximately -1.6% in one year), i.e. 746 kg per employee. In particular, with respect to business mobility with company cars, 3,787 tonnes were emitted (-2.6% in one year; this result is lower than the set target, i.e. -10%).



Code EN17 / 7,621 tonnes of CO_2 relating to Scope 3 of the GHG Protocol were produced (emissions associated with external production processes of some of the most significant supplies purchased/rented by the Group, such as desktop and laptop computers, paper, fuel for company cars and fuel supply for heating systems, while the remainder were due to business travel carried out using means other than company cars).

Code EN18 / Use of energy from renewable sources (100.0%); implementation of energy efficiency plans (see Code EN5) and sustainable travel plans (see Code EN7).



Code EN19 / Emissions of ozone-depleting substances: at the end of 2013, 255 air conditioning systems using R22 refrigerant gases were in use; it is not possible to measure R22 quantities currently contained in the systems, or any small leaks that may take place when they are replaced.

Code EN21 / Water discharge from the Bank's business are substantially similar to those from homes. Therefore, they flow into urban sewage systems. Volumes and data on their chemical, physical and biological characteristics are not available.

Code EN22; EN24 / In 2013, 2,426,444 Kg of waste were produced (7,970 Kg of hazardous waste) which in 98% of cases were sent to recovery operations. Compared to the previous year, there was a considerable increase in the waste produced, especially "paper and cardboard", mostly in connection with organisational actions of an extraordinary nature, including: the launch of the Zero Waste Project, which required a massive removal of paper for pulping in the locations where the public separate waste collection service was started; the closure of numerous branches; the mergers completed in 2013.

Code EN26 / The Group's indirect environmental impact is mainly caused by customer and supplier activities.
Customers:

- Assessment of environmental components in determining credit risk (see Code FS2).
- Financial products and services to support the promotion of renewable energy sources and environmental protection (see Code FS8).
- ESG (Environment, Society, Governance) assessment of mutual investment funds placed through the sales and distribution network (see Code FS11).
- Internet banking and other direct banking channels allowing customers to perform banking transactions without visiting the branch; there are 922,502 active customers (+1.7% in one year).

Suppliers:

The primary supply chain is managed to optimise the cost/conformity/quality of services and products purchased by the Bank. Negotiations are carried out by competitive methods: supplier selection, negotiation and assignment steps are managed through a specialised sourcing platforms.
In line with the Code of Ethics, the purchasing process must always assure equal treatment, correct formulation of economic conditions, standard payment conditions, and avoiding excessively burdensome situations for the supplier.
Additionally, for some years the Bank has practiced a policy of control and continuous improvement of the sustainability of firms included in its primary supply chain. In particular, certain aspects of corporate social responsibility are audited, including environmental protection, respect for human and workers' rights, and the prevention of every form of corruption and conflict of interest (target: approximately 200 suppliers; latest update to the assessment: 2012; summary rating of the assessment:

4.95/10; improvement plans initiated by suppliers: approximately 70). Lastly, a great deal of attention is paid to the environmental impacts connected with the purchased products and services. In this regard, it is particularly noteworthy that in 2013 the expenditure for the purchase of “green” supplies (e.g. energy-saving hardware systems, electricity from renewable sources, environmentally friendly paper) reached EUR 42 mln, i.e. 4.47% of the total (4% in 2012).

Code EN28 / In 2013, no significant penalties were imposed on the Bank for non-compliance with environmental regulations.

Code EN29 / For information on the environmental impacts associated with transportation of products purchased and employees home-work commuting, see Codes EN7 and EN17.

Code EN30 / Environmental protection expenditures. There is no specific item-by-item accounting. The main expenditure items in 2013 were:

- Training activity.
- Energy efficiency initiatives.
- Certification of environmental management systems.
- Renewal of the corporate vehicles and expenses for the rental of the 6 electrical cars used by the Bank (EUR 43 thousand).
- Waste management/disposal and launch of the Zero Waste Project.

Codes EN9; EN10; EN13; EN15; EN20; EN23; EN25, EN27 / In view of the business activities carried out and the areas in which the Group is active, these indicators are not deemed relevant.

LA – Human resources

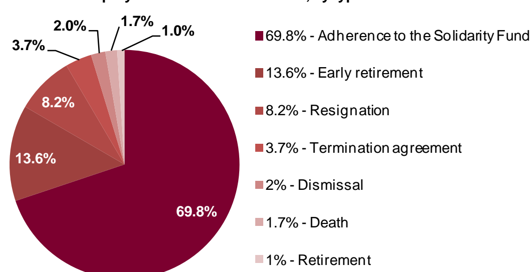
Management policies and systems, Codes LA10; LA11; LA12 (see the section “Management of non-financial strategic resources – Human Capital”).

For a complete overview of the KPIs for human resources management, please refer to the website, under Performance/KPI.

Code LA1 / As at 31 December 2013, the Group employed 28,417 persons (30,265 in 2012):

- 98.1% of employees work in Italy.
- 28 fixed-term contracts (30 in 2012).
- 8.3% part-time employees (7.5% in 2012).
- 46.4% female employees (45.1% in 2012).
- 5.6% of executives are female (5.2% in 2012).

Code LA2 / During the year, there were 108 hirings (125 in 2012) and 1,994 terminations (347 in 2012), of which 277 for Early Retirement and 1,386 for participation in the Solidarity Fund. In particular, the employment of 92 executives was terminated, thereby decreasing the percentage of executives to total headcount to 1.3% (1.5% in 2012), well below the industry average (2.1%).

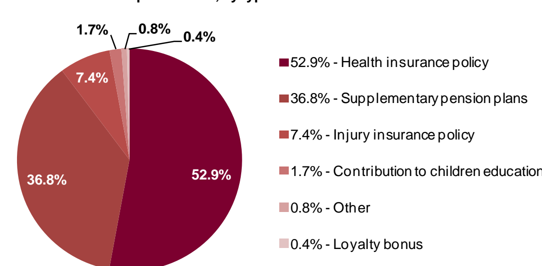


Turnover rates:

- Total terminations = 6.83% (1.14% in 2012).
- Voluntary resignations = 0.56% (0.46% in 2012).

Code LA3 / During the year, supplementary contributions were paid to employees, for a total amount of EUR 49.3 mln (EUR 72.1 mln in 2012) in areas including: supplementary pension benefits, health care coverage, injury insurance policies, etc.

Furthermore, through second-level bargaining with trade unions, the following provisions were also confirmed: employment of surviving family members of employees who died for work-related causes; favourable terms & conditions on banking transactions; lunch vouchers for an amount in excess of that provided for by the collective labour agreement; management of work times and leaves with a view to optimal work-life balance.



Code LA4 / 100% of employees are covered by the National Collective Labour Agreement.

Code LA5 / In all reorganisation and/or restructuring plans, the Group observes the provisions of the law and of the National Collective Labour Agreement, which require prior notice to be given to trade unions and bargaining procedures to take place. Unless otherwise agreed beforehand by the parties, said activities are to be carried out within 45 and 50 days, respectively, for reorganisations and/or restructuring of individual companies or of the entire Group.
In cases of company transfers, the provisions of the law are enforced, regardless of the number of employees of the involved companies. This procedure has a total duration of 25 days.

Code LA6; LA9 / In all Group companies, annual meetings are held in accordance with Italian Legislative Decree no. 81/08, with the attendance of corporate representatives (Employer and/or a delegated representative, and the Head of the Prevention and Protection Department), the Company Doctor and the Workers' Safety Representatives. In 2013, 9 periodic meetings per Article 35 of

Legislative Decree no. 81/08 were held, focusing on the following subjects: risk assessment; performance in terms of accidents, occupational diseases and health supervision; decision-making criteria, technical characteristics and effectiveness of personal protection equipment; information and training programmes.

Code LA7 / Rates of workplace injury: 1.737 (1.797 in 2012); Injury severity score: 59.093 (54.675 in 2012); Absenteeism rate: 7.59 (7.31 in 2012).

Code LA8 / Health and safety training and sensitisation (see the section "Management of non-financial strategic resources – Operational efficiency").

Code LA13; LA14 / Equal opportunity indicators: see the website, under Performance/KPI.

Code LA15 / In 2013, 2,132 employees returned to work following maternity/paternity leave (1,634 women and 498 men). In 20 cases (13 women and 7 men), the employee decided to terminate their employment in the 12 months after their return.

HR – Human rights

Management Approach

Within its scope of responsibility and in compliance with the Code of Ethics:

- The Group has adhered to the United Nations Global Compact since 2002.
- The Group does not tolerate any form of discrimination in its employment practices and guarantees equal opportunities and accessibility for disabled employees. Any form of worker exploitation is prevented and employee health and safety is addressed in compliance with the law and with major health and safety standards, including OHSAS18001 and SA8000 (see Codes LA7, LA8, LA13).
- Respect for the rights of workers and management of the social impact of activities are monitored along the supply chain (see Code HR2).
- Within the Group's day-to-day operations, focus is given to the needs of the more vulnerable members of society, with the promotion of financial inclusion, the informed use of credit and the prevention of over-indebtedness (see Code FS7).
- Controls are applied on the Group's operations in the arms industry (see Code FS2).
- The Group contributes to the social initiatives of civil and humanitarian institutions and organisations for the protection of basic economic and social rights such as health, housing, education and employment (see Code EC8).
- Any involvement in the funding of terrorist activities, including money laundering, is avoided (see Code FS2).

For a complete overview of the KPIs for the promotion of human rights, please refer to the website, under Performance/KPI.

Code HR1 / The Group mostly finances firms operating in Italy, where the protection of human rights is assured by applicable laws.
The credit policy lines ensure that loans are always used with integrity and in a correct manner, and that they are allocated to useful and sustainable purposes. In this sense, the Credit Committee has carried out its own assessments taking into account, *inter alia*, the potential impact of credit on the employment levels of the recipient firms and their connected industries.
Ethical analysis criteria and special internal regulations, often more far-reaching than those provided by law, are applied, *inter alia*, in project financing (see Code FS3) and in brokerage transactions linked to the production and marketing of weapons (see Code FS2).

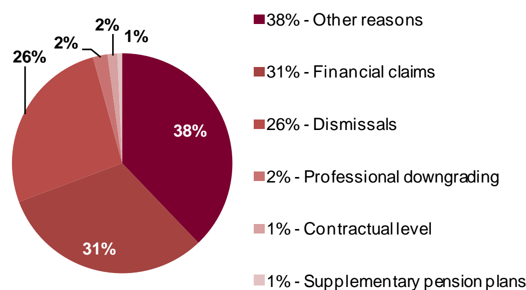
Code HR2 / Upon award of service contracts, all suppliers must sign a written agreement to comply with the legal and ethical requirements set out in the Bank's Code of Ethics and in the SA8000 standard. Any non-compliance results in the suspension or termination of the business relationship.

Code HR3 / The most important training activities with the greatest impact on the promotion of human rights include:

- Protection of health and safety in the workplace (see Code LA8).
- Anti-money laundering and the fight against international terrorism: in 2013, 2,835 employees received training, totalling 9,034 hours.

Code HR4 / The Bank and trade unions meet regularly as part of a specific Corporate Observatory to verify the quality of working life through the analysis of relevant data (e.g. promotions, terminations and their reasons). During the year:

- 140 new claims were initiated by employees (72 in 2012) for compensation, damages and to appeal disciplinary measures.
- 165 disciplinary actions were taken (169 in 2012) against employees for negligent behaviour in violation of regulations and/or breach of trust; of these, 23 were dismissals due to embezzlement, irregularities in work performance, anomalies in risk management, etc.).



Codes HR5 – HR9 / In view of the business activities carried out and the countries where the Group is active, these indicators are not deemed relevant.

SO – Society

Management Approach

Compliance with the law, fairness and professional ethics are prerequisites in each of the Group's undertakings.

Regulatory areas having the greatest impact on the Group's activities include: anti-usury, transparency in banking transactions, protection of privacy (Legislative Decree 196/2003), administrative responsibilities and the fight against corruption (Legislative Decree 231/2001), management of conflicts of interest and related-party transactions, market abuse, investment services and the application of European Directive MiFID, anti-money laundering and counter-terrorism (Legislative Decree 231/2007), consumer protection.

In order to manage these areas, specific procedures have been identified and their effective application is verified through risk assessments and internal controls (see Code FS2).

In carrying out its activities, the Group also takes account of business ethics criteria, in compliance with relevant international standards (e.g., the UN Global Compact). These criteria are set out in the Code of Ethics and at times, more specifically, in internal policies and procedures (see Code FS2).

For a comprehensive overview of the KPIs relating to the impacts in society, please refer to the website, under Performance/KPIs.

Code SO1 / For a description of transactions carried out by the Group in 2013 that required specific analysis of their social and environmental impact in the reference communities see Code FS7; FS8; EC8 (positive impacts) and Code FS2; FS10 (negative impacts).

Code SO2 / The analysis of corruption risk is an intrinsic part of internal control activities with particular reference to the offences under Italian Legislative Decree 231/2001 within the scope of the Bank's administrative liability.
During the year, 714 “routine” audits were conducted:

- 15 on Group companies.
- 26 on the processes/units of the Bank’s Head Offices.
- 4 on foreign branches.
- 571 on distribution network units.
- 98 on financial advisors.

Code SO3 / Training on anti-corruption procedures (anti-money laundering, organisational model under Italian Legislative Decree no. 231/2001, MiFID Directive) has been administered for several years through intensive programmes and continual refresher courses on regulatory changes. In 2013, the activity involved 4,070 employees for a total number of 12,045 hours, with the consequent further increase in the proportion of personnel trained on such issues (figures as at 31 December 2013: anti-money laundering, 93%; Legislative Decree no. 231/2001, 71%; MiFID Directive, 81%).

Code SO4 / The audits carried out in accordance with Legislative Decree no. 231/2001 did not uncover any significant findings. Moreover, no violations of the Code of Ethics were observed. During the year the Code was revised in order to further focus the Bank’s attention on prevention and control of all risks of active and passive corruption that may arise in business activities.

Code SO5; SO6 Approach towards politics and institutions.
Based on the provisions of the Code of Ethics, the assumption of commitments and the management of relations with institutions are reserved to the dedicated corporate functions and/or to other authorised personnel. These relations must be developed in compliance with applicable laws and regulations; the company’s reputation and integrity must be protected according to the rules of behaviour prescribed by the Organisational Model per Italian Legislative Decree no. 231/2001. In terms of ethics, donations to movements or organisations whose purpose is exclusively political are not allowed. The opportunity to participate in promotional and marketing actions, as part of initiatives promoted by political parties and union organisations, is governed in compliance with current laws and must ensure the utmost transparency. In 2013, financial contributions totalling EUR 56 thousand were provided, within the transactions permitted by the Code of Ethics.

The Bank follows very attentively the regulatory developments for the industry and the evolution of relevant collective/public policies for banking activities, in particular through:

- Monitoring law-making activities at the EC, national and local level.
- Reports and continuous communications between the top managers of the Bank and the Supervisory Authorities (Bank of Italy, Consob, etc.).
- Participation in the Executive Committee of the Italian Banking Association.

Code SO7 / Legal actions (see the section “Governance and control systems - Compliance and business ethics”).

Code SO8 / Within the regulatory areas having the greatest impact on the Group’s activities, sanction proceedings were initiated or sanctions were imposed on the Bank or company officers in relation to:

- Anti-money laundering rules pertaining to failure to report suspicious transactions – monetary sanctions totalling EUR 1.4 mln were imposed by the Ministry of the Economy and Finance; the Bank appealed before the Judicial Authority for two of said sanctions (amounting to EUR

1,240,000). An additional sanction proceeding, not yet concluded, was initiated by the Bank of Italy.

- Consolidated Law on Financial Intermediation and connected regulations – Consob initiated 7 sanction proceedings for alleged violations of the Consolidated Law on Financial Intermediation and of the associated regulations; of these, only one was concluded with the imposition of sanctions amounting to EUR 300 thousand to be paid by the Bank.
- Additional claims and sanction proceedings by the Supervisory Authorities involved the alleged violation of the Consolidated Law on Financial Intermediation regulations with regard to sale of products, bank transparency regulations and privacy regulations (see Code PR1; PR4; PR8; PR9).

PR – Product liability

Management Approach
For the protection of customers, social responsibility in business activities is adopted at several levels:

- Responsible product planning and selling (see Code FS15).
- Safety of products and services (see Code PR1).
- Information about products and services (see Code PR3).
- Financial education of consumers (see Code FS16).

For a comprehensive overview of the KPIs relating to product liability aspects, please refer to the website, under Performance/KPIs.

Code PR1; PR 2 / Safety of products and services
Risk identification:

- Investment instruments - risk class determined through a multi-variable risk assessment methodology is assigned to all financial products and instruments in customer portfolios/dossiers.
- Protection of personal data - specific indicators are used as part of the risk assessment compliance process (see Code PR8).
- Risk of robbery - recognised and managed as part of the Health & Safety Management System, certified according to OHSAS18001; in 2013, the Bank was the victim of a higher number of robberies (184 vs. 167 in 2012) totalling EUR 3.8 mln.
- Risk of fraud - included under operational risks, for which a specific internal management regulation is in place in addition to measurement and control models validated by the Bank of Italy.

Non compliance: in 2013, Consob initiated 2 sanction proceedings pertaining, respectively, to violations in the performance of investment services and irregularities in the dissemination of information and in the collection of potential interest information in view of the placement of a specific financial product.

Code PR3; PR4 / Information about products and services. To ensure that customers are given clear and comprehensive information on product/service characteristics:

- Continuous development of the layouts and styles of information sheets and contracts to facilitate comprehension.
- Comparable cost-performance indicators for all products are displayed.
- Initiatives promoted by the PattiChiari Consortium have been implemented.

Non compliance: in 2013, the Bank of Italy initiated sanction proceedings against certain corporate officers for a violation of bank transparency regulations. These proceedings are still pending and, if sanctions are imposed, the Bank shall be liable to pay them jointly and severally with the corporate officers, but with the obligation to seek recourse.

Code PR5 / Practices relating to customer care and satisfaction (see the section "Management of non-financial strategic resources – Customer Base").

Code PR6; PR7 / Marketing and communications.
Advertising is carried out centrally by the Communications Function that, as necessary, liaises with the Legal and Compliance Function in order to ensure compliance with applicable law at all times. Each advertising product (materials and marketing communications addressed to customers, service communications, etc.) is evaluated in terms of consistency of communication and compliance with applicable legislation (Italian Civil Code, the Consolidated Law on Banking, the Consolidated Law on Financial Intermediation, Isvap regulations) or voluntary codes (Advertising Code of Conduct sponsored by the Institute of Advertising Self-Governance).
The suitability and compliance of communications to customers and the market are verified by the Communication Function, even in cases when the Group banks operate as intermediaries for products provided by third party companies.

Non compliance: in 2013, there were no issues raised by the Institute for Advertising Self-Governance, nor penalties or warnings by the Authority for Fair Competition and the Market (AGCM) related to deceptive or comparative advertising.

Code PR8 / Customer privacy.
In 2013, customers submitted four complaints to the Italian Data Protection Authority for alleged unlawful conduct by the Bank. In addition, two sanctions were imposed for unlawful data processing: for the first, amounting to EUR 1,120,000, the Bank appealed before the Judicial Authority; for the second sanction, amounting to EUR 20,000, the Bank paid immediately.

Code PR9 / The Group's activities were, in some cases, found to be non-compliant with regulations regarding the sale of products and services, leading to a total outlay of EUR 11.5 mln for final decisions; as a result of subsequent changes in the procedures for managing outlays, provisional outlays totalling an additional EUR 30.8 mln were rendered definitive, despite that final decisions in the cases are still pending. Two additional decisions, of EUR 1.3 mln, imposed sanctions on the Bank, for joint and several liability per Article 31 of the Consolidated Law on Financial Intermediation, in relation to selling behaviours on the part of financial advisors/agents.
Lastly, 10,636 complaints were settled for a total outlay of EUR 12.7 mln (EUR 21.6 million in 2012).

Annexes - Reconciliation between reclassified accounts and mandatory reporting schedules

Montepaschi Group - Reconciliation between Profit and Loss Statement reclassified as at 31 December 2013 and related accounting tables

	Accounts in the Profit and Loss Statement - Montepaschi Group	31/12/2013 Accounting	Reclassification of dividends on treasury stock transactions	Portion of profit from equity investments	Restructuring costs	Recovery of stamp duty and customers' expenses	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)	31/12/2013 Reclassified	Accounts in Reclassified Profit and Loss Statement - Montepaschi Group
10	Interest income and similar revenues	5,987.4	-	-	-	-	31.8	-	
20	Interest expense and similar charges	(3,865.8)	-	-	-	-	-	-	
30	**Net interest income**	**2,121.5**	**-**	**-**	**-**	**-**	**31.8**	2,153.4	Net interest income
40	Fee and commission income	2,119.6	-	-	-	-	-	-	
50	Fee and commission expense	(462.0)	-	-	-	-	-	-	
60	**Net fee and commission income**	**1,657.6**	**-**	**-**	**-**	**-**	**-**	1,657.6	Net fee and commission income
								3,810.9	**Income from banking activities**
70	Dividends and similar income	17.3	(12.4)	124.9	-	-	-	129.9	Dividends, similar income and gains (losses) on investments
80	Net profit (loss) from trading	70.7	12.4	-	-	-	-	-	
100	Gains/losses on disposal/repurchase of:	(83.9)	-	-	-	-	-	-	
	a) loans	*(62.6)*	-	-	-	-	-	-	
	b) financial assets available for sale	*(115.0)*	-	-	-	-	-	-	
	c) held to maturity investments	-	-	-	-	-	-	-	
	d) financial liabilities	93.8	-	-	-	-	-	-	
110	Net profit (loss) from financial assets and liabilities designated at fair value	10.1	-	-	-	-	-	-	
		-	-	-	-	-	-	9.3	Net profit (loss) from trading
90	Net profit (loss) from hedging	7.2	-	-	-	-	-	7.2	Net profit (loss) from hedging
120	**Net interest and other banking income**	**3,800.6**	**-**	**124.9**	**-**	**-**	**31.8**	**3,957.4**	**Income from financial and insurance activities**
130	Net impairment losses(reversals) on	**(2,823.3)**	**-**	-	**-**	**-**	**-**	(2,823.3)	Net impairment losses (reversals) on:
	a) loans	(2,749.8)	-	-	-	-	-	(2,749.8)	a) loans
	b) financial assets available for sale	*(59.2)*	-	-	-	-	-	-	
	c) held to maturity investments	-	-	-	-	-	-	-	
	d) other financial transactions	*(14.3)*	-	-	-	-	-	-	
			-	-	-	-	-	(73.5)	b) financial assets
140	**Net income from banking activities**	**977.3**	**-**	**124.9**	**-**	**-**	**31.8**	1,134.1	
150	Net premiums	-	-	-	-	-	-	-	
160	Other income/expenses (net) from insurance activities	-	-	-	-	-	-	-	
170	**Net income from financial and insurance activities**	**977.3**	**-**	**124.9**	**-**	**-**	**31.8**	**1,134.1**	**Net income from financial and insurance activities**
180	Administrative expenses:	(2,976.7)	-	-	24.5	295.7	-	(2,656.5)	Administrative expenses
	a) personnel expenses	(1,743.2)	-	-	24.5	-	-	(1,718.7)	a) Personnel expenses
	b) other administrative expenses	(1,233.5)	-	-	-	295.7	-	(937.8)	b) Other administrative expenses
200	Net losses/reversal on impairment on property, plant and equipment	(81.8)	-	-	-	-	-	-	
210	Net adjustments to (recoveries on) intangible assets	(100.8)	-	-	-	-	27.6	-	
			-	-	-	-	-	(155.1)	Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible assets
230	**Operating expenses**	**(3,159.4)**	**-**	**-**	**24.5**	**295.7**	**27.6**	**(2,811.5)**	**Operating expenses**
		-	**-**	**-**	**-**	**-**	**-**	**(1,677.4)**	**Net operating income**
190	Net provisions for risks and charges	(29.9)	-	-	-	-	-	-	
220	Other operating expenses/income	82.5	-	-	-	(295.7)	-	-	
		-	-	-	-	-	-	(243.1)	Net provisions for risks and charges and other operating expenses/income
240	Gains (losses) on investments	68.5	-	(124.9)	-	-	-	(56.4)	Gains (losses) on investments
		-	-	-	(24.5)	-	-	(24.5)	Restructuring charges
260	Impairment on goodwill	-	-	-	-	-	-	-	Impairment on goodwill
270	Gains (losses) on disposal of investments	1.4	-	-	-	-	-	1.4	Gains (losses) from disposal of investments
280	**Profit (loss) before tax from continuing operations**	**(2,059.6)**	**-**	**-**	**-**	**-**	**59.5**	**(2,000.1)**	**Profit (loss) before tax from continuing operations**
290	Tax expense (recovery) on income from continuing operations	671.9	-	-	-	-	(19.6)	652.3	Tax expense (recovery) on income from continuing operations
300	**Profit (loss) after tax from continuing operations**	**(1,387.7)**	**-**	**-**	**-**	**-**	**39.8**	**(1,347.9)**	**Profit (loss) after tax from continuing operations**
310	Profit (loss) after tax from groups of assets held for sale and discontinued operations	(51.2)	-	-	-	-	-	(51.2)	Profit (loss) after tax from groups of assets held for sale and discontinued operations
320	**Profit (loss) for the period**	**(1,438.9)**	**-**	**-**	**-**	**-**	**39.8**	**(1,399.1)**	**Net profit (loss) for the period including non-controlling interests**
330	Profit (loss) for the period attributable to non-controlling interests	(0.1)	-	-	-	-	-	(0.1)	Net profit (loss) attributable to non-controlling interests
340	**Parent company's net profit (loss) for the period**	**(1,439.0)**	**-**	**-**	**-**	**-**	**39.8**	**(1,399.2)**	**Profit (loss) for the period before PPA , impairment on goodwill, intangibles and writedown of investment in AM Holding**
		-	-	-	-	-	(39.8)	(39.8)	PPA (Purchase Price Allocation)
		-	-	-	-	-	-	-	Impairment on goodwill, intangibles and writedown of investment in AM Holding
								(1,439.0)	**Parent company's net profit (loss) for the period**

Montepaschi Group - Reconciliation between Profit and Loss Statement reclassified as at 31 December 2012 and related accounting tables

	Accounts in the Profit and Loss Statement - Montepaschi Group	31/12/2012 Accounting	Provisions for closure of branches	Impairment of goodwill, intangibles and writedown of investment in AM Holding	Reclassification of personnel expenses: early retirement charges	Reclassification of dividends on treasury stock transactions	Portion of profit from equity investments	Reclassification of losses from the sale of loans (Consum.it)	Reclassification of L&R securities to Financial Assets.	Costs relating to financial plans	Recovery of stamp duty and customers' expenses	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)	Economic effects from allocation of BAV acquisition costs (PPA)	31/12/2012 Reclassified	Accounts in Reclassified Profit and Loss Statement - Montepaschi Group
10	Interest income and similar revenues	6,711.0	-	-	-	-	-	-	-	-	-	29.4	15.6	-	
20	Interest expense and similar charges	(3,926.4)	-	-	-	-	-	-	-	-	-	-	-	-	
30	**Net interest income**	**2,784.6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29.4**	**15.6**	2,829.6	Net interest income
40	Fee and commission income	2,051.6	-	-	-	-	-	-	-	-	-	-	-	-	
50	Fee and commission expense	(418.8)	-	-	-	-	-	-	-	-	-	-	-	-	
60	**Net fee and commission income**	**1,632.8**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	1,632.8	Net fee and commission income
														4,462.4	**Income from banking activities**
70	Dividends and similar income	62.9	-	-	-	(59.4)	71.7	-	-	-	-	-	-	75.1	Dividends, similar income and gains (losses) on investments
80	Net profit (loss) from trading	59.3	-	-	-	59.4	-	-	-	-	-	-	-	-	
100	Gains/losses on disposal/repurchase of:	200.4	-	-	-	-	-	17.9	-	-	-	-	-	-	
	a) loans	*(33.7)*	-	-	-	-	-	*17.9*	-	-	-	-	-	-	
	b) financial assets available for sale	*62.4*	-	-	-	-	-	-	-	-	-	-	-	-	
	c) held to maturity investments	-	-	-	-	-	-	-	-	-	-	-	-	-	
	d) financial liabilities	*171.6*	-	-	-	-	-	-	-	-	-	-	-	-	
110	Net profit (loss) from financial assets and liabilities designated at fair value	117.3	-	-	-	-	-	-	-	-	-	-	-	-	
														454.3	Net profit (loss) from trading
90	Net profit (loss) from hedging	3.1	-	-	-	-	-	-	-	-	-	-	-	3.1	Net profit (loss) from hedging
120	**Net interest and other banking income**	**4,860.4**	**-**	**-**	**-**	**-**	**71.7**	**17.9**	**-**	**-**	**-**	**29.4**	**15.6**	**4,994.9**	**Income from financial and insurance activities**
130	Net impairment losses(reversals) on	**(2,880.1)**	**-**	**-**	**-**	**-**	**-**	**(17.9)**	-	3.8	**-**	**-**	**-**	(2,894.2)	Net impairment losses (reversals) on:
	a) loans	(2,666.5)	-	-	-	-	-	(17.9)	9.1	3.8	-	-	-	(2,671.6)	a) loans
	b) financial assets available for sale	*(207.7)*	-	-	-	-	-	-	(9.1)	-	-	-	-	-	
	c) held to maturity investments	-	-	-	-	-	-	-	-	-	-	-	-	-	
	d) other financial transactions	*(5.8)*	-	-	-	-	-	-	-	-	-	-	-	-	
														(222.6)	b) financial assets
140	**Net income from banking activities**	**1,980.3**	**-**	**-**	**-**	**-**	**71.7**	**-**	**-**	**3.8**	**-**	**29.4**	**15.6**	-	
150	Net premiums	-	-	-	-	-	-	-	-	-	-	-	-	-	
160	Other income/expenses (net) from insurance activities	-	-	-	-	-	-	-	-	-	-	-	-	-	
170	**Net income from financial and insurance activities**	**1,980.3**	**-**	**-**	**-**	**-**	**71.7**	**-**	**-**	**3.8**	**-**	**29.4**	**15.6**	**2,100.7**	**Net income from financial and insurance activities**
180	Administrative expenses:	(3,590.4)	-	-	300.3	-	-	-	-	-	269.7	-	-	(3,020.4)	Administrative expenses
	a) personnel expenses	(2,218.6)	-	-	300.3	-	-	-	-	-	-	-	-	(1,918.3)	a) Personnel expenses
	b) other administrative expenses	(1,371.8)	-	-	-	-	-	-	-	-	269.7	-	-	(1,102.1)	b) Other administrative expenses
200	Net losses/reversal on impairment on property, plant and equipment	(75.9)	-	-	-	-	-	-	-	-	-	-	-	-	
210	Net adjustments to (recoveries on) intangible assets	(319.7)	-	167.3	-	-	-	-	-	-	-	17.3	12.2	-	
														(198.8)	Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible
230	**Operating expenses**	**(3,986.0)**	**-**	**167.3**	**-**	**-**	**-**	**-**	**-**	**(3.8)**	**-**	**17.3**	**12.2**	**(3,219.2)**	**Operating expenses**
		-	-	-	-	-	-	-	-	-	-	-	-	**(1,118.5)**	**Net operating income**
190	Net provisions for risks and charges	(284.9)	10.7	-	-	-	-	-	-	-	-	-	-	-	
220	Other operating expenses/income	221.6	-	-	-	-	-	-	-	(3.8)	(269.7)	-	-	-	
		-	-	-	-	-	-	-	-	-	-	-	-	(326.2)	Net provisions for risks and charges and other operating expenses/income
240	Gains (losses) on investments	(0.8)	-	14.3	-	-	(71.7)	-	-	-	-	-	-	(58.1)	Gains (losses) on investments
		-	(10.7)	-	(300.3)	-	-	-	-	-	-	-	-	(311.0)	Restructuring charges
260	Impairment on goodwill	(1,528.0)	-	1,528.0	-	-	-	-	-	-	-	-	-	-	Impairment on goodwill
270	Gains (losses) on disposal of investments	7.3	-		-	-	-	-	-	-	-	-	-	7.3	Gains (losses) from disposal of investments
280	**Profit (loss) before tax from continuing operations**	**(3,590.6)**	**-**	**1,709.6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**46.7**	**27.8**	**(1,806.5)**	**Profit (loss) before tax from continuing operations**
290	Tax expense (recovery) on income from continuing operations	442.5	-	(55.2)	-	-	-	-	-	-	-	(15.4)	(8.9)	363.0	Tax expense (recovery) on income from continuing operations
300	**Profit (loss) after tax from continuing operations**	**(3,148.1)**	**-**	**1,654.4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**31.3**	**18.9**	**(1,443.5)**	**Profit (loss) after tax from continuing operations**
310	Profit (loss) after tax from groups of assets held for sale and discontinued operations	(41.7)	-	-	-	-	-	-	-	-	-	-	-	(41.7)	Profit (loss) after tax from groups of assets held for sale and discontinued operations
320	**Profit (loss) for the period**	**(3,189.8)**	**-**	**1,654.4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**31.3**	**18.9**	**(1,485.2)**	**Net profit (loss) for the period including non-controlling interests**
330	Profit (loss) for the period attributable to non-controlling interests	21.6	-	-	-	-	-	-	-	-	-	-	-	21.6	Net profit (loss) attributable to non-controlling interests
340	**Parent company's net profit (loss) for the period**	**(3,168.2)**	**-**	**1,654.4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**31.3**	**18.9**	**(1,463.6)**	**Profit (loss) for the period before PPA , impairment on goodwill, intangibles and writedown of investment in AM Holding**
		-	**-**	**-**	-	-	-	-	-	-	-	(31.3)	(18.9)	(50.2)	PPA (Purchase Price Allocation)
		-	**-**	**(1,654.4)**	-	-	-	-	-	-	-	-	-	(1,654.4)	Impairment on goodwill, intangibles and writedown of investment in AM Holding
		-												**(3,168.2)**	**Parent company's net profit (loss) for the period**

Balance-sheet Items - Assets	31/12/13	31/12/12	Reclassified balance-sheet items - Assets
	877	**2,433**	**Cash and cash equivalents**
Item 10 – Cash and cash equivalents	877	2,433	
			Loans and receivables
	131,218	**142,015**	**a) Loans to customers**
Item 70 – Loans to customers	131,218	142,015	
	9,914	**11,225**	**b) Loans to banks**
Item 60 – Loans to banks	9,914	11,225	
	43,618	**49,163**	**Held to maturity investments**
Item 20 – Financial assets held for trading	19,937	23,514	
Item 30 – Financial assets designated at fair value	-	-	
Item 40 – Financial assets available for sale	23,680	25,649	
	-	**-**	**Financial assets held to maturity**
Item 50 – Held to maturity investments	-	-	
	989	**1,040**	**Investments**
Item 100 – Equity investments	989	1,040	
	-	-	**Reinsurers' technical reserves**
Item 110 – Reinsurers's technical reserves	-	-	
	3,924	**2,526**	**Property, plant and equipment / Intangible assets**
Item 120 – Property, plant and equipment	2,762	1,334	
Item 130 – Intangible assets	1,162	1,192	
	8,566	**10,484**	**Other assets**
Item 80 – Hedging Derivatives	398	551	
Item 90 – Change in value of macro-hedged financial assets (+/-)	160	119	
Item 140 – Tax assets	5,517	6,127	
Item 150 – Non-current assets held for sale and discontinued operations	80	12	
Item 160 – Other assets	2,411	3,675	
Total Assets	**199,106**	**218,886**	**Total Assets**

Balance-sheet Items - Liabilities	31/12/13	31/12/12	Reclassified balance-sheet items - Liabilities
			Deposits
	129,963	**135,670**	**a) Deposits from customers and securities issued**
Item 20 – Deposits from customers	85,346	81,303	
Item 30 – Debt securities issued	36,629	39,940	
Item 50 – Financial liabilities designated at fair value	7,988	14,428	
	37,279	**43,399**	**b) Deposits from banks**
Item 10 – Deposits from banks	37,279	43,399	
	17,038	**21,517**	**Financial liabilities held for trading**
Item 40 – Financial liabilities held for trading	17,038	21,517	
			Provisions for specific use
Item 110 – Provision for employee severance pay	261	317	
Item 120 - Provisions for risks and charges - a) pension and similar obligations	61	48	
Item 120 - Provisions for risks and charges - b) other provisions	1,066	1,401	
	7,274	**10,212**	**Other liabilities**
Item 60 – Hedging Derivatives	3,325	5,575	
Item 70 – Change in value of macro-hedged financial liabilities (+/-)	-	-	
Item 80 – Tax liabilities	180	163	
Item 90 – Liabilities associated to disposal groups held for sale	18	-	
Item 100 – Other liabilities	3,751	4,473	
	-	**-**	**Insurance reserves**
Item 130 – Insurance Reserves	-	-	
	6,155	**6,320**	**Group portion of shareholders' equity**
Item 140 – Valuation reserves	(1,056)	(2,285)	a) Valuation reserves
Item 150 – Redeemable shares	-	-	b) Redeemable shares
Item 160 – Equity instruments	3	3	c) Capital instruments
Item 170 – Reserves	1,187	4,055	d) Reserves
Item 180 – Share premium reserve	-	255	e) Share premium reserves
Item 190 – Share Capital	7,485	7,485	f) Share capital
Item 200 – Treasury shares (-)	(25)	(25)	g) Treasury shares (-)
Item 220 – Profit (loss) for the period (+/-)	(1,439)	(3,168)	h) Profit (loss) for the period
	8	**3**	**Non-controlling interests in shareholders' equity**
Item 210 – Non-controlling interests (+/-)	8	3	
Total liabilities and shareholders' equity	**199,106**	**218,886**	**Total liabilities and shareholders' equity**

CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated balance sheet

(in units of EUR)

	Assets	31 12 2013	31 12 2012*
10	Cash and cash equivalents	877,274,085	2,432,879,857
20	Financial assets held for trading	19,937,316,813	23,514,203,879
40	Financial assets available for sale	23,680,248,891	25,648,740,633
60	Loans to banks	9,913,983,550	11,224,988,612
70	Loans to customers	131,218,395,200	142,015,160,914
80	Hedging derivatives	397,933,500	551,093,100
90	Change in value of macro-hedged financial assets (+/-)	159,889,125	119,157,001
100	Equity investments	988,840,761	1,040,102,072
120	Property, plant and equipment	2,761,702,147	1,334,478,778
130	Intangible assets	1,162,055,649	1,191,502,071
	of which: goodwill	669,691,855	669,701,061
140	Tax assets	5,517,128,549	6,126,579,983
	a) current	*1,347,406,157*	912,438,405
	b) deferred	*4,169,722,392*	5,214,141,578
	under Law 214/2011	*3,113,718,026*	2,796,914,621
150	Non-current assets and groups of assets held for sale and discontinued operations	80,108,168	12,460,932
160	Other assets	2,411,029,349	3,674,725,451
	Total Assets	**199,105,905,787**	**218,886,073,283**

** With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

follows: Consolidated balance sheet

(in units of EUR)

	Liabilities and Shareholders' Equity	31 12 2013	31 12 2012*
10	Deposits from banks	37,278,667,067	43,398,955,546
20	Deposits from customers	85,346,339,733	81,302,684,839
30	Debt securities issued	36,628,753,258	39,939,623,998
40	Financial liabilities held for trading	17,037,873,333	21,516,900,054
50	Financial liabilities designated at fair value	7,988,198,696	14,427,857,893
60	Hedging derivatives	3,324,710,863	5,574,797,946
80	Tax liabilities	180,447,617	163,229,017
	a) current	*26,602,524*	*114,030,305*
	b) deferred	*153,845,093*	*49,198,712*
90	Liabilities associated with non-current assets held for sale and discontinued operations	17,820,869	-
100	Other liabilities	3,750,932,337	4,473,432,725
110	Provision for employee severance pay	261,370,864	317,352,200
120	Provisions for risks and charges:	1,127,311,970	1,448,562,626
	a) post-employment benefits	*61,063,121*	*47,971,097*
	b) other provisions	*1,066,248,849*	*1,400,591,529*
140	Valuation reserves	(1,055,909,969)	(2,284,792,762)
160	Equity instruments carried at equity	3,002,406	3,002,406
170	Reserves	1,187,240,292	4,054,772,398
180	Share premium	-	255,099,524
190	Share capital	7,484,508,171	7,484,508,171
200	Treasury shares (-)	(24,532,421)	(24,532,421)
210	Non-controlling interests (+/-)	8,214,073	2,855,856
220	Profit (loss) (+/-)	(1,439,043,372)	(3,168,236,733)
	Total Liabilities and Shareholders' Equity	**199,105,905,787**	**218,886,073,283**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

Consolidated income statement

		31 12 2013	31 12 2012*
10	Interest income and similar revenues	5,987,363,545	6,711,013,200
20	Interest expense and similar charges	(3,865,817,684)	(3,926,388,273)
30	**Net interest income**	**2,121,545,861**	**2,784,624,927**
40	Fee and commission income	2,119,571,853	2,051,568,375
50	Fee and commission expense	(462,015,118)	(418,750,474)
60	**Net fee and commission income**	**1,657,556,735**	**1,632,817,901**
70	Dividends and similar income	17,302,108	62,857,644
80	Net profit (loss) from trading	70,713,643	59,315,086
90	Net profit (loss) from hedging	7,237,858	3,053,786
100	Gains/losses on disposal/repurchase of:	(83,894,826)	200,356,974
	a) loans	*(62,638,314)*	*(33,660,575)*
	b) financial assets available for sale	*(115,047,318)*	*62,393,746*
	d) financial liabilities	*93,790,806*	*171,623,803*
110	Net profit (loss) from financial assets and liabilities designated at fair value	10,144,257	117,336,335
120	**Net interest and other banking income**	**3,800,605,636**	**4,860,362,653**
130	Net impairment losses(reversals) on	(2,823,293,014)	(2,880,068,795)
	a) loans	*(2,749,774,200)*	*(2,666,548,275)*
	b) financial assets available for sale	*(59,204,256)*	*(207,739,609)*
	d) other financial transactions	*(14,314,558)*	*(5,780,911)*
140	**Net income from banking activities**	**977,312,622**	**1,980,293,858**
180	Administrative expenses:	(2,976,705,118)	(3,590,463,951)
	a) personnel expenses	*(1,743,209,989)*	*(2,218,641,628)*
	b) other administrative expenses	*(1,233,495,129)*	*(1,371,822,323)*
190	Net provisions for risks and charges	(29,942,451)	(284,924,308)
200	Net adjustments to (recoveries on) property, plant and equipment	(81,834,150)	(75,916,260)
210	Net adjustments to (recoveries on) intangible assets	(100,848,893)	(319,698,164)
220	Other operating expenses/income	82,518,555	221,578,727
230	**Operating expenses**	**(3,106,812,057)**	**(4,049,423,956)**
240	Gains (losses) on investments	68,511,861	(798,912)
260	Impairment on goodwill	-	(1,528,000,000)
270	Gains (losses) on disposal of investments	1,411,995	7,264,859
280	**Profit (loss) before tax from continuing operations**	**(2,059,575,579)**	**(3,590,664,151)**
290	Tax expense (recovery) on income from continuing operations	671,876,566	442,545,909
300	**Profit (loss) after tax from continuing operations**	**(1,387,699,013)**	**(3,148,118,242)**
310	Profit (loss) after tax from groups of assets held for sale and discontinued operations	(51,224,085)	(41,702,757)
320	**Profit (loss)**	**(1,438,923,098)**	**(3,189,820,999)**
330	Profit (loss) for the period attributable to non-controlling interests	120,274	(21,584,266)
340	**Parent company's net profit (loss)**	**(1,439,043,372)**	**(3,168,236,733)**
		31/03/14	**31 03 2013***
	Basic Earnings per Share (Basic EPS)	**(0.124)**	**(0.276)**
	of continuing operations	(0.119)	(0.274)
	of groups of assets held for sale and discontinued operations	(0.005)	(0.002)
	Diluted Earnings per Share (Diluted EPS)	**(0.124)**	**(0.276)**
	of continuing operations	(0.119)	(0.274)
	of groups of assets held for sale and discontinued operations	**(0.005)**	**(0.002)**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

Item 310 "Profit (loss) after tax from groups of assets held for sale and discontinued operations" includes the contribution of the Group's administrative services and back-office business unit to the income statement. These impacts are largely due to personnel costs. The business unit was sold, effective as of 1 January 2014, to a party external to the MPS Group with service contracts being entered into at the same time.

Consolidated statement of comprehensive income

	Items	31 12 2013	31 12 2012*
10	**Profit (loss)**	**(1,438,923,098)**	**(3,189,820,999)**
	Other comprehensive income after tax not recycled to profit and loss	**(34,933,282)**	**(8,236,145)**
40	Actuarial gains (losses) on defined benefit plans	(34,942,675)	(8,236,145)
60	Share of valuation reserves of equity-accounted investments	9,393	-
	Other comprehensive income after tax recycled to profit and loss	**1,309,188,368**	**1,531,705,376**
80	Exchange differences	(2,081,352)	(1,006,823)
90	Cash flow hedges	80,976,406	(41,956,175)
100	Financial assets available for sale	1,174,855,284	1,527,250,198
110	Non current assets held for sale	28,785,725	-
120	Share of valuation reserves of equity-accounted investments	26,652,305	47,418,176
130	**Total other comprehensive income after tax**	**1,274,255,086**	**1,523,469,231**
140	**Total comprehensive income (Item 10+130)**	**(164,668,012)**	**(1,666,351,768)**
150	Consolidated comprehensive income attributable to non-controlling interests	**113,549**	**(107,708,892)**
160	**Consolidated comprehensive income attributable to Parent Company**	**(164,781,561)**	**(1,558,642,876)**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

As at 31 December 2013, the Group's comprehensive income for the period amounted to EUR 165 mln , registering an increase of EUR 1,501.7 mln as compared to the previous year. The figure includes a loss for the year of EUR 1,439 mln and an increase in valuation reserves primarily owing to the valuation reserve for available-for-sale financial assets, which grew as a result of Italian government bonds benefitting from a better spread during the year.

Consolidated Statement of Changes in Equity – 2013

	Balance as at 31 12 2012*	Changes in opening balances	Balance as at 1/1/2013	Allocation of profit from prior year		Changes during the year									Total equity as at 31 12 2013	Group equity as at 31/12/2013	Non-controlling interests as at 31/12/2013
							Shareholders' equity transactions										
				Reserves	Dividends and other payout	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Treasury shares derivatives	Stock options	Otehr changes	Total comprehensive income for 31/12/2013			
Share capital:	7,485,338,511	-	7,485,338,511	-	-	-	-	-	-	-	-	-	359,372	-	7,485,697,883	7,484,508,171	1,189,712
a) ordinary shares	7,485,338,511	-	7,485,338,511	-	-	-	-	-	-	-	-	-	359,372	-	7,485,697,883	7,484,508,171	1,189,712
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	255,310,585	-	255,310,585	(255,099,523)	-	-	-	-	-	-	-	-	4,947,858	-	5,158,920	-	5,158,920
Reserves:	4,076,945,231	-	4,076,945,231	(2,889,439,677)	-	234,455	-	-	-	-	-	-	26,287	-	1,187,766,296	1,187,240,292	526,004
a) from profits	4,150,990,110	-	4,150,990,110	(2,889,439,677)	-	234,455	-	-	-	-	-	-	26,287	-	1,261,811,175	1,261,285,171	526,004
b) other	(74,044,879)	-	(74,044,879)	-	-	-	-	-	-	-	-	-	-	-	(74,044,879)	(74,044,879)	-
Valuation reserves	(2,283,566,874)	-	(2,283,566,874)	(45,379,018)	-	-	-	-	-	-	-	-	-	1,274,255,086	(1,054,690,806)	(1,055,909,969)	1,219,163
Equity instruments	3,002,406	-	3,002,406	-	-	-	-	-	-	-	-	-	-	-	3,002,406	3,002,406	-
Treasury shares	(24,532,421)	-	(24,532,421)	-	-	-	-	-	-	-	-	-	-	-	(24,532,421)	(24,532,421)	-
Net profit (loss)	(3,189,820,999)	-	(3,189,820,999)	3,189,918,218	(97,219)	-	-	-	-	-	-	-	-	(1,438,923,098)	(1,438,923,098)	(1,439,043,372)	120,274
Total equity	6,322,676,439	-	6,322,676,439	-	(97,219)	234,455	-	-	-	-	-	-	5,333,517	(164,668,012)	6,163,479,180	6,155,265,107	8,214,073
Group equity	6,319,820,583	-	6,319,820,583	-	-	226,085	-	-	-	-	-	-	-	(164,781,561)	6,155,265,107	6,155,265,107	X
Non-controlling interests	2,855,856	-	2,855,856	-	(97,219)	8,370	-	-	-	-	-	-	5,333,517	113,549	8,214,073	X	8,214,073

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

As at 31 December 2013, the Group's net equity including non-controlling interests and profit for the year had decreased by EUR 159.2 mln, amounting to EUR 6,163.5 mln, as compared to EUR 6,322.7 mln as at 31 December 2012.

The decrease was primarily due to the following two components:

- a loss for the year 2013, amounting to EUR 1,438.9 mln, recognised in column "Total comprehensive income at 31.12.2013", line "Profit (loss) for the period";
- an increase by EUR 1,274.3 mln recognised in column "Total comprehensive income at 31.12.2013", line "Valuation reserves", mainly due to revaluation of Italian government bonds classified in the "Available For Sale" portfolio;

The amounts shown in the column "Changes in equity investments" refer to the impact of non-controlling interests from the consolidation of Perimetro.

Consolidated Statement of Changes in Equity – 2012

(in units of EUR)

	Balance as at 31/12/2011	Changes in opening balances	Balance as at 1/1/2012	Allocation of profit from prior year		Changes during the year									Total equity as at 31 12 2012	Group equity as at 31/12/2012*	Non-controlling interests as at 31 /12/2012*
							Shareholders' equity transactions										
				Reserves	Dividends and other payout	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Treasury shares derivatives	Stock options	Otehr changes	Total comprehensive income as at 31/12/ 2011			
Share capital:	6,782,520,700	-	6,782,520,700	-	-	-	752,261,506	-	-	-	-	-	(49,443,695)	-	7,485,338,511	7,484,508,171	830,340
a) ordinary shares	6,313,022,356	-	6,313,022,356	-	-	-	1,221,759,850	-	-	-	-	-	(49,443,695)	-	7,485,338,511	7,484,508,171	830,340
b) other shares	469,498,344	-	469,498,344	-	-	-	(469,498,344)	-	-	-	-	-	-	-	-	-	-
Share premium	4,131,276,419	104,629,493	4,235,905,912	(3,215,138,679)	-	(13,195,142)	(752,261,506)	-	-	-	-	-	-	-	255,310,585	255,099,524	211,061
Reserves:	5,843,262,357	(232,966,327)	5,610,296,030	(1,490,721,320)	-	(42,629,479)	-	-	-	-	-	-	-	-	4,076,945,231	4,054,772,398	22,172,833
a) from profits	5,841,307,236	(156,966,327)	5,684,340,909	(1,490,721,320)	-	(42,629,479)	-	-	-	-	-	-	-	-	4,150,990,110	4,128,817,277	22,172,833
b) other	1,955,121	(76,000,000)	(74,044,879)	-	-	-	-	-	-	-	-	-	-	-	(74,044,879)	(74,044,879)	-
Valuation reserves	(3,754,940,895)	(52,095,210)	(3,807,036,105)	-	-	-	-	-	-	-	-	-	-	1,523,469,231	(2,283,566,874)	(2,284,792,762)	1,225,888
Equity instruments	1,903,002,406	-	1,903,002,406	-	-	-	-	-	-	(1,900,000,000)	-	-	-	-	3,002,406	3,002,406	-
Treasury shares	(26,460,508)	-	(26,460,508)	-	-	-	3,601,395	(1,673,308)	-	-	-	-	-	-	(24,532,421)	(24,532,421)	-
Net profit (loss)	(4,697,804,117)	(2,307,857)	(4,700,111,974)	4,705,859,999	(5,748,025)	-	-	-	-	-	-	-	-	(3,189,820,999)	(3,189,820,999)	(3,168,236,733)	(21,584,266)
Total equity	10,180,856,362	(182,739,901)	9,998,116,461	-	(5,748,025)	(55,824,621)	3,601,395	(1,673,308)	-	(1,900,000,000)	-	-	(49,443,695)	(1,666,351,768)	6,322,676,439	6,319,820,583	2,855,856
Group equity	9,963,654,554	(182,739,901)	9,780,914,653	-	-	(4,379,281)	3,601,395	(1,673,308)	-	(1,900,000,000)	-	-	-	(1,558,642,876)	6,319,820,583	6,319,820,583	X
Non-controlling interests	217,201,808	-	217,201,808	-	(5,748,025)	(51,445,340)	-	-	-	-	-	-	(49,443,695)	(107,708,892)	2,855,856	X	2,855,856

** The column "Changes in opening balances" is reflective of changes as at 31.12.2011 described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

***The column "Comprehensive income as at 31 12 2012" is reflective of changes relating to 2012 described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)"", which is referenced to for further details.*

As at 31 December 2012, the Group's equity including non-controlling interests and result for the year had decreased by EUR 3,675.4 mln, amounting to EUR 6,322.7 mln, as compared to EUR 9,998.1 mln on 1 January 2012.

The decrease was primarily due to an imbalance in the three following components:

- a loss for the year 2012, amounting to EUR 3,189.8 mln, recognised in column "Total comprehensive income at 31.12.2012", line "Profit (loss) for the period";
- an increase by EUR 1,523.5 mln recognised in colum "Total comprehensive income at 31.12.2012", line "Valuation reserves", mainly due to revaluation of Italian government bonds classified in the "Available For Sale" portfolio;
- the decrease by EUR 1,900.0, recognised in the column "Changes in equity instruments", due to reclassification of "Tremonti Bonds" from item "160 – Equity instruments" to item "30 – Debt securities issued" on the Liabilities side of the balance sheet.

The events described below are posted in column "Issue of new shares" and did not have any impact on the amount of total equity:

- on 1 February 2012, the Parent Company's extraordinary shareholders' meeting resolved to proceed with:
    - free capital increase in order to realize the allocation of part of the "Share Premium Reserve" to equity for a sum of EUR 752.3 mln, equal to the premium on 295,236,070 ordinary shares of Banca MPS underlying the F.R.E.S.H notes issued by The Bank of New York in April 2008;
    - conversion at par of all 18,864,340 savings shares into ordinary shares for an amount of EUR 12.7 mln;
- sale by the Monte dei Paschi di Siena Foundation of its entire holding of preferred shares on 29 March 2012, which resulted in their automatic conversion into ordinary shares for an amount of EUR 456.9 mln, pursuant to art. 6, para. 4, of the Parent Company's Articles of Association.

The column "Dividends and other payout" includes EUR 5.7 mln in amounts paid to non-controlling shareholders by the subsidiary, Biver Banca.

Consolidated cash flow statement: indirect method

(in units of EUR)

A. OPERATING ACTIVITIES	31 12 2013	31 12 2012*
1. Cash flow from operations	**(110,978,576)**	**955,615,370**
profit (loss) (+/-)	(1,438,923,098)	(3,189,820,999)
capital gains/losses on financial assets held for trading and on assets/liabilities designated at fair value (+/-)	(925,415,008)	(520,851,893)
net profit (loss) from hedging	(7,237,858)	(3,254,620)
net impairment losses/reversals	2,721,823,382	4,515,091,219
net losses/reversal on impairment on property, plant and equipment and on intangible assets (+/-)	182,683,043	395,614,425
net provisions for risks and charges and other costs/revenues (+/-)	61,362,633	314,539,846
net premiums to be collected	-	-
other insurance revenues/charges to be collected	-	-
tax espense (recovery) on income from continuing operations	(671,876,567)	(463,767,046)
net losses/reversal on impairment on proups of assets held for sale and discontinued operations, after tax (+/-)	-	37,017,188
other adjustments	(33,395,103)	(128,952,750)
2. Cash flow from (used in) financial assets	**18,977,093,452**	**15,623,271,400**
financial assets held for trading	4,449,460,862	9,647,583,609
financial assets designated at fair value	-	38,230,929
financial assets available for sale	2,556,807,468	(2,524,714,266)
sales/repayment of financial assets held to maturity	-	-
loans to banks: on demand	1,297,334,346	9,316,217,325
loans to banks: other	-	-
loans to customers	8,129,601,723	(1,131,269,140)
hedging derivatives	-	(3,044,113)
other assets	2,543,889,053	280,267,056
3. Cash flow from (used in) financial liabilities	**(20,387,750,626)**	**(15,077,126,661)**
deposits from banks: on demand	(6,120,288,478)	(3,313,889,641)
deposits from banks: other	-	-
depostits from customers	4,043,654,894	(725,136,281)
debt securities issued	(4,573,826,162)	2,628,634,172
financial liabilities held for trading	(4,534,543,889)	(5,039,790,754)
financial liabilities designated at fair value	(6,331,300,818)	(7,347,293,060)
hedging derivatives	-	7,389,679
other liabilities	(2,871,446,173)	(1,287,040,776)
of which technical reserves	-	-
Net cash flow from (used in) operating activities	**(1,521,635,750)**	**1,501,760,109**

B. INVESTMENT ACTIVITIES	31 12 2013	31 12 2012*
1. Cash flow from:	**141,576,802**	**269,058,025**
sales of equity investments	-	-
dividends collected on equity investments	110,151,840	50,176,050
sales/repayment of financial assets held to maturity	18,256,471	-
sales of property, plant and equipment	13,168,491	9,660,513
sales of intangible assets	-	258,688
sales of subsidiaries and undertakings	-	208,962,774
2. Cash flow used in	**(175,448,814)**	**(120,714,370)**
purchase of equity investments	-	-
purchase of financial assets held to maturity	-	-
purchase of property, plant and equipment	(90,861,533)	(83,768,570)
purchase of intangible assets	(84,587,281)	(36,945,800)
purchase of subsidiaries and undertakings	-	-
Net cash flow from (used in) investment activities	**(33,872,012)**	**148,343,655**

C. FUNDING ACTIVITIES		
issue/purchase of treasury shares	-	1,855,687
issue/purchase of equity instruments carried at equity	-	-
dividend distribution and other	(98,010)	(62,604,499)
issue of new shares	-	-
Net cash flow from (used in) funding activities	**(98,010)**	**(60,748,812)**

NET CASH FLOW FROM (USED IN) OPERATING, INVESTMENT AND FUNDING ACTIVITIES DURING THE YEAR	(1,555,605,772)	1,589,354,952

Reconciliation

(in units of EUR)

Accounts	31 12 2013	31 12 2012
Cash and cash equivalents at beginning of period	2,432,879,857	843,524,905
Net increase (decrease) in cash and cash equivalents	(1,555,605,772)	1,589,354,952
Cash and cash equivalents at end of period	877,274,085	2,432,879,857

** With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details..*

For further information on the net cash flow generated/absorbed during the year, please refer to the section "Liquidity Risk" in Part E "Risks and hedging policies".

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Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)

Foreword

2013 saw the first-time application of the new version of IAS 19, "Employee benefits", endorsed by the European Commission under Regulation no. 475/2012 of 5 June 2012 and effective for annual periods beginning on or after 1 January 2013.

The most significant change in the amended IAS 19 standard is the introduction of a new approach to the recognition of actuarial gains and losses arising from defined benefit plans for which three alternative choices of recognition were possible under IAS 19, prior to the amendment:

- full recognition through profit and loss;
- full recognition in other comprehensive income;
- recognition through profit and loss of the portion exceeding 10% of the greater of the defined benefit obligation or the fair value of plan assets ("corridor method").

As part of its accounting policies, the Group had adopted the 'corridor method'. As amended, the standard requires the use of one accounting method only, consisting in the recognition of all actuarial gains and losses arising from defined benefit plans in other comprehensive income (OCI); the items recognised in OCI will not be recycled through profit or loss.

The revised standard also requires interest expense or income to be calculated on the net defined benefit liability (asset) by applying the discount rate (used to measure the Defined Benefit Obligation) to the net defined benefit liability (asset). For this purpose, contributions and benefits paid during the reporting period are taken into account. Consequently, the Net interest component now measures changes in the net defined benefit liability (asset) occurred during the period due to the time value of money.

In accordance with IAS 8, the retrospective application of revised IAS 19 had a negative impact of EUR 55.9 mln on the Group's net equity as at 31/12/2012, net of tax effect.

$$$

The balance sheet as at 1 January 2012 was also amended following reviews conducted in 2013 by the Supervisory Authorities in relation to the "Fresh 2008" transaction; as part of the transaction, the Bank issued EUR 950 mln in shares, subscribed by JP Morgan, to service the bond issued by the Bank of New York and convertible into Bank shares.

These reviews led to the conclusion that, in light of the contractual terms of the transaction as a whole, at the time of issuance, the shares issued would not have met the requirements of IAS 32 for the classification of financial instruments as equity instruments Such requirements were met in May 2009, thanks to amendments introduced by the Bondholders Meeting , subsequent to which the Bank of New York requested the Bank to issue an indemnity requiring the latter to indemnify the Bank of New York for claims brought forward by a number of dissenting subscribers - "Fresh 2008" bond holders - for up to an amount estimated at EUR 76 mln as of 31.12.2011. As a consequence, the Bank restated the individual and consolidated balance sheets as at 1 January 2012, reclassifying this amount to item 10 "Deposits from banks."

Moreover, the nature of liabilities held by the "Fresh 2008" security (in its entirety up to May 2009 and limited to the indemnity issued in favour of the Bank of New York as of May 2009) would have resulted in recognition in the income statement (rather than equity) of the consideration paid for the right of usufruct on issued shares. As a result, the opening balance of separate and consolidated shareholders' equity as at 1 January 2012 included a reclassification aimed at showing the lower P&L results which would have been registered up to that date (EUR 109.2 mln); the impact of this reclassification on the balance of shareholders' equity as at 31 December 2012 is zero.

In compliance with the provisions of IAS 1 "Presentation of financial statements" this section contains:

- balance sheet statements as at the beginning and the end of the prior period, re-stated to retrospectively reflect the changes introduced by the adjustment described in this chapter;
- income statement and comprehensive income statement as at the end of the prior period, restated to take account of the impacts from the adjustments described in this chapter.

BALANCE SHEET

	Assets	01 01 2012	Restatement IAS 8	01 01 2012 restated
10	Cash and cash equivalents	877,783,821		877,783,821
20	Financial assets held for trading	32,539,183,984		32,539,183,984
30	Financial assets designated at fair value	38,230,929		38,230,929
40	Financial assets available for sale	22,904,656,193		22,904,656,193
50	Financial assets held to maturity	2,377		2,377
60	Loans to banks	20,695,446,791		20,695,446,791
70	Loans to customers	146,609,097,077		146,609,097,077
80	Hedging derivatives	363,351,009		363,351,009
90	Change in value of macro-hedged financial assets (+/-)	76,309,634		76,309,634
100	Equity investments	894,641,601		894,641,601
120	Property, plant and equipment	1,384,965,354		1,384,965,354
130	Intangible assets	2,980,416,086		2,980,416,086
	of which: goodwill	*2,216,339,302*		*2,216,339,302*
140	Tax assets	7,316,044,382	1,330,000	7,317,374,382
	a) current	*550,693,719*		*550,693,719*
	b) deferred	*6,765,350,663*	*1,330,000*	*6,766,680,663*
	under Law 214/2011	*3,631,060,227*		*3,631,060,227*
150	Non-current assets and groups of assets held for sale and discontinued operations	2,158,250		2,158,250
160	Other assets	4,111,588,637	(28,673,000)	4,082,915,637
	Total Assets	**240,793,876,125**	**(27,343,000)**	**240,766,533,125**

	Liabilities and Shareholders' Equity	01 01 2012	Restatement IAS 8	01 01 2012 restated
10	Deposits from banks	47,120,764,475	104,292,500	47,225,056,975
20	Deposits from customers	84,294,736,491		84,294,736,491
30	Debt securities issued	39,814,649,166		39,814,649,166
40	Financial liabilities held for trading	26,514,881,923		26,514,881,923
50	Financial liabilities designated at fair value	22,498,694,008		22,498,694,008
60	Hedging derivatives	4,359,399,684		4,359,399,684
80	Tax liabilities	319,108,710	(17,578,152)	301,530,558
	a) current	*218,244,375*	*(17,578,152)*	*200,666,223*
	b) deferred	*100,864,335*		*100,864,335*
100	Other liabilities	4,216,612,800		4,216,612,800
110	Provision for employee severance pay	265,905,362	68,682,554	334,587,916
120	Provisions for risks and charges:	1,208,267,144		1,208,267,144
	a) post-employment benefits	*192,595,571*		*192,595,571*
	b) other provisions	*1,015,671,573*		*1,015,671,573*
140	Valuation reserves	(3,842,291,408)	(52,095,210)	(3,894,386,618)
160	Equity instruments carried at equity	1,903,002,406		1,903,002,406
170	Reserves	5,773,626,671	(232,966,327)	5,540,660,344
180	Share premium	4,117,870,216	104,629,493	4,222,499,709
190	Share capital	6,732,246,665		6,732,246,665
200	Treasury shares (-)	(26,460,508)		(26,460,508)
210	Non-controlling interests (+/-)	217,201,808		217,201,808
220	Profit (loss) (+/-)	(4,694,339,488)	(2,307,858)	(4,696,647,346)
	Total Liabilities and Shareholders' Equity	**240,793,876,125**	**(27,343,000)**	**240,766,533,125**

	Assets	31 12 2012	Restatement IAS 8	31 12 2012 restated
10	Cash and cash equivalents	2,432,879,857		2,432,879,857
20	Financial assets held for trading	23,514,203,879		23,514,203,879
30	Financial assets designated at fair value	-		-
40	Financial assets available for sale	25,648,740,633		25,648,740,633
50	Financial assets held to maturity	-		-
60	Loans to banks	11,224,988,612		11,224,988,612
70	Loans to customers	142,015,160,914		142,015,160,914
80	Hedging derivatives	551,093,100		551,093,100
90	Change in value of macro-hedged financial assets (+/-)	119,157,001		119,157,001
100	Equity investments	1,040,102,072		1,040,102,072
120	Property, plant and equipment	1,334,478,778		1,334,478,778
130	Intangible assets	1,191,502,071		1,191,502,071
	of which: goodwill	*669,701,061*		*669,701,061*
140	Tax assets	6,122,598,482	3,981,501	6,126,579,983
	a) current	*912,438,405*		*912,438,405*
	b) deferred	*5,210,160,077*	*3,981,501*	*5,214,141,578*
	under Law 214/2011	*2,796,914,621*		*2,796,914,621*
150	Non-current assets and groups of assets held for sale and discontinued operations	12,460,932		12,460,932
160	Other assets	3,674,803,451	(78,000)	3,674,725,451
	Total Assets	**218,882,169,782**	**3,903,501**	**218,886,073,283**

	Liabilities and Shareholders' Equity	**31 12 2012**	**Restatement IAS 8**	**31 12 2012 restated**
10	Deposits from banks	43,322,955,546	76,000,000	43,398,955,546
20	Deposits from customers	81,302,684,839		81,302,684,839
30	Debt securities issued	39,939,623,998		39,939,623,998
40	Financial liabilities held for trading	21,516,900,054		21,516,900,054
50	Financial liabilities designated at fair value	14,427,857,893		14,427,857,893
60	Hedging derivatives	5,574,797,946		5,574,797,946
80	Tax liabilities	180,505,646	(17,276,629)	163,229,017
	a) current	*131,347,969*	*(17,317,664)*	*114,030,305*
	b) deferred	*49,157,677*	*41,035*	*49,198,712*
100	Other liabilities	4,480,349,708	(6,916,983)	4,473,432,725
110	Provision for employee severance pay	241,633,301	75,718,899	317,352,200
120	Provisions for risks and charges:	1,440,249,706	8,312,920	1,448,562,626
	a) post-employment benefits	*39,658,177*	*8,312,920*	*47,971,097*
	b) other provisions	*1,400,591,529*		*1,400,591,529*
140	Valuation reserves	(2,224,461,407)	(60,331,355)	(2,284,792,762)
160	Equity instruments carried at equity	3,002,406		3,002,406
170	Reserves	4,128,473,590	(73,701,192)	4,054,772,398
180	Share premium	255,099,524		255,099,524
190	Share capital	7,484,508,171		7,484,508,171
200	Treasury shares (-)	(24,532,421)		(24,532,421)
210	Non-controlling interests (+/-)	2,855,856		2,855,856
220	Profit (loss) (+/-)	(3,170,334,574)	2,097,841	(3,168,236,733)
	Total Liabilities and Shareholders' Equity	**218,882,169,782**	**3,903,501**	**218,886,073,283**

INCOME STATEMENT

(in units of eur)

		31 12 2012	Restatement IAS 8	31 12 2012 restated
10	Interest income and similar revenues	6,711,013,200		6,711,013,200
20	Interest expense and similar charges	(3,926,388,273)		(3,926,388,273)
30	**Net interest income**	**2,784,624,927**		**2,784,624,927**
40	Fee and commission income	2,051,568,375		2,051,568,375
50	Fee and commission expense	(418,750,474)		(418,750,474)
60	**Net fee and commission income**	**1,632,817,901**		**1,632,817,901**
70	Dividends and similar income	62,857,644		62,857,644
80	Net profit (loss) from trading	59,315,086		59,315,086
90	Net profit (loss) from hedging	3,053,786		3,053,786
100	Gains/losses on disposal/repurchase of:	200,356,974		200,356,974
	a) loans	*(33,660,575)*		*(33,660,575)*
	b) financial assets available for sale	*62,393,746*		*62,393,746*
	d) financial liabilities	*171,623,803*		*171,623,803*
110	Net profit (loss) from financial assets and liabilities designated at fair value	117,336,335		117,336,335
120	**Net interest and other banking income**	**4,860,362,653**		**4,860,362,653**
130	Net impairment losses(reversals) on	(2,880,068,795)		(2,880,068,795)
	a) loans	*(2,666,548,275)*		*(2,666,548,275)*
	b) financial assets available for sale	*(207,739,609)*		*(207,739,609)*
	d) other financial transactions	*(5,780,911)*		*(5,780,911)*
140	**Net income from banking activities**	**1,980,293,858**		**1,980,293,858**
180	Administrative expenses:	(3,667,058,133)	2,863,574	(3,664,194,559)
	a) personnel expenses	*(2,289,635,810)*	*2,863,574*	*(2,286,772,236)*
	b) other administrative expenses	*(1,377,422,323)*		*(1,377,422,323)*
190	Net provisions for risks and charges	(284,924,308)		(284,924,308)
200	Net adjustments to (recoveries on) property, plant	(75,916,260)		(75,916,260)
210	Net adjustments to (recoveries on) intangible assets	(319,698,164)		(319,698,164)
220	Other operating expenses/income	221,578,727		221,578,727
230	**Operating expenses**	**(4,126,018,138)**	**2,863,574**	**(4,123,154,564)**
240	Gains (losses) on investments	(798,912)		(798,912)
260	Impairment on goodwill	(1,528,000,000)		(1,528,000,000)
270	Gains (losses) on disposal of investments	7,264,859		7,264,859
280	**Profit (loss) before tax from continuing operations**	**(3,667,258,333)**	**2,863,574**	**(3,664,394,759)**
290	Tax expense (recovery) on income from continuing operations	464,532,779	(765,733)	463,767,046
300	**Profit (loss) after tax from continuing operations**	**(3,202,725,554)**	**2,097,841**	**(3,200,627,713)**
310	Profit (loss) after tax from groups of assets held for sale and discontinued operations	10,806,714		10,806,714
320	**Profit (loss)**	**(3,191,918,840)**	**2,097,841**	**(3,189,820,999)**
330	Profit (loss) for the period attributable to non-	(21,584,266)		(21,584,266)
340	**Parent company's net profit (loss)**	**(3,170,334,574)**	**2,097,841**	**(3,168,236,733)**

	31 12 2012	Rettifiche IAS 8	31 12 2012 rettificato
Basic Earnings per Share (Basic EPS)	**(0.276)**	**-**	**(0.276)**
of continuing operations	(0.279)	0.005	(0.274)
of groups of assets held for sale and discontinued operations	0.003	(0.005)	(0.002)
Diluted Earnings per Share (Diluted EPS)	**(0.276)**	**-**	**(0.276)**
of continuing operations	(0.279)	0.005	(0.274)
of groups of assets held for sale and discontinued operations	0.003	(0.005)	(0.002)

STATEMENT OF COMPREHENSIVE INCOME

(in units of eur)

	Items	31 12 2012	Restatement IAS 8	31 12 2012 restated
10	**Profit (loss)**	**(3,191,918,840)**	**2,097,841**	**(3,189,820,999)**
	Other comprehensive income after tax not recycled to profit and loss	**-**	**(8,236,145)**	**(8,236,145)**
40	Actuarial gains (losses) on defined benefit plans	-	(8,236,145)	(8,236,145)
	Other comprehensive income after tax recycled to profit and loss	**1,531,705,376**	**-**	**1,531,705,376**
80	Exchange differences	(1,006,823)	-	(1,006,823)
90	Cash flow hedges	(41,956,175)	-	(41,956,175)
100	Financial assets available for sale	1,527,250,198	-	1,527,250,198
120	Share of valuation reserves of equity-accounted investments	47,418,176	-	47,418,176
130	**Total other comprehensive income after tax**	**1,531,705,376**	**(8,236,145)**	**1,523,469,231**
140	**Total comprehensive income (Item 10+130)**	**(1,660,213,464)**	**(6,138,304)**	**(1,666,351,768)**
150	Consolidated comprehensive income attributable to non-controlling interests	(107,708,892)	-	(107,708,892)
160	**Consolidated comprehensive income attributable to Parent Company**	**(1,552,504,572)**	**(6,138,304)**	**(1,558,642,876)**

Part A – Accounting policies

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A.1 – General

Section 1 - Statement of compliance with international accounting principles

Pursuant to Legislative Decree no. 38 of 28 February 2005, these consolidated accounts were prepared in accordance with the international accounting principles issued by the International Accounting Standards Board (IASB) including interpretations by the IFRS Interpretations Committee, as endorsed by the European Commission, pursuant to EC Regulation no. 1606 of 19 July 2002 which was effective as at 31 December 2013.

The international accounting principles were applied following the indications set forth in the "Framework for the Preparation and Presentation of Financial Statements" (the Framework).

Failing a principle or an interpretation specifically applicable to a certain transaction, event or circumstance, the Bank's Management used its own judgment in developing and applying the accounting principles for the purpose of providing a report which is:

- relevant for the purpose of economic decision-making by the users;
- reliable so that the Financial Statements:
  - result in a true and fair view of the Group's assets, financial position, profit and loss and cash flows;
  - reflect the economic substance -and not merely the juridical form- of transactions, other events and circumstances;
  - are neutral, that is with no prejudice;
  - are conservative;
  - are complete in all relevant respects.

In its judgment, the Bank's Management made reference to and took account of the enforceability of the following provisions, listed in a hierarchically decreasing order:

- the provisions and implementation guidance contained in the principles and interpretations dealing with similar or related cases;
- the definitions, recognition and measurement criteria for the accounting of assets, liabilities, income and expenses contained in the Framework.

In delivering its judgment, the Bank's Management may also take account of:

- the most recent provisions set forth by other entities in charge of establishing the accounting principles which use a conceptually similar Framework for the purpose of developing the accounting principles;
- other accounting literature;
- consolidated practices of the banking industry.

In compliance with art. 5 of Legislative Decree no. 38 of 28 February 2005, if – in exceptional cases – the application of a provision set forth in the international accounting principles proved to be non-compliant with a true and fair view of the Group's balance-sheet, financial situation and income statement, then such provision would not be applied. The reasons for deviation and its impact on the representation of the balance-sheet, financial situation and income statement, would in such case be explained in the notes to the financial statements.

In the consolidated financial statements, any profits arising from this deviation are posted to a reserve which is only distributable in proportion to the value recovered.

Section 2 - Preparation Criteria

The Consolidated Financial Statements have been prepared in accordance with the IAS/IFRS International accounting standards issued by the International Accounting Standards Board (IASB) including the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Union and mandatorily applied in the 2013 financial year. The provisions contained in Circular Letter No. 262 issued by the Bank of Italy concerning the layout and rules for preparing separate and consolidated financial statements for the banks and the Group were also applied, as amended by the second addendum of 21 January 2014.

The consolidated financial statements consist of the:

- Consolidated Balance Sheet;
- Consolidated Income Statement;
- Consolidated Statement of Comprehensive Income;
- Consolidated Statement of Changes in Equity;
- Consolidated Cash Flow Statement;
- Notes to the Consolidated Financial Statements.

The Consolidated Financial Statements are integrated with the Directors' Report on the operations and situation of the Group.

The Consolidated Financial Statements are prepared with transparency and provide a true and fair view of the balance-sheet, financial position and income statement for the year.

The Notes to the Consolidated Financial Statements contain all information required by the international accounting standards and provisions contained in Bank of Italy Circular Letter no. 262, together with other non-mandatory information deemed necessary to provide a true and fair, relevant, reliable, comparable and intelligible view of the Group's performance.

The balance-sheet, profit and loss and consolidated comprehensive income statements consist of items (marked with numbers), sub-items (marked with letters) and further details (under "including/of which" in the items and sub-items). Items, sub-items and their details constitute the accounts.

Each item in the balance-sheet, profit and loss account and statement of consolidated comprehensive income also indicates prior year's amounts. If the items cannot be compared, the items in relation to the prior year are reclassified; non-comparability, reclassification or impossible reclassification are pointed out and commented in the notes to the financial statements.

Assets and liabilities, expenses and income cannot be mutually offset, unless this is permitted or required by the international accounting standards or the provisions set forth in Circular no. 262 of the Bank of Italy.

The consolidated balance-sheet, profit and loss account and statement of consolidated comprehensive income do not indicate the items which do not show any amounts for the year of reference of the financial statements or prior year. If an item of the assets or liabilities is part of several items of the balance-sheet, the notes to the financial statements indicate – whenever this is necessary for the purpose of intelligibility – that this component may also be referred to items other than the one it is posted to.

Income is posted with no sign in the income statement and the respective section of the notes, whereas expenses are indicated in brackets. Negative amounts are indicated in brackets in the statement of comprehensive income.

In compliance with the provisions of art. 5 of Legislative Decree no. 38 of 28 February 2005, the financial statements have been prepared using the Euro as the accounting currency: the tables in the financial statements are denominated in units of Euro, while the tables in the consolidated notes are denominated in thousands of Euro.

The financial statements have been prepared based on a going concern assumption, according to the generally accepted principles of accrual accounting, relevance and materiality of information, priority of substance over form and with a view to encouraging consistency with future statements.

Items of a different nature or with different allocation were recognised separately, unless they were considered irrelevant. All amounts shown in the financial statements were adjusted so as to reflect any events subsequent to the date of closing which, according to IAS 10, make it mandatory to make an adjustment (*adjusting events*). Non-adjusting events reflecting circumstances that occurred after the reporting date should be disclosed as part of the Notes to the Financial Statements, section 4, if they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions.

Section 3 – Scope and methods of consolidation

Scope of consolidation

The consolidated financial statements include the balance sheet and income statement results of the Parent Company and its direct and indirect subsidiaries. In particular, the scope of consolidation, as specifically set out in the IAS/IFRS, includes all subsidiaries, irrespective of their legal status, of business activity pursued in sectors other than the Parent Company's core business, of them being going concerns or wound-up companies, or of whether the equity investment consists in a *merchant banking* transaction. Similarly, special purpose entities/vehicles (SPEs/SPVs) are included when the requirement of actual control recurs, even if there is no stake in the company.

Companies are assumed to be subsidiaries when the Parent Company, directly or indirectly, holds more than half of their voting rights, unless clearly proved otherwise. However, control may also exist in those cases where the Parent Company, though holding half or less than half of the voting rights, has the power to appoint the majority of directors of the investee or determine the financial or operating policies of an entity for the purpose of obtaining benefits from its activity.

In assessing whether a company has the power to govern the financial or operating policies of another company, account is also taken of "potential" rights when they are currently exercisable or convertible in actual voting rights. In accordance with SIC 12, the consolidation of special purpose entities has the same effect as full consolidation. Equity interests held by third parties in a special purpose entity consolidated in accordance with SIC 12 are recognised under non-controlling interests.

Companies are considered as joint ventures, i.e subject to joint control when the voting rights and the control of the economic activities of the investee are equally shared by the Parent Company, directly or indirectly, and by an external entity. Furthermore, an investment is considered as subject to joint control even when voting rights are not equally shared if control over the economic activities and the strategies of the investee is shared, based on contractual agreements, with other entities.

Companies are considered associates, that is subject to significant influence, when the Parent Company, directly or indirectly, holds at least 20 per cent of their voting rights (including "potential" voting rights as described above) and has the power to participate in determining their financial and operating policies. Similarly, companies are considered associates also when the Parent Company – despite a lower percentage of voting rights– has the power of participating in the determination of the financial and operating policies of the investee on account of specific legal agreements such as the participation in shareholders' agreements.

Minor entities are not included in the scope if their consolidation proves immaterial for the purpose of the consolidated financial statements.

Methods of consolidation

With reference to the consolidation methods, subsidiaries are consolidated on a line-by-line basis, interests in jointly controlled companies are recognised using proportionate consolidation and investments in companies subject to the Group's "significant influence" are valued with the equity method.

Line-by-line consolidation consists in the line-by-line acquisition of the balance-sheet and income statement aggregates of the subsidiaries. After the assignment to third parties, under a separate account, of their shares of equity and profit/loss, the value of the investment is eliminated against the recognition of the value of the subsidiary's equity.

Intragroup assets, liabilities, income and expenses are eliminated.

The income and expenses of a subsidiary purchased during the period are included in the consolidated financial statements as of the date of purchase.

On the other hand, the income and expenses of a subsidiary sold are included in the consolidated financial statements up to the date of disposal, i.e. when the Parent ceases to control the subsidiary. At the date when control is lost, the controlling entity:

- derecognises the assets (including any goodwill) and liabilities of (and non-controlling interests in) the former subsidiary at their carrying amounts;
- recognises the fair value of the consideration received and of any investment retained in the former subsidiary;
- reclassifies to consolidated profit or loss any amounts previously recognised in the subsidiary's statement of other comprehensive income as if the assets or liabilities had been transferred;
- recognises any resulting difference in consolidated profit or loss .

Interests in jointly controlled companies are recognised using the proportionate consolidation method.

Those companies over which the Group exercises significant influence (associates), or over which it has the right to participate in the determination of financial and operating decisions without having control or joint control, are valued using the equity method.

This method contemplates the initial posting of the investment at cost. This value is subsequently adjusted to reflect:

- the Group's share of gains/losses on the investment for the period is recognised under item 240 “Gains (losses) on equity investments” of the consolidated income statement.
- the Group's share of changes recognised in the Statement of Consolidated Comprehensive Income

If an investor’s share of losses in an associate equals or exceeds the interest’s carrying value, the investor discontinues recognising its share of further losses unless the investor has incurred specific legal obligations or made payments in favour of the associate.

Profits resulting from transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associate. Losses resulting from transactions between the Group and its associates are eliminated as well, unless the transaction provides evidence of an impairment of the asset transferred.

The financial statements processed for line-by-line and proportionate consolidation include the financial statements as at 31 December 2013, as approved by the Boards of Directors of the respective companies. The companies subject to the Group’s significant influence are valued by applying the equity method on the basis of the latest financial statements or reports available.

In the course of fiscal year 2013, the following changes were made to the scope of consolidation:

The following companies were removed from the scope of consolidation:

- “Mantegna Finance S.r.l.” and “Monte Paschi Invest France S.p.A.S.” as they were discontinued following liquidation;
- “Banca Antonveneta S.p.A.” and “MPS Gestione Crediti Banca S.p.A.” as they were merged into the Parent Company.

The companies “Perimetro Gestioni Proprietà Immobiliari S.c.p.a. and Casaforte S.r.l became part of the scope of consolidation following the business combination about which extensive information is provided in Part G of these Notes to the Financial statements, "Business Combinations".

Reported below is the table "Investments in associates and joint ventures (proportionate consolidation").

	Name	Registered Office	Type of relationship (*)	Ownership Relationship		Available votes % (**)
				Held by	Shareholding	
A	Companies					
A.0	BANCA MONTE DEI PASCHI DI SIENA S.p.A.					
	A.1 Fully consolidated companies					
A.1	MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.a.	Florence	1	A.0	99.921	
A.2	MPS LEASING E FACTORING BANCA PER I SERVIZI	Siena	1	A.0	100.000	
A.3	MONTE PASCHI IRELAND LTD	Dublin	1	A.0	100.000	
A.4	MONTE PASCHI FIDUCIARIA S.p.a.	Siena	1	A.0	100.000	
A.5	CONSUM.IT S.p.a.	Florence	1	A.0	100.000	
A.6	WISE DIALOG BANK S.p.a. - WIDIBA	Milan	1	A.0	100.000	
A.7	MPS TENIMENTI POGGIO BONELLI E CHIGI SARACINI SOCIETA' AGRICOLA S.p.a.	Siena	1	A.0	100.000	
A.8	MPS IMMOBILIARE S.p.a.	Siena	1	A.0	100.000	
A.9	G.IMM ASTOR S.r.l.	Lecce	1	A.0	52.000	
A.10	AIACE REOCO S.r.l.	Siena	1	A.0	100.000	
A.11	ENEA REOCO S.r.l.	Siena	1	A.0	100.000	
A.12	CONSORZIO OPERATIVO GRUPPO MONTEPASCHI	Siena	1	A.0	99.820	99.940
				A.1	0.060	
				A.2	0.030	
				A.5	0.030	
A.13	PERIMETRO GESTIONI PROPRIETA' IMMOBILIARI S.c.p.a.	Siena	4	A.0	8.828	6.590
				A.1	0.018	0.142
				A.2	0.009	0.057
				A.4	0.005	0.014
				A.5	0.006	0.025
				A.8	81.774	0.002
				A.12	0.111	1.072
A.14	MAGAZZINI GENERALI FIDUCIARI DI	Manuta	1	A.0	100.000	
A.15	BANCA MONTE PASCHI BELGIO S.A.	Bruxelles	1	A.0	100.000	
A.16	MPS PREFERRED CAPITAL I LLC	Delaware	1	A.0	100.000	
A.17	MPS PREFERRED CAPITAL II LLC	Delaware	1	A.0	100.000	
A.18	MPS CAPITAL TRUST I (#)	Delaware	4	0	-	
A.19	MPS CAPITAL TRUST II (#)	Delaware	4	0	-	
A.20	MONTE PASCHI BANQUE S.A.	Paris	1	A.0	100.000	
20.1	MONTE PASCHI CONSEIL FRANCE	Paris		A.20	100.000	
20.2	IMMOBILIERE VICTOR HUGO S.C.I.	Paris		A.20	100.000	
A.21	MONTEPASCHI LUXEMBOURG S.A.	Luxembourg	1	A.0	99.200	100.000
				A.20	0.800	
A.22	ANTONVENETA CAPITAL L.L.C. I	Delaware	1	A.0	100.000	
A.23	ANTONVENETA CAPITAL L.L.C. II	Delaware	1	A.0	100.000	
A.24	ANTONVENETA CAPITAL TRUST I	Delaware	1	A.0	100.000	
A.25	ANTONVENETA CAPITAL TRUST II	Delaware	1	A.0	100.000	
A.26	MPS COVERED BOND S.r.l.	Conegliano	1	A.0	90.000	
A.27	MPS COVERED BOND 2 S.r.l.	Conegliano	1	A.0	90.000	
A.28	CIRENE FINANCE S.r.l.	Conegliano	1	A.0	60.000	
A.29	MANTEGNA FINANCE II S.r.l. (in liquidazione)	Conegliano	1	A.0	100.000	
A.30	SIENA MORTGAGES 07-5 S.p.a. (#)	Conegliano	4	A.0	7.000	
A.31	SIENA MORTGAGES 09-6 S.r.l. (#)	Conegliano	4	A.0	7.000	
A.32	SIENA MORTGAGES 10-7 S.r.l. (#)	Conegliano	4	A.0	7.000	
A.33	SIENA SME 11-1 S.r.l. (#)	Conegliano	4	A.0	10.000	
A.34	SIENA LEASE 11-1 S.r.l. (#)	Conegliano	4	A.0	10.000	
A.35	SIENA CONSUMER S.r.l.	Conegliano	4	A.0	10.000	
A.36	CASAFORTE S.r.l.	Rome	4	A.0	-	
	A.2. Proportionately consolidated companies					
A.37	INTEGRA S.p.a.	Florence	7	A.5	50.000	
	Book value: 50% of nominal value					

(*) Type of relationship:
1 majority of voting rights at ordinary shareholders' meetings
2 dominant influence at ordinary shareholders' meetings
3 agreements with other shareholders
4 other forms of control
5 unified management under art. 26. 1. of Leg. Decree 87/92
6 unified management under art. 26. 2. of Leg. Decree 87/92
7 joint control
8 significant influence

(**) Voting rights are disclosed only if different from the percentage of ownership.
It should be noted that, as at 31 December 2013, Widiba had not yet received authorisation by the Bank of Italy to engage in banking activities and had not yet been entered into the Companies' Register.

(#) Refers to entities included in the scope of consolidation as of 30 September 2013. Given the nature of transactions in question (securitisations without derecognition, Tier 1 issues), inclusion in the scope of consolidation has no material effects on the balance-sheet and P&L of the Group.

Section 4 – Events after the Reporting Period

Effective as of 1 January 2014, the administrative, accounting and services business unit was sold to Fruendo Srl, a company formed by the joint venture between Bassilichi Spa and Accenture Italia. At the same time, the Parent Company and the other Group companies signed agreements with Fruendo and Accenture for the management of activities relating to ancillary, accounting and administrative services. The agreement will have a duration of 18 years and is renewable thereafter.

1,064 Banca Monte dei Paschi resources are involved in the transaction and have been transferred to the joint venture.

In January 2014, the Parent Company completed the disposal of its entire shareholding in Sorin S.p.A.; a total of 27,458,403 ordinary shares for the amount of EUR 56.3 million.

In February 2014, the deed of merger by absorption of Monte Paschi Ireland LTD into the Parent Company was signed, with effect as of 1 January 2014 for legal and accounting tax/purposes.

Section 5 – Other Matters

This Annual Report was prepared based on a going concern assumption.

With regard to the indications contained in Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and Isvap, and following amendments, the Group reasonably expects to continue operating in the foreseeable future and has therefore prepared the consolidated annual report based on the assumption of business continuity since the uncertain climate arising from the current economic scenario affords no doubt as to the company's ability to continue operating as a going concern.

It should be noted that, following subscription of the New Financial Instruments by the Italian Ministry for the Economy, in accordance with State Aid procedures, on 7 October 2013 the BoD presented a Restructuring Plan which was approved by the European Commission on 27 November 2013.

Aimed at a radical transformation in the "way of banking", the Plan anticipates changes underway in the banking industry and will alter Banca Monte dei Paschi di Siena's P&L and business model. Specifically, the 2013-2017 Business Plan details the actions necessary to deliver the Restructuring Plan objectives, which have been developed along three key priorities:

- achieving sustainable levels of profitability;
- strengthening capital quantity and quality;
- structural rebalancing of liquidity.

The Plan includes the following:

- a new distribution model geared towards customer satisfaction, with fewer branches but more relationship-oriented, flexible sale points with increased customer interaction;
- an evolution in the intermediation model with more third-party products offered and a leaner balance sheet, aiming at an expansion of distribution agreements with third parties (consumer credit, leasing), an additional boost to "bancassurance" and innovative solutions to support SMEs;
- improved operating efficiency with initiatives aimed at making the Bank leaner, more productive and "digital";
- HR enhancement and development with a merit-based approach.
- increasing commercial productivity in the Retail, Private and Corporate segments;
- improving loan book quality through a stronger monitoring process and prevention actions on performing loans, reduction in substandard/doubtful loan stock, maximisation of debt collection and new organizational setup for the loan disbursement and credit monitoring process;
- increasing quantity and quality of capital, with a capital increase of up to EUR 3 bn and full repayment of the New Financial Instruments by 2017. The capital increase of up to EUR 3 bn, to be completed no earlier than 12 May 2014, was approved by the Extraordinary Shareholders' Meeting of 28 December 2013;
- a conservative risk management strategy and rationalisation of the asset portfolio;
- renewal of operating and cost management models with a substantial upturn in efficiency and sustainable optimisation of the entire operating cost base.

As part of the EUR 3 bn capital increase, approved by the Shareholders' Meeting in December 2013 and to be completed no earlier than 12 May 2014, a new pre-underwriting agreement has been signed with UBS as global coordinator and bookrunner, Citigroup, Goldman Sachs International and Mediobanca as co-global coordinators and joint bookrunners and, in addition, Barclays, BofA Merrill Lynch, Commerzbank, J.P. Morgan, Morgan Stanley and Société Générale as joint bookrunners. In the context of the rights issue, UBS is acting as financial advisor, MPS Capital Services as co-financial advisor and Linklaters as legal advisor.

List of key IAS/IFRS international accounting principles and related SIC/IFRIC interpretations for mandatory application as of the 2013 financial statements

Reported below are the key amendments to the accounting standards and interpretations which are mandatorily effective as of financial year 2013. It is noted that these amendments did not have any significant impact on the preparation of the present financial statements, except for application of the revised IAS 19 "Employee Benefits", the impacts of which are described in these Notes.

Revisions to IAS 19 "Employee Benefits" were published by the IASB in June 2011.

The principle was endorsed by the European Commission with Regulation no. 475/2012 on 5 June 2012 and is mandatorily to be applied for annual periods beginning on or after 1 January 2013.

The revised standard is the result of a project aimed at increasing comparability and quality of disclosure of post-employment benefits. Among the amendments are:

1) methods for recognition of changes in defined benefit related assets and liabilities;
2) treatment of plan amendments, curtailments and settlements;
3) disclosure for defined benefit plans;
4) other minor issues.

The most significant change introduced by the new version of IAS 19 is the reporting of actuarial profits and losses on defined benefit plans, for which the pre-existing version of the principle provided for three alternative methods of recognition: full recognition in the income statement, full recognition in other comprehensive income or recognition in the income statement of the portion exceeding 10% of the higher between the present value of the defined benefit obligation and the fair value of any assets servicing the plan (the "corridor method"). The Group had adopted the "corridor method" in its accounting policies. The new version of the principle, on the other hand, provides for a single accounting method which consists in the full recognition of actuarial profits and losses in other comprehensive income on defined benefit plans.

In December 2010, the International Accounting Standard Board (IASB) published an **amendment to IAS 12 "Deferred Tax: Recovery of Underlying Assets"**. Under IAS 12, the measurement of deferred tax assets and liabilities should be based on the expected manner of recovery of the carrying amount of the underlying asset through use or sale. The manner in which an entity recovers the carrying amount of an asset or liability (for example through use or sale) may affect either or both of the tax rate applicable when the entity recovers the amount and the tax base of the asset (liability). An entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement. In order to reduce the elements of subjectivity involved in determining the expected manner of recovering the carrying amount of the underlying asset, the amendment has introduced a 'rebuttable presumption' that assets measured using the fair value model in IAS 40 will be recovered entirely by sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume the investment property's economic benefits over time. The amendment also incorporates into IAS 12 guidance previously contained in SIC 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets". The amendment was endorsed by the European Commission on 11 December 2012 with Regulation no. 1255/2012 and is effective for annual periods beginning on or after 11 December 2012 (and therefore as of financial statements for 2013).

In May 2011, the IASB also published **IFRS 13 "Fair Value Measurement"**. IFRS 13 establishes a single source of guidance for all fair value measurements so far required by the IFRSs, eliminating 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 notion introduced by IFRS 13 is that fair value is a market based rather than an entity specific measurement. The standard introduces a number of new disclosure requirements on fair value hierarchy and valuation techniques which were implemented with the second update to Circular 262 of 21 January 2014.

The principle was endorsed by the European Commission with Regulation no. 1255/2012 on 11 December 2012 and is mandatorily to be applied for annual periods beginning on or after 1 January 2013.

In June 2011, the IASB published the **amendment to IAS 1 "Presentation of Items of Other Comprehensive Income"**. The major amendment to IAS 1 introduces the requirement to present separately, in OCI, items that could be reclassified (or 'recycled') to profit or loss under certain circumstances (sale, impairment) from items which will never be reclassified to profit or loss. The principle was endorsed by the European Commission with Regulation no. 475/2012 on 5 June 2012 and is mandatorily to be applied for annual periods beginning on or after 1 July 2012.. In accordance with this amendment, the consolidated statement of comprehensive income was amended by the Bank of Italy with the second update to Circular 262 of 21 January 2014.

In December 2011, the IASB published the **amendment to IFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities"**. The amendment introduces new disclosure requirements for financial assets and liabilities which are subject to netting agreements. The principle was endorsed by the European Commission with Regulation no. 1256/2012 on 13 December 2012 and is mandatorily to be applied for annual periods beginning on or after 1 January 2013. The new disclosure disclosure has been adopted by the Bank of Italy with the second update to Circular 262 of 21 January 2014.

On 13 March 2012, the IASB issued an amendment to **IFRS 1** regarding **"Government loans**". The amendment introduces an exception to retrospective application of IFRS principles for first-time adopters who are now required to apply the requirements in IFRS 9 "Financial instruments" and IAS 20 "Accounting for government grants and disclosure" prospectively to existing government loans at the date of transition to IFRSs. Retrospective application is only permitted if the information needed for retrospective implementation was obtained at the time of initially accounting for that loan. The amendment is mandatorily to be applied for annual periods beginning on or after 1 January 2013.

Two amendments to **IFRS 1 "First-time adoption of International Financial Reporting Standards"** were published by the IASB in December 2010. The first replaced fixed date references (1 January 2004) with 'the date of transition to IFRSs', thus exempting first time adopters of IFRSs from having to reconstruct transactions that occurred prior to their date of transition to IFRSs. The second amendment includes guidance on how an entity should resume presenting (or present for the first time) financial statements in accordance with IFRSs after a period where the entity's functional currency was subject to severe hyperinflation. Both amendments were endorsed by the European Commission with Regulation no. 1255/2012 on 11 December 2012 and are mandatorily to be applied for annual periods beginning on or after 1 January 2013.

"Improvements to the international accounting standards" (2009-2011). Within the scope of this project, the IASB issued a set of amendments to the IFRSs on 17 May 2012. The amendments indicated by the IASB as involving a change in the presentation, recognition and measurement of balance sheet items are listed below, leaving aside, however, those that will only result in terminological or publication changes with minimal effects in terms of accounting.

a) **IFRS 1 "First-time Adoption of International Financial Reporting Standards": repeated application.** The amendment clarifies the applicability of IFRS 1 to an entity that has applied IFRS 1 in a previous reporting period and then stopped applying IFRSs, if its most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRSs. A repeated adopter that elects not to apply IFRS 1 has to apply IFRSs retrospectively, as if it had never stopped applying IFRSs. The entity is required to disclose the reasons why:
   - it stopped applying IFRSs;
   - it resumed the application of IFRSs;
   - it has elected not to apply IFRS 1, if applicable.

b) **IFRS 1 "First-time Adoption of International Financial Reporting Standards": borrowing costs.** Borrowing costs that were capitalised before the date of initial IFRS application may be carried forward without restating the amount capitalised as at the date of transition.

c) **IAS 1 "Presentation of financial statements": Clarification of the requirements for comparative information**. It is clarified that, for the purpose of comparative information, an entity's financial statements shall include at least two statements of financial position, two statements of comprehensive income, two separate income statements, two statements of cash flows and two statements of changes in equity. No additional comparative disclosure is required in excess of the above. If additional information is provided it should be prepared in accordance with IFRSs An entity is instead required to present a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative information required, if a retrospective change in accounting policy or a retrospective restatement has a material effect on the information in the statement of financial position at the beginning of the preceding period.

d) **IAS 16 "Property, Plant and Equipment": classification of servicing equipment**. Spare parts and servicing equipment are to be classified as items of property, plant and equipment when they meet the definition set out in IAS 16; conversely, they should be classified as inventory.

e) **IAS 32 "Financial instruments: presentation": tax effect of distributions to holders of equity instruments**. Income tax relating to distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for under IAS 12 "Income taxes".

f) **IAS 34 "Interim financial reporting": interim financial reporting and segment information**. Total assets for a reportable segment need to be disclosed in interim reports only when the amounts are regularly provided to the chief operating decision makers and there has been a material change in the total assets for a segment from that previously disclosed in the last annual financial statements.

The document was endorsed by the European Commission with Regulation no. 301/2013 on 27 March 2013 and is mandatorily to be applied for annual periods beginning on or after 1 January 2013.

IAS/IFRS international accounting standards and related SIC/IFRIC interpretations endorsed by the European Commission, the application of which is mandatory as of 31 December 2013.

Pursuant to IAS 8 paragraphs 30 and 31, please note that up to 23 January 2013, the European Commission approved some principles and interpretations issued by the IASB, the application of which is required as of 31 December 2013. In these instances the Group did not opt, in any of these cases, for early application. These principles and interpretations are shown below.

The new accounting principles **IFRS 10 "Consolidated Financial Statements"**, **IFRS 11 "Joint Arrangements"** and **IFRS 12 "Disclosure of interests in other entities"** were published by the IASB in May 2011. The publication of IFRS 10 was intended to combine into a converged standard the consolidation principles previously contained in IAS 27 'Consolidated and Separate Financial Staments' and SIC 12 'Consolidation - Special Purpose Entities'; IFRS 10 requirements now apply to all entities. IFRS 10 introduces a new concept of control: an investor has control over an entity when he has exposure, or rights, to variable returns from the activities of the entity in which he has invested and has the ability to use his power over the investment to affect the amount of returns received. IFRS 10 led to the revision of IAS 27 "Consolidated and Separate Financial Statements" (reissued as IAS 27 "Separate Financial Statements"), which now sets the accounting standards and disclosure requirements for separate financial statements to be applied to investments in subsidiaries, joint ventures and associates. IFRS 11 "Joint Arrangements" replaces IAS 31 "Interests in Joint Ventures". The standard requires an entity to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the joint arrangement; if the entity is involved in a joint venture, it shall recognise and account for its investment in the joint venture using the equity method in accordance with IAS 28, "Investments in Associates and Joint Ventures". Proportionate consolidation is no longer permitted for joint ventures. The new standards, IFRS 10, IFRS 11 and IFRS 12, and revised standards IAS 27 and IAS 28, in conjuction with withdrawal of IAS 31, were endorsed by the European Commission with Regulation no. 1254/2012 on 11 December 2012 and are mandatorily to be applied for annual periods beginning on or after 1 January 2014.

On 17 May 2012, the IASB published "**Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance",** which provides additional clarification on issues concerning the first-time adoption of IFRS 10, IFRS 11 and IFRS 12 (effective as of financial statements for 2014). Described below are the most significant clarifications set out in the Transition Guidance:

a) the amended standard clarifies that the date of initial application of IFRS 10 coincides with the beginning of the annual reporting period in which IFRS 10 is applied for the first time (1 January 2014 for EU entities whose financial year coincides with the calendar year);
b) at the date of initial application of IFRS 10, an entity is not required to make retrospective changes to its previous accounting for its involvement in entities if :
c) they would have been consolidated under both IFRS 10 and under IAS 27/SIC 12;
d) they would not have been consolidated under IFRS 10 and IAS 27/SIC 12;
e) should an investor conclude that, at the date of initial application of IFRS 10, it needs to consolidate an investee that was previously unconsolidated under IAS 27/SIC 12, IFRS 10 should be applied retrospectively, by adjusting the annual reporting period prior to the date of initial application or the initial net assets for such period if control (as defined in IFRS 10) was obtained before the beginning of the annual reporting period prior to the date of initial application;
f) should an investor conclude that, at the date of initial application of IFRS 10, it needs to deconsolidate an investee that was previously consolidated under IAS 27/SIC 12, the interest in the (former) subsidiary should be recognised at the value at which it would have been measured had IFRS 10 been effective when the investor made the investment; When the investment was made at a date earlier than the beginning of the period immediately preceding the date of initial application, the annual reporting period prior to the date of initial application or the initial equity for such period shall be adjusted by the difference between the previously recognised amount and the carrying amount of assets, liabilities and non controlling interests as at the date of first application.
g) Should the above requirements be impracticable (as defined in IAS 8), simplifications are in place that allow for the application of new IFRS 10 at the beginning of the earliest period for which application of the above requirements is practicable (which may even be the initial-application period).

The principle was endorsed by the European Commission with Regulation no. 313/2013 on 4 April 2013 and is mandatorily to be applied for annual periods beginning on or after 1 January 2014.

In October 2012 , the IASB published **"Investment Entities"**, containing amendments to IFRS 10, IFRS 12 and IAS 27. The document introduces the definition of 'investment entity' to refer to an entity that obtains funds from third investors for the purpose of providing them with investment services, commits to its investors that its business purpose is to invest funds for returns from capital appreciation and investment income and measures the performance of substantially all of its investments on a fair value basis. An exemption from consolidation of subsidiaries is provided for these entities. In particular, the amendment requires these entities to measure their controlling interests at fair value through profit or loss in both their consolidated and separate financial statements. The document also introduces amendments to IFRS 12 and IAS 27 on information to be disclosed. The amendment is effective for annual periods beginning on or after 1 January 2014. The principle was endorsed by the European Commission with Regulation no. 1174/2013 on 20 November 2013 and is mandatorily to be applied for annual periods beginning on or after 1 January 2014.

The application of new accounting standards, IFRS 10 and IFRS 11, will , as of 1 January 2014, result in the inclusion of three structured entities in the scope of consolidation, the full consolidation of an equity investment previously measured using the equity method and finally the valuation at equity of an investment previously accounted for under the proportional method. Impact upon the balance-sheet and financial position, P&L and regulatory capital is immaterial.

In December 2011, the IASB issued **amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities"**, introducing a few paragraphs in the application guidance to clarify the

application of the existing requirements (under paragraph 42 of IAS 32) for offsetting financial assets and financial liabilities in the balance sheet. The principle was endorsed by the European Commission with Regulation no. 1256/2012 on 13 December 2012 and is mandatorily to be applied for annual periods beginning on or after 1 January 2014.

In the second half of 2013, an analysis was carried out on certain types of financial instruments resulting in the identification of certain transactions for which, under the amendments to IAS 32, the relevant financial assets and liabilities are subject to offsetting in the financial statements. The application of this amendment will, as of 1 January 2014, entail the net presentation of these items and will have no impact on the balance-sheet and financial position, P&L or regulatory capital.

In May 2013, the IASB published the **amendment to IAS 36 "Recoverable amount disclosures for non-financial assets"**. The amendment clarifies that recoverable amount disclosure for assets which have been subject to impairment loss only applies to those assets whose recoverable amount is based on fair value less costs of disposal; in this case, information is to be disclosed on fair value hierarchy, the valuation techniques used and the key assumption used to measure levels 2 and 3. The principle was endorsed by the European Commission with Regulation no. 1374/2013 on 19 December 2013 and is mandatorily to be applied for annual periods beginning on or after 1 January 2014. Early application is allowed only where 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 there would be no need to discontinue hedge accounting if a hedging derivative was novated to a central party as a result of laws or regulations. The amendment, which is effective for annual periods beginning on or after 1 January 2014, was issued as part of the regulatory changes which are taking place in several jurisdictions involving the novation of over-the-counter derivative trades to central parties. The amendment was endorsed by the European Commission with Regulation 1375/2013 on 16 December 2013.

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

These standards and interpretations are applied as of the start date envisaged for mandatory application by the IASB which is, in any event, after 31 December 2013. It should be noted that, for companies resident in EU member states, the start date for mandatory application shall be the date indicated in the endorsement regulations.

IFRS 9 – Financial instruments – Replacement Project.

In response to requests to simplify accounting standards applicable to financial instruments from both political organisations and international institutions, the IASB has launched a project to replace the current IAS 39. The project in question has been broken down into three separate phases: 1) classification and measurement of financial assets, 2) amortised cost and impairment, 3) hedge accounting. For phase 2) the IASB has not yet published any principles, but only an *Exposure Draft.*

With regard to the first phase, on 12 November 2009, the IASB issued the accounting standard **"IFRS 9 – Financial instruments"**. The new accounting standard relates to the classification and measurement of financial assets. Portfolio categories were reduced to three (amortised cost, fair value with changes to profit and loss, and fair value with changes through other comprehensive income). HTM and AFS categories were removed. Rules for classifying the three aforementioned categories were changed, including those relating to the Fair Value Option (FVO). IFRS 9 uses a unique method to determine whether a financial asset should be measured at amortised cost or at fair value. The method is based on the entity's business model and on the contractual features of the cash flow of the financial assets.

On 28 October 2010, the International Accounting Standards Board (IASB) completed IFRS 9 with a section on classification and measurement of financial liabilities. The IASB substantially decided to maintain the existing framework of IAS 39. It therefore maintained the existing requirement for separate accounting of derivatives embedded in a host contract. For instruments other than derivatives,

measurement of all fair value changes through profit or loss only applies to financial liabilities held for trading. For financial liabilities designated under the fair value option, the amount of change in the fair value that is attributable to changes in the credit risk of the liability, shall be presented directly in other comprehensive income, unless it creates/increases an accounting mismatch, in which case the entire change in fair value shall be presented within profit and loss. The amount that is recognised in other comprehensive income is not transferred from OCI to P&L ("recycled") when the liability is settled or extinguished.

As for phase 3 "Hedge accounting", in November 2013 the IASB published "**IFRS 9 – Financial instruments: hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39**". The document contains a substantial overhaul to the rules governing hedge accounting and will allow entities to better reflect their risk management activities in the financial statements. The document also contains an amendment which allows for the own- creditworthiness requirements included in IFRS 9 to be applied in isolation (recognition of changes in the fair value of liabilities under the fair value option to "other comprehensive income"). Finally, the 1 January 2015 was removed as mandatory effective date for the first-time application of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

For more complete information, it should be noted that in November 2012 the IASB published the Exposure Draft 2012/4 **"Classification and Measurement: limited amendments to IFRS 9 – Proposed amendments to IFRS 9 (2010)"** which proposes the introduction of a "*Fair value through other comprehensive income (FVOCI)*" measurement category for debt instruments on the basis of an entity's business model.

In November 2013, the IASB published the amendment to IAS 19 **"Employee contributions to defined benefit plans"**. The amendment clarifies the accounting of contributions from employees (or third parties) to defined benefit plans. More specifically, it outlines the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service, with a view to simplifying the accounting of contributions which are not dependent on the number of years of service, but which, for example, are determined as a fixed percentage of salary. The amendment is effective for annual periods beginning on or after 1 July 2014.

"Improvements to the international accounting standards" (2010-2012). Within the scope of this project, on 12 December 2013 the IASB issued a set of amendments to the IFRSs, briefly summarised as follows:

a) **IFRS 2 Share-based payments** The definitions of "vesting condition" and "market condition" were amended and definitions "performance condition" and "service conditions" (which were previously part of the definition of "vesting condition") were added.
b) **IFRS 3 "Business combinations"** The amendment clarifies that contingent consideration that is classified as asset or a liability shall be measured at fair value at each reporting date subsequent to first-time recognition.
c) **IFRS 8 "Operating segments"** The amendment requires an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments.
d) **IFRS 13 "Fair value measurement"** The amendment clarifies that amending IAS 39 and IFRS 9 following the publication of IFRS 13 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
e) **IAS 16 – "Property, plant and equipment"** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
f) **IAS 24 "Related party disclosures"** The amendment clarifies that an entity providing key management personnel services to the reporting entity is a related party of the reporting entity.
g) **IAS 38 "Intangible assets"** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

The amendments are effective for annual periods beginning on or after 1 July 2014.

"Improvements to the international accounting standards" (2011-2013). Within the scope of this project, on 12 December 2013 the IASB issued a set of amendments to four IFRSs, briefly summarised as follows:

a) **IFRS 1 "First-time adoption of IFRS"** The amendment clarifies that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application. The entity is required to apply the same version of the IFRS throughout the periods covered by the first IFRS financial statements.
b) **IFRS 3 "Business combinations"** The amendment clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
c) **IFRS 13 "Fair value measurement"** The amendment clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 or IFRS 9 regardless of whether they meet the definition of financial assets or liabilities as defined in IAS 32.
d) **IAS 40 "Investment property"** The amendment clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 and investment property as defined in IAS 40 requires the separate application of both standards independently of each other.

The amendments are effective for annual periods beginning on or after 1 July 2014.

A.2 – The main items of the accounts

Accounting standards

This chapter contains the accounting standards in relation to the main assets and liabilities in the balance sheet, which were adopted for the preparation of the consolidated financial statements as at 31 December 2013.

1 Financial assets held for trading

a) recognition criteria

Initial recognition of financial assets occurs at settlement date, for debt securities and equities and at trade date for derivative contracts.

Upon initial recognition, financial assets held for trading are recognised at fair value, which usually corresponds to the amount paid, without considering transaction costs or revenues directly attributable to the instrument, which are directly posted to the income statement.

Any embedded derivatives in combined financial instruments not directly connected to the latter and with the characteristics to meet the definition of a derivative are recorded separately from the host contract at fair value.

The applicable accounting criteria are administered to the primary contract.

b) classification criteria

This category includes debt securities and equities purchased mainly for the purpose of obtaining short-term profits arising from price changes and the positive value of derivative contracts, including expired and impaired derivatives not comprised in a master netting agreement, except for those designated as hedging instruments. Derivative contracts include those embedded in combined financial instruments which were subject to separate accounting.

c) measurement criteria

After initial recognition, financial assets held for trading are recorded at fair value, with value changes recognised in profit or loss.

For a description of criteria used to determine the fair value of financial instruments, please see section "A.3.2 Fair Value Hierarchy" of this Part A.

Equity instruments and derivatives indexed to such equity instruments, for which it is not possible to determine a reliable fair value according to the guidelines listed above, keep being measured at cost less impairment. Such impairment losses are not reversed.

d) derecognition criteria

Financial assets are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when the financial assets are sold and all related risks/benefits are transferred. Securities received within the scope of a transaction that contractually provides for subsequent sale are not recorded in the financial statements, and securities delivered within the scope of a transaction that contractually provides for subsequent buyback are not derecognised from the financial statements. Consequently, in the case of securities acquired with an agreement for resale, the amount paid is recorded in the financial statements as loans and advances to customers or banks, while in the case of securities transferred with an agreement for repurchase, the liability is recorded under deposits from banks or deposits from customers or under other liabilities.

e) revenue recognition criteria

Gains and losses arising from any changes in the fair value of a financial asset are recognised in profit and loss under item "80 Net trading income (expenses)", except for gains and losses on derivative assets linked with the fair value option which are classified under item "110 Net gains / losses on financial assets and liabilities designated at fair value".

2 Financial assets available for sale

a) recognition criteria

Financial assets are initially recognised on the date of settlement, with reference to debt or equity instruments, and on the date of disbursement, with reference to loans and receivables.

On initial recognition, the assets are reported at their fair value which normally corresponds to the price paid, inclusive of transaction costs or income directly attributable to the instrument. If recognition occurs following the reclassification from assets held to maturity, the recognition value is the fair value as at the time of transfer. In the case of debt instruments, any difference between the initial value and the value of repayment is spread out over the life of the debt instrument in accordance with the method of amortised cost.

b) classification criteria

This category includes non-derivative financial assets which are not classified as loans, financial assets designated at fair value through profit and loss or financial assets held to maturity.

In particular, this category also comprises strategic equity investments which are not managed for trading purposes and cannot be defined as controlling interest, significant influence and joint control, and bonds which are not subject to trading. Such investments may be transferred for any reason, such as liquidity requirements or variations in interest rates, exchange rates, or stock price.

c) measurement criteria

After initial recognition, financial assets available for sale are measured at fair value, with interest being recognised in the income statement as resulting from the application of the amortised cost and with appropriation to a specific equity reserve of the gains or losses arising from changes in fair value net of the related tax effect, except losses due to impairment. Foreign exchange fluctuations in relation to equity instruments are posted to the specific equity reserve, whereas changes in loans/receivables and debt instruments are allocated to profit and loss. Equity instruments, for which it is not possible to determine a reliable fair value, are maintained at cost, adjusted for any impairment losses.

Financial assets available for sale are reviewed for objective evidence of impairment at each balance sheet and interim reporting date. Indicators of a likely impairment include but are not limited to: significant financial difficulty of the issuer, non-fulfilment or defaults in payments of interest or

principal, possibility that the borrower is declared bankrupt or submitted to other forms of insolvency proceedings, disappearance of an active market for the assets. In particular, as far as equity instruments that have a quoted market price in an active market are concerned, a market price as at the date of the financial statements lower than the original purchasing cost of at least 30% or a market value lower than the cost lasting more than 12 months are considered an objective evidence of value reduction. If further reductions take place in subsequent financial years, these are charged directly to the income statement.

With regard to debt securities, regardless of whether or not these are listed on active markets, any impairment loss is recognised in the income statement strictly in relation to the issuer's ability to fulfil its obligations and therefore make the necessary payments and repay capital at maturity. Therefore, it needs to be established whether there are indications of a loss event which could have a negative impact on estimated future cash flows. Where there are no actual losses, no loss is recognised on the stock, and any capital loss is recognised in the negative net equity reserve.

The amount of any value adjustment shown following the impairment test is recorded in the income statement as an expense for the year. Should the reasons for impairment cease to exist, following an event which occurred after recognition of impairment, reversals are recognised in equity in the case of equity instruments, and through profit and loss in the case of debt securities.

d) derecognition criteria

Financial assets are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when the financial assets are sold and all related risks/rewards are transferred.

Securities received within the scope of a transaction that contractually provides for subsequent sale are not recognised in the financial statements, and securities delivered within the scope of a transaction that contractually provides for subsequent repurchase are not derecognised from the financial statements. Consequently, in the case of securities acquired with an agreement for resale, the amount paid is recognised in the financial statements as loans and advances to customers or banks, while in the case of securities transferred with an agreement for repurchase, the liability is shown under deposits from customers or deposits from banks or under other liabilities.

e) revenue recognition criteria

Upon disposal, exchange with other financial instruments or measurement of a loss of value following impairment testing, the fair value results accrued to the reserve for assets available for sale are reversed to profit and loss under:

- item "100 – Gains/Losses on purchase/disposal of: b) financial assets available for sale", in the case of disposal;
- item "130 - Net impairment losses/reversals on: b) financial assets available for sale", in the case of recognition of impairment.

If the reasons for impairment cease to exist, following an event which occurred after the impairment was recognised, the impairment loss is reversed: through profit and loss in the case of loans or debt securities, and through equity in the case of equity instruments.

3 Financial assets held to maturity

a) recognition criteria

Initial recognition of the financial asset occurs on the settlement date. On initial recognition, the assets are measured at their fair value which normally corresponds to the price paid, inclusive of transaction costs or income directly attributable to the instrument.

If inclusion in this category occurs following reclassification from available-for-sale financial assets, the fair value of the asset as at the date of reclassification is used as the new amortised cost of the asset.

b) classification criteria

This category includes non-derivative financial assets with fixed or determinable payments and fixed maturity, for which the Group has the positive intention and ability to hold to maturity. If it is no

longer appropriate to keep an investment to maturity as a result of a change in the Group's intention and ability to hold it as such, the investment is reclassified among assets available for sale and, for the two following years, it will not be possible to add to the category "Financial assets held to maturity".

Whenever the sales or reclassifications are qualitatively and quantitatively irrelevant, any investment held to residual maturity shall be reclassified as available for sale.

c) revenue recognition criteria

After initial recognition at its fair value, a held-to-maturity financial asset is measured at amortised cost using the effective interest method, adjusted so as to take account of the effects resulting from any impairment losses.

The result of the application of this method is posted through profit and loss under item "10 – Interest income and similar revenues".

Gains or losses from the sale of these assets are recognised in profit or loss under item "100 - Gains (losses) on disposals or repurchases of: c) investments held to maturity".

Assets are checked for evidences of impairment at annual and interim reporting dates.

If evidence of an impairment loss exists, the loss is measured as the difference between the carrying value of the asset and the current value of the estimated future cash flows, discounted at the original effective interest rate. The loss is recorded in the income statement under account "130 - Net impairment losses / reversals on: c) investments held to maturity".

If the reasons for impairment cease to exist following an event occurring after the impairment loss was recognised, reversals are posted to the income statement under the same item 130.

d) derecognition criteria

Financial assets are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when the financial assets are sold and all related risks/rewards are transferred.

4. Loans

a) recognition criteria

Recognition in the financial statements occurs:

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

The initial value is determined on the basis of the fair value of the financial instrument (which is normally equal to the amount disbursed or price of underwriting), inclusive of the expenses/income directly related to the individual instruments and determinable as of the transaction date, even if such expenses/income are settled at a later date. This does not include costs which have these characteristics but are subject to repayment by the debtor or which can be encompassed in ordinary internal administrative expenses.

Swaps and repo contracts under agreement to re-sell are posted as lending transactions. In particular, the latter are reported as receivables in the sum of the spot amount paid.

b) classification criteria

Receivables include loans to customers and banks, whether disbursed directly or purchased from third parties, with fixed or determinable payments, which are not quoted in an active market and were not

initially classified among available-for-sale financial assets and financial assets at fair value through profit or loss.

They also incorporate trade receivables, repurchase agreements, receivables arising from financial leasing transactions and securities purchased in a subscription or private placement, with fixed or determinable payments, not quoted in active markets. Also included among receivables are junior securities coming from own securitisations completed prior to first-time adoption.

c) revenue recognition criteria

After initial recognition, receivables are valued at amortised cost, which is the initial recognition amount decreased/increased by principal repayments, write-downs/write-backs and the amortisation – calculated using the effective interest rate method – of the difference between the amount disbursed and the amount repayable upon maturity, typically attributable to the costs/income directly charged to each receivable. The effective interest rate is the interest rate which makes the current value of future flows of the receivable, in principal and interest, estimated over the expected life of the receivable, equal to the amount disbursed, inclusive of any costs/income attributable to the receivable. Therefore, the economic effect of costs and income is spread over the expected residual life of the receivable.

The amortised cost method is not used for short-term receivables, for which the effect of applying a discounting logic is negligible. Similar valuation criteria are adopted for receivables with no specific maturity or subject to revocation.

Non-performing exposures (e.g. doubtful, substandard, restructured and past-due loans) are classified into different risk categories in accordance with the regulations issued by the Bank of Italy, supplemented with internal provisions which set automatic criteria and rules for the transfer of receivables between different risk categories.

With regard to the restructuring of loans, three different categories have been identified:

loan restructurings (as defined in Circular 272 of the Bank of Italy);
loan renegotiations;
debt settlement via borrower substitution or debt-for-equity swap.

In line with Bank of Italy's regulations, debt (loan) restructuring is understood as a transaction whereby the Bank, for economic reasons, makes a concession to the borrower in light of his financial difficulties, which it would not have made under other circumstances and which causes a loss to the lender. The Bank's concession consists in its waiver of certain contractually defined rights, which translates into an immediate or deferred advantage for the borrower, who benefits from the waiver, and a corresponding loss for the lending bank. The effects of the waiver are measured by the negative (positive) change in the economic value of credit (debt) as compared to the book value of credit (debt) prior to restructuring.

Loans under these circumstances are classified as non-performing.

The renegotiation of loans granted by the Bank to performing customers is substantially equated with the opening of a new position, if it is granted essentially for commercial reasons rather than for the borrower's economic-financial difficulties and provided that the interest rate applied is a market rate as at the date of renegotiation.

As an alternative to the previously described options (restructurings and re-negotiations), the Bank and the borrower may, agree on settlement of the original debt via:

- novation or assumption of the loan by another borrower (release from debt liability);
- substantial modification of loan terms involving a debt-equity swap;

Said events, involving a substantial modification of contractual terms, provide for cancellation of the pre-existing loan agreement from an accounting standpoint, and consequent booking of the new agreement at fair value, recognising through profit or loss an amount corresponding to the difference between the book value of the old loan and the fair value of assets received .

Substandard loans include loans that have been past due for over 270 days.

Classification is carried out by the relevant units independently, except for loans more than 90 days past due and substandard loans more than 270 days past due, which are measured using automated procedures.

In order to determine adjustments to the carrying value of receivables, and taking into account the different impairment levels, analytical or collective valuation is used, as outlined hereunder.

Doubtful, substandard and restructured loans are subject to analytical valuation; loans more than 90 days past due, loans subject to country risk and performing loans are subject to collective valuation. In accordance with the Bank of Italy's recent amendment to Circular 262/2005, however, data for loans more than 90 days past due are subject to analytical valuation in the tables in the notes to the financial statements.

For loans subject to analytical assessment, the amount of value adjustment for each loan is equal to the difference between the loan book value at the time of measurement (amortised cost) and the current value of estimated future cash flows, as calculated by applying the original effective interest rate. In the case of restructured loans, estimation of future cash flows takes account of the effects from changes in the contractual terms and conditions following restructuring.

Expected cash flows take account of the expected repayment schedule, the expected recovery value of collaterals, if any, as well as the costs expected to be incurred for the recovery of the credit exposure.

The value adjustments are booked to the income statement to item "130 - Net impairment losses (reversals)". The adjustment component attributable to the discounting of cash flows is calculated on an accrual basis in accordance with the effective interest rate method and posted under reversals.

If the quality of the non-performing receivable has improved to such a point that there is reasonable certainty of timely recovery of the principal and interest, its initial value is recycled in the following years to the extent in which the reasons determining the adjustment disappear, provided that such valuation can be objectively linked with an event which occurred after the adjustment. The reversal is posted to the income statement and may not in any case exceed the amortised cost that the receivable would have had without prior adjustments.

Receivables with no objective evidence of loss are subject to a collective assessment of impairment. Such assessment, developed on the basis of a risk management model, is carried out by category, with receivables grouped together according to credit risk, and the relative loss percentages are estimated taking into account time-series based on elements observed on the date of assessment which allow the value of latent loss in each category to be estimated.

The model, for this type of valuation, involves the following steps:

- Segmentation of the loan portfolio by:
  - client segment (turnover);
  - economic sectors of activity;
  - geographical location;
- determination of the loss rate of individual portfolio segments, using the historical experience of the Group as reference.

Value adjustments determined collectively are posted to the income statement. Any additional write-downs or write-backs are recalculated on a differential basis, at year-end or on the dates of interim reports, with reference to the entire loan portfolio on the same date.

d) derecognition criteria

Receivables sold are derecognised from the assets on the balance sheet only if their disposal implied the substantial transfer of all associated risks and rewards. However, if the risks and rewards associated with the receivables sold have been maintained, they continue to be posted among the assets on the balance sheet, even if legal ownership has been transferred.

If it is not possible to ascertain a substantial transfer of risks and rewards, the receivables are derecognised when control of the assets has been surrendered. If such control has been maintained, even partly, the receivables should continue to be recognised to the extent of residual involvement, as

measured by the exposure to the changes in value of the receivables sold and to the changes in their cash flows.

Finally, receivables sold are derecognised if the contractual rights to receive the cash flows from the assets are maintained and a contractual obligation to pay only said flows to third parties is simultaneously undertaken.

5 Financial assets designated at fair value:

a) recognition criteria

Financial assets are initially recognised on the date of settlement, with reference to debt or equity instruments, and on the date of disbursement, with reference to loans and receivables.

Upon initial recognition, financial assets are measured at fair value, which usually equals the consideration paid, without adding directly attributable transaction costs or fees earned, which are posted to profit and loss.

The Fair Value Option (FVO) applies to all financial assets and liabilities which would have caused misrepresentation on the income statement and balance sheet had they been otherwise classified, and to all instruments which are managed and measured using a fair value approach.

b) classification criteria

This category includes the financial assets intended for measurement at fair value through profit or loss (except for equity instruments with no reliable fair value) when:

1. the designation at fair value eliminates or reduces significant accounting mismatches in the reporting of financial assets in the income statement and balance sheet; or
2. the management and/or measurement of a group of financial assets at fair value through profit or loss is consistent with an investment or risk management strategy documented as such by senior management; or
3. a host instrument embeds a derivative which significantly modifies the cash flows of the host and should otherwise be accounted for separately.

c) measurement criteria

Subsequent to initial recognition, the assets are measured at fair value.

For a description of criteria used to determine the fair value of financial instruments, please see section “A.4.5 Fair Value Hierarchy” of this Part A.

d) derecognition criteria

Financial assets are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when the financial assets are sold and all related risks/rewards are transferred.

Securities received within the scope of a transaction that contractually provides for subsequent sale are not recognised in the financial statements, and securities delivered within the scope of a transaction that contractually provides for subsequent repurchase are not derecognised from the financial statements. Consequently, in the case of securities acquired with an agreement for resale, the amount paid is recognised in the financial statements as loans to customers or banks, while in the case of securities transferred with an agreement for repurchase, the liability is shown under deposits from customers or deposits from banks.

e) revenue recognition criteria

Gains and losses resulting from any changes in the fair value of the financial assets linked with the Fair Value Option are posted under item 110 “Net profit (loss) from financial assets and liabilities designated at fair value”.

6. Hedging transactions

a) recognition criteria – purpose

Risk-hedging transactions are aimed at offsetting any potential losses on a certain element or group of elements that may arise from a specific risk, with the profits made on a different element or group of elements, should that particular risk occur.

b) classification criteria – types of hedging

IAS 39 provides for the following types of hedging:

- fair value hedges, which are intended to hedge the exposure to changes in fair value of a recognised asset or liability, that are attributable to a particular risk;
- cash flow hedges, which are intended to hedge the exposure to variability in future cash flows attributable to particular risks associated with a recognised asset or liability;
- hedges of a net investment in a foreign operation, which refers to hedging the risks of an investment in a foreign operation denominated in a foreign currency.

To conclude the chapter on the accounting principles, a specific section is added to provide further insight into the application issues and policies adopted by the Group with regard to hedging transactions. These issues are also addressed in section E of the notes to the financial statements relating to risk management, as well as in sections B and C relating to the balance sheet and income statement. The hedging policies adopted by the Group are explained, with a special focus on the applicability of the"natural hedges" provided for by the Fair Value Option as an alternative to hedge accounting in some major instances. In particular, Fair Value Option and cash flow hedging were adopted mainly to account for hedges of liabilities, while Fair Value Hedging was adopted mainly to account for hedges of assets, i.e both micro-hedges on fixed-rate debt securities/mortgages and macro-hedges on fixed-rate loans.

c) revenue recognition criteria

Hedging derivatives are measured at fair value. In particular:

- in the case of fair value hedging, the changes in the fair value of the hedged asset are offset by the changes in the fair value of the hedging instrument. Offsetting gains and losses are recognised in profit or loss under item 90 "Net profit (loss) from hedging " through recognition of value changes, with reference both to the hedged item (as regards changes produced by the underlying hedged risk factor) and the hedging instrument. Any difference, i.e. partial ineffectiveness of the hedging derivatives, reflects their net P&L impact;
- in the case of cash flow hedging, the changes in fair value of the derivative are posted to a specific shareholders' equity reserve with reference to the effective portion of the hedge, and are posted to the income statement under item 90 "Net profit (loss) from hedging " only when the changes in fair value of the hedging instrument do not offset the changes in the cash flows of the hedged item;
- hedges of foreign currency investments are accounted for similarly to cash flow hedges.

A hedging transaction should be reflective of a pre-determined risk management strategy and consistent with risk management policies in use. In addition, a derivative is designated as a hedging instrument if the relationship between the hedged item and the hedging instrument is formally documented, and provided that the hedging relationship is -and is expected to be- effective both at inception and, prospectively, throughout its life.

Hedge effectiveness depends on the extent to which changes in the fair value or expected cash flows of the hedged item are offset by corresponding changes in the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while taking into account the company's intent at hedge inception.

With reference to the hedged risk, the hedging is effective (within the 80% to 125% window) when the changes in fair value (or in the cash flows) of the hedging instrument offset the changes in the hedged item almost entirely.

Effectiveness is assessed at year-end by using:

- prospective tests, which justify continuing hedge accounting since they show its expected effectiveness;
- retrospective tests, which show how effective the hedging relationship has been in the period under review.

Derivatives which are considered as hedging instruments from an economic viewpoint because they are operationally linked with financial liabilities measured at fair value (Fair Value Option) are classified among trading derivatives; the respective positive and negative differentials or margins accrued until the end of the reporting period are recognised, in accordance with their hedging purpose, as interest income and interest expense, while valuation gains and losses are posted under item 110 of the income statement, "Net profit (loss) from financial assets and liabilities designated at fair value".

d) derecognition criteria – ineffectiveness

If tests do not confirm hedge effectiveness, both retrospectively and prospectively, hedge accounting is discontinued and, unless it has expired or has been terminated, the hedging derivative contract is reclassified as a held-for-trading instrument, whereas the hedged item reverts to the accounting treatment based on its original classification.

If a fair value hedge relationship is discontinued, any positive or negative adjustments made to the carrying amount of the hedged item until the last date on which compliance with hedge effectiveness was demonstrated are recycled into profit and loss. In particular, if the hedged item has not been derecognised, transfer to profit or loss is made using the effective interest method over the remaining life of the hedged instrument; if discontinuation of the hedging relationship leads to derecognition of the hedged item (for example due to early redemption), any gain or loss shall be entirely classified to profit or loss when the hedged item is derecognised.

Amounts accumulated in cash flow hedge reserves are recycled to profit or loss when the hedged item affects profit or loss. Conversely, if the hedged item is discharged, cancelled or expires the reserve is immediately recycled to profit or loss upon derecognition of the hedged item.

7 Equity investments

a) recognition criteria

The account includes equity investments held in associates; the investments are initially recognised at purchase cost.

b) classification criteria

Associates include (i) companies where a share of 20% or higher of voting rights is held, and (ii) companies which – owing to specific legal ties such as the participation in shareholders' pacts – have to be considered as subject to significant influence.

The classification of investments is made regardless of legal status and the computation of voting rights includes any potential voting rights currently exercisable.

c) revenue recognition criteria

In consideration of the above, this item broadly contains the valuation of equity investments using the equity method; this method provides for initial recognition of the investment at cost and its subsequent adjustment on the basis of the share of the investee's profits and losses made after the date of purchase. The pro-rata amount of the profit/loss for the period of the investee is posted to item 240 "Gains/losses on investments" in the consolidated income statement.

If evidence of impairment indicates that there may have been a loss in value of an equity investment, then the recoverable value of the investment (which is the higher of the fair value, less costs to sell, and the value in use) should be estimated. The value in use is the present value of the future cash flows expected to be derived from the investment, including those arising from its final disposal.

Should the recoverable value be less than its carrying value, the difference is recognised immediately in profit or loss under item "240 - Gains (losses) on investments".

Should the reasons for impairment no longer apply as a result of an event occurring after the impairment was recognised, reversals of impairment losses are credited to the same account in profit and loss.

The profit related to the equity investments is booked to profit and loss of the Parent Company regardless of whether it was generated by the investee before or after the date of purchase. In the consolidated financial statements, dividends received are deducted from the investee's book value; should, after dividend recognition, the investee's book value in the separate financial statements exceed the book value (in the consolidated financial statements) of the investee's net assets, including goodwill, or should dividend payout exceed the investee's total profit, then the Group will determine the recoverable value of the investment to verify whether there has been a loss in its value.

When a subsidiary becomes an associate because the Parent Company has lost control over it following changes in the percentage of interest, the residual investment will have to be posted to the item "Equity investments" at its fair value as at the loss of control date; this value then becomes the starting value for using the equity method.

d) derecognition criteria

Investments are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when the financial assets are sold and all related risks/rewards are transferred.

If a company is committed to a plan to sell a subsidiary that involves loss of control over said subsidiary, all the subsidiary's assets and liabilities should be reclassified as assets held for sale, regardless of whether the company will retain a non-controlling interest after the sale.

8. Property, plant and equipment

a) recognition criteria

Property, plant and equipment are originally posted at cost, which includes the purchase price and any additional charges directly attributable to the purchase and installation of the assets.

Non-recurring expenditures for maintenance which involve an increase in future economic rewards are booked as an increase in the value of the assets, while expenses for ordinary maintenance are booked to the income statement. Financial expenses are recorded in accordance with IAS 23.

b) classification criteria

Fixed assets include land, operating properties, investment properties, systems, furnishings and fixtures, and equipment of any type.

Operating properties are properties owned by the Group and used in production and in the supply of services or for administrative purposes, whereas investment properties are those owned by the Group for the purpose of collecting rents and/or held for appreciation of capital invested.

This item also includes any assets used in financial lease contracts, although their legal ownership rests with the leasing company, and any improvements and incremental expenses incurred in relation to third-party assets when they refer to identifiable and separable property, plant and equipment from which future economic rewards are expected. As regards real estate, components relating to land and buildings are separate assets for accounting purposes and are measured separately upon acquisition.

c) revenue recognition criteria

Property, plant and equipment, including non-operating real estate, are valued at cost less any accrued depreciation and impairment.

They are systematically depreciated over their useful life on a straight-line basis, except for land and works of art which have an indefinite useful life and cannot be depreciated. The useful life of the fixed assets subject to depreciation is periodically reviewed and, in the event of any adjustments to the initial estimate, a change is also made in the related depreciation rate. The depreciation rates and subsequent useful life expected for the main categories of assets are reported in the specific sections of the notes to the financial statements.

The presence of any signs of impairment, or indications that assets might have lost value, shall be tested at the end of each reporting period.

Should there be indications of impairment of value, a comparison is made between the book value of the asset and the asset's recoverable value, i.e. the higher of the fair value, less costs to sell, and the value in use, which is the present value of the future cash flows generated by the asset. Any adjustments are posted to the income statement under item 170 "Net impairment losses/reversals on property, plant and equipment". Periodic depreciation is reported in the same item.

Should the reasons for impairment cease to exist, a reversal is made, which shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no previous impairment loss been recognised.

d) derecognition criteria

Property, plant and equipment are derecognised from the balance sheet upon their disposal or when the assets are permanently withdrawn from use and no future economic rewards are expected as a result of their disposal.

9 Intangible assets

a) recognition criteria

Intangible assets are identifiable, non-monetary assets without physical substance that are held for use over several years or indefinitely. They are posted at cost, adjusted by any additional charges only if it is probable that the future economic rewards that are attributable to the asset will flow to the entity and if the cost of the asset can be measured reliably. The cost of intangible assets is otherwise posted to the income statement in the reporting period it was incurred.

Relevant intangible assets for the Group include:

- Technology-related intangible assets including software licenses, internal capitalised costs, projects and licenses under development; in particular, internally incurred costs for software project development are intangibles recognised as assets if, and only if : a) the cost for development can be measured reliably, b) the entity intends and is financially and technically able to complete the intangible asset and either use it or sell it, c) the entity is able to demonstrate that the asset will generate future economic rewards. Capitalised costs for software development only include the expenses that are directly attributable to the development process.
- Customer relationship intangible assets, represented by the value of assets under management/custody and core deposits in the event of business combinations;
- marketing-related intangible assets consisting in the value of trademarks in business combinations.

Goodwill is posted among assets when it results from a business combination transaction in accordance with the principles of determination indicated by IFRS 3, as a residual surplus between the overall cost incurred for the transaction and the net fair value of the assets and liabilities purchased (i.e. companies or business units).

Should the cost incurred be less than the fair value of the assets and liabilities acquired, the difference (badwill) is directly recognised in profit or loss.

b) revenue recognition criteria

The cost of intangible fixed assets is amortised on a straight-line basis over their useful life. An intangible asset with an indefinite useful life should not be amortised but assessed for impairment periodically. Intangible assets arising from an internally developed software purchased from third parties are amortised on a straight-line basis starting from completion and roll-out of the applications based on their useful life. Intangible assets reflective of customer relationships or associated with trademarks, which are taken over during business combinations, are amortised on a straight-line basis

Where there is evidence of impairment, the recoverable amount of the assets is estimated at year-end. The amount of the loss recognised in profit and loss is equal to the difference between the carrying value and the recoverable amount of the assets.

The goodwill recognised is not subject to amortisation, but its book value is tested annually (or more frequently) when there are signs of impairment. To this end, the cash flow generating units to which goodwill is attributable are identified.

The amount of the impairment loss is determined by the difference between the book value of goodwill and its recoverable amount, if lower. Said recoverable amount is the higher of the cash-generating unit's fair value, less costs to sell, and its value in use. Value in use is the present value of future cash flows expected to arise from the years of operation of the cash-generating unit and its disposal at the end of its useful life. The resulting value adjustments are posted to the income statement under item 210 "Net adjustments to (recoveries on) intangible assets". Periodic depreciation is reported in the same item. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

c) derecognition criteria

Intangible assets are derecognised from the balance sheet upon disposal and when no future economic rewards are expected.

10. Non-current assets held for sale

a) recognition criteria

Non-current assets held for sale and discontinued operations are initially valued at the lower of the book value and the fair value less costs to sell.

b) classification criteria

This item includes non-current assets held for sale and discontinued operations when the book value is to be recovered mainly through a highly likely sale rather than continuous use.

c) revenue recognition criteria

Following initial recognition, non-current assets held for sale and discontinued operations are valued at the lower of the book value and the fair value net of selling costs. Related income and expenses, net of tax, are shown in the P&L statement under a separate item if they relate to discontinued operations.

In this specific case (discontinued operations), it is also necessary to disclose again the same economic information in a separate item for the previous periods presented in the financial statements, reclassifying the income statements as a result.

Amortisation is discontinued at the date the non-current asset is classified as a non-current asset held for sale.

d) derecognition criteria

Non-current assets held for sale and discontinued operations are derecognised from the balance sheet upon disposal.

11. Current and deferred tax

a) recognition criteria

The effects of current and deferred taxation calculated in compliance with Italian tax laws are posted on an accrual basis, in accordance with the measurement methods of the income and expenses which generated them, by administering the applicable tax rates.

Income taxes are posted to profit and loss, excluding those relating to items directly credited or charged to equity.

Income tax provisions are determined on the basis of a prudential forecast of current tax expense, deferred tax assets and liabilities.

Current tax includes the net balance of current tax liabilities for the year and current tax assets with the Financial Administration, comprising tax advances, tax credit arising from prior tax returns and other withholding tax receivables. In addition, current tax includes tax credit for which reimbursement has been requested from the relevant tax authorities. Tax receivables transferred as a guarantee of own debts shall also be recorded within this scope.

Deferred tax assets and liabilities are determined on the basis of the temporary differences – with no time limits – between the value assigned to the assets or liabilities in accordance with statutory principles and the corresponding values for tax purposes, applying the so-called balance sheet liability method.

Deferred tax assets are shown in the balance sheet for the extent to which they are likely to be recovered on the basis of the capacity of the company involved or all of the participating companies – as a result of exercising the option concerning "fiscal consolidation" – to generate a positive taxable profit on an ongoing basis. Recovery of deferred tax assets relating to goodwill, other intangibles and write-downs on loans is to be considered automatically probable because of existing regulations that provide for conversion into tax credits, if a statutory and/or tax loss is incurred.

In particular:

- if the financial statements filed by the company show a statutory loss for the year, deferred tax assets relating to goodwill, other intangible assets and loan write-downs will be subject to partial conversion into tax credits pursuant to the provisions set out in art. 2, par. 55 of Legislative Decree no. 225 of 29 December 2010, as amended by Law no. 10 of 26 February 2011. The conversion into tax credits becomes effective as of the date when the 'loss-incurring' separate financial statements are approved by the Shareholders' Meeting, as provided for by art. 2, par. 56 of aforementioned Legislative Decree no. 225/2010.
- if the financial statements filed by the company show a tax loss for the year, deferred tax assets relating to goodwill, other intangible assets and loan write-downs will be subject to conversion into tax credits pursuant to the provisions set out in art. 2, par. 56-bis of said Legislative Decree no, 225/2010, introduced by art. 9 of Legislative Decree Legislative Decree no. 201 of 6 December 2011, as amended by Law no. 214 of 22 December 2011. Conversion will be effective as of the date of submission of the tax return for the year in which the loss is incurred.

As a result of changes introduced to the above provisions by Law no. 147 of 27 December 2013, starting from the tax period in progress as at 31 December 2013, the conversion into tax credits of deferred tax assets relating to goodwill, other intangible assets and loan losses and writedowns has also been extended to IRAP (regional productivity tax) , in the case of both a statutory loss for the year and a negative production value.

Deferred tax liabilities are shown in the balance sheet, with the sole exception of reserves subject to tax deferral, since the volume of available reserves already subjected to taxation reasonably implies that no tax-inducing transactions will be carried out.

Deferred tax assets and liabilities are posted to the balance sheet by offsetting each tax against the defined asset or liability to which it relates.

b) classification and measurement criteria

Deferred tax assets and liabilities are systematically measured to take account of any changes in regulations or tax rates and of any different subjective situations of Group companies. In addition, the

tax reserve is adjusted to cover the charges which might result from already notified tax assessments or litigation pending with the tax authorities.

With reference to fiscal consolidation of the parent company and participating subsidiaries, contracts have been stipulated to regulate offsetting flows in relation to the transfers of tax profits and losses. Such flows are determined by administering the applicable IRES tax rate to the taxable income of participating companies. The offsetting flow for companies with tax losses – calculated as above – is posted by the consolidating to the consolidated company insofar as the consolidated company, had it not been a participant of fiscal consolidation, might have used the losses to offset its taxable income . Offsetting flows so determined are posted as receivables and payables with companies participating in fiscal consolidation, classified under other assets and other liabilities, offsetting item 290 "Tax expense (recovery) on income from continuing operations".

c) revenue recognition criteria

Where deferred tax assets and liabilities refer to components which affected the income statement, they are offset by income tax. When deferred tax assets and liabilities refer to transactions which directly affected equity without impacting the income statement (e.g. valuations of available-for-sale financial instruments or cash flow hedging derivatives), they are posted as an offsetting entry to shareholders' equity, involving the special reserves if required.

12. Provisions for risks and charges

Provisions to the reserve for risks and charges are made only when:

- there is a current (legal or implicit) obligation resulting from a past event;
- an outflow of resources producing economic rewards is likely to be necessary in order to settle the obligation; and
- the amount of the obligation can be estimated reliably

Whenever timing is important, the provisions are discounted back.

Provisions to the reserve are posted to the income statement, in addition to interest expense accrued on the reserves which were subject to discounting.

No provision is shown for contingent and unlikely liabilities, but information is provided in the notes to the financial statements, except in cases where the probability of an outflow of resources to settle the amount is remote or the amount is not significant.

Sub-item 120 "Provisions for risks and charges: post-employment benefits" includes appropriations in compliance with the 2011 revised version of IAS 19 "Employee benefits" for the purpose of settling the technical deficit of defined-benefit supplementary pension funds. Pension plans are either defined-benefit or defined-contribution schemes. The charges borne by the employer for defined-contribution schemes are pre-determined; charges for defined-benefit plans are estimated and shall take account of any shortfall in contributions or poor investment performance of defined-benefit plan assets.

For defined-benefit plans, the actuarial values required by the application of the above principle are determined by an external actuary in accordance with the Projected Unit Credit Method. In particular, the accounting treatment of net defined benefit liabilities is as follows:

1) any surplus or deficit in the plan is measured as the difference between the present value of the defined benefit obligation (DBO) and the fair value of the plan's assets;
2) when the plan is in deficit, the net defined benefit liability recognised in the balance sheet is equal to the deficit itself;
3) when the plan is in surplus, it is necessary to determine the present value of any future economic benefits available to the Bank in the form of refunds from the plan or reductions in future contributions to the plan (asset ceiling);
4) when the asset ceiling is lower than the surplus, the net defined benefit asset is to be recognised in the balance sheet in an amount equal to the asset ceiling.

In essence, if the Bank cannot use the surplus in any way then no asset may be recognised in the balance sheet.

An increase in the present value of the DBO resulting from employee service in the current period is recognised in the Bank's P&L, regardless of whether the plan is in surplus or deficit, as is the case for past service costs and interest costs.

The following components, on the other hand, are immediately recognised in the statement of comprehensive income:

1) actuarial gains and losses on the DBO;
2) difference between the actual return on plan assets and net income on the plan assets;
3) any change in the effect of the asset ceiling, excluding the interest income component.

Sub-item 120 "Provisions for risks and charges: other provisions" includes any provision to cover expected losses for actions filed against the Bank, including clawback actions, estimated expenses in relation to customer claims for securities brokerage, and other estimated expenses in relation to legal or implicit obligations existing at the end of the period.

13. Liabilities and debt securities issued

a) recognition criteria

These financial liabilities are first recognised upon receipt of the sums collected or at the time of issuance of debt securities.

Liabilities are initially recognised at their fair value, which is generally equal to the amount received or the issue price, increased by any additional income/expense directly attributable to the funding or issuing transaction and not reimbursed by the creditors. Internal administrative costs are excluded. The fair value of financial liabilities (if any) issued at conditions other than market conditions is calculated by using a specific valuation technique, and the difference with respect to the consideration received is booked directly to profit and loss only when the conditions provided for by IAS 39 have been met., i.e. when the fair value of the instrument issued can be established by using either quoted market prices for similar instruments or a valuation technique based solely on market data.

b) classification criteria

Deposits from banks and customers and securities issued include different types of funding (both interbank and from customers) and funds raised through certificates of deposit and outstanding bonds, net of any repurchase. Debt securities issued include all securities that are not subject to "natural" hedging through derivatives and that are classified as liabilities measured at fair value.

The item also incorporates payables booked by the lessee in relation to any stipulated financial lease transactions.

c) revenue recognition criteria

Following initial recognition, financial liabilities are valued at amortised cost using the effective interest method.

Short-term liabilities for which time effect is immaterial are an exception, and are recognised at the amount collected.

Should the requirements provided for by IAS 39 be met in the case of structured instruments, the embedded derivative is separated from the host contract and reported at fair value as a trading asset or liability. In this case, the host contract is recognised at amortised cost.

d) derecognition criteria

Financial liabilities are derecognised upon maturity or extinction. Derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of the liabilities and the amount paid to repurchase them is recorded in the income statement.

A new placement in the market of own securities after their repurchase is considered as a new issue and posted at the new price of placement, with no impact on the income statement.

In compliance with the provisions of IAS 32, any potential commitment to buy treasury shares as a result of the issuance of put options is shown in the balance sheet under financial liabilities, offset by the reduction of shareholders' equity in the amount of the current value of the contractual repayment sum. At the end of 2013, there were no put options sold on treasury shares of the Parent company.

14. Financial liabilities held for trading

a) recognition criteria

Financial liabilities held for trading are initially posted on the date of issue for debt securities, and on the date of subscription for derivatives.

Upon initial recognition, they are measured at fair value, which usually corresponds to the amount collected net of any transaction costs or income directly attributable to the instrument itself, which are directly posted to the income statement. Any embedded derivatives in combined financial instruments not directly connected to the latter and with the characteristics to meet the definition of a derivative are recognised separately from the host contract at fair value. The applicable accounting criteria are administered to the primary contract.

b) classification criteria

This category includes debt securities issued mainly for the purpose of obtaining short-term profits and the negative value of derivative contracts excluding those designated as hedging instruments. Derivative contracts include those embedded in combined financial instruments which were subject to separate accounting.

The sub-items "Deposits from banks" and "Deposits from customers" also incorporate uncovered short positions on securities.

c) measurement criteria

Following initial recognition, financial liabilities held for trading are measured at fair value, with changes being posted as an offsetting entry in the income statement.

For a description of criteria used to determine the fair value of financial instruments, please see section "A.4.5 Fair Value Hierarchy" of this Part A.

d) derecognition criteria

Financial liabilities are derecognised upon maturity or extinction. Derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of the liabilities and the amount paid to repurchase them is booked in the income statement.

e) revenue recognition criteria

Profits and losses arising from any changes in the fair value of financial liabilities are recognised in profit and loss under account "80 Net profit/loss from trading", except for gains and losses on derivative payables linked with the fair value option which are classified under account "110 Net gains/losses on financial assets and liabilities designated at fair value".

15 Financial liabilities designated at fair value

a) recognition criteria

Financial liabilities measured at fair value are initially posted on the date of issuance for debt securities. Upon initial recognition, they are measured at fair value, which usually corresponds to the amount collected net of any transaction costs or income directly attributable to the instrument itself, which are directly posted to the income statement.

The Fair Value Option (FVO) applies to all financial assets and liabilities which would have caused misrepresentation on the income statement and balance sheet had they been otherwise classified, and to all instruments which are managed and measured using a fair value approach. In particular, liabilities measured at fair value include fixed-rate and structured funding instruments whose market risk is subject to systematic hedging through derivative contracts. The fair value of financial liabilities issued at conditions other than market conditions, if any, is calculated by using a specific valuation technique, and the difference with respect to the consideration received is booked directly to profit and loss only when the conditions provided for by IAS 39 have been met, i.e. when the fair value of the instrument issued can be established by using either quoted market prices for similar instruments or a valuation technique based solely on market data. Should these conditions not be available, the fair value used for valuations after the issuance of instruments is netted of the initial difference between the fair value upon issuance and the consideration received. This difference is recognised in profit and loss only if it ensues from changes in the factors (including time), which market traders would consider for price determination.

b) classification criteria

This category includes financial liabilities intended for measurement at fair value through profit or loss when:

1. the determination of fair value allows for the elimination or reduction of significant misrepresentations of the financial instruments in the income statement and balance sheet; or
2. the management and/or measurement of a group of financial instruments at fair value through profit or loss is consistent with an investment or risk management strategy documented as such by senior management; or
3. a host instrument embeds a derivative which significantly modifies the cash flows of the host and should otherwise be accounted for separately.

In particular, the Parent Company has recognised under this item the financial liabilities that are subject to "natural hedging" through derivative instruments. These financial liabilities include structured and fixed-rate certificates of deposit and bonds, whose market risk is subject to systematic hedging through derivative contracts, with the exception of securities issued at a floating rate subject to cash flow hedging, which are instead classified under debt securities issued. In order to further enhance reporting and transparency on how the fair value option is used, specific detailed tables are provided in the corresponding sections of the notes to the financial statements, both for the income statement and the balance sheet, which further illustrate the methods and strategies of use of the fair value option by the Parent Company. For item 17 "Other information", a specific section is also included to provide insight into the technical hedging methods, with a special focus on the use of the fair value option.

c) measurement criteria

Following initial recognition, financial liabilities are measured at fair value.

For a description of criteria used to determine the fair value of financial instruments, please see section "A.4.5 Fair Value Hierarchy" of this Part A.

d) derecognition criteria

Financial liabilities are derecognised upon maturity or extinction. Derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of the liabilities and the amount paid to purchase them is recorded in the income statement under item 110 "Net gains/losses on financial assets and liabilities designated at fair value".

e) revenue recognition criteria

Gains and losses arising from any changes in the fair value of a financial asset are recognised in profit and loss under item "110 Net gains/losses on financial assets and liabilities designated at fair value"; same treatment applies to derivatives payable linked with the fair value option which are classified under item "110 Net profit (loss) from financial assets and liabilities designated at fair value".

16 Foreign-currency transactions

a) recognition criteria

Upon initial recognition, foreign-currency transactions are recognised in the currency of account using the foreign-exchange rates on the date of the transaction.

b) revenue recognition and derecognition criteria measurement

Financial statement entries denominated in foreign currencies are valued at the end of each reporting period as follows:

- monetary entries are converted using the exchange rate on the closing date;
- non-monetary entries valued at historical cost are converted using the exchange rate on the date of the transaction;
- non-monetary entries that are measured at fair value in a foreign currency are translated at the closing date rate.

Any exchange-rate differences resulting from the settlement of monetary elements, or from the conversion of monetary elements at rates other than those used for initial conversion or conversion in the previous financial statements, are posted to the income statement for the period in which they arise.

When a profit or a loss on a non-monetary element is posted under shareholders' equity, the exchange-rate difference in relation to said element is also posted to equity. However, when a profit or a loss is posted to the income statement, the relative exchange-rate difference is also posted there.

The accounting position of foreign branches with different operating currencies is converted into Euros by using the exchange rates at the end of the reporting period.

Any exchange-rate differences attributable to investments in such foreign branches, and those resulting from the conversion into Euros of their accounting position, are posted in equity reserves and transferred to the income statement only in the year when the investment is disposed of or reduced.

17 Other information

Other significant items

Other significant items from the Group's financial statements are described below.

Cash and cash equivalents

This item includes currencies that are legal tender, including foreign banknotes and coins and demand deposits with the central bank of the country or countries in which the Group operates with its own branches.

The item is posted at face value. For foreign currencies, the face value is converted into Euros at year-end exchange rate.

Value adjustment of macrohedged financial assets and liabilities

These items show, respectively, the balance, whether positive or negative, of the changes in value of the macrohedged assets and the balance, whether positive or negative, of the changes in value of liabilities macrohedged against interest-rate risk, pursuant to IAS 39, paragraph 89.

Other assets

This item shows assets not attributable to the other items on the asset side of the balance sheet. It may include, for example:

gold, silver and precious metals;
accrued income other than that which is capitalised to the related financial assets;
any inventories according to the definition of IAS 2;

improvements and incremental expenses incurred on third-party real estate other than those attributable to property, plant and equipment and therefore not independently identifiable and separable.

The costs in the latter bullet point are posted to other assets, since the lessee company exercises control of the assets for the purpose of the tenancy agreement and can obtain future economic benefits from them. Said costs are posted to Item 220 "Other operating expenses (income)" on the income statement according to the shorter of the period in which the improvements and expenses can be used and the remaining term of the contract.

Severance pay

Employee severance pay is a defined-benefit allowance subsequent to the employment relationship; therefore its actuarial value must be estimated for the purpose of the financial statements. This estimate is carried out using the "Projected Unit Credit" method, which predicts future disbursements on the basis of statistical historical analysis and the demographic curve, and the financial discounting of such flows according to market interest rates. For the calculation of liabilities to be recognised in the financial statements, the 2011 revised version of IAS 19 "Employee benefits" has been applied; please refer to the paragraph "Provisions for risks and charges" regarding defined benefit pension plans.

The costs accrued during the year for servicing the plan are posted to the income statement under item "180 a) Personnel expenses".

After the reform of supplementary pension funds as per Legislative Decree No. 252 of 5 December 2005, severance pay quotas accrued until to 31 December 2006 remain with each company of the Group, while severance pay quotas accrued after 1 January 2007, at the discretion of the employee, are assigned to supplementary pension funds or maintained with the individual companies, which will provide for their transfer to the Treasury Fund managed by the Italian National Social Security Institute, INPS.

Other liabilities

This item shows liabilities not attributable to other items on the liability side of the balance sheet.

It includes, for example:

a) payment agreements that must be classified as debit entries according to IFRS 2;
b) debit entries connected with payment for provision of goods and services;
c) accrued liabilities other than those to be capitalised to the respective financial liabilities.

Other significant accounting practices

Details on significant accounting criteria for purposes of understanding the financial statements are shown below.

Treasury shares

Any shares held by Parent Company Banca Monte dei Paschi di Siena S.p.A. are recorded in their own item and deducted directly from equity. No profits or losses are posted to the income statement upon the purchase, sale, issue or cancellation of the Parent Company's equity instruments. Any amount paid or received is posted directly to equity.

Share-based payments

Contingent upon occurrence of certain circumstances, stock-granting plans in general provide for the purchase and allocation to the employees of a certain number of shares of Gruppo Monte dei Paschi di Siena S.p.A. on an annual basis, for a value corresponding to the amount recognised as part of the company's bonus structure.

Such value is posted as personnel expenses on an accrual basis.

Dividends and income/cost recognition

Revenues are recognised upon attainment, or: in the case of selling goods or products, when it is likely that future benefits will be received and said benefits can be reliably quantified; in the case of services, when these are provided.

In particular:

a) interest is booked pro rata temporis on the basis of contractual interest rate or the effective interest rate in the event of application of the amortised cost;
b) interest on arrears is posted to the income statement only upon actual collection;
c) dividends are shown in the income statement upon resolution of their payout, i.e. when their payment is due;
d) commissions for service income are posted in the period when said services were rendered, on the basis of existing contractual agreements;
e) revenues from trading or from issuance of financial instruments, as determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement upon reporting of the transaction if the fair value can be determined with reference to parameters or recent transactions observable on the same market in which the instrument is traded; otherwise, they are distributed over time, taking into account the duration and the nature of the instrument.
f) portfolio management fees are recognised based on the duration of service;
g) expenditures are booked to profit and loss during the periods in which the related revenues are booked. Expenditures that cannot be associated with income are booked immediately to the income statement.

Business combinations

A business combination is defined as the transfer of control of a company (or of a group of assets and integrated goods, conducted and managed as a unit). For this purpose, control is considered to have been transferred, either when more than half of the voting rights are acquired, or in the event that, even without acquiring more than half of the voting rights of another entity, control of the latter is obtained, since, as a result of the combination, power is held:

1. over more than half of the voting rights of the other entity by virtue of agreements with other investors;
2. to make the management and financial decisions of the entity by virtue of the articles of association or an agreement;
3. to appoint or remove the majority of board members;
4. to obtain the majority of voting rights at board meetings.

A business combination may give rise to an investment link between the acquiring parent company and the acquired subsidiary. In these cases, the acquirer applies IFRS 3 to the consolidated financial statements while posting the acquired interest to its separate financial statements as an equity interest in a subsidiary, consequently applying IAS 27 “Consolidated and separate financial statements”.

A business combination may also provide for the acquisition of the net assets of another entity, including any goodwill, or the acquisition of the share capital of another entity (for example mergers, splits, acquisitions of business units). Such a business combination is not an investment link like the one between a parent company and subsidiary, and therefore in these cases IFRS 3 is also applied to the individual financial statements.

Based on the provisions of IFRS 3, an acquirer must be identified for all combination transactions. It is identified as the subject that obtains control over another entity or group of assets.

The acquisition must be posted to the accounts on the date when the acquirer effectively obtains control over the entity or assets acquired.

The cost of a business combination must be determined as the sum of:

1. the fair value, on the date of exchange, of: the assets sold; the liabilities incurred or assumed; and the equity instruments issued by the acquirer in exchange for control;
2. any ancillary expense directly attributable to the business combination.

In cash transactions (or when payment is provided for using cash-equivalent financial instruments), the price is the consideration agreed upon, possibly discounted in the event of a medium- or long-term instalment plan; in the event that payment occurs by means of instruments other than cash, thus by issuing equity instruments, the price is equal to the fair value of the means of payment net of costs directly attributable to the equity issuance.

Included in the price of the business combination are the acquisition-date fair value of contingent consideration arrangements.

Business combination transactions are recorded using the "acquisition method", which provides for posting to the financial statements:

- the assets, liabilities and contingent liabilities of the acquired entity at their respective fair values on the date of acquisition, including any identifiable intangible assets not already posted to the financial statements of the acquired entity;
- the goodwill determined as the difference between the cost of the business combination and the net fair value of the assets, liabilities and identifiable contingent liabilities; any positive surplus between the net fair value of the assets, liabilities and contingent liabilities acquired and the cost of the business combination is posted to the income statement.
- In addition, if a company does not acquire a 100% interest, non-controlling interests' shares of net equity may be valued at fair value (full goodwill).

The fair value of the assets, liabilities and contingent liabilities of the acquired entity may be determined provisionally by the end of the first reporting period in which the combination occurs and must be completed within twelve months of the date of acquisition.

Business combinations do not include transactions aimed at control of one or more entities that do not constitute a business activity, or aimed at temporary control, or finally, if the business combination is realised for restructuring purposes, thus among two or more entities or business activities already part of the MPS Group, and not involving changes to the control structures regardless of the percentage of rights of third parties before and after the transaction (so-called business combinations of entities under common control).

As of 2010, the obligation to value subsidiaries' individual assets and liabilities at fair value in any subsequent acquisition has been removed in the event of gradual acquisitions of subsidiaries. In addition, if a company does not acquire a 100% interest, non-controlling interests' shares of net equity may either be valued at fair value (full goodwill), or using the method currently provided for by IFRS 3. The revised version of the standard also provides for all business combination-related costs to be posted to the profit and loss account and liabilities for contingent payments to be recognised on the acquisition date.

Business combinations under common control

Business combinations between entities under common control do not fall under IFRS 3. In the absence of a standard of reference, as indicated in Section 1 "Declaration of conformity with international accounting standards", these transactions are posted to the accounts by making reference to preliminary guidance from the Italian Association of Auditors (Orientamenti Preliminari, OPI no. 1 "Accounting treatment of "business combinations of entities under common control" in separate and consolidated financial statements" and OPI no. 2 "Accounting treatment of mergers in financial statements"). These guidelines consider the economic significance of business combinations on the basis of cash flow impact on the Group. Transactions, which had no significant influence on future cash flows, were recognised using the pooling of interest method. Therefore, in the financial statements of the seller, the difference between the sale price and the book value is posted as an increase/decrease in equity. Exclusively in the event of acquisition or transfer of a controlling interest, the equity investment is posted at acquisition cost in the acquirer/transferee's financial statements for the year.

Amortised cost

The amortised cost of financial assets or liabilities is the value at which they were measured upon initial recognition, net of principal repayments, plus or minus overall amortisation calculated using the effective interest method, on the differences between the initial value and that at maturity and net of any permanent impairment.

The effective interest rate is the rate which makes the present value of future contractual payment or collection cash flows, until maturity or a subsequent price recalculation date, equal to the net book value of the financial assets or liabilities. To calculate the current value, the effective interest rate is applied to estimated future collection or payment flows over the entire useful life of the financial assets or liabilities – or for a shorter period if certain conditions are met (for example, a change to market rates).

The effective interest rate shall be redetermined where the financial assets or liabilities have been subject to fair value hedging that has ceased to exist.

In cases in which it is not possible to estimate the cash flows or expected life in a reliable manner, the Bank uses the cash flows contractually envisaged for the entire contractual term.

Following initial recognition, the amortised cost makes it possible to allocate income and costs reducing or increasing the instrument over its entire expected life by means of the amortisation process. The determination of the amortised cost is different depending on whether the financial assets/liabilities are subject to valuation at a fixed or variable rate.

For fixed-rate instruments, future cash flows are quantified based on the known interest rate during the term of the financing. For floating-rate financial assets/liabilities, whose variability is not known beforehand (because, for example, it is tied to an index), cash flows are determined on the basis of the last known rate. At every rate review date, the amortisation schedule and the actual rate of return over the entire useful life of the instrument, i.e. until maturity, are recalculated. The adjustment is recognised as cost or income in the income statement.

Valuation at amortised cost is applied to receivables, held-to-maturity financial assets, available-for-sale financial assets, liabilities and debt securities issued; for debt securities classified under assets available for sale, amortised cost is calculated for the only purpose to post interest (based on the effective interest rate) to profit and loss; the difference between fair value and amortised cost is allocated to a specific equity reserve.

Financial assets and liabilities traded at market conditions are initially recognised at their fair value, which normally corresponds to the amount disbursed or paid inclusive- in the case of instruments valued at amortised cost- of transaction costs and commissions directly attributable to the assets and liabilities (such as fees and commissions paid to agents, consultants, intermediaries and dealers), as well as contributions withheld by regulatory bodies and securities exchanges, taxes, and transfer charges. These expenses, which must be directly attributable to the individual financial assets or liabilities, affect the original actual return and make the effective interest rate associated with the transaction different from the contractual interest rate. Calculation of the amortised cost does not include costs that the Group must incur regardless of the transaction (for example, administrative, stationery and advertising costs), which, even though they are specifically attributable to the transaction, occur in the normal practice of managing loans (for example, disbursement activities).

With particular reference to receivables, lump-sum reimbursements of expenses incurred by the Group for the provision of a service must not be attributed in a way that lowers the cost of disbursing the loan, but since they may be considered as other operating income, the related costs must be posted to a separate account in the income statement.

Guarantees issued

Adjustments due to any deterioration in the guarantees issued are posted to Item 100 “Other liabilities”. Impairment losses are posted to Item 130 d) “Net impairment losses (reversals) on other financial transactions” in the income statement.

Significant accounting choices made in preparing the financial statements (with particular reference to the provisions of IAS 1, paragraph 122, and document nos. 4 of 3 March 2010 and 2 of 6 February 2009, issued jointly by the Bank of Italy/Consob/Isvap).

Decisions by senior management having a significant effect on amounts in the financial statements, other than those relating to estimates, made when applying accounting principles, are shown below.

Securitisations

Securitised loans completed prior to the first-time adoption (FTA) of international accounting standards are not reported in the financial statements inasmuch as the Bank has made use of the optional exemption provided for by IFRS 1, which permits not recognised financial assets/liabilities sold or derecognised prior to 1 January 2004. The relative junior securities underwritten have been classified among receivables.

For transactions completed later than this date, where receivables were sold to vehicle companies and in which - even with formal transfer of legal ownership of the receivables - control over the cashflows deriving therefrom and most risks and rewards are maintained, the loans that are the object of the transaction are not eliminated from the transferor's balance sheet. In this case, a liability is posted with the vehicle company net of the securities issued by the company and repurchased by the seller. The income statement also reflects the same accounting criteria. The only exception among securitisations completed after FTA and outstanding as at 31.12.2013 is Casaforte S.r.l., whose underlying receivables were fully derecognised from the Parent Company's balance sheet, since the associated risks and rewards were -both formally and substantially- transferred to the vehicle.

Accounting for hedge transactions – adoption of the Fair Value Option

In its financial risk management policy, relating to financial instruments included in the banking book, the Bank has preferred using the Fair Value Option accounting technique with respect to the alternative methods of hedging provided for by IAS 39, particularly fair value hedging and cash flow hedging. This decision is strictly linked to the actual methods with which the Group implements its own hedging policies, tending to do so by assets, managing the overall exposure to the market.

More specifically, the Fair Value Option was adopted to represent operational hedges realised by trading derivative financial instruments to hedge fixed-rate certificates of deposit and fixed-rate or structured bonds, both on an individual and consolidated basis (Accounting Mismatch). In fact, the operations of the Group provide for the issuing companies of the MPS Group to stipulate microhedging derivative contracts for funding instruments issued with the subsidiary MPS Capital Services S.p.A., which in turn manages on an aggregate basis the Group's overall exposure to the market. This approach does not enable a direct relationship to be maintained between the derivative stipulated between Group companies and that traded to the market. This management can be faithfully represented in the financial statements by adopting the Fair Value Option introduced by the International Accounting Standards, designating a group of financial assets or financial liabilities managed at fair value through profit or loss.

The scope of application of the Fair Value Option, for the most part, concerns three types of financial debt instruments:

plain vanilla issuances represented by bonds and fixed-rate certificates of deposit;
structured issuances represented by bonds whose payoff is tied to an equity component;
structured issuances represented by bonds whose payoff is determined by interest rate- or inflation-linked derivatives.

The use of the Fair Value Option, while best representing the hedge activities performed by the Group, has introduced certain elements of greater complexity compared with the other forms of hedging provided for by IAS 39, such as the need to manage the creditworthiness of the issuer and to define and specify methodologies for determining the fair value of the issued securities.

In accordance with IAS 39, adopting the Fair Value Option necessitates the measurement of liabilities at fair value while also taking into account changes in own creditworthiness. This element is considered in the valuation process; to this end, the portfolio of financial instruments designated for the purpose

of the fair value option has been determined using methods consistent with those adopted for all other financial instruments owned by the Group and measured at fair value, as described in detail in the following paragraph.

From the perspective of prudential supervision, the fair value option was subject to attention from supervisory bodies, oriented towards controlling the potentially distorting effects deriving from posting to the income statement changes in the issuer's own creditworthiness and, consequently, in the quality of equity. These reflections led the Supervisory Authorities to identify and isolate the effects deriving from changes in own creditworthiness, which are expressly excluded from the calculation of regulatory capital. Consequently, the Group shall ensure that its own regulatory capital is cleansed of effects deriving from changes in own creditworthiness, in compliance with the instructions provided by the Bank of Italy regarding prudential filters.

IAS 39 provides for financial instruments to be irrevocably posted among assets or liabilities measured at fair value upon initial recognition. The fair value option cannot therefore be used for hedges on funding instruments issued prior to the decision that the hedge be undertaken; hedge accounting must be used in these cases.

There are, moreover, portfolios and asset classes for which using the Fair Value Option would make it harder to manage and measure the items, for example in relation to the hedging of assets. With reference to these cases, therefore, the Group considered it more appropriate and consistent to adopt formal *Hedge Accounting* relations than use the *Fair Value Option*. In particular , the Group has used the technique of Micro Fair Value Hedging to hedge quotas of commercial assets valued at amortised cost (loans, mortgages) and the (available for sale) securities portfolio, while using Macro Fair Value Hedging for certain hedges of commercial assets and *Cash Flow Hedging* to hedge a limited portion of variable-rate funding instruments.

In the Operating Guide no. 4 of the OIC on accounting management of reserves and profit distribution pursuant to Legislative Decree no. 38 of 28 February 2008, the supervisory authorities (Banca d'Italia/Consob/Isvap) identify as non-distributable capital gains those that are posted to the income statement using the Fair Value Option and not yet realised. The Group has followed this rule to the letter, considering only capital gains and not capital losses, underlining that all the Group's liability operations are exclusively for the purposes of hedging.

Accounting treatment of "long-term structured repos"

Over the past years, the Parent Company entered into two asset swaps with Italian government bonds (trades "Santorini" and "Alexandria"), funded by repo agreements with duration equal to the securities' natural maturity, which led to the restatement of the 2012 Financial Statements (for further details on these transactions and on the restatement to the 2012 Financial Statements, please refer to the chapter "Restatement of prior period accounts in compliance with IAS 8" in the same Financial Statements); For ease of reference, however, the characteristics of the Long Term Repos linked to are provided below.

Alexandria/Nomura Trade

As part of the "Alexandria" trade, in 2009 the Parent Company entered into a number of transactions with Nomura; in particular:

- purchase of long-term government bonds (BTPs) coming to maturity in 2034, for a nominal amount of EUR 3,050 mln. The purchase of BTPs was effected by way of an asset swap consisting in: a forward purchase of BTPs and an interest rate swap, whereby Banca Monte dei Paschi di Siena undertook to pay the fixed rate coupon received on the BTPs in exchange for an interest rate set at 3m Euribor + spread, calculated on EUR 3,050 mln;
- spot sale of BTPs of a nominal value of EUR 3,050 mln, against a sale price of EUR 3,102 mln, i.e. a consideration inclusive of interest accrued on the BTPs until date of transaction settlement (long term repo with maturity in 2034 like the BTP Asset Swap) and commitment to repurchase the BTPs due in 2034 from Nomura for the same nominal amount; for the entire duration of the agreement, Banca Monte Paschi Siena pays Nomura an interest rate set at 3m Euribor + spread,

calculated on the consideration received, while Nomura pays Banca Monte Paschi Siena the coupon received on the BTPs due in 2034;

- granting of a repo facility to Nomura with maturity on 1 september 2040, whereby Nomura can use the credit line granted by delivering BTPs or similar securities to Banca Monte Paschi Siena for a total maximum amount of EUR 3,050 mln. The Parent Company receives interest at 3-month Euribor from Nomura on the consideration paid to Nomura against delivery of said securities, in addition to fees calculated on the amount of the credit line granted (EUR 3,050 mln).

The agreements provide that, in the event of default of the Italian Republic, the issuer may deliver securities from the same issuer but different from those in the repo agreement (a.k.a 'cheapest to deliver' option).

Santorini/Deutsche Bank Trade

As part of the "Santorini" transaction, in December 2008, the Parent Company and Deutsche Bank entered into three separate Total Return Swaps (TRSs) on long-term government bonds (BTPs), for an aggregate amount of EUR 2,045 mln (total nominal value of EUR 2,000 mln), which contained the following mutual obligations:

- on the transactions' *effective date*, Banca Monte Paschi Siena would sell BTPs to Deutsche Bank for a consideration equal to market value as at that date;
- on each BTP coupon payment date, Banca Monte Paschi Siena would pay Deutsche Bank a floating rate equal to the 6-month EONIA/Euribor rate plus spread, in exchange for receiving from Deutsche Bank a BTP coupon amount equivalent to the amount actually received from the Italian Government -the issuer- on the individual maturity dates; the spread would be determined on the basis of index trends in certain observation periods;
- At deal maturity, Deutsche Bank would pay Banca Monte Paschi Siena an amount equivalent to the sum actually received from BTP repayment and Banca Monte Paschi Siena would, in turn, pay an amount equal to the BTPs' nominal value (regardless of the amount that would be repaid to Deutsche Bank by the Italian Government at bond maturity).

The agreements provide that, in the event of default of the Italian Republic, the issuer may deliver securities from the same issuer but different from those in the repo agreement (a.k.a 'cheapest to deliver' option).

In December 2013, the above transaction was closed by way of a settlement agreement with Deutsche Bank, which allowed the cost of termination for the Parent Company to be lower by approximately EUR 220 mln compared to market values; settlement of the transaction resulted in the recognition of a loss, before tax, of EUR 287 mln, posted under item 100 of the income statement (*see* press release of 19 December 2013).

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With reference to guidance provided by Supervisory authorities in Document no. 6 of 8 March 2013 issued jointly by the Bank of Italy, Consob and IVASS – Accounting treatment of "long-term structured repos", a detailed analysis was carried out to verify whether, for the purpose of compliance with the principle of priority of substance over form, the indicators under IAS 39 Implementation Guidance para. 6 are in place for the substance of the transaction to essentially meet the definition of a derivative contract and, particularly, of a credit default swap.

The analysis conducted on the two transactions of relevance, i.e. those entered into with Nomura and Deutsche Bank, were focused on an assessment of the intents underlying the set of contractual agreements, cash flows and associated risks. The legal aspects and material reverberations of the deals were also taken into consideration.

The analysis has revealed elements of differentiation with respect to the characteristics identified in the afore-mentioned document. In particular, the identified elements of differentiation lie in the:

a) legally separate tradability of the individual contractual components;
b) non-simultaneous structuring of the purchase of securities and repurchase agreements in at least one of the transactions;

c) incomplete matching of cash flows arising from individual instruments with those from a credit derivative; in the absence of a default of the Italian Republic, the transaction would be settled as a normal repo and, therefore, by delivery of the securities against payment of a cash consideration whereas, in the case of a CDS, there is never a securities exchange involved; moreover, for one of the two transactions, in the absence of a default of the Italian Republic, return of securities and related settlement of liabilities due to the counterparty would take place at an amount different from the nominal value of securities received;
d) a different business purpose of transactions as a whole, which is not traceable to a mere sale of protection on Italian sovereign risk, but rather to the assumption of an exposure in sovereign bonds, funded by a repo agreement and hedged against interest rate risk, with a view to positively contributing to the net interest income.

In light of the above, the Board of Directors thoroughly considered the intents underlying the set of contractual agreements relating to these transactions and confirmed the 'open balances' accounting representation by way of an explicit reference made thereto in the resolution adopted by the Board to approve the Draft Annual Report for 2012. The transactions were therefore accounted for by considering the individual contractual components separately. More specifically:

- "Santorini" trade:
  - Italian BTP government bonds, included in item 40- Financial assets available for sale;
  - Deposits held as collateral, classified as Loans to banks;
  - Repurchase agreements (Repos) on the same BTPs, classified as Deposits from banks;
  - Interest rate swap (IRS), included under Liabilities in item - Hedging derivatives.
- "Alexandria" trade:
  - Italian BTP government bonds, included in item - Financial assets available for sale;
  - Repo facility, classified as Loans to customers;
  - Deposits held as collateral, classified as Loans to customers ;
  - Repurchase agreements (Repos) on the same BTPs, classified under item 20 - Deposits from customers;
  - Interest rate swap (IRS), included under Liabilities in item - Hedging derivatives

Under the term structured repos in place, the most significant risk the Parent Company is exposed to is the credit risk of the Italian government. Since an asset swap was entered into to hedge against interest rate risk in both transactions, the interest rate risk sensitivity of this position is residual as compared to the sensitivity to Italian sovereign credit risk. A variation in the Italian credit spread thus generates a variation in the AFS Reserve, which is recognised in the statement of comprehensive income.

The Parent Company is also exposed to counterparty risk which is, however, mitigated by daily cash collateralisation of transactions.

The financial risk associated with Italian credit spread is reflected in a similar risk in liquidity: by reason of the daily collateralisation mechanism, if the transactions value deteriorates for the Parent Company, the latter is required to supplement any collateral pledged by integrating the transactions' cash margins.

Had the Parent Company classified the transactions as synthetic derivatives, the accounting representation would have been different, as illustrated in the Annex "Pro-forma statements for the accounting representation of major long-term structured repos as synthetic derivatives".

Impact on Group financial statements of changes to Bank of Italy shareholdings introduced by Law Decree 133 of 30/11/2013.

Law Decree 133 of 30/11/2013 introduced a number of changes to shareholdings in the Bank of Italy, specifically it: revised and broadened the range of eligible shareholders, paved the way to facilitate the exchange of shares, provided for an increase in share capital by converting statutory reserves and changed dividend distribution policy.

The Bank of Italy implemented the input of the Legislator with the Shareholders' Meeting of 23 December 2013 which, among other things, approved an increase in capital to EUR 7.5 bn, with the conversion of reserves to equity through the cancellation of pre-existing shares and the issuance of

new ones, with shareholder rights defined on the basis of directives contained in the aforementioned decree.

The Parent Company has a 2.5% stake in the Bank of Italy, held in the AFS portfolio with a value of EUR 432 mln as at 31.12.2012, resulting from a revaluation for the same amount carried out against the historical cost of EUR 3,873 and posted to the AFS reserve.

As announced in a joint press release published by Bank of Italy, Consob and IVASS on 11 March 2014, in-depth reviews are taking place at international level concerning the proper accounting treatment of the transaction in compliance with IAS/IFRS.

Within this context, the Parent Company deemed it correct to derecognise the pre-existing shares from the balance sheet, with consequent reversal to profit and loss of the AFS reserve; this accounting treatment is supported by the opinions of qualified external consultants, which take into account the different financial characteristics and shareholder rights of the new shares issued as compared to the pre-existing ones. The accounting treatment applied is summarised as follows:

- derecognition of pre-existing shares and recognition in the AFS portfolio of new shares at their fair value, in both the individual and consolidated financial statements;
- recognition of a pre-tax gain from disposal (item 100, b) of the income statement) of EUR 187.5 mln, which includes the reversal to profit and loss of the positive AFS reserve balance of EUR 432 mln as at 31.12.2012;
- application of a 12% substitute tax on the gain indicated above.

Had the revaluation of the shareholding in Bank of Italy been recognised in a net equity reserve without the derecognition of pre-existing shares from the balance sheet, the following impacts would have been registered:

- P&L for the year would have registered a gross negative impact of EUR 187.5 mln (EUR 165.0 mln after application of a 12% substitute tax);
- net equity, including net result for the year, would have remained unchanged since the non-recognition of profit from derecognition after application of the substitute tax would have been offset in the valuation reserve;
- in terms of capital ratios, both Tier 1 and Total Capital Ratio as at 31.12.2013, standing at 10.62% and 15.19% respectively, would have remained unchanged.

Use of estimates and assumptions when preparing financial statements. Main causes of uncertainty (with particular reference to the provisions of IAS 1, paragraph 125, and document nos. 4 of 3 March 2010 and 2 of 6 February 2009, issued jointly by the Bank of Italy/Consob/Isvap).

The financial crisis has had many consequences for businesses, notably on their financial planning (i.e. on the planning and scheduling of their credit lines). The strong volatility on the still-active financial markets, the reduction in transactions on inactive financial markets and the lack of prospects for the future create specific conditions that influence the preparation of financial statements, especially in relation to estimates required by accounting standards that can have a significant impact on the balance sheet and profit and loss account, as well as on disclosure of contingent assets and liabilities reported in the financial statements. Production of these estimates involves the use of available information and adoption of subjective assessments. By their nature, the estimates and assumptions utilised may vary from one period to another and, therefore, it cannot be ruled out that in subsequent periods the current values accounted for in the financial statements may differ, even to a significant extent, as a result of changes in subjective assessments made. These estimates and valuations are thus difficult and bring about inevitable elements of uncertainty, even in stable macroeconomic conditions.

The main cases in which subjective valuations are mostly requested by Management include the:

a) use of valuation models to measure the fair value of financial instruments not listed in active markets;
b) quantification of impairment losses on loans and, more generally, other financial assets;
c) assessment of the value of equity investments, goodwill, other intangible assets and property, plant and equipment;
d) estimation of liabilities arising from defined-benefit company pension funds:
e) estimation of deferred tax assets recoverability
f) estimation of costs relating to legal and tax disputes.

For a description of item a), please see section A.4.5 Fair Value Hierarchy; in relation to items b) and c), the most important qualitative issues subject to elements of discretion are described below. The actual technical and conceptual solutions used by the Group are analysed in more detail in the individual sections of the notes to the balance sheet and the income statement, where the contents of each item in the financial statements are described. With regard to item d) please refer to section 12 of Liabilities in the Notes to the Financial Statements "Defined benefit company pension funds"; as for item d) please see section 14 of Assets in the Notes to the Financial Statements "Tax assets and liabilities". With reference to point f) please refer to section 12 of the Notes to the Financial Statements "Provisions for risks and charges" and section 1.4 "Operational Risk" in part E of the Notes to the Financial Statements.

Methods for determining impairment losses on loans and, more generally, other financial assets

At the end of every reporting period, the financial assets not classified as held-for-trading financial assets or assets at fair value are evaluated to check whether there is objective evidence of impairment that might render the book value of these assets not entirely recoverable.

A financial asset has suffered a reduction in value and the impairment losses must be accounted for if, and only if, there is objective evidence of a reduction in future cash flows compared with those originally estimated as a result of one or more specific events that have occurred after initial recognition; the loss should be determined reliably and in relation with current events.

The reduction in value may also be caused not by a single separate event but by the combined effect of several events.

The objective evidence that a financial asset or group of financial assets has suffered a reduction in value includes measurable data that arise from the following events:

- significant financial difficulty of the issuer or debtor;
- breach of contract, for example non-fulfilment or failure to pay interest or principal;
- granting Beneficiary a credit facility that the Group has taken into consideration primarily for economic or legal reasons related to the beneficiary's financial difficulties and that would not have been granted otherwise;
- a reasonable probability that the beneficiary will file for bankruptcy or other financial restructuring procedures;
- disappearance of an active market for that financial asset due to financial difficulties. Nevertheless, the disappearance of an active market due to the fact that the financial instruments of the company are no longer publicly traded is not evidence of a reduction in value;
- measurable data which indicate the existence of a significant drop in the estimated future cash flows for a group of financial assets from the time of their initial recognition, even though the reduction cannot yet be matched to the individual financial assets of the Group, including:
  - unfavourable changes in the status of payments of the beneficiaries within the group; or
  - local or national economic conditions that are associated with non-fulfilment related to internal Group assets

Objective evidence of reduction in value for an investment in an equity instrument includes information regarding important changes with an adverse effect that have occurred 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 test is performed on an analytical basis with respect to financial assets that show objective evidence of impairment and on a collective basis with respect to financial assets for which such objective evidence does not exist or for which the individual analytical valuation did not give rise to a valuation adjustment. Collective valuation is based on identifying homogenous risk classes of financial assets with reference to the characteristics of the debtor/issuer, economic sector, geographic area, presence of any guarantees and other relevant factors.

Loans to customers and banks are individually analysed whenever they are classified as doubtful, substandard or restructured receivables as per the Bank of Italy definitions. The amount of the loss is equal to the difference between the book value of the receivable upon valuation (amortised cost) and the current value of expected future cash flows, calculated using the original effective interest rate; expected cash flows take into account expected recovery times, presumable salvage value of any guarantees as well as costs likely to be incurred for the recovery of credit exposure. The amount of the loss is indicated in the income statement under Item 130 a) "Net impairment losses (reversals) on loans".

The individual valuation of the aforementioned non-performing loans requires defining repayment schedules for each position, in order to determine the cash flows deemed to be recoverable. In this respect, with the valuation process adopted by the Company, thresholds have been identified in terms of amounts of receivables, under which plans for recovering the exposures are defined on an automated basis. Such thresholds are set in accordance with bands characterised by limited exposure in relation to the total and by a large number of positions.

Receivables with no individually identified objective evidence of impairment loss are subject to collective valuation. This valuation occurs by credit-risk homogenous categories of receivables, indicative of the debtor's ability to repay sums contractually owed. The segmentation drivers used for this purpose consist of: economic sector, geographic location and customer segments (turnover); on the basis of the latter indicator, the main segments of the portfolio are differentiated as follows:

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

The rate of loss is determined for each portfolio segment by identifying the largest possible synergies (as allowed by various regulations) using the supervisory approach of the Basel II "New capital accord". In particular, the impairment for the year of each loan belonging to a particular category is given by the difference between the book value and the recoverable amount on the date of valuation, with the latter being determined by using the parameters of the calculation method provided for by the new supervisory provisions, represented by PD (probability of default) and LGD (loss given default).

If, in a subsequent year, the impairment loss decreases and the reduction can be objectively linked to an event that occurred after the impairment was recognised (such as an improvement in the financial solvency of the debtor), the previously recognised impairment loss is reversed. The amount of the reversal is indicated in the income statement under Item 130 "Net impairment losses (reversals) on loans".

With reference to loans which have been restructured by partial or full conversion into equity stakes of beneficiary companies, in accordance with joint document no. 4 issued by Bank of Italy/Consob/Isvap on 3 March 2010, it is noted that the fair value of quotas received was factored into the valuation. In particular, in the case of non-performing exposure, such classification was maintained for converted

financial instruments received and, in the case of classification in the available-for-sale (AFS) category, capital losses recognised after conversion were posted directly to the income statement.

With regard to debt securities classified under loans to customers, if there is objective evidence of an impairment loss, the loss is calculated as the difference between the asset's carrying value and the present value of estimated cash flows, discounted at the asset's original interest rate.

If the amount of the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The reversal should not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognized. The amount of the reversal is recognized in profit and loss.

Impairment of available-for-sale financial assets is posted to the income statement when a reduction in fair value has been directly recognised in equity and the aforementioned objective evidence exists. In such cases, the cumulative loss recognised directly in equity shall be reversed and posted to profit and loss, even if the financial asset has not been derecognised. The overall loss transferred from equity to profit and loss is the difference between the acquisition cost (net of any repayment of principal and amortisation) and the current fair value, less any impairment loss on the financial asset previously posted to profit and loss. Impaired losses posted to profit and loss for investment in an available-for-sale equity instrument do not have to be reversed with an impact on profit and loss.

If the fair value of an available-for-sale debt instrument subsequently increases, and the increase can be objectively linked to an event that took place after the impairment loss was posted to the income statement, the impairment loss must be derecognised and reversed to profit and loss.

However, the existence of a negative reserve is not in itself sufficient to determine a write-down in the income statement.

The nature and number of assumptions used to identify impairment factors and determine losses and reversals are elements of uncertainty in estimation. For equity instruments listed in active markets, objective evidence of impairment occurs when the market price at the end of the reporting period is at least 30% lower than the original acquisition cost or when market value is lower than the cost for a period of more than 12 months. If further reductions take place in subsequent financial years, these are charged directly to the income statement.

Methods for determining impairment losses on equity investments, goodwill and, more generally, other intangible assets

Equity investments

The impairment process entails computation of the recoverable amount, which is the greater of the fair value less costs to sell, and the value in use. The value in use is the present value of the cash flows arising from the asset; it reflects the estimate of the cash flows expected from the asset, the estimate of possible changes in the amount and/or in the timing of the cash flows, the financial value over time, the price for remunerating the risk on the asset and other factors that can influence the pricing, on the part of market dealers, of the cash flows expected from the asset. Numerous assumptions are therefore required to estimate the fairness of the recognition value of equity investments: it follows that the result of this verification inevitably entails some degree of uncertainty

Goodwill

Goodwill posted following acquisitions is subjected to an impairment test at least once a year and whenever there are signs of impairment. For testing purposes, once goodwill has been allocated to cash-generating units (CGUs), the book value is compared with the recoverable value of said units pursuant to paragraph 9 "Intangible assets". The discounted cash flow (DCF) method is normally used to determine the recoverable value of the CGUs. To this end, senior management has estimated CGU cash flows; these are dependent on several factors, including cost and revenue growth rates, which in turn depend on changes in the real economy, customer behaviour, competition and other factors. Numerous assumptions are therefore required to estimate the fairness of the recognition value of goodwill; it follows that the result of this verification inevitably entails some degree of uncertainty. Disclosure in Section 12 of the "Assets" in the notes to the financial statements provides more details on this subject.

Other property, plant and equipment and intangible assets

The tangible and intangible assets with limited useful life are tested for impairment in the presence of any indication that the book value of the asset may not be recovered. The recoverable value is computed with reference to (i) the fair value of the tangible or intangible asset, net of the charges for disposal or (ii) the value in use if determinable and if it is above fair value.

The fair value of properties is predominantly determined on the basis of an appraisal. This expert valuation will be repeated periodically whenever a change in the trend of the real estate market is ascertained that causes previously determined estimates to appear invalid. The loss in value is reported only if the fair value less costs to sell, or the value-in-use, is less than the book value. The nature and number of assumptions are elements of uncertainty also for these values and for subsequent verifications. More information on the possible assumptions can be found in Sections 12 and 13 of the "Assets" in the notes to the financial statements.

Correction of errors

The correction of errors is governed by IAS 8 (Accounting policies, changes in accounting estimates and errors)". According to this standard, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements.

When errors are discovered in the period in which the error occurred, they are corrected before the financial statements are authorized for issue.

Errors that are discovered in a subsequent period with respect to the period in which they occurred, are corrected, when measurable, in the comparative information presented in the financial statements for that subsequent period material prior period errors shall be corrected in the first set of financial statements authorized for issue after their discovery by retrospectively restating the comparative amounts for prior period(s) presented in which the error occurred or, if the error occurred before the prior periods presented, restating the opening balances of assets, liabilities and net equity for the earliest prior period presented.

For further details on the 2013 Financial Statements, see section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" in the notes to the consolidated financial statements.

A.3 Information on portfolio transfers

A.3.1 Reclassified financial assets: book value, fair value and effect on comprehensive income

31 12 2013

Type of financial instrument (1)	Portfolio prior to transfer (2)	Portfolio after transfer (3)	Book value at 31 12 2013 (4)	Fair value at 31 12 2013 (5)	Income components in the absence of transfers (before tax)		Income components reported for the period (before tax)	
					Value-relevance (6)	Other (7)	Value-relevance (8)	Other (9)
UCITS	Trading	Available for sale	23,299	23,299	1,549	1,227	1,549	8,875
Debt Securities	Trading	Loans to banks	33,777	30,316	2,882	1,102	(3)	863
Debt Securities	Trading	Loans to customers	331,872	297,055	9,384	12,021	(313)	(12,363)
Debt Securities	Available for sale	Loans to banks	29,600	27,402	(822)	1,240	233	369
Debt Securities	Available for sale	Loans to customers	985,614	773,327	135,256	15,028	(838)	(8,782)
	Total		**1,404,162**	**1,151,399**	**148,249**	**30,618**	**628**	**(11,038)**

In the course of 2008, the Group applied the amendment "Reclassification of financial assets", which was issued by the IASB to amend IAS 39 and IFRS 7 in October 2008 introducing the possibility of reclassifying portfolios in unusual circumstances such as the crisis that emerged in the markets in the second half of 2008.

On the basis of this amendment, some Group companies transferred the following securities portfolios in the second half of 2008, shown below at their historical transfer values:

- units of UCITS in the amount of € 481.4 mln from the trading portfolio to the AFS portfolio;
- debt securities in the amount of € 180.9 mln from the trading portfolio to loans and advances to banks;
- debt securities in the amount of € 826.8 mln from the trading portfolio to loans and advances to customers;
- debt securities in the amount of € 1,029.3 mln from the AFS portfolio to loans and advances to banks;
- debt securities in the amount of € 1,392.7 mln from the AFS portfolio to loans and advances to customers;

In addition to illustrating the book values and fair values of financial instruments reclassified in 2008 as at 31.12.2013, the table also reports (columns 6 and 7) financial results in terms of "value relevance" and "other" (realised profit/loss and interest), which the same financial instruments would have produced for the Group in 2013 had they not been transferred in 2008. Columns 8 and 9, on the other hand, contain the profit and loss results in terms of "value relevance" and "other" (realised profit/loss and interest) which the Group actually posted for these instruments in the course of 2013.
The hypothetical net capital gains (column 6) of € 148.2 mln differ from those actually recorded for 2013 (see column 8) for an overall amount of € 0.6 mln in capital gains by an overall amount of EUR 147.6 mln in lower valuations (of which EUR 12.6 mln posted to profit and loss and EUR 135.0 mln to equity).
By way of completeness, on the back of the reclassification in 2008 of bonds originally classified as AFS financial instruments, the relative negative reserve, for an amount of € 228.4 mln, existing on the date of reclassification, was accounted for pursuant to the provisions set out in par. 50F of IAS 39.
In particular, the negative AFS reserve was gradually phased out over a timeframe reflecting the residual life of the underlying securities, measured as a direct reduction of interest income. This negative impact on net interest income was offset by the positive effect of the amortised cost mechanism on securities, which gradually brings the maturity value in line with the nominal value. The residual reserve at the end of 2013 was € 17.8 mln.

A.3.2 Reclassified financial assets: effects on comprehensive income prior to transfer

A.3.3 Transfer of financial assets held for trading

A.3.4 Effective interest rate and expected cash flows from reclassified financial assets

Tables A.3.2, A.3.3 and A.3.4 were left blank because no financial assets were reclassified during the year.

A.4 Information on fair value

Qualitative Information

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

Items	Fair value 31 12 2013						Type	Valuation technique(s)	Inputs used
	Financial assets held for trading	Financial assets available for sale	Hedging derivatives	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives			
							Bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves
Debt securities	353,357	242,773	X	-	7,988,199	X	Structured bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflatio n Curves + inputs necessary to measure optio nal component
							Bonds	Market price*	Market price*
								Market price*	Market price*, recent transactions, appraisals,manager reports
Equity	12	72,257	X	X	X	X		Discount cash flow	Share price,beta settore,free risk rate
								Net asset adjusted	Fair value asset
Units in UCITS	84,870	179,534	X	X	X	X		Market price*	Market price*
Loans/deposits	3,695,787	-	X	X	X	X		Esternal Pricing/other methods	Periodic repricing
Deposits	X	X	X	1,146,953	-	X	from banks		-
				5,727,931	-		from customers		-
							IR/Asset/Currency	Discounted Cash Flow	Interest rate curve, CDS Curve, Basi(yield), Inflation Curve, Foreign exchange rates and
							Total return swaps	Discounted Cash Flow	Bond price, Interest rate curve, Foreign exchange rates
							Equity swaps	Discounted Cash Flow	Share price, Interest rate curve, Foreing exchange rates
							Forex Singlename	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility
							Forex Singlename	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility (Surface)
							Forex Multiname	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility, Correlation
							Equity Singlename	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility
Financial Derivatives	7,712,785	-	397,868	5,533,794	X	3,324,657	Equity Singlename Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface), Model inputs
							Equity Multiname Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility, Quanto Correlation, Equity/Equity correlation
							Equity Multiname Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface),Model inputs,Quanto correlation,
							Plain Rate	Option Pricing Model	Interest rate curve, inflation curves,bond prices,foreign exchange rates, Rate volatility, rate correlations
							Spot-Forward	Market price*	Market price*, Swap Point
							Credit Index	Market price*	Market price*
Credit derivatives	1,235,850	-	65	1,265,704	X	54	Default swaps	Discounted Cash Flow	CDS curves, Interest rate curve
							Cdo tranche	Discounted Cash Flow	Market price*, Basis, CDS curves, Base Correlation, interest rate curve
Total assets	**13,082,661**	**494,564**	**397,933**	X	X	X			
Total liabilities	X	X	X	**13,674,382**	**7,988,199**	**3,324,711**			

*: prices for identical financial instruments quoted on non-active markets (IFRS 13 para. 82 section b).

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

Items	Fair value 31 12 2013			Type	Valuation technique(s)	Unobservable inputs	Range (weighted average)
	Financial assets held for trading	Financial assets available for sale	Financial liabilities held for trading				
					Discounted Cash Flow	Liquidity base, Credit Correlation	190 bps; 0.40
Debt securities	77,105	100,870	-	Bonds	Discounted Cash Flow	Liquidity base	1-5 multiplying factor; benchmark base
					Collateral valorization	Collateral components	0 eur/mln
				Equity instruments	Discounted Cash Flow	Liquidity base	0 bps
Equity instruments	-	405,191	X	Equity instruments	Cost/Net equity	Market Value	0 - 81 eur/mln
				Bonds	External Pricing	Offered quotes	bid-ask spread 1 point
Financial derivatives	488	X	8,385	Equity Exotic	Option Pricing Model	Risk Model - Smile dynamics	No dynamic/Stochastic evolution
Units in UCITS	112	106,840			Adjusted NAV	Default Probability	5%/10%
					External Pricing	Offered quotes	-
Total assets	77,705	612,901	X				
Total liabilities	X	X	8,385				

A.4.2 Measurement processes and sensitivity

A narrative description of level 3 instruments that show significant sensitivity to changes in unobservable inputs is provided below.

The most significant changes in fair value for Debt securities, with unobservable inputs consisting in Cash Flow Base and Credit Correlation, essentially arise from perpetual securities, EIRLES TWO TV 05/49, for a notional amount of EUR 95 mln. Their classification in level 3 depends on the fact that fair value measurement is obtained by also using unobservable inputs and own internal assumptions; in particular, the assumptions are about interrelationships between the credit standing of DeutscheBank and France Telecom and the application of a risk premium (i.e., the price for bearing the uncertainty inherent in the cash flows). The securities' fair value is negatively affected by both an increase in the cash flow base used and a decreased correlation in credit standing between the two afore-mentioned institutions. The securities' fair value was measured under different combinations of unobservable inputs: 0, 0.25, 0.50 and 0.75 for credit correlation; 0 bps, 100 bps, 200bps and 300 bps for cash flow base. Fair value measurement as at 31/12/2013 was obtained by using a 0.40 correlation and a 190 bps cash flow base. In consideration of the above, the worst case is with a correlation of 0 and cash flow base of 300 bps; the best case is with a correlation of 0.75 and cash flow base of 0 bps. In the former case, a negative change of EUR 11 mln would be recognised as compared to fair value as at 31 December 2013; in the latter case, the change would be positive and would amount to EUR 30 mln.

"Debt securities" , using unobservable inputs consisting in Cash Flow Bases, include certain positions in Structured Credit Bonds (approx. EUR 9 mln), Asset Backed Securities (approx. EUR 5 mln) and the security XS0562139450. All are measured using a discounted cash flow model, with unobservable inputs consisting in the liquidity spreads used to discount expected cash flows. Amounts are low for the first two positions which were conservatively measured and, with regard to ABSs, sold in the initial months of 2014 or reclassified under level 2 due to the identification of quoted data. For XS0562139450 the position's sensitivity with respect to the unobservable input range totals approx. EUR 1 mln.

The most significant changes in fair value for Debt securities, with unobservable inputs consisting in Credit Correlation, essentially arise from the security ANTHRACITE ZC 03/20. This note is valued on the basis of the vehicle's asset items (collateral) which include a claim against Lehman Brothers (the unobservable input), recognised at a nominal value of approx. EUR 3mln but which is conservatively valued at zero mln euros for Financial Statement purposes.

Equity securities measured using the Discounted Cash Flow model mainly include the Bank of Italy shareholding. The shareholding was measured within the high range identified by the Committee of Experts in the document "Revaluation of shareholdings in the Bank of Italy". The valuation developed, based on the discounting of potential dividend flows from the new rights of shareholders in the capital of Bank of Italy, identifies the cash flow basis to be used in discount flows as the input for entity-specific assumptions. The input range was between 0% and 20% of the cash flow base, which translates into a change in value of approximately EUR 63 mln.

Equity securities valued at cost/net equity include all investments designated at fair value which have not had the opportunity to be measured according to a market based model. These positions amount to approx. EUR 165 mln in total.

Equity securities valued using external Pricing include the convertible note CASHES TV 09-99 for a notional amount of EUR 99.6 mln issued by Unicredit S.p.A. and valued using the price which Mediobanca publishes on Reuters. The unobservable input is represented by the price quoted modified by a variable amount of 1%, equal to the bid-ask spread corresponding to a variability of EUR 1 mln in the value of the position. The position was entirely sold in the initial months of 2014.

The category of "Financial derivatives" includes derivatives whose market value depends on unobservable inputs, particularly the volatility smile. Remeasuring these positions using models which treat the input differently, from "no volatility" (Black&Scholes) to "stochastic volatility" (Heston Model) results in a change in market value of EUR 3 mln .

The units of UCITS measured using an adjusted NAV consist in two real estate funds, Socrate and Etrusco, valued through an adjusted NAV method (published by SGR) to take into account the fund's probability of default (unobservable input). The default probabilities, included in the adjusted NAV method and allocated using a score assigned to the fund on the basis of certain typical characteristics, are divided into levels (1% ,5%, 10%, 20%, and 30%) with the two funds currently falling into the 5%-10% segment. Sensitivity to the unobservable input is calculated by assuming a downward-sloping default probability level, generating an impact of around EUR 4.4 mln.

The units of UCITS measured with External Pricing are Hedge Fund side pockets, whose price quotes by the SGRs are deemed non-verifiable. For this reason, the sensitivity of such positions is considered to be equal to their entire book value (approx. EUR 10 mln).

A.4.3 Fair value hierarchy

The fair value hierarchy was introduced by the IASB through the IFRS 7 amendment "Additional disclosures" in March 2009 and subsequently adopted in the new IFRS 13 "Fair value measurement", issued in 2011 and subject to mandatory application as of 2013 Financial Statements.

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 at the measurement date under current market conditions.

The fair value of financial instruments listed in active markets is determined by using quoted market prices; quoted market prices for similar instruments or internal valuation models are used for other financial instruments.

Financial instruments are classified in three different levels according to the reliability of the inputs used during measurement.

The methods for classifying financial instruments in the three-level fair value hierarchy are shown below.

Level 1

This level shall include financial instruments measured using unadjusted quoted prices in active markets for identical instruments.

IFRS 13 defines an active market as a market in which transactions take place with sufficient frequency and volume to provide information on an ongoing basis. A financial instrument is quoted in a financial market when:

- the quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, authorised body or regulatory agency;
- the quoted prices represent actual and regularly occurring market transactions on an arm's length basis.

If the quoted prices meet these criteria, they represent the best estimation of fair value and must be used to measure the financial instrument.

From the definition of active market set out in IFRS 13 it is inferred that the active market concept is particular to the individual financial instrument being measured and not to the market on which it is listed; the fact that a financial instrument is quoted in a regulated market is therefore not in itself sufficient for said instrument to be defined as listed in an active market. Conversely, a financial instrument that is not traded in a regulated market may present sufficient frequency and volumes for it to be classified in level 1 of the fair value hierarchy

Level 2 and 3

Financial instruments not listed in an active market must be classified in level 2 or 3.

Classification in level 2 rather than level 3 is determined on the basis of market observability of the significant inputs used to determine fair value. A financial instrument must be fully classified in a single level; if inputs belonging to different levels are used for the purpose of measuring an instrument, said instrument is classified based on the lowest level of input that is significant to the fair value measurement.

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

Level 2 inputs are as follows:

a) quoted prices on active markets for similar assets or liabilities;
b) quoted prices for the instrument in question or for similar instruments on non-active markets, i.e. markets where:
   - there are few transactions;
   - the prices are not current or they vary substantially over time and between the difference market makers or
   - little information is made public;
c) observable market inputs other than quoted prices (e.g.:interest rates or yield curves observable in different buckets, volatility, credit curves, etc.);
d) inputs that derive primarily from observable market data, the reporting of which is confirmed by parameters such as correlation.

A financial instrument is classified in level 3 if the measurement techniques adopted use non-observable market inputs and their contribution to estimating fair value is deemed significant.

All financial instruments not listed in active markets are classified in level 3 where:

- despite having observable data available, significant adjustments based on non-observable data are required;
- The estimate is based on 'Parent Company-internal' assumptions on future cash flows and risk adjustment of the discount curve.

It should also be noted that -regardless of whether measurement techniques adopted use non-observable market inputs- the Group deemed it appropriate and prudential to have Level 3 of the Fair Value hierarchy include any instruments not listed in active markets which are complex by their financial structure or for which there is no clear measurement method recognised as standard in the market and adjustable based on observable prices of comparable structures.

This applies, for example, to assets in the structured credit category not listed in an active market. Although, in some cases, this category could avail itself of appropriate measurement models that make use of observable market inputs (e.g. credit default swap curves) or quotations by primary counterparties, the lack of a liquid market on correlations in the wake of the financial crisis made it necessary to use subjective estimates. Given the complexity of these structures, the Group decided to classify these instruments in level 3, in the absence of an active market, regardless of the observability of input parameters significant for their mark-to-model measurement.

The processes used to measure level 3 instruments are based on a shared analysis of the types of instruments and underlying risk parameters by the Group's Business functions and Risk Management. The analysis is completed with the formulation of a pricing model and/or a model for determination of non-observable market inputs which is subject to final validation by Risk Management. At different time intervals depending on the type of instruments (though commonly on a monthly basis) on the back of directly observable market inputs, the Group's Business functions proceed with determining the non-observable market inputs and measuring instruments of level 3. The Risk Management function, based on a shared methodological approach, proceeds with the final validation of fair value.

In support of this activity and with a view to ensuring an adequate level of auditability, assessment data sheets have been introduced and are updated on a six-monthly basis for individual instruments classified in level 3, which contain a brief description of the instrument, pricing methods adopted and details about inputs used for fair value measurement.

As for fair value transfers between different levels, it is noted that the Group has set some rules to determine whether a financial instrument is level 1 or 3; level 2 is determined by difference. When an instrument no longer meets the conditions for classification in level 1 or 3, a new level is determined.

As for OTC derivatives, in compliance with IFRS 13 the MPS Group calculates adjustments to values, obtained through valuation models using risk-free interest rates, to take account of the creditworthiness of the individual counterparty. This risk measure, known as Credit Value Adjustment (*i.e.* CVA), is estimated for all OTC derivative positions with non-collateralised institutional and retail counterparties.
The methodology is based on the calculation of expected operational loss linked to counterparty rating and estimated on a position's duration. The exposure includes future credit variations represented by add-ons.
Market-consistent probability measurements are employed in the calculation of CVAs in order to gauge market expectations resulting from CDS prices without, however, losing the historical information available within the MPS Group.
As at 31.12.13, the CVA had a negative balance of approx. EUR 112 mln.

A.4.4 Other information

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.

	31 12 2013				31 12 2012			
	Level1	Level 2	Level 3	Total	Level1	Level 2	Level 3	Total
1. Financial assets held for trading	6,776,951	13,082,661	77,705	19,937,317	6,879,782	16,525,317	109,105	23,514,204
2. Financial assets designated at fair value	-	-	-	-	-	-	-	-
3. Financial assets available for sale	22,572,784	494,564	612,901	23,680,249	23,927,910	1,530,060	190,771	25,648,741
4. Hedging derivatives	-	397,933	-	397,933	-	551,093	-	551,093
5. Property, plant and e	-	-	-	-	-	-	-	-
6, Intangible assets	-	-	-	-	-	-	-	-
Total	**29,349,735**	**13,975,158**	**690,606**	**44,015,499**	**30,807,692**	**18,606,470**	**299,876**	**49,714,038**
1. Financial liabilities held for trading	3,355,106	13,674,382	8,385	17,037,873	3,701,525	17,770,377	44,998	21,516,900
2. Financial liabilities designated at fair value	-	7,988,199	-	7,988,199	-	14,427,858	-	14,427,858
3. Hedging derivatives	-	3,324,711	-	3,324,711	-	5,574,798	-	5,574,798
Total	**3,355,106**	**24,987,292**	**8,385**	**28,350,783**	**3,701,525**	**37,773,033**	**44,998**	**41,519,556**

The financial instruments measured at fair value and classified in level 3 of the hierarchy consist of instruments not listed in active markets, valued using the mark-to-model approach, for which input data include, inter alia, non-observable market data significant for measurement purposes or observable market data that requires significant adjustment based on non-observable data, or that requires internal assumptions and estimations of future cash flows.

With reference to disclosure under IRFS 13, para. 93, letter c, it is noted that the total amount of assets and liabilities transferred between levels 1 and 2 is not material.

Another category of financial instruments classified in level 3 comprises some types of exotic options, mainly multi-asset, path-dependent options on equity instruments. Subjectivity in measuring these instruments lies mainly in selecting an appropriate pricing model rather than in the availability of input parameters often inductively inferable from the quotations of comparable instruments. For example, these instruments depend significantly on estimates regarding the future development of certain market parameters, such as the volatility surface of underlying securities. Essentially, in consideration of the type of payoff, it is believed that the estimation of the fair value of these instruments should factor in not only the current market conditions (often observable) but also speculations on future market developments that are implicit in the model used.

Additional information on level 3 financial instruments can be found in the comments under the tables for the individual balance sheet items concerned.

A.4.5.2 Annual changes of financial assets designated at fair value on a recurring basis (level 3)

	Financial assets held for trading	Financial assets designated at fair value	Financial assets available for sale	Hedging derivatives	Property, plants and equipments	Intangible assets
1. Opening balance	**109,105**	**-**	**190,771**	**-**	**-**	**-**
2. Increases	**44,564**	**-**	**626,085**	**-**	**-**	**-**
2.1 Purchases	5,053	-	253,232	-	-	-
2.2 Profits posted to:	19,734	-	29,308	-	-	-
2.2.1 Profit and Loss	19,734	-	-	-	-	-
- *of which capital gains*	6,396	-	-	-	-	-
2.2.2 Equity	X	X	29,308	-	-	-
2.3 Transfers from other levels	112	-	279,343	-	-	-
2.4. Other increases	19,665	-	64,202	-	-	-
3. Decreases	**75,964**	**-**	**203,955**	**-**	**-**	**-**
3.1 Sales	30,952	-	105,811	-	-	-
3.2 Redemptions	34,195	-	5,418	-	-	-
3.3 Losses posted to:	6,785	-	38,525	-	-	-
3.3.1 Profit and Loss	6,785	-	21,027	-	-	-
- *of which capital losses*	6,771	-	18,650	-	-	-
3.3.2 Equity	X	X	17,498	-	-	-
3.4 Transfers to other levels	3,559	-	-	-	-	-
3.5. Other decreases	473	-	54,201	-	-	-
4. Closing balance	**77,705**	**-**	**612,901**	**-**	**-**	**-**

Amounts shown in the column “held for trading” under “2.2.1 Profit and Loss – of which capital gains” and “3.3.1 Profit and Loss – of which capital losses”, respectively EUR 6.4 mln and EUR 6.8 mln, refer to valuation of securities recognised in the financial statements as at 31 December 2013 and posted to item “80 – Net profit/loss from trading” in the income statement.

The amount shown in the column “Available for sale” under item “2.1 Purchases” totalling EUR 253.2 mln is inclusive of the Bank of Italy shareholding, whose fair value was calculated through the Dividend Discount Model which uses inputs that are not directly observable on the market but the result of entity-specific assumptions.

The amount shown in the column “Financial assets available for sale” under item “2.3 Transfers from other levels” totalling EUR 279.3 mln consists of:

- equity securities, ie. shareholdings valued at cost;
- units of UCITS, ie. real estate funds, whose NAV is adjsuted to take account of credit risk, and hedge fund side pockets whose values are not directly observable on the market.

The amount shown in the column “Financial assets held for trading” under item “3.4 Transfers to other levels” totalling EUR 3.6 mln is entirely represented by the reclassification of the junior tranche of the PATAGONIA II-01/16 securitisation to level 2 of the Fair value hierarchy. The valuation technique applied (Comparable Approach) was aligned with that of the senior tranche of the same securitisation.

A.4.5.3 Annual changes of financial assets designated at fair value on a recurring basis (level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Opening balance	**44,998**	**-**	**-**
2. Increases	**5,988**	**-**	**-**
2.1 Issues	-	-	-
2.2 Losses posted to:	5,824	-	-
2.2.1 Profit and Loss	5,824	-	-
- of which capital losses	1,890	-	-
2.2.2 Equity	X	X	-
2.3 Transfers from other levels	-	-	-
2.4. Other increases	164	-	-
3. Decreases	**42,601**	**-**	**-**
3.1 Redemptions	-	-	-
3.2 Repurchases	-	-	-
3.3 Profits posted to:	42,601	-	-
3.3.1 Profit and Loss	42,601	-	-
- of which capital gains	11,816	-	-
3.3.2 Equity	X	X	-
3.4 Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**8,385**	**-**	**-**

The capital gain shown in column “Held for trading" under “3.3.1 Profit and Loss – of which capital gains”, totalling EUR 11.8 mln, was posted to item “80 – Net profit (loss) from trading” in the income statement and includes a derivative contract embedded in debt securities classified as loans to customers which was unbundled pursuant to IAS 39.

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 assets/liabilities not designated at fair value or designated at at fair value on a non-recurring basis	31 12 2013					31 12 2012*	
	BV	Level 1	Level 2	Level 3	Total	BV	Total
1. Financial assets held to maturity	-	-	-	-	-	-	-
2. Loans to banks	9,913,984	29,281	9,876,173	27,263	9,932,717	11,224,989	11,158,025
3. Loans to customers	131,218,395	323,316	50,378,759	83,330,946	134,033,021	142,015,161	145,154,121
4. Property, plant and equipment held for investment	327,816	-	-	359,747	359,747	236,142	249,092
5. Non-current assets and groups of assets held for sale	80,108	-	38,417	-	38,417	12,461	X
Total	**141,540,303**	**352,597**	**60,293,349**	**83,717,956**	**144,363,902**	**153,488,753**	**156,561,238**
1. Deposits from banks	37,278,667	-	37,313,700	-	37,313,700	43,398,956	43,496,905
2. Deposits from customers	85,346,340	-	85,371,122	-	85,371,122	81,302,685	81,324,140
Debt securities issued	36,628,753	18,292,980	13,288,810	4,404,108	35,985,898	39,939,624	39,548,470
4. Liabilities associated to disposal groups held for sale	17,821	-	-	-	-	-	X
Total	**159,271,581**	**18,292,980**	**135,973,632**	**4,404,108**	**158,670,720**	**164,641,265**	**164,369,515**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

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

The Group did not generate day one profit/loss from financial instruments pursuant to paragraph 28 of IFRS 7 and other related IAS/IFRS paragraphs.

Part B – Information on the consolidated balance sheet

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ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31 12 2013	Total 31 12 2012
a) Cash	736,201	843,040
b) Demand deposits with central banks	141,073	1,589,840
Total	**877,274**	**2,432,880**

The line "Demand deposits with central banks" does not include the compulsory reserve, which is shown under Assets in Item 60 "Loans to banks".

The decrease in "Demand deposits with central banks" is due to a temporary use of liquidity in the form of demand deposits with central banks at the end of 2012.

Section 2 – Financial assets held for trading – Item 20

2.1 Financial assets held for trading: breakdown

Items/Amounts	Total 31 12 2013				Total 31 12 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
A. Balance sheet assets								
1. Debt securities	6,428,516	353,357	77,105	6,858,978	6,558,706	982,311	80,137	7,621,154
1.1 Structured securitie	253	108,802	63,150	172,205	345	303,464	72,707	376,516
1.2 Other debt securiti	6,428,263	244,555	13,955	6,686,773	6,558,361	678,847	7,430	7,244,638
2. Equity instruments	98,428	12	-	98,440	111,504	1	27,667	139,172
3. Units in UCITS	16,399	84,870	112	101,381	14,202	221,774	-	235,976
4. Loans	-	3,695,787	-	3,695,787	-	3,180,442	-	3,180,442
4.1 Reverse repurchase agreements	-	3,535,003	-	3,535,003	-	2,852,522	-	2,852,522
4.2 Other	-	160,784	-	160,784	-	327,920	-	327,920
Total (A)	**6,543,343**	**4,134,026**	**77,217**	**10,754,586**	**6,684,412**	**4,384,528**	**107,804**	**11,176,744**
B. Derivatives	0	0	0	0	0	0	0	-
1. Financial derivatives:	233,608	7,712,785	488	7,946,881	195,370	10,555,188	1,301	10,751,859
1.1 held for trading	233,608	7,675,921	488	7,910,017	195,370	10,505,417	1,301	10,702,088
1.2 fair value option	-	36,864	-	36,864	-	49,771	-	49,771
1.3 other	-	-	-	-	-	-	-	-
2. Credit derivatives:	-	1,235,850	-	1,235,850	-	1,585,601	-	1,585,601
2.1 held for trading	-	1,235,850	-	1,235,850	-	1,585,601	-	1,585,601
2.2 fair value option	-	-	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-	-	-
Total (B)	**233,608**	**8,948,635**	**488**	**9,182,731**	**195,370**	**12,140,789**	**1,301**	**12,337,460**
Total (A+B)	**6,776,951**	**13,082,661**	**77,705**	**19,937,317**	**6,879,782**	**16,525,317**	**109,105**	**23,514,204**

Criteria adopted for classification of financial instruments in the three levels of the "fair value hierarchy" are reported in Section A.4, "Fair value disclosure" of Part A, "Accounting policies" of the notes to the financial statements.

As a result of the provisions set out in IAS 39 with regard to the derecognition of financial assets, lines 1.1 and 1.2 also include debt securities pledged in repos and securities lending transactions carried out in respect of own securities posted to the trading portfolio.

Line "4.1 Loans – Reverse repurchase agreements (assets) " includes the repurchase agreements entered into by the subsidiary MPS Capital Services - Banca per le imprese S.p.a.. These transactions are mainly correlated with Lines "1. Deposits from banks" and "2. Deposits from customers" of Item 40 "Financial liabilities held for trading".

Line "4.2 Loans - other" includes capitalisation insurance policies comprised in the Parent Company's trading book.

Derivatives connected with fair value option instruments are also included in the trading book: these cover the risks of funding designated at fair value arising from possible interest rate fluctuations and from any embedded options in structured securities issued. The fair value of such derivatives is shown in line "B1.2 - Fair value option" if carried out directly with external counterparties, while it is shown as a share of trading derivatives in line B1.1 where FVO hedging initially carried out with the subsidiary MPS Capital Services made it necessary to externalise risk.

For FVO derivatives arranged by Group companies with the subsidiary MPS Capital Services, it is worth noting that the relevant internal units responsible for risk management perform appropriate tests at consolidated level in order to periodically test the strength of the hedge applied from a 'natural hedging' perspective.

At the end of both 2013, with a value of EUR 36.9 mln, and the end of 2012, with a value of EUR 49.8 mln, all fair value option derivatives posted to the trading book were attributable to the natural and systematic hedging of fixed-rate and structured bonds issued by the Group.

By convention, such derivatives are classified in the trading book. In terms of their representation in the income statement, they comply with rules similar to the rules applicable to hedging derivatives: positive and negative spreads or margins settled or accrued until the balance sheet date are recognised as interest income and expense, while valuation profits and losses are posted under item 110 of the income statement, "Net profit (loss) from financial assets and liabilities designated at fair value", in compliance with representations used for funding instruments which adopted the fair value option.

2.1.a Breakdown of debt securities: structured securities

Structured debt securities	Total 31 12 2013	Total 31 12 2012
Index Linked	20,907	102,392
Credit linked notes	63,150	68,494
Equity Linked	10,569	15,129
Step - up, Step down	9	9
Reverse Floater	164	1,363
Commodity	23,319	28,818
Fund Linked	53,834	146,702
Other	253	13,609
Total	**172,205**	**376,516**

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

Items/Amounts	Total 31 12 2013	Total 31 12 2012
A. Balance sheet assets		
1. Debt securities	6,858,978	7,621,154
a) Governments and Central banks	6,076,507	6,129,876
b) Other public entities	5	4
c) Banks	474,495	891,091
d) Other issuers	307,971	600,183
2. Equity instruments	98,440	139,172
a) Banks	4,495	44,475
b) Other issuers:	93,945	94,697
- insurance companies	19,303	1,138
- financial companies	4,430	6,884
- non-financial companies	70,212	86,675
- other	-	-
3. Units in UCITS	101,381	235,976
4. Loans	3,695,787	3,180,442
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	569,698	738,055
d) Other entities	3,126,089	2,442,387
Total (A)	**10,754,586**	**11,176,744**
B. Derivatives	-	-
a) Banks	-	-
- *fair value*	4,752,823	6,600,431
b) Customers	-	-
- *fair value*	4,429,908	5,737,029
Total (B)	**9,182,731**	**12,337,460**
Total (A+B)	**19,937,317**	**23,514,204**

The breakdown by borrower/issuer was carried out in accordance with criteria of classification by economic activity group and sector laid down by the Bank of Italy.

As for derivatives, it should be noted that the positive fair value of derivatives with customers includes approx. EUR 485 mln from balanced trading aimed at providing financial protection to customers of the Group's network. The remaining amount was generated from transactions with financial market participants classified as customers pursuant to the above classification criteria set by the Bank of Italy.

2.2.a Units in UCITS: Breakdown by main categories

Categories/Amounts	Total 31 12 2013	Total 31 12 2012
Equity	129	10,745
Bonds	263	244
Balanced	7,471	20,409
Hedge Funds	82,102	177,028
Other	11,416	27,550
Total	**101,381**	**235,976**

The table adds details to line "A.3. Units of UCITS" in table 2.2.

2.3 On-balance-sheet financial assets held for trading: annual changes

31 12 2013

Changes/Underlying assets	Debt securities	Equity instruments	Units in UCITS	Loans	Total
A. Opening balance	**7,621,154**	**139,172**	**235,976**	**3,180,442**	**11,176,744**
B. Increases	**116,568,248**	**641,860**	**659,097**	**123,021,397**	**240,890,602**
B1. Purchases	113,240,346	609,574	384,029	122,896,815	237,130,764
B2. Positive changes in fair value	95,073	5,499	7,415	792	108,779
B3. Other increases	3,232,829	26,787	267,653	123,790	3,651,059
C. Decreases	**117,330,424**	**682,592**	**793,692**	**122,506,052**	**241,312,760**
C1. Sales	112,007,728	667,766	337,636	122,421,497	235,434,627
C2. Redemptions	1,716,403	-	122,942	11,551	1,850,896
C3. Negative changes in fair value	92,759	94	8,452	286	101,591
C4. Transfers to other portfolios	-	-	-	-	-
C5. Other increases	3,513,534	14,732	324,662	72,718	3,925,646
D. Closing balance	**6,858,978**	**98,440**	**101,381**	**3,695,787**	**10,754,586**

Lines B3 and C5 include profit and loss from trading, accruals on issue discounts and on coupon interest, effects of exchange-rate fluctuations and any opening (C5) and closing (B3) uncovered short positions.

Section 3 – Financial assets designated at fair value – Item 30

The tables for this section were not completed since the Group has no financial assets designated at fair value to report for either the current or previous year.

Section 4 - Financial assets available for sale – Item 40

4.1 Financial assets available for sale: breakdown by type

Items/Amounts	31 12 2013				31 12 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	22,547,442	242,773	100,870	22,891,085	23,885,848	248,582	143,585	24,278,015
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	22,547,442	242,773	100,870	22,891,085	23,885,848	248,582	143,585	24,278,015
2. Equity instruments	24,682	72,257	405,191	502,130	41,585	789,142	47,186	877,913
2.1 Designated at fair value	24,682	64,402	400,962	490,046	41,585	774,394	47,186	863,165
2.2. Carried at cost	-	7,855	4,229	12,084	-	14,748	-	14,748
3. Units in UCITS	660	179,534	106,840	287,034	477	492,336	-	492,813
4. Loans	-	-	-	-	-	-	-	-
Total	**22,572,784**	**494,564**	**612,901**	**23,680,249**	**23,927,910**	**1,530,060**	**190,771**	**25,648,741**

The portfolio of AFS financial assets includes:

a) bonds and UCITS not held for trading;

b) equity investments with shareholding lower than controlling or associate interests.

As a result of the provisions set out in IAS 39 for the derecognition of financial assets, lines 1.1 and 1.2 also include debt securities committed in repos (liabilities) and securities lending transactions carried out for own securities posted to the available-for-sale portfolio.

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

Items/Amounts	Total 31 12 2013	Total 31 12 2012
1. Debt securities	**22,891,085**	**24,278,015**
a) Governments and Central banks	22,184,193	23,276,357
b) Other public entities	2,056	38,081
c) Banks	496,098	678,357
d) Other issuers	208,738	285,220
2. Equity instruments	**502,130**	**877,913**
a) Banks	341,211	586,905
b) Other issuers:	160,919	291,008
- insurance companies	1,117	1,105
- financial companies	29,143	30,560
- non-financial companies	130,658	214,325
- other	1	45,018
3. Units in UCITS	**287,034**	**492,813**
4. Loans	**-**	**-**
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**23,680,249**	**25,648,741**

4.2.a Units in UCITS: Breakdown by main categories

Categories/Amounts	Total 31 12 2013	Total 31 12 2012
Hedge Funds	41,083	136,786
Private Equity	146,633	256,013
Real estate	99,318	100,014
Total	**287,034**	**492,813**

4.3 Micro-hedged financial assets available for sale: item 30

Items/Amounts	Total 31 12 2013	Total 31 12 2012
1. Financial assets subject to micro-hedging of fair value	14,804,843	17,762,527
a) interest rate risk	14,804,843	17,745,108
b) price risk	-	-
c) foreign exchange risk	-	-
d) credit risk	-	-
e) multiple risks	-	17,419
2. Financial assets subject to micro-hedging of cash flows	-	-
a) interest rate risk	-	-
b) foreign exchange risk	-	-
c) other	-	-
Total	**14,804,843**	**17,762,527**

The EUR 2,940.3 mln decrease in fair value micro-hedge transactions to counter interest rate risk, includes EUR 2,249 mln from the settlement of the "Santorini" transaction with Deutsche Bank in December 2013 (see press release of 19 December 2013).

4.4 Financial assets available for sale: annual changes

31 12 2013

Items/Amounts	Debt securities	Equity instruments	Units in UCITS	Loans	Total
A. Opening balance	**24,278,015**	**877,913**	**492,813**	**-**	**25,648,741**
B. Increases	**7,462,127**	**311,722**	**112,731**	**-**	**7,886,580**
B1. Purchases	6,350,688	216,112	64,220	-	6,631,020
B2. Increases in fair value	720,512	24,856	3,812	-	749,180
B3. Write-backs	1,685	49,428	18,176	-	69,289
- posted to profit and loss	-	X	-	-	-
- posted to net equity	1,685	49,428	18,176	-	69,289
B4. Transfers from other portfolios	-	-	-	-	-
B5. Other increases	389,242	21,326	26,523	-	437,091
C. Decreases	**8,849,057**	**687,505**	**318,510**	**-**	**9,855,072**
C1. Sales	6,757,460	264,153	143,383	-	7,164,996
C2. Redemptions	1,518,193	1,430	107,910	-	1,627,533
C3. Decreases in fair value	36,752	52,050	32,812	-	121,614
C4. Write-downs due to impairment	*1,685*	41,159	16,360	-	59,204
- posted to profit and loss	1,685	41,159	16,360	-	59,204
- posted to net equity	-	-	-	-	-
C5. Transfers to other portfolios	-	-	-	-	-
C6. Other decreases	534,967	328,713	18,045	-	881,725
D. Closing balance	**22,891,085**	**502,130**	**287,034**	**-**	**23,680,249**

Amounts shown in lines "B2 Increases in fair value" and "C.1 Sales" in the "Debt securities" column, primarily refer to Italian government securities.

Line B.3 "Write-backs – posted to net equity" includes the reversal of negative net equity reserves of impaired securities; in terms of profit and loss, the value adjustments for the same amount are posted to line C.4 "Write-downs due to impairment" of the table.

Line "B.5 "Other increases" and line "C6. "Other decreases" include exchange-rate differences and gains (losses) on disposals.

Line "C.1 Sales", under the "Debt securities" column, includes EUR 2,346 mln from the derecognition of Italian government bonds (BTPs) linked to the "Santorini" transaction, which was closed via a settlement agreement with Deutsche Bank in December 2013 (see press release of 19 December 2013).

Section 5 – Financial assets held to maturity – Item 50

The tables for this section were not completed since the Group has no financial assets held to maturity to report for either the current or previous year.

Section 6 – Loans to banks – Item 60

6.1 Loans to banks: breakdown by type

Type of transaction/Amount	Total 31 12 2013					Total 31 12 2012	
	Book value	Fair Value				Book value	Total Fair Value
		Level 1	Level 2	Level 3			
A. Loans to central banks	**3,746,929**	**-**	**3,746,929**	**-**	**3,746,929**	**630,545**	x
1. Time deposits	17,000	x	x	x	x	16,000	x
2. Compulsory reserve	3,729,929	x	x	x	x	590,102	x
3. Reverse repurchase agreements	-	x	x	x	x	-	x
4. Other	-	x	x	x	x	24,443	x
B. Loans to banks	**6,167,055**	**29,281**	**6,129,244**	**27,263**	**6,185,788**	**10,594,444**	x
1. Loans	5,488,156	-	5,497,644	5,213	5,502,857	9,602,328	x
1.1 Current accounts and demand deposits	2,535,744	x	x	x	x	3,456,069	x
1.2 Time deposits	291,964	x	x	x	x	479,616	x
1.3 Other loans:	2,660,448	x	x	x	x	5,666,643	x
- Reverse repurchase agreements	270,011	x	x	x	x	1,218,713	x
- Finance leases	-	x	x	x	x	-	x
- Other	2,390,437	x	x	x	x	4,447,930	x
2. Debt securities	678,899	29,281	631,600	22,050	682,931	992,116	x
2.1 Securities	-	x	x	x	x	-	x
2.2 Other debt securities	678,899	x	x	x	x	992,116	x
Total	**9,913,984**	**29,281**	**9,876,173**	**27,263**	**9,932,717**	**11,224,989**	**11,158,025**

The portfolio of "Loans to banks" includes loans and deposits, in addition to the unrestricted part of the compulsory legal reserve with the Bank of Italy which, as at 31.12.2013, amounted to EUR 3,730 mln. In accordance with regulations on average maintenance levels, the end-of-period balance of the compulsory reserve may be subject to substantial changes in relation to the Group's contingent cash flow requirements.

'Banks' also includes international entities of a banking nature subjected to zero weighting in accordance with prudential supervisory regulations on the standardised approach to counterparty and credit risk.

Non-performing loans for the current year amounted to EUR 27. 2 mln, against EUR 4.2 mln in the previous year.

The decrease in "line 1.3 Other Loans - Other" includes EUR 959.8 mln for the reimbursement of collateral pledged for the long term repo and asset swap transaction entered into with Deutsche Bank following settlement of the "Santorini" transaction.

'Banks' also includes international entities of a banking nature subjected to zero weighting in accordance with prudential supervisory regulations on the standardised approach to counterparty and credit risk.

6.2 Loans to banks: micro-hedged assets

Type of transaction / Amount	Total 31 12 2013	Total 31 12 2012
1. Loans subject to micro-hedging of fair value	**464,403**	**492,155**
a) interest rate risk	444,616	472,397
b) exchange risk	-	-
c) credit risk	19,787	19,758
d) multiple risks	-	-
2. Loans subject to micro-hedging of cash flows	**-**	**-**
a) interest rate risk	-	-
b) foreign exchange risk	-	-
c) other	-	-
Total	**464,403**	**492,155**

6.3 Finance leases

This table was not compiled since the Group had no finance leases to report for either the period under review or the previous year.

Section 7 – Loans to customers – Item 70

7.1 Loans to customers: breakdown by type

Type of transaction Amount	31 12 2013							
	Book value				Fair value			
	Performing	Non-performing		Total	Level 1	Level 2	Level 3	Total
		Purchased	Others					
Transactions	108,302,266	6,493	20,984,364	129,293,123	-	49,306,819	82,978,508	132,285,327
1. Current accounts	10,961,744	463	4,219,995	15,182,202	x	x	x	x
2. Reverse repurchase agreements	2,736,721	-	-	2,736,721	x	x	x	x
3. Mortgages	64,822,041	5,863	11,708,742	76,536,646	x	x	x	x
4. Credit cards, personal loans and fifth-of-salary backed loans	2,764,268	-	195,939	2,960,207	x	x	x	x
5. Financial leasing	4,037,738	-	1,016,593	5,054,331	x	x	x	x
6. Factoring	1,076,438	-	138,040	1,214,478	x	x	x	x
7. Other transactions	21,903,316	167	3,705,055	25,608,538	x	x	x	x
of which: leased assets under construction	*182,417*	-	*50,580*	*232,997*	*x*	*x*	*x*	*x*
Debt securities	1,923,999	-	1,273	1,925,272	323,316	1,071,940	352,438	1,747,694
8. Structured securities	182,665	-	-	182,665	x	x	x	x
9. Other debt securities	1,741,334	-	1,273	1,742,607	x	x	x	x
Total	110,226,265	6,493	20,985,637	131,218,395	323,316	50,378,759	83,330,946	134,033,021

Type of transaction Amount	31 12 2012				
	Book value				Fair value
	Performing	Non-performing		Total	Total
		Purchased	Others		
Transactions	122,397,199	-	17,394,209	139,791,408	-
1. Current accounts	13,098,750	-	3,639,314	16,738,064	X
2. Reverse repurchase agreements	2,199,150	-	-	2,199,150	X
3. Mortgages	72,328,840	-	9,357,257	81,686,097	X
4. Credit cards, personal loans and fifth-of-salary backed loans	3,421,925	-	196,694	3,618,619	X
5. Financial leasing	4,279,896	-	972,402	5,252,298	X
6. Factoring	1,573,046	-	91,619	1,664,665	X
7. Other transactions	25,495,592	-	3,136,923	28,632,515	X
of which: leased assets under construction	*215,655*	-	*74,428*	*290,083*	*X*
Debt securities	2,221,223	-	2,530	2,223,753	-
8. Structured securities	644,690	-	-	644,690	X
9. Other debt securities	1,576,533	-	2,530	1,579,063	X
Total	124,618,422	-	17,396,739	142,015,161	145,154,121

'Loans to customers' also includes operating receivables other than those connected with the payment for the supply of non-financial goods and services, which are posted to "Other assets" in account 160 of the Assets.

With regard to the Nomura/Alexandria transaction, described in Part A "Accounting policies" of these Notes to the financial statements, it should be noted that line "2 Reverse repurchase agreements" includes a repo facility of EUR 1,966.5 mln and line "7 Other transactions" includes EUR 1,577.8 mln in cash collateral pledged in favour of the same counterparty for the interest rate swap and long term repo transactions.

The securities portfolio also includes underwritten ABS and other bonds issued by regional public bodies, e.g. municipal bonds (it.: buoni ordinari comunali, BOC).

According to the Bank of Italy's definitions, the "Non-performing" column includes doubtful, substandard and restructured loans, as well as exposures more than 90 days past due, net of impairment losses. Details of these exposures can be found in Part E "Information on risks and hedging policies" of the notes to the financial statements (Section A "credit Quality").

The amount of EUR 182.7 mln posted to line "8. Structured securities" refers to a structured security which was reclassified from the AFS portfolio in 2008; the unbundled derivative is recognised at fair value in the trading book. The decrease of EUR 462 mln in the amount reported in this line, as against 2012 (table below), is due to the reclassification of "Nota Italia" to line 9 "Other debt securities", following settlement of the Note's embedded derivative component in January 2013 (see press release of 23 January 2013).

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction / Amount	31 12 2013				31 12 2012			
	Performing	Non performing		Total	Performing	Non performing		Total
		Purchased	Others			Purchased	Others	
1. Debt securities:	1,923,999	-	1,273	1,925,272	2,221,223	-	2,530	2,223,753
a) Governments	129,772	-	-	129,772	241,724	-	-	241,724
b) Other public entities	206,576	-	-	206,576	225,152	-	-	225,152
c) Other issuers	1,587,651	-	1,273	1,588,924	1,754,347	-	2,530	1,756,877
- non-financial companies	12,281	-	1,148	13,429	17,072	-	1,141	18,213
- financial companies	1,061,947	-	125	1,062,072	1,221,983	-	1,389	1,223,372
- insurance companies	513,423	-	-	513,423	514,929	-	-	514,929
- other	-	-	-	-	363	-	-	363
2. Loans to:	108,302,266	6,493	20,984,364	129,293,123	122,397,199	-	17,394,209	139,791,408
a) Governments	940,484	-	12	940,496	1,054,957	-	45	1,055,002
b) Other public entities	2,521,508	-	695	2,522,203	2,989,834	-	793	2,990,627
c) Other entities	104,840,274	6,493	20,983,657	125,830,424	118,352,408	-	17,393,371	135,745,779
- non-financial companies	59,717,872	4,620	18,304,197	78,026,689	68,708,721	-	14,875,974	83,584,695
- financial companies	8,074,274	-	139,567	8,213,841	9,019,672	-	176,866	9,196,538
- insurance companies	41,935	-	1	41,936	48,702	-	3	48,705
- other	37,006,193	1,873	2,539,892	39,547,958	40,575,313	-	2,340,528	42,915,841
Total	110,226,265	6,493	20,985,637	131,218,395	124,618,422	-	17,396,739	142,015,161

7.3 Loans to customers: micro-hedged assets

Type of transaction/Amount	Total 31 12 2013	Total 31 12 2012
1. Loans subject to micro-hedging of fair value	**1,120,106**	**1,306,925**
a) interest rate risk	614,370	784,190
b) exchange risk	461,938	467,012
c) credit risk	-	10,551
d) multiple risks	43,798	45,172
2. Loans subject to micro-hedging of cash flows	**-**	**-**
a) interest rate risk	-	-
b) foreign exchange risk	-	-
c) other	-	-
Total	**1,120,106**	**1,306,925**

7.4 Finance leases

7.4.a Loans to customers: reconciliation of future minimum lease payments receivable

31 12 2013

Items/Amounts	Carryng amount			Gross investment		
	Lease payments receivable discontinued at explicit	Lease payments receivable discontinued at implicit	Total lease payments receivable recognised in income for the	Deferred financial income (D)	Future minimum lease payments (B + D)	*of which: unguaranteed residual values*
Up to 1 year	160,610	838,112	998,722	213,216	1,051,328	*34,350*
From 1 to 5 years	-	1,761,412	1,761,412	600,284	2,361,696	*123,727*
Over 5 years	-	2,381,480	2,381,480	609,495	2,990,975	*604,469*
Indefinite useful life	550,959	-	550,959	-	-	-
Total	**711,569**	**4,981,004**	**5,692,573**	**1,422,995**	**6,403,999**	***762,546***
Value adjustments			(638,242)			
Loans and advances in the balance sheet			**5,054,331**			

Section 8 – Hedging derivatives – Item 80

8.1 Hedging derivatives: breakdown by type of contract and underlying asset

	Fair Value 31 12 2013				NV	Fair Value 31 12 2012				NV
	Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**397,868**	**-**	**397,868**	**7,952,427**	**-**	**550,439**	**-**	**550,439**	**9,902,587**
1) Fair value	-	385,335	-	385,335	7,893,864	-	538,982	-	538,982	9,844,024
2) Cash flows	-	12,533	-	12,533	58,563	-	11,457	-	11,457	58,563
3) Foreign investmen	-	-	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**65**	**-**	**65**	**20,000**	**-**	**654**	**-**	**654**	**55,500**
1) Fair value	-	65	-	65	20,000	-	654	-	654	55,500
2) Cash flows	-	-	-	-	-	-	-	-	-	-
Total	**-**	**397,933**	**-**	**397,933**	**7,972,427**	**-**	**551,093**	**-**	**551,093**	**9,958,087**

Key

NV = Nominal or Notional Value

The table displays the positive book value (fair value) of hedging derivatives for hedges carried out through hedge accounting. Hedge accounting is used for the accounting of hedges of financial instruments posted in balance sheet items which do not provide for fair value measurement to offset profit and loss: in particular, hedges of all financial assets and liabilities other than those represented by securities are managed through hedge accounting.

Hedges of financial liabilities consisting in securities are normally managed through the fair value option. The fair value option has systematically been adopted for fixed-rate and structured debt securities issued by the Group, for which the risk of fair value changes was hedged by derivatives upon issuance, with the aim of maintaining the hedge for the contractual duration of the hedged securities; derivatives used as part of the fair value option are classified in the trading book.

Hedge accounting is instead used for securities issued by the Group for which the decision to hedge was taken after issuance or for which there is no intention to maintain the hedge for the contractual duration of the securities.

Information on the underlying strategies and objectives of hedge transactions can be found in the Section "Market risks" of Part E "Risks and hedging policies".

8.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging (book value)

31 12 2013

Transaction/Type of hedge	Fair Value						Cash flow hedge		Foreign Investments	Total
	Micro-hedge					Macro-hedge	Micro-hedge	Macro-hedge		
	Risk Rate	Risk Exchar	Risk Credi	Risk Price	Multiple Risks					
1. Financial assets available for sale	309	-	-	-	-	x	-	x	x	309
2. Loans and receivables	-	48,414	65	x	-	x	-	x	x	48,479
3. Financial assets held to maturity	x	-	-	x	-	x	-	x	x	-
4. Portfolio	x	x	x	x	x	-	x	-	x	-
5. Other transactions	-	-	-	-	-	x	-	x	-	-
Total assets	**309**	**48,414**	**65**	**-**	**-**	**-**	**-**	**-**	**-**	**48,788**
1. Financial liabilities	336,612	-	-	x	-	x	12,533	x	x	349,145
2. Portfolio	x	x	x	x	x	-	x	-	x	-
Total liabilities	**336,612**	**-**	**-**	**-**	**-**	**-**	**12,533**	**-**	**-**	**349,145**
1. Expected transactions	x	x	x	x	x	x	-	x	x	-
2. Financial assets and liabilities portfolio	x	x	x	x	x	-	x	-	-	-
Total	**336,921**	**48,414**	**65**	**-**	**-**	**-**	**12,533**	**-**	**-**	**397,933**

31 12 2012

Transaction/Type of hedge	Fair Value						Cash flow hedge		Foreign Investments	Total
	Micro-hedge					Macro-hedge	Micro-hedge	Macro-hedge		
	Risk Rate	Risk Exchar	Risk Credi	Risk Price	Multiple Risks					
1. Financial assets available for sale	-	-	-	-	-	x	-	x	x	-
2. Loans and receivables	5,028	40,692	654	x	-	x	-	x	x	46,374
3. Financial assets held to maturity	x	-	-	x	-	x	-	x	x	-
4. Portfolio	x	x	x	x	x	-	x	-	x	-
5. Other transactions	-	-	-	-	-	x	-	x	-	-
Total assets	**5,028**	**40,692**	**654**	**-**	**-**	**-**	**-**	**-**	**-**	**46,374**
1. Financial liabilities	493,262	-	-	x	-	x	11,457	x	x	504,719
2. Portfolio	x	x	x	x	x	-	x	-	x	-
Total liabilities	**493,262**	**-**	**-**	**-**	**-**	**-**	**11,457**	**-**	**-**	**504,719**
1. Expected transactions	x	x	x	x	x	x	-	x	x	-
2. Financial assets and liabilities portfolio	x	x	x	x	x	-	x	-	-	-
Total	**498,290**	**40,692**	**654**	**-**	**-**	**-**	**11,457**	**-**	**-**	**551,093**

The table shows the positive fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, fair value micro-hedging was used to hedge against interest-rate risk on fixed and capped floating rate mortgages and bonds classified in the available-for-sale portfolio or among receivables, in order to protect them from unfavourable interest rate changes. The 'Exchange risk' column shows the positive fair value of cross currency swaps entered into to counter foreign-exchange risk on unlisted bonds classified among loans and receivables.

Fair value micro-hedging was also applied to the credit risk of bonds classified in the loans portfolio; these hedges were performed by buying protection through credit default swaps.

Fair value micro-hedging of the interest-rate risk on financial liabilities refers primarily to hedges of liabilities consisting in securities for which the decision to hedge was taken after issuance or for which there is no intention to maintain the hedge for the contractual duration of the securities.

Prospective and retrospective tests performed in 2013 in accordance with IAS 39 confirmed the effectiveness of hedging relationships.

More information on hedged assets and liabilities can be found in the tables contained in Part B of the notes for each section of the balance-sheet items to which the hedged items are posted.

Section 9 – Change in value of macro-hedged financial assets – Item 90

9.1 Change in value of hedged assets: breakdown by hedged portfolio

Changes in value of hedged assets / Group components	Total 31 12 2013	Total 31 12 2012
1. Positive changes	**159,889**	**119,157**
1.1 of specific portfolios:	159,889	119,157
a) loans and receivables	159,889	119,157
b) financial assets available for sale	-	-
1.2 overall	-	-
2. Negative changes	**-**	**-**
2.1 of specific portfolios:	-	-
a) loans and receivables	-	-
b) financial assets available for sale	-	-
2.2 overall	-	-
Total	**159,889**	**119,157**

The value adjustment concerns fixed and capped floating rate mortgage loan portfolios that were fair value macro-hedged with derivatives to counter possible interest rate risk-induced fluctuations in value. As this is a macrohedge, any gain or loss on the hedged item attributable to the risk hedged may not directly adjust the value of said item (unlike in microhedging), but must be presented in this separate line item of the assets. The amounts in this item must be removed from the balance sheet when the relevant assets or liabilities are derecognised.

The fair value of the corresponding hedging derivatives is shown respectively in Table 8.2 (assets) or Table 6.2 (liabilities), both entitled “Hedging derivatives: breakdown by hedged portfolio and type of hedging”, in the “Macro-hedging” column.

9.2 Assets subject to macro-hedging of interest-rate risk

Hedged assets	Total 31 12 2013	Total 31 12 2012
1. Loans and receivables	3,958,954	1,783,964
2. Assets available for sale	-	-
3. Portfolio	-	-
Total	**3,958,954**	**1,783,964**

The table shows the book value (amortised cost) of fixed-rate and capped floating rate mortgages included in Item 70 “Loans to customers”, which was macro-hedged against interest-rate risk as per Table 9.1 above.

The sum of this amount and the one shown in Table 9.1 expresses the book value of these receivables, adjusted for profit or loss attributable to the risk hedged.

Section 10 – Equity investments – Item 100

10.1 Equity investments in entities subject to joint control (valued at equity) and under significant influence: information on shareholders' equity

Company Name	Registered Office	Type of relationship *	Ownership Relationship		Avail. % votes **
			Held by	Share holding	
AD.Impresa S.p.a.	Milan	8	Banca Monte dei Paschi di Siena	20.000	-
Aereoporto di Siena S.p.a.	Sovicille (SI)	8	Banca Monte dei Paschi di Siena	21.380	-
Alerion Cleanpower S.p.a.	Milan	8	Banca Monte dei Paschi di Siena	6.295	-
Antoniana Veneta Popolare Vita S.p.a.	Trieste	8	Banca Monte dei Paschi di Siena	50.000	-
Asset Management Holding S.p.a.	Milan	8	Banca Monte dei Paschi di Siena	21.626	-
Axa Mps Assicurazioni Danni S.p.a.	Rome	8	Banca Monte dei Paschi di Siena	50.000	-
Axa Mps Assicurazioni Vita S.p.a.	Rome	8	Banca Monte dei Paschi di Siena	50.000	-
Axa Financial Limited		8	Axa Mps Assicurazioni Vita S.p.a.	100.000	-
Axa Real Estate		8	Axa Mps Assicurazioni Vita S.p.a.	100.000	-
Bio Fund S.p.a.	Siena	8	Banca Monte dei Paschi di Siena	13.676	-
Casalboccone Roma S.p.a.	Siena	8	Banca Monte dei Paschi di Siena	21.750	33.675
CO.E.M. Costruzioni Ecologiche Moderne S.p.a.	Rome	8	Banca Monte dei Paschi di Siena	40.197	-
EDI.B. S.p.a.	Gubbio (PG)	8	Banca Monte dei Paschi di Siena	18.052	-
Fabrica Immobiliare SGR S.p.a.	Rome	8	Banca Monte dei Paschi di Siena	49.990	-
Fenice Holding S.p.a.	Calenzano (FI)	8	Banca Monte dei Paschi di Siena	4.156	-
0		0	MPS Capital Services S.p.a.	16.383	-
Fidi Toscana S.p.a.	Florence	8	Banca Monte dei Paschi di Siena	25.798	-
Industria e Innovazione S.p.a.	Milan	8	Banca Monte dei Paschi di Siena	7.107	-
Intermonte SIM S.p.a.	Milan	8	Banca Monte dei Paschi di Siena	17.410	-
J.P.P. Euro Securities Inc.	New York (NY)	8	Intermonte SIM S.p.a.	100.000	-
Intermonte Bcc Private Equity	Milan	8	Intermonte SIM S.p.a.	50.010	-
Interporto Toscano A.Vespucci S.p.a. Livorno-Guasticce	Collesalvetti (LI)	8	Banca Monte dei Paschi di Siena	21.819	-
		0	MPS Capital Services S.p.a.	19.002	-
Le Robinie S.p.a.	Reggio Emilia	8	Banca Monte dei Paschi di Siena	20.000	-
Marinella S.p.a.	Marinella di Sarzana (SP)	8	Banca Monte dei Paschi di Siena	25.000	-
Microcredito di Solidarietà S.p.a.	Siena	8	Banca Monte dei Paschi di Siena	40.000	-
NewColle S.r.l.	Colle V.Elsa (SI)	8	Banca Monte dei Paschi di Siena	49.002	-
Prima Holding 2 S.p.a.	Milan	8	Banca Monte dei Paschi di Siena	28.344	31.969
Realizzazioni e Bonifiche Arezzo S.p.a. (in liquidazione)	Arezzo	8	Banca Monte dei Paschi di Siena	19.584	-
Sansedoni Siena S.p.a.	Siena	8	Banca Monte dei Paschi di Siena	21.754	33.674
S.I.T. - Finanz.di Sviluppo per l'Innovaz. Tecnologica S.p.a.	Rome	8	Banca Monte dei Paschi di Siena	19.969	-
Terme di Chianciano S.p.a.	Chianciano T. (SI)	8	Banca Monte dei Paschi di Siena	48.866	-
Agricola Merse S.r.l.	Assago (MI)	8	MPS Capital Services S.p.a.	20.000	-
Immobiliare Centro Milano S.p.a.	Milan	8	MPS Capital Services S.p.a.	33.333	-
S.I.C.I. Sviluppo Imprese Centro Italia SGR S.p.a.	Florence	8	MPS Capital Services S.p.a.	29.000	-

Equity investments in subsidiary companies, jointly controlled companies and companies under significant influence are valued at cost. The column indicating the percentage of votes available is valued only in cases where the actual percentage of the votes that can be exercised at the ordinary shareholders' meetings does not correspond to the actual percentage of capital held in each company.

Investments in which the Group holds less than 20% of the voting rights are generally classified as investments under significant influence in those cases where the Group has signed a shareholders' agreement and/or is entitled to appoint one or more members in the Board of Directors.

For further details on changes, see comments to table "10.3 - Equity investments: annual changes".

10.2 Equity investments in entities subject to joint control and under significant influence: accounting information

	Company Name	Total assets	Total revenues	Profit (Loss)	Net Equity	Consolidated Value as at 31 12 2013	Fair Value			Consolidated Value as at 31 12 2012
							L1	L2	L3	
A.	**Companies valued at net equity**									
A.1	**Companies valued at net equity - jointlycontrolled**									
A.2	**Companies valued at net equity - under significant influence**									
1	AD.Impresa S.p.a.	X	X	(178)	592	-	X	X	X	3
2	Aereoporto di Siena S.p.a.	X	X	(5,816)	8,120	-	X	X	X	-
3	Alerion Cleanpower S.p.a.	X	X	2,688	206,400	9,065	8,998	X	X	8,774
4	Agricola Merse S.r.l.	X	X	(4,316)	38,686	5,000	X	X	X	5,000
5	Antoniana Veneta Popolare Vita S.p.a.	X	X	19,207	81,502	22,268	X	X	X	29,680
6	Asset Management Holding S.p.a.	X	X	39,857	529,371	137,567	X	X	X	115,720
7	Axa Mps Assicurazioni Danni S.p.a.	X	X	19,306	63,308	32,101	X	X	X	38,496
8	Banca Popolare di Spoleto S.p.a.	X	X	-	-	-	X	X	X	13,500
9	BioFund S.p.a.	X	X	(610)	1,886	255	X	X	X	314
10	Casalboccone Roma S.p.a.	X	X	(96)	24	-	X	X	X	26
11	CO.E.M. Costruzioni Ecologiche Moderne	X	X	3,103	27,854	19,368	X	X	X	17,905
12	EDI.B. S.p.a.	X	X	(12,851)	(2,340)	-	X	X	X	-
13	Fabrica Immobiliare SGR S.p.a.	X	X	2,097	12,027	5,714	X	X	X	6,326
14	Fenice Holding S.p.a.	X	X	(16,429)	242,971	16,352	X	X	X	52,750
15	Fidi Toscana S.p.a.	X	X	(2,354)	171,887	47,346	X	X	X	48,190
16	Gruppo Axa Mps Assicurazioni Vita S.p.a.	X	X	196,481	793,949	634,218	X	X	X	575,606
17	Immobiliare Centro Milano S.p.a.	X	X	(61,837)	(61,243)	-	X	X	X	-
18	Industria e Innovazione S.p.a.	X	X	(6,725)	39,066	1,066	1,066	X	X	3,291
19	Intermonte SIM S.p.a.	X	X	13,428	88,277	15,042	X	X	X	15,499
20	Interporto Toscano A.Vespucci S.p.a.	X	X	64	17,309	10,210	X	X	X	6,271
21	Le Robinie S.p.a.	X	X	(1,233)	4,068	-	X	X	X	-
22	Marinella S.p.a.	X	X	(191)	37,994	9,546	X	X	X	9,844
23	Microcredito di Solidarietà S.p.a.	X	X	10	1,445	591	X	X	X	582
24	NewColle S.r.l.	X	X	80	3,965	907	X	X	X	2,003
25	Prima Holding 2 S.p.a.	X	X	(28)	12,844	3,638	X	X	X	3,588
26	Realizzazioni e Bonifiche Arezzo S.p.a.	X	X	(3,088)	16,044	-	X	X	X	-
27	Re.Ge.Im Realizzazione e Gestione	X	X	-	-	-	X	X	X	7,248
28	S.I.C.I. Sviluppo Imprese Centro Italia SGR	X	X	542	8,748	2,726	X	X	X	2,688
29	S.I.T. - Finanz.di Sviluppo per l'Innovaz.	X	X	(19)	569	121	X	X	X	122
30	Sansedoni Siena S.p.a.	X	X	(40,599)	135,218	14,810	X	X	X	37,966
31	Società italiana di Monitoraggio S.p.a.	X	X	-	-	-	X	X	X	105
32	Sorin*	X	X	-	-	-	X	X	X	36,505
33	Terme di Chianciano S.p.a.	X	X	(1,455)	3,834	930	X	X	X	2,100
B.	**Proportionately consolidated companies**									
1	Integra S.p.A.	25,095	1,871	20	1,810	X	X	X	X	X
	Total					**988,841**				**1,040,102**

** As at 31.12.13, the investment in Sorin was classified under non-current assets held for sale and discontinued operations.*

10.3 Equity investments: annual changes

	Total 31 12 2013	Total 31 12 2012
A. Opening balance	**1,040,102**	**894,642**
B. Increases	**161,165**	**300,758**
B.1 Purchases	9,584	104,310
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other increases	151,581	196,448
C. Decreases	**212,426**	**155,298**
C.1 Sales	15,721	-
C.2 Write-downs	37,676	80,117
C.4 Other decreases	159,029	75,181
D. Closing balance	**988,841**	**1,040,102**
E. Total revaluation	**-**	**-**
F. Total write-downs	**224,543**	**186,867**

Below are the main changes introduced in the course of the year.

Among increases:

- line B.1 "Purchases" includes the capital increase of Fidi Toscana S.p.a. for EUR 5.2 mln and Interporto Toscano S.p.a. for EUR 4.4 mln;
- line B.4 “Other increases”, EUR 127 mln in profits from associates.

Among decreases:

- line C.1 “Sales” includes the disposal of Antoniana Veneta Popolare Assicurazioni Spa for EUR 8.5 mln and Re.Ge.Im. Realizzazione e Gestione Immobili di Qualità Spa for EUR 7.2 mln;
- line C.4 “Other decreases” includes the dividends paid out by the associates (EUR 80.1 mln), losses from associates (EUR 38.1 mln) and the reclassification to assets held for sale of Sorin S.p.a. (EUR 38 mln)

§ * § * §

In accordance with IAS 28 (“Investments in associates”), the impairment indicators for investments were evaluated and, where necessary, an impairment test was carried out. Illustrated below are the key considerations regarding assessment methods and impairment test restuls for the following significant shareholdings:

- Antoniana Veneta Popolare Vita S.p.a. (Antonveneta Vita);
- AXA MPS Assicurazioni Danni S.p.a. (AXA MPS Danni);
- AXA MPS Assicurazioni Vita S.p.a. (AXA MPS Vita);
- Asset Management Holding S.p.a. (AM Holding);

With reference to how impairment losses on investments in associates are determined, under IAS 36 the test is conducted by comparing the recoverable value with the carrying value of the equity investment.

For life insurers, the appraisal value method was used, which estimates the value of an insurance company as the sum of its Embedded Value (amount of adjusted equity and outstanding insurance policies) and its New Business Value (current value of future life insurance business). In accordance with professional measurement practices and regulations, this method is applied for the appraisal of life insurance companies. In the case of Antonveneta Vita, only the Embedded Value was considered, due to the company's substantial portfolio run-off.

The appraisal value method was applied on the basis of parameters that enable the representation of the company's risk/return level. In particular, the following were considered:

- a cost of equity of 10.2%, estimated using a risk-free rate of return of 4.30% with country risk factored in (average return for 10-year Italian government securities in 2013), a premium for market risk of 5% and beta of 1.17 calculated based on a panel of listed European companies operating exclusively in the field of life insurance (source: Bloomberg);
- a long-term growth rate of 2%, on the basis of inflation forecasts from the leading econometric analysis institutes (ERC, IMF, Prometeia). The growth rate is thus not in excess of the market rate.

The recoverable value for AXA MPS Danni was determined by discounting distributable cash flows (for a description of the approach, see section on goodwill impairment testing).

The recoverable value was determined on the basis of economic and financial projections provided by the Parent Company and following parameters:

- a target solvency ratio of 150%;
- a cost of equity of 9.3%, estimated using a risk-free rate of return of 4.30% with country risk factored in, a premium for market risk of 5% and beta of 1.00 calculated based on a panel of listed European companies operating exclusively in the field of P&C insurance (source: Bloomberg);
- a long-term growth rate of 2%.

The recoverable amount of AM Holding was determined by cash flow discounting. The value was determined on the basis of economic and financial projections for 2014-2016 as well as the following parameters:

- a cost of equity of 10.6%, estimated using a risk-free rate of return of 4.30% with country risk factored in, a premium for market risk of 5% and beta of 1.16 calculated based on a panel of listed international companies operating in asset management (source: Bloomberg) and a 50bps additional risk to factor in current uncertainties in the asset management industry. An additional sensitivity of +100bps on ke was also taken into account;
- a long-term growth rate of 2%.

In order to best appraise the sensitivity of the results of the impairment test conducted on the investments with respect to changes in the base assumptions, several sensitivity tests were performed by changing the discount rate (+100 bps), the long-term growth rate and some underlying assumptions for the insurance company's economic and financial forecasts.

The results of the impairment test showed that the recoverable values of the equity investments analysed were higher than their respective carrying values.

Reported below is the main embedded goodwill remaining after the impairment test:

Embedded goodwill	31 12 2013	31 12 2012
Axa Mps Assicurazioni Vita S.p.A.	46,796	46,796
Axa Mps Assicurazioni Danni S.p.A.	2,316	2,316
Asset Management Holding S.p.A.	4,002	4,002
Sorin S.p.a. (Held for sale)	4,649	4,649
Others	790	790
Total	**58,553**	**58,553**

10.4 Covenants on investments in jointly controlled companies

No covenants on investments in jointly controlled companies are reported.

10.5 Covenants on investments in companies under significant influence

No covenants on investments in companies under significant influence are reported.

Section 11 – Reinsurance technical reserves – Item 110

No values are shown in this section as the Group's insurance investments are associates.

Section 12 - Property, plant and equipment - Item 120

12.1 Property, plant and equipment used in the business: breakdown of assets valued at cost

Asset/Amount	Total	
	31 12 2013	31 12 2012
1. Assets owned	**2,433,886**	**1,098,337**
a) land	841,780	399,750
b) buildings	1,260,513	385,293
c) furniture and furnishings	166,496	171,958
d) electronic systems	75,537	48,704
e) other	89,560	92,632
2. Assets leased	-	-
a) land	-	-
b) buildings	-	-
c) furniture and furnishings	-	-
d) electronic systems	-	-
e) other	-	-
Total	**2,433,886**	**1,098,337**

All of the Group's property and equipment is measured at cost; the line "land" expresses the value of land separately from the value of buildings. In compliance with guidance provided by IAS 36 "Impairment of Assets" and recommendations contained in document no. 4 of 3 March 2010 issued jointly by the Bank of Italy, Consob and Isvap, an overall property appraisal was made with a view to determining any impairment losses to be posted to profit and loss for the year; disclosure of these impairment losses is provided in the notes to tables "12.3 Property, plant and equipment used in the business: annual changes" and "12.4 Property, plant and equipment held for investment: annual changes".

The increase in "Owned assets – b) buildings" is due to the acquisition of a control in the company "Perimetro Gestione Proprietà Immobiliari S.c.p.a.", information of which is contained in Part G "Business Combinations" in these Notes to the Financial Statements.

12.2 Property, plant and equipment held for investment: breakdown of assets valued at cost

Asset/Amount	Total 31 12 2013					Total 31 12 2012	
	Book value	Fair Value			Total	Book value	Fair Value
		Level 1	Level 2	Level 3			
1. Assets owned	**327,816**	**-**	**-**	**359,747**	**359,747**	**236,142**	**249,092**
a) land	163,621	-	-	166,521	166,521	124,003	121,229
b) buildings	164,195	-	-	193,226	193,226	112,139	127,863
2. Assets leased	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-
Total	**327,816**	**-**	**-**	**359,747**	**359,747**	**236,142**	**249,092**

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

The Group does not own any revalued property, plant and equipment.

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

The Group does not own any property, plant and equipment designated at fair value.

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

	Land	Buildings	Furniture and furnishings	Electronic systems	Others	Total 31 12 2013
A. Gross opening balance	**403,693**	**534,048**	**505,692**	**517,355**	**460,966**	**2,421,754**
A.1 Total net decrease	3,943	148,755	333,734	468,651	368,334	1,323,417
A.2 Net opening balance	**399,750**	**385,293**	**171,958**	**48,704**	**92,632**	**1,098,337**
B. Increases	**465,828**	**919,774**	**13,957**	**50,477**	**15,069**	**1,465,105**
B.1 Purchases	465,828	884,518	13,940	47,626	15,069	1,426,981
- Business combinations	465,772	884,128	-	-	14	1,349,914
B.2 Capitalized expenditure on improvements	-	4,917	-	-	-	4,917
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	15	25	-	40
B.6 Transfers from properties held for investment	-	-	-	-	-	-
B.7 Other increases	-	30,339	2	2,826	-	33,167
C. Decreases	**23,798**	**44,554**	**19,419**	**23,643**	**18,142**	**129,556**
C.1 Sales	4,049	9,153	4,743	29	17	17,991
C.2 Depreciation	-	17,209	14,206	23,609	17,061	72,085
C.3 Impariment losses booked to:	661	1,046	-	-	-	1,707
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	661	1,046	-	-	-	1,707
C.4 Decreases in fair value booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	-	-	-	-	-
C.5 Negative exchange differences	96	77	-	-	-	173
C.6 Transfer to:	18,992	17,069	-	-	-	36,061
a) tangible asset held for investment	18,902	16,751	-	-	-	35,653
b)assets held for sale	90	318	-	-	-	408
C.7 Other decreases	-	-	470	5	1,064	1,539
D. Net closing balance	**841,780**	**1,260,513**	**166,496**	**75,538**	**89,559**	**2,433,886**
D.1 Total net decreases	4,435	153,163	333,726	517,983	371,164	1,380,471
D.2 Gross closing balance	**846,215**	**1,413,676**	**500,222**	**593,521**	**460,723**	**3,814,357**
E. Carried at cost	**-**	**-**	**-**	**-**	**-**	**-**

Lines A.1 and D.1 – "Total net decreases" include amounts relating to total depreciation and impairment losses booked.

Purchases in line B.1 are largely due to the acquisition of a control in the company “Perimetro Gestione Proprietà Immobiliari”, information of which is contained in Part G "Business Combinations" in these Notes to the Financial Statements.

Line E – "Carried at cost" was left blank, as per the Bank of Italy's instructions, since it only needs to be completed for assets accounted for at fair value. As at the end of 2013, the Group did not hold any PPE acquired under finance leases or provided under operating leases for a significant amount.

An analysis of external and internal impairment indicators resulted in impairment losses for an amount of EUR 1.7 mln being recognised in the financial statements as at 31.12.2013. In addition, EUR 57.6 mln in overall capital gains on real estate used in the business is also reported; these capital gains were not recognised in the financial statements. With regard to property, plant and equipment used in the business other than buildings, no extraordinary negative market factors were thought to exist under a going concern assumption, that might call for the need to recognise impairment losses.

12.6 Property, plant and equipment held for investment: annual changes

	31 12 2013		
	Lands	Building	Total
A. Opening balance	**124,003**	**112,139**	**236,142**
B. Increases	**41,092**	**59,366**	**100,458**
B.1 Purchases	21,882	41,455	63,337
Business combinations	18,135	36,864	54,999
B.2 Capitalized expenditure on improvements	-	538	538
B.3 Increases in fair value	-	-	-
B.4 Write-backs	-	-	-
B.5 Positive exchange differences	-	-	-
B.6 Transfers from property used in the business	18,902	16,751	35,653
B.7 Other increases	308	622	930
C. Decreases	**1,474**	**7,310**	**8,784**
C.1 Sales	85	179	264
C.2 Depreciation	-	5,919	5,919
C.3 Decreases in fair value	-	-	-
C.4 Impairment losses	1,250	873	2,123
C.5 Negative exchange differences	-	-	-
C.6 Transfers to other asset potfolios	139	339	478
a) properties used in the business	-	-	-
b) non-current assets held for sale	139	339	478
C.7 Other decreases	-	-	-
D. Closing balance	**163,621**	**164,195**	**327,816**
E. Designated at fair value	**166,521**	**193,226**	**359,747**

Purchases included in line B.1 mainly relate to the acquisition of control in the company "Perimetro Gestione Proprietà Immobiliari", information regarding which is provided in Part G "Business Combinations" of these Notes to the Financial Statements.

An analysis of external and internal impairment indicators resulted in impairment losses for an amount of EUR 2.1 mln being recognised in the financial statements as at 31.12.2013. In addition, EUR 30.8 mln in overall capital gains on real estate held for investment is also reported; these capital gains were not recognised in the financial statements.

12.7 Commitments to purchase property, plant and equipment

No commitments to purchase property, plant and equipment were registered during the year.

12.8 Property, plant and equipment: depreciation rates

Main categories of tangible assets	%
Land and works of art	0%
Buildings	3%
Furniture and furnishings	10-12%
Alarm and video systems	30%
Electronic and ordinary office equipment	20%
Electronic data processing equipment	50%
Vehicles	20-25%
Telephones	25%

Section 13 – Intangible assets – Item 130

13.1 Intangible assets: breakdown by type

Asset / Amount	31 12 2013			31 12 2012		
	Finite Life	Indefinite Life	Total	Finite Life	Indefinite Life	Total
A.1 Goodwill	**x**	**669,692**	**669,692**	**x**	**669,701**	**669,701**
A.1.1 group	x	669,692	669,692	x	669,701	669,701
A.1.2 minorities	x	-	-	x	-	-
A.2 Other intangible assets	**492,364**	**-**	**492,364**	**521,801**	**-**	**521,801**
A.2.1 Assets carried at cost:	492,364	-	492,364	521,801	-	521,801
a) Internally generated intangible assets	97,114	-	97,114	101,872	-	101,872
b) other assets	395,250	-	395,250	419,929	-	419,929
A.2.2 Assets valued at fair value:	-	-	-	-	-	-
a) Internally generated intangible assets	-	-	-	-	-	-
b) other assets	-	-	-	-	-	-
Total	**492,364**	**669,692**	**1,162,056**	**521,801**	**669,701**	**1,191,502**

All of the Group's intangible assets are measured at cost. In addition to goodwill, they include the intangible assets resulting from the merger of former Banca Antonveneta S.p.A. All intangible assets recognised in the financial statements have a finite useful life, except for goodwill.

During preparation of the 2013 accounts, goodwill recognised was tested for recoverability or impairment. In accordance with Document 4 jointly published by Bank of Italy/CONSOB/IVASS on 3 March 2010 and provisions set out in IAS 36, "Impairment of Assets", a special chapter has been added below to describe the goodwill recoverability test.

Goodwill posted to assets is not systematically amortised but tested for impairment ("Impairment Test"). The test performed did not result in any impairment losses.

Line "A.2.1 Assets carried at cost – b) Other assets" includes:

- intangible assets arising from customer relations recognised following the acquisition of former Banca Antonveneta S.p.a.:
  - core deposits totalling EUR 108.1 mln, from the fair value measurement of on-demand funding (current accounts and savings deposits) of the merged bank;
  - core overdrafts totalling EUR 28.5 mln, from the fair value measurement of assets represented by non-revolving credit facilities of the merged bank;
  - assets under management and assets under custody in the amount of EUR 10.4 mln, arising from the fair value measurement of AUM and AUC of the merged bank.
- purchase of externally-developed software for an amount of EUR 248.2 mln.

Considering that line "A.2.1 assets carried at cost – a) internally generated intangible assets" includes intangible assets linked to internally generated technology in the amount of EUR 97.1 mln, the software total recognised in the consolidated balance sheet amounts to EUR 345.3 mln.

An analysis was carried out on the variables that lie at the basis of the value of the above-mentioned intangible assets associated with customer relationships which resulted in no need for impairment testing.

As for software, analysis of impairment indicators resulted in writedowns of EUR 1.1 mln.

Impairment testing of Group goodwill

IAS 36 sets out the principles for recognition and reporting of impairment for certain types of assets, including goodwill, illustrating the principles that an enterprise must follow to make sure that the carrying amount of its assets is not higher than their recoverable amount.

IAS 36 defines recoverable amount as the higher of:

- Fair value less costs to sell - the amount obtainable from the sale of an asset in a regular transaction between market participants, less the costs of disposal;
- Value in use - the present value of estimated future cash flows expected to arise from the continuing use of an asset or from a cash-generating unit.

IAS 36 requires the carrying amount of goodwill to be compared with the recoverable amount whenever there is an indication that the asset may have been impaired and in any case at each financial year-end (impairment test).

The recoverable amount of goodwill is estimated with reference to the cash-generating unit (CGU), since goodwill is not able to generate cash flows independently from an asset.

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use which are largely independent of the cash inflows from other assets or groups of assets, which the Group is able to recognise separately in its management reporting system.

In accordance with IAS 36 and in light of the aforementioned considerations, the impairment test carried out on goodwill as shown in the Group's consolidated financial statements comprised the following activities:

1) Identification of goodwill;
2) Identification of cash-generating units and allocation of goodwill to the cash-generating units identified;
3) Impairment test results;
4) Analysis of impairment test result sensitivity to changes in the underlying assumptions.

1) Identification of goodwill

The impairment test was carried out on goodwill; no other indefinite-life intangible assets are recognised in the financial statements.

2) Identification of cash-generating units and allocation of goodwill to the cash-generating units identified

According to IAS 36, each cash generating unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and should not be larger than an operating segment as defined by IFRS 8 ("Operating Segments").

As for the impairment test at 31 December 2012, the Group's goodwill was tested by identifying those CGUs into which the Group's operations can be separated and analysing the cash flows that these will be able to generate in future years, based on an approach consistent with Segment Reporting, which is in turn reflected in Management Reporting.

For the purpose of primary reporting of profit and loss/balance-sheet data, the Group has adopted a business approach opting for results to be broken down by the business segments in which the Group operates: Consumer Banking (Retail and Private Customers), Corporate Banking (Corporate Customers) and the Corporate Centre (residual central operations). The Group's performance and planning development are monitored based on a model that splits the business into these various operating segments.

In light of the above, 2 cash-generating units have been identified. CGUs have been reduced from 4 to 2 as compared to 2012, to take account of the merger of Nuova BAV into BMPS: In particular, the two CGUs have the following scope of business:

1. "**CGU - Consumer**" composed of:
   - Retail customers from BMPS, former Nuova BAV, and Consum.it branches;
   - Typically private customers of BMPS and former Nuova BAV branches as well as other private clients from other Group entities;
2. "**CGU Corporate**", composed of typically corporate clients of BMPS, former Nuova BAV and foreign branches, Large Corporates, MPS Leasing & Factoring and MPS Capital Services;

The process of allocating goodwill to individual cash-generating units was carried out in 2008 taking into account the effects of the acquisition of Banca Antonveneta and synergies arising from business combinations.

The entire goodwill of EUR 670 mln subject to impairment test has been allocated to the Consumer CGU, following writedowns in the previous years.

Under IAS 36, if a corporate asset cannot be allocated on a reasonable and consistent basis to the cash-generating units identified, it should be tested for impairment by identifying the smallest group of cash-generating units – a sort of "higher" cash-generating unit – to which it can be allocated. In this specific case, the test focused on those corporate assets which were not included in individual CGUs' segment reporting, with a view to identifying some drivers enabling their allocation to the CGUs. Subsequent to the allocation, an estimate was made of the Montepaschi Group's overall recoverable value so as to confirm the applicability of the 'Central Residual Expenses'/Residual CGU' allocation by comparing the total value of the CGUs with the overall value of the Group. The Residual CGU was also allocated on the basis of the actions and objectives set out in the Business Plan for the different business areas.

It is noted that, since the Corporate CGU has no allocated goodwill, it does not require to be tested for impairment; its carrying value and recoverable amount was established, as specified below, for the sole purpose of re-allocating the Residual CGU and verifying the allocated value.

3) Impairment test results

The Group's goodwill at 31 December 2013 was tested for impairment by identifying the recoverable amount of the individual cash-generating units as the value in use. The recoverable amount of the CGUs was determined partly with the assistance of a leading consultancy firm (hereinafter the Consultant).

The recoverable amount of the CGUs was estimated by discounting future distributable cash flows. Although the Corporate CGU has no allocated goodwill, its value in use was estimated for the purpose of allocating the Residual CGU and verifying its allocated value.

The 2014-2017 economic and financial projections for the CGUs identified were based on hypotheses consistent with the assumptions contained in the Group's 2013-2017 Business Plan, approved by the Bank's BoD on 28 November 2013, and on the 2013 results.

The main underlying assumptions of the Group's projections are shown in the table below:

Turnover and income trends (CAGR 2013-2017)	
Total lending to customers	-3.2%
Total direct funding	0.0%
Net operating income	n. s.

Profitability indicators	2013C	2017P
Euribor	0.1%	1.4%
Mark down	0.95%	0.77%
Mark up	1.74%	2.04%
Cost / Income	71%	50%

CGUs

The recoverable amount was estimated on the basis of the following methodological steps:

1. determination of the CGU's value in use by discounting future distributable cash flows, based on the following formula:

$$W = \sum_{t=1}^{n} \frac{F_t}{(1+i)^t} + VT_a$$

where:

F_t = cash flows distributable to shareholders over the selected time horizon based on the economic and financial projections made, maintaining a satisfactory level of capitalisation.

i = discounting rate represented by the cost of equity (ke).

VT_a = present terminal value ("Terminal Value") calculated as the value of a perpetual yield estimated based on an economically sustainable normalised cash flow consistent with the long-term growth rate ("g").

To discount cash flows distributable to shareholders, the cost of equity was used, that is the return on equity required by investors/shareholders for investments with similar risk characteristics. This rate was estimated using the Capital Asset Pricing Model ("CAPM"), based on the following formula:

$$k_e = R_f + Beta * (R_m - R_f)$$

where:

Rf = risk-free rate (factoring in the country risk) of 4.30% identified as the yearly average yield of 10-year bonds issued by the Italian government (source: Bloomberg).

Beta = correlation factor between actual share performance and overall performance of the reference market (measurement of the volatility of a stock relative to the market), equivalent to 1.14 (for BMPS beta, source: Bloomberg)

R_m - R_f = risk premium required by the market which, in line with assessment practices, is set at 5.0%.

The Terminal Value was determined based on the following formula:

$$VT = \text{normalised distributable cash flow} / (k_e - g)$$

where:

g is the long-term growth rate.

The recoverable value was determined based on parameters representing the actual level of risk/return for the individual cash-generating unit. Specifically, the valuation parameters used were based on the following assumptions:

a) capital ratio: target capital coverage ratio of 8%, allowing all capital needs of the CGUs to be met;

b) cost of equity (ke): discounting rates were determined using estimates that reflect the specific risk of CGUs (CGU Consumer: 10.0%; CGU Corporate: 11.0%);

c) long-term growth rate (g): it was estimated at 2.0% based on forecasts by leading econometric institutions (ERC, IMF, Prometeia).

2. Allocation to the CGUs of the 'Residual CGU/Central Expenses' components, which had not previously been included in the estimate under item 1 above, based on reasonable drivers, consistent with the characteristics of the individual CGUs.

3. Determination of the MPS Group's recoverable value by discounting distributable cash flows, based on the Business Plan, a target supervisory ratio (Core Tier 1) consistent with the requirements set forth by the new supervisory regulations of Basel 3 (8%), a 10.0% ratio in line with the Group's cost of equity, according to current market parameters and a long-term growth rate of 2.0%.

The main parameters used to determine the recoverable amount of Consumer cash-generating units as at 31 December 2013 are shown below.

Consumer CGU measurement criteria		
Ke	g	Capital ratio
10.0%	2.0%	8.0%

The tests described above show that the recoverable value of the Consumer CGU is higher than its respective carrying value by an amount of EUR 2,225 mln.

4) Sensitivity of impairment test results to changes in the underlying assumptions.

In order to better assess the sensitivity of the Impairment Test results in relation to changes in underlying assumptions, a sensitivity analysis was carried based on a +100bps shift in the discount rate, resulting in a value for the Consumer CGU which was EUR 1,452 mln higher than the carrying value. This higher value is reduced to zero with a Ke value of 13.81%.

In addition with a value of g equal to zero (Ke equal to that in the baseline scenario), the difference between the recoverable amount and the carrying amount is EUR 1,452 mln.

In conclusion, the impairment test as at 31 December 2013 did not result in any writedowns on goodwill.

13.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		finite life	indefinite life	finite life	indefinite life	31 12 2013
A Opening balance	**6,605,141**	**364,726**	**-**	**1,739,769**	**-**	**8,709,636**
A.1 Total net decreases	5,935,440	262,854	-	1,319,840	-	7,518,134
A.2 Net opening balance	669,701	101,872	-	419,929	-	1,191,502
B. Increases	**-**	**19,480**	**-**	**65,107**	**-**	**84,587**
B.1 Purchases	-	19,480	-	65,107	-	84,587
- Business combinations	-	-	-	-	-	-
B.2 Increases in internally generated intangible assets	x	-	-	-	-	-
B.3 Write-backs	x	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- to net equity	x	-	-	-	-	-
- to profit and loss	x	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
C. Decreases	**9**	**24,238**	**-**	**89,786**	**-**	**114,033**
C.1 Sales	-	3,816	-	9,353	-	13,169
- Disposals and one-off transactions	-	-	-	-	-	-
C.2 Write-downs	-	20,422	-	80,427	-	100,849
- Depreciation	x	19,803	-	80,038	-	99,841
- Write-downs	-	619	-	389	-	1,008
+ net equity	x	-	-	-	-	-
+ profit and loss	-	619	-	389	-	1,008
C.3 Decreases in fair value	-	-	-	-	-	-
- to net equity	x	-	-	-	-	-
- to profit and loss	x	-	-	-	-	-
C.4 Transfers to non-current assets held	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other decreases	9	-	-	6	-	15
IFRS5 "Discontinuing operations"	-	-	-	-	-	-
D. Net closing balance	**669,692**	**97,114**	**-**	**395,250**	**-**	**1,162,056**
D.1 Total net value adjustments	5,935,440	282,343	-	1,164,301	-	7,382,084
E. Gross closing balance	**6,605,132**	**379,457**	**-**	**1,559,551**	**-**	**8,544,140**
F. Carried at cost	-	-	-	-	-	-

Line A.1, "Total net decreases", and line D.1, "Total net value adjustments", show the opening and closing balances for total value adjustments and amortisation recorded for intangible assets with a finite life.

With regard to line C.2 “Writedowns” see footnotes to table 13.1 “Intangible assets: breakdown by type of asset”.

Line F - "Carried at cost" was left blank in accordance with Bank of Italy's instructions, as it only needs to be completed for assets recognised at fair value.

13.3 Intangible assets: depreciation rates

Main categories of intangible assets	%	residual depreciation period
Software	20.00%	
Concessions and other licenses	20.00%	
Core deposits - current accounts	9.10%	6 years
Core deposits - deposits	6.70%	10 years
Core overdrafts	9.10%	6 years
Assets under management	11,1%	4 years

Intangible assets recognised during the purchase price allocation of Banca Antonveneta S.p.A. are all finite-life and therefore amortised based on their expected useful life.

As at 31 December 2013 there were no:

- revalued intangible fixed assets;
- intangible fixed assets acquired through government concessions (IAS, par. 44);
- intangible fixed assets pledged as loan collaterals;
- commitments to purchase intangible assets.

Section 14 – Tax Assets and Liabilities – Item 140 (Assets) and Item 80 (Liabilities)

14.1 Deferred tax assets: breakdown

Item/Amounts	IRES with offsetting entry to P&L	IRES with offsetting entry to Balance Sheet	IRAP with offsetting entry to P&L	IRAP with offsetting entry to Balance Sheet	31 12 2013	31 12 2012*
Receivables (including securitisations)	30,881	1,803	-	351	33,035	28,256
Receivables (L. 214/2011)	1,513,553	-	118,271	-	1,631,824	1,161,212
Other financial instruments	251	-	13,373	-	13,624	105,409
Goodwill deduction pursuant to Law decree 185/2008	906,198	-	324,498	-	1,230,696	1,727,267
Goodwill deduction pursuant to previous law provisions	75,101	4,019	38,817	993	118,930	201,656
Multi-annual costs	-	-	-	-	-	2
Tangible assets	10,890	-	1,983	-	12,873	10,931
Intangible assets	1	-	-	-	1	52,915
Intangible assets (Law 214/2011)	96,200	-	21,720	-	117,920	131,064
Corporate entertainment	-	-	-	-	-	-
Personnel expenses	18,371	11,085	-	-	29,456	30,069
Tax losses	101,273	22,001	-	-	123,274	39,784
Tax losses (Law 214/2011)	14,229	117	-	-	14,346	-
Financial instruments - valuation reserves	-	514,787	-	101,242	616,029	1,402,577
Others	310,651	3,478	5,550	-	319,679	449,481
Deferred tax assets (gross)	**3,077,599**	**557,290**	**524,212**	**102,586**	**4,261,687**	**5,340,623**
Offsetting with deferred tax liabilities					(91,965)	(126,481)
Deferred tax assets (net)					**4,169,722**	**5,214,142**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

Deferred tax assets registered an overall net decrease, largely as a result of two events: the conversion into tax credits (see table 13.3, line 3.3 a) and 13.3.1, line 3.2) concerning deferred tax assets relating to goodwill, other intangible assets and impairment losses on loans as a result of the statutory loss in 2012 for the Parent Company and MPS Leasing & Factoring S.p.a. and the reduction in negative valuations with offsetting entry to equity of Italian Government bonds classified in the portfolio "financial assets available for sale".

The conversion of deferred tax assets into tax credits was carried out pursuant to Law 214/2011, became effective as of the date of approval of the 2012 financial statements by the Shareholders' Meeting and resulted in a corresponding derecognition of deductions from current taxes to which the Parent Company and MPS Leasing & Factoring S.p.a. would have been entitled for the year in which the conversion took place and for subsequent years, up to the amount of tax credit accrued.

Despite the decrease owing to the above-cited conversion into tax credits, deferred tax assets relating to receivables - see line "Receivables (L. 214/2011)" - registered a substantial increase due to the significant amounts of writedowns and losses recognised in the 2013 financial statements which, following the regulatory changes introduced by the Stability Law for 2014 (Law 147 of 27/12/2013), are deductible in fifths for IRES and IRAP purposes.

The line “Financial instruments – valuation reserves” includes tax assets relating to the valuation of cash flow hedge derivatives, financial instruments classified in portfolios of available-for-sale financial assets and those originally in the portfolio of available-for-sale financial assets which were reclassified as 'loans to customers' and 'loans to banks' in 2008.

The line “Other” includes tax assets relating to other cases, such as those recognised on provisions for risks and charges in respect of deductible costs expected for future periods.

14.2 Deferred tax liabilities: breakdown

Items/Amounts	IRES with offsetting entry to P&L	IRES with offsetting entry to Balance Sheet	IRAP with offsetting entry to P&L	IRAP with offsetting entry to Balance Sheet	Total 31 12 2013	Total 31 12 2012*
Capital gains to be divided into installments	15,317	1,683	-	-	17,000	34,421
Goodwill	-	-	-	-	-	-
Tangible and intangible assets	92,125	-	12,636	-	104,761	12,043
Financial instruments	42,546	-	5,914	-	48,460	8,219
Personnel expenses	1,809	-	-	-	1,809	4,884
Financial instruments - valuation reserves	-	49,221	-	14,961	64,182	70,901
Others	8,789	-	809	-	9,598	45,212
Deferred tax liabilities (gross)	**160,586**	**50,904**	**19,359**	**14,961**	**245,810**	**175,680**
Offsetting with deferred tax assets	-	-	-	-	(91,965)	(126,481)
Deferred tax liabilities (net)	**-**	**-**	**-**	**-**	**153,845**	**49,199**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

Deferred tax liabilities showed an overall increase in 2013, mainly due to the consolidation of Perimetro Gestione Proprietà Immobiliari S.c.p.a.

The lower taxes on “Capital gains to be divided into instalments” is attributable to the current year’s taxation of a fifth of the capital gain earned from the sale of branches by the Parent Company to Banca Popolare Puglia e Basilicata in 2009 and to the Carige Group and Cassa di Risparmio di Firenze in 2010, and paid in instalments as per the option set out in art. 86, par. 4 of the Income Tax Act (TUIR).

The line “Financial instruments – valuation reserves” includes tax liabilities relating to the valuation of financial instruments classified in the portfolio of financial assets availbable for sale and those originally in the portfolio of available-for-sale financial assets and reclassified in 2008 in the "loans to customers" and "loans to banks" portfolios, as well as tax liabilities relating to cash flow hedge derivatives.

14.3 Deferred tax assets: annual changes (with offsetting entry to profit and loss)

	Total 31 12 2013	Total 31 12 2012*
1. Opening balance	**3,928,310**	**4,647,701**
2. Increases	**950,960**	**730,962**
2.1 Deferred tax assets arising during the year	918,709	688,230
a) relating to previous years	-	-
b) due to changes in accounting principles	-	2,652
c) write-backs	-	-
d) other	918,709	685,578
2.2 New taxes or increases in tax rates	-	-
2.3) Other increases	32,251	42,732
3. Decreases	**1,277,458**	**1,450,353**
3.1 Deferred tax assets derecognised during the year	302,567	175,228
a) reversals	301,230	163,029
b) write-downs of non-recoverable items	-	-
c) changes in accounting principles	-	-
d) other	1,337	12,199
3.2 Reduction in tax rates	-	-
3.3 Other decreases	974,891	1,275,125
a) conversion into tax credits pursuant to Law no. 214/2011	806,894	1,204,749
b) others	167,997	70,376
4. Total	**3,601,812**	**3,928,310**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

The table illustrates the deferred tax assets that will be reserved in subsequent periods to profit and loss.

Major "Deferred tax assets arising during the year" as reported in line 2.1 d) include those concerning loan writedowns and losses which were non-deductible for the year and carried over to the 4 subsequent years, taxed provisions to the reserve for risks and charges made during the year and consolidated tax losses generated in the course of the year.

"Deferred tax liaiblities derecognised during the year" in line 3.1. a) include those attributable to the use in 2013 of provisions set aside and taxed in previous years as well as IRAP deferred tax assets relating to the amortised portion of goodwill and other intangible assets for the year.

14.3.1 Deferred tax assets: changes under law 214/2011 (with offsetting entry to profit and loss)

Items/Amounts	Total	
	31 12 2013	31 12 2012
1. Opening balance	**2,796,915**	**3,631,060**
2. Increases	1,213,656	447,550
3. Decreases	901,983	1,281,695
3.1 Reversals	54,376	31,379
3.2 Conversion into tax credits	806,894	1,204,749
a) arising from loss for the period	806,894	994,768
b) arising from tax losses	-	209,981
3.3 Other decreases	40,713	45,567
4. Closing balance	**3,108,588**	**2,796,915**

The table represents changes in deferred tax assets relating to loan writedowns and losses, deductible in fifths under Art. 106 of the Income Tax Act (TUIR) (or in eighteenths if they arose under former regulations), goodwill which was tax-relieved according to the various provisions (including the the more recent ones under art. 15 of Law Decree 185/2008 and art. 23 of Law decree 98/2011) as well as intangible assets resulting from the merger by absorption of former Banca Antonveneta S.p.A.

As already noted in the footnotes to table 14.1, these deferred tax assets have been partially converted into tax credits by the Parent Company and MPS Leasing & Factoring S.p.A., by reason of the statutory loss recognised in 2012, pursuant to art. 2, para. 55, of Law Decree no. 225 of 29 December 2010 transposed, as amended, into law no. 10 of 26 February 2011. This conversion has been in effect as of the date of approval of the 2012 Financial statements by the Shareholders' Meeting in April 2013.

The conversion also involved deferred tax assets with offsetting entry to equity for a total of EUR 0.7 mln, accounted for in line 3.3 of table 13.5 and relating to the goodwill posted to equity on business combinations “under common control”.

Line “2. “Increases” includes deferred tax assets relating to loan writedowns and losses recognised in the financial statements in 2013 and deductible in fifths, as well as IRAP deferred tax assets whose conversion into credit taxes has been made established by the Stability Law for 2014 (Art. 1 paragraph 167 et seq.) with effect from the tax period in progress as at 31 December 2013.

14.4 Deferred tax liabilities: annual changes (with offsetting entry to profit and loss)

	Total 31 12 2013	Total 31 12 2012*
1. Opening balance	**104,710**	**154,939**
2. Increases	**149,439**	**50,725**
Business combinations	*145,238*	-
2.1 Deferred tax liabilities arising during the year	4,035	27,133
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	4,035	27,133
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	166	23,592
3. Decreases	**74,204**	**100,954**
3.1 Deferred taxes derecognised during the year	73,259	65,000
a) reversals	71,950	64,819
b) due to changes in accounting principles	-	-
c) other	1,309	181
3.2 Reduction in tax rates	-	-
3.3 Other decreases	945	35,954
4. Closing balance	**179,945**	**104,710**

* *With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

This table illustrates tax liabilities which will be absorbed in subsequent years with an offsetting entry to profit and loss.

Increases include the impact from the consoldiation of Perimetro Gestione Proprietà Immobiliari S.c.p.a., shown in line 'Business combinations'.

"Deferred tax liabilities derecognised during the year" in Line 3.1 a) are largely attributable to capital gains arising from the disposal of branches by the Parent Company to Banca Popolare Puglia e Basilicata in 2009 and to the Carige Group and Cassa di Risparmio di Firenze in 2010 for the tranche taxable during the current year.

14.5 Deferred tax assets: annual changes (with offsetting entry to equity)

	Total 31 12 2013	Total 31 12 2012
1. Opening balance	**1,412,313**	**2,253,295**
2. Increases	**55,153**	**52,124**
Business combinations	55,142	52,107
2.1 Deferred tax assets arising during the year	-	-
a) relating to previous years	1,398	-
b) due to changes in accounting principles	53,744	52,107
c) other	-	-
2.2 New taxes or increases in tax rates	11	17
2.3 Other increases	**807,591**	**893,106**
3. Decreases	801,439	814,713
Disposals and one-off transactions	801,439	814,713
3.1 Deferred tax assets derecognised during the year	-	-
a) reversals	-	-
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting principles	-	-
d) other	6,152	78,393
3.2 Reduction in tax rates	**659,875**	**1,412,313**

Changes chiefly relate to taxes recognised on changes in equity reserves relating to financial instruments classified in portfolios of "Financial assets available for sale", those originally in the portfolio of available-for-sale financial assets and reclassified in 2008 in the portfolio of loans to customers and loans to banks, as well as cash flow hedge derivatives.

Line 3.1 a) "Deferred tax assets derecognised during the year" mainly refers to positive fair value changes posted to the reserve for Italian Government securities classified in portfolios of 'financial assets available for sale'.

14.6 Deferred tax liabilities: annual changes (with offsetting entry to equity)

	Total 31 12 2013	Total 31 12 2012
1. Opening balance	**70,970**	**80,240**
2. Increases	**41,275**	**23,709**
2.1 Deferred tax liabilities arising during the year	41,220	23,709
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	41,220	23,709
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	55	-
3. Decreases	**46,380**	**32,979**
3.1 Deferred tax liabilities derecognised during the year	45,870	31,354
a) reversals	45,870	31,354
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	510	1,625
4. Closing balance	**65,865**	**70,970**

Changes mainly relate to taxes recognised on changes in equity reserves relating to financial instruments classified in portfolios of "financial assets available for sale" in addition to cash flow hedge derivatives.

Tax liabilities arising or derecognised during the year relates to shares, bonds and units in UCITS classified in portfolios of financial assets available for sale.

Derecognised tax liabilities ((line "3.1 a) Reversals") includes the impact from recycling the AFS reserve relating to the Bank of Italy investment to Profit & Loss.

14.7 Other information

Current tax assets

Items/Amounts	Total 31 12 2013	Total 31 12 2012*
Prepayments of corporate income tax (IRES and IRAP)	92,055	136,853
Other tax credits and withholdings	1,303,202	904,779
Gross current tax assets	**1,395,257**	**1,041,632**
Offsetting with current tax liabilities	(47,851)	(129,194)
Net current tax assets	**1,347,406**	**912,438**

** With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

Prepayments of corporate income tax (IRES) and regional tax on productivity (IRAP) refer to downpayments made in respect of taxes due for the period. In 2013 the Parent Company made no IRES downpayments since credit from the previous consolidated tax return (which can be used as a set-off) was higher than the dowpayment due for 2013.

"Other tax credits and withholdings" mostly consist of income tax credits claimed for refund, IRES/IRAP credits resulting from prior tax returns which can be used as a set-off, and withholdings incurred and deductible during the year.

The net increase occurring during the year in sub-item "Other tax credits and withholdings" is primarily attributable to tax credits from the conversion of deferred tax assets commented on in the footnote to table 14.1, not yet used as a set-off as at 31.12.2013, and IRES and IRAP tax credits following the tax returns submitted in 2013.

Current tax liabilities

Items/Amounts	31 12 2013			31 12 2012*		
	Booked to net equity	Booked to profit & loss	Total	Booked to net equity	Booked to profit & loss	Total
Corporate income tax (IRES IRAP) payables	(73)	58,449	58,376	42,572	194,567	237,139
Other current income tax payables	-	16,078	16,078	-	6,085	6,085
Gross current tax payables	**(73)**	**74,527**	**74,454**	**42,572**	**200,652**	**243,224**
Offsetting with current tax assets	(73)	47,924	47,851	32,939	96,255	129,194
Net current tax payables	**-**	**26,603**	**26,603**	**9,633**	**104,397**	**114,030**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

The total amount of tax owed to the tax authority is represented by the algebraic sum of current taxes generated by fiscally significant entries carried through profit and loss and fiscally significant entries carried at equity.

"IRES-IRAP tax payables" refers to IRES (corporate income tax) due by companies not adhering to fiscal consolidation and IRAP (regional tax on productivity) due by Group companies for the current year. No IRES payables were recognised under fiscal consolidation since the taxable result for 2013 was negative.

The item "Other income tax payables" primarily includes provisions, made by the Parent Company, for IRES and IRAP taxes (in addition to penalties and interest) for 2009 in relation to the tax dispute on the subsidiary MP IRELAND, defined through verification with acceptance on 20/12/2013.

Section 15 – Non-current assets held for sale / discontinued operations and associated liabilities – Item 150 (assets) and 90 (liabilities)

15.1 Non-current assets held for sale and discontinued operations: breakdown

	Total	
	31 12 2013	31 12 2012
A. Individual assets		
A.1 Financial assets	38,417	-
A.2 Equity investments	40,800	11,256
A.3 Tangible assets	891	1,205
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**80,108**	**12,461**
of which valued at cost	41,691	12,461
of which designated at fair value (level 1)	-	X
of which designated at fair value (level 2)	38,417	X
of which designated at fair value (level 3)	-	X
B. Asset groups (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 Loans to banks	-	-
B.6 Loans to customers	-	-
B.7 Equity investments	-	-
B.8 Property, plant and equipment	-	-
B.9 Intangible assets	-	-
B.10 Other assets	-	-
Total B	**-**	**-**
of which valued at cost	-	-
of which designated at fair value (level 1)	-	X
of which designated at fair value (level 2)	-	X
of which designated at fair value (level 3)	-	X
C. Liabilities associated with individual assets held for sale and		
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	17,821	-
Total C	**17,821**	**-**
of which valued at cost	17,821	-
of which designated at fair value (level 1)	-	X
of which designated at fair value (level 2)	-	X
of which designated at fair value (level 3)	-	X
D. Liabilities included in groups of assets held for sale and		
D.1 Deposits from banks	-	-
D.2 Deposits from customers	-	-
D.3 Debt securities issued	-	-
D.4 Financial liabilities held for trading	-	-
D.5 Financial liabilities designated at fair value	-	-
D.6 Provisions	-	-
D.7 Other liabilities	-	-
Total D	**-**	**-**
of which valued at cost	-	-
of which designated at fair value (level 1)	-	X
of which designated at fair value (level 2)	-	X
of which designated at fair value (level 3)	-	X

Non current assets held for sale as at 31.12.2013 include Sia Spa for EUR 38.4 mln, a number of properties owned by the subsidiary MPS Immobiliare and the Parent Company as well as the disposal of investments of the Parent Company (Sorin S.p.a. for EUR 38 mln) and the subsidiary MPS Capital Services - Banca per le imprese S.p.a. (MP Venture Sgr Spa in the amount of EUR 2.8 mln).

Non current liabilities held for sale as at 31.12.2013 relate to administrative services and back-office business unit of the Parent Company, sold, effective as of 1 January 2014, to a party external to the MPS Group.

15.2. Other information

No information to be disclosed for 2013 pursuant to paragraph 42 of IFRS 5.

15.3 Details of investments in companies subject to significant influence not valued at equity

No information to be disclosed for 2013 pursuant to paragraph 37 i) of IAS 28.

Section 16 – Other assets – Item 160

16.1 Other assets: breakdown

	Total 31 12 2013	Total 31 12 2012*
Tax credits from the Revenue and other tax levying authorities	231,481	159,010
Third party cheques held at the cashier's for collection	224,655	330,507
Cheques drawn on the Company held at the cashier's for collection	546	3,795
Gold, silver and precious metals	15,322	74
Property inventory	34,893	35,578
Items in transit between branches	63,293	36,266
Items in processing	860,028	1,515,821
Receivables associated with the provision of goods and services	47,474	28,055
Improvements and incremental costs on third party assets other than those included under tangible assets	61,786	79,634
Prepaid expenses and accrued income not attributable to a separate	336,047	402,171
Biological assets	3,528	3,658
Other	531,976	1,080,156
Total	**2,411,029**	**3,674,725**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

LIABILITIES

Section 1 – Deposits from banks – Item 10

1.1 Deposits from banks: breakdown

Items/accounts	Total 31 12 2013	Total 31 12 2012
1. Deposits from central banks	**30,681,806**	**32,629,223**
2. Deposits from banks	**6,596,861**	**10,769,733**
2.1 Current accounts and demand deposits	1,968,106	1,526,328
2.2 Time deposits	495,412	904,436
2.3 Loans	3,510,584	7,570,501
2.3.1. Repurchase agreements	1,649,564	5,101,926
2.3.2 Other	1,861,020	2,468,575
2.4 Liabilities for commitments to repurchase own equity instruments	-	-
2.5 Other liabilities	622,759	768,468
Total	**37,278,667**	**43,398,956**
Fair value - level 1	-	*X*
Fair value - level 2	*37,313,700*	*X*
Fair value - level 3	-	*X*
Total fair value	**37,313,700**	**43,496,905**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

"Deposits from central banks" include EUR 28,000 mln for long-term refinancing operations (LTROs) carried out as part of Eurosystem financing, guaranteed by securities pledged by the Bank (which also include government-backed securities issued and simultaneously repurchased by the Bank) using the *pooling mechanism.*

Line 2.3.1 "Repurchase agreements" contains the financial liabilities arising from repo transactions with banks on both treasury securities and securities made available through reverse repurchase agreements or securities lending transactions. The decrease in this item includes EUR 2,489.7 mln from the derecognition of the long term repo relating to the "Santorini" transaction, which was closed by way of a settlement agreement with Deutsche Bank in December 2013 (see press release of 19/12/2014).

1.2 Detail of Item 10 "Deposits from banks": subordinated liabilities

Type/Item	Issue Date	Maturity Date	Currency	Rate	Balance 31 12 2013	Balance 31 12 2012
Banco Santander Bank Subordinated Loan Agreement	10/10/06	10/10/16	Eur	variabile	402,758	402,746
Total					**402,758**	**402,746**

For prudential purposes this borrowing, as an innovative capital instrument, counts as supplementary capital (see Section 2, Capital requirements and capital ratios in Part F of these notes to the financial statements).

1.3 Detail of Item 10 "Deposits from banks": structured liabilities

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.

1.4 Deposits from banks subject to micro-hedging

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.

1.5 Amounts payable under finance leases

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.

Section 2 – Deposits from customers – Item 20

2.1 Deposits from customers: breakdown

Type of transaction/Amount		Total 31 12 2013	Total 31 12 2012
1. Current accounts and demand deposits		55,076,446	56,006,293
2. Time deposits		8,063,686	5,801,946
3. Loans		21,029,105	18,072,358
3.1 Repurchase agreements		16,096,174	13,838,635
3.2 Other		4,932,931	4,233,723
4. Liabilities for commitments to repurchase own equity instruments		-	-
5. Other liabilities		1,177,103	1,422,088
Total		**85,346,340**	**81,302,685**
	Fair value - level 1	-	*X*
	Fair value - level 2	85,371,122	*X*
	Fair value - level 3	-	*X*
Total fair value		**85,371,122**	**81,324,140**

Deposits from customers are valued at cost or at amortised cost, except for liabilities subject to micro-hedging of fair value as reported in Table 2.4 of this section, the amortised cost of which is adjusted proportionally to the fair value of the hedged item.

The line “Repurchase agreements” contains the financial liabilities arising from repo transactions with customers on both treasury securities and securities made available through reverse repurchase agreements or securities lending transactions. The item includes the long term repo transaction in the amount of EUR 3,366.6 mln relating to the "Nomura" transaction.

2.2 Details of Item 20 "Deposits from customers": subordinated liabilities

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.

2.3 Details of Item 20 "Deposits from customers": structured liabilities

This table was not completed as the Group has not such liabilities to report for either the current or the previous year.

2.4 Deposits from customers subject to micro-hedging

Type of transaction / Amount	Total 31 12 2013	Total 31 12 2012
1. Liabilities subject to micro-hedging of fair value:	74,376	77,862
a) interest rate risk	74,376	77,862
b) exchange risk	-	-
c) multiple risks	-	-
2. Liabilities subject to micro-hedging of cash flows:	-	-
a) interest rate risk	-	-
b) exchange risk	-	-
c) other	-	-
Total	**74,376**	**77,862**

This table contains a breakdown of Table 2.1 and shows the carrying amount of two borrowings subject to a fair value hedge on the interest-rate risk. The carrying amount corresponds to the amortised cost adjusted by changes in fair value for the specific risk hedged.

2.5 Finance lease payables

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.

Section 3 – Debt securities issued – Item 30

3.1 Debt securities issued: product breakdown

Type of Securities/ Amounts	Total 31 12 2013					Total 31 12 2012				
	Book value	Fair Value				Book value	Fair Value			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
A. Listed securities										
1. Bonds	30,717,745	18,291,590	11,741,514	-	30,033,104	37,687,277	16,192,940	21,061,396	-	37,254,336
1.1 Structured	-	-	-	-	-	-	-	-	-	-
1.2 Other	30,717,745	18,291,590	11,741,514	-	30,033,104	37,687,277	16,192,940	21,061,396	-	37,254,336
2, Other securities	5,911,008	1,390	1,547,296	4,404,108	5,952,794	2,252,347	-	394,134	1,900,000	2,294,134
2.1 Structured	-	-	-	-	-	-	-	-	-	-
2.2 Other	5,911,008	1,390	1,547,296	4,404,108	5,952,794	2,252,347	-	394,134	1,900,000	2,294,134
Total	36,628,753	18,292,980	13,288,810	4,404,108	35,985,898	39,939,624	16,192,940	21,455,530	1,900,000	39,548,470

The table shows funding represented by securities which, in addition to bonds, also includes certificates (outstanding and maturities).

Liabilities are net of bonds and repurchased CDs. In this connection it is noted that State-guaranteed bonds were issued and concurrently repurchased on 31 December 2013 for a nominal amount of EUR 13,000 mln, part of which were then pledged as collateral for financing transactions in the Eurosystem.

The amount EUR 5,952.8 mln recognised in line 2.2 "Other securities – others" includes EUR 4,404.1 mln relating to the financial instruments issued by the Bank and subscribed to by the Ministry of Economy and Finance (MEF) under Law Decree 95/2012, converted by law 135 of 7 August 2012 ("New Financial Instruments"), detailed in the following table on subordinated securities.

3.2 Details of Item 30 "Debt securities issued": subordinated securities

Type Regulatory	Name	Issue date	Maturity date	Currency	Interest rate	Book value	
						31 12 2013	31 12 2012
A) Tier I	Capital Preferred Securities I^ Tr.	21/12/00	(a)	EUR	variable	54,115	54,192
A) Tier I	Capital Preferred Securities II^ Tr.	27/06/01	(b)	EUR	variable	106,012	106,661
A) Tier I	F.R.E.S.H. (Floating Rate Equity-linked Subordinated Hybrid)	30/12/03	(c)	EUR	variable	27,822	27,414
A) Tier I	New Financial Instruments/former Tremonti Bond	28/02/13	(d)	EUR	fixed step up	4,404,108	1,900,000
			Total A) Tier I			4,592,057	2,088,267
B) Tier II Upper	BMPS 4.875 SUB 2016	31/05/06	31/05/16	EUR	fixed	606,719	606,240
B) Tier II Upper	BMPS 5.75 SUB 2016	31/05/06	30/09/16	GBP	fixed	73,249	74,798
B) Tier II Upper	PASCHISUB TV08/18	15/05/08	15/05/18	EUR	variable	1,973,171	1,988,827
			Total B) Tier II Upper			2,653,139	2,669,865
B) Tier II Upper	BC ANTONVE SUB TV 18	30/04/08	30/04/18	EUR	variable	1,769	1,281
B) Tier II Upper	BMPS 7,44 08/16	30/06/08	30/12/16	EUR	fixed	248,713	248,401
B) Tier II Upper	BMPS SUB 7 09/19	04/03/09	04/03/19	EUR	fixed	595,095	610,902
B) Tier II Upper	BMPS TV05/17	30/11/05	30/11/17	EUR	variable	365,245	367,475
B) Tier II Upper	BMPS TVSUB 08/18	31/10/08	31/10/18	EUR	variable	90,757	123,761
B) Tier II Upper	BMPS/BAM 17 SUB TV	29/06/07	29/06/17	EUR	variable	4	4
B) Tier II Upper	BMPSBAM 17STCLSB S43	14/12/07	14/12/17	EUR	variable	54	48
B) Tier II Upper	MPS TV05/18	20/12/05	15/01/18	EUR	variable	103,178	103,830
B) Tier II Upper	MPS 04/2020 FX5 LT2 EUR	21/04/10	21/04/20	EUR	fixed	420,581	432,705
B) Tier II Upper	MPS 09/2020 FX5,6 EUR	09/09/10	09/09/20	EUR	fixed	400,043	414,794
B) Tier II Upper	MPS Capital Services	30/09/03	30/09/13	EUR	variable	-	1,403
			Total C) Tier II Lower			2,225,439	2,304,604
			Total			9,470,635	7,062,736

a) These instruments are non-redeemable. The Parent Company has decided not to exercise the call option on these instruments by 21/03/2011 and increase to 630 bps the 3M Euribor spread as of the same date (as announced on 18/01/2011);

b) These instruments are non-redeemable. The Parent Company has decided not to exercise the call option on these instruments by 27/09/2011 and increase to 630 bps the 3M Euribor spread as of the same date (as announced on 23/09/2011);

c) The amount relates to funding through issuance of the innovative equity instrument 'Floating Rate Equity-linked Subordinated Hybrid' (F.R.E.S.H.) by the vehicle "MPS Preferred Capital II LLC" . The amount is reported net of the embedded derivative component, posted to own equity instruments, which has been classified under balance sheet liabilities in item 50, "Equity instruments". For prudential purposes, this issuance, as an innovative capital instrument, is included in Tier 1 capital;

d) The instruments are non-redeemable, convertible into Bank shares or with the option of reimbursement, their characteristics are established by L.D. no. 95 of 6 July 2012, converted into Law no. 135 of 7 August 2012. On 28/02/2013 the Bank issued EUR 4,071 mln in such instruments, of which:

- EUR 1,900 mln allocated to the full repayment of the "Tremonti Bonds" already issued by the Bank in 2009 (financial instruments pursuant to Art. 12 LD 185/2008, converted by Law 2 of 28.1.2009);
- EUR 171 mln for advance payment of interest accrued on Tremonti Bonds up to 31 December 2012;
- EUR 2,000 mln in new issuances.

The amounts qualifying as Regulatory capital are set out in Part F, Section 2 "Regulatory Capital".

3.3 Details of Item 30 "Debt securities issued": securities subject to micro-hedging

Type of transaction / Amount	Total 31 12 2013	Total 31 12 2012
1. Securities subject to micro-hedging of fair value:	**8,379,330**	**9,495,567**
a) interest rate risk	8,379,330	9,495,567
b) exchange risk	-	-
c) multiple risks	-	-
2. Securities subject to micro-hedging of cash flows:	**2,291,061**	**1,402,245**
a) interest rate risk	2,217,812	1,327,447
b) exchange risk	73,249	74,798
c) other	-	-
Total	**10,670,391**	**10,897,812**

As a result of cash flow hedging, the fair value of derivative contracts is posted to a specific equity reserve.

Section 4 – Financial liabilities held for trading – Item 40

4.1. Financial liabilities held for trading: breakdown

Type of transaction/ Group item	Total 31 12 2013						Total 31 12 2012					
	NV	FV				FV*	NV	FV				FV*
		Level 1	Level 2	Level 3	Total			Level 1	Level 2	Level 3	Total	
A. Balance-sheet liabilities												
1. Deposits from banks	4,057,754	3,164,544	1,146,953	-	4,311,497	4,311,497	4,709,205	2,376,682	2,416,349	-	4,793,031	4,793,031
2. Deposits from custome	5,735,609	8,566	5,727,931	-	5,736,497	5,736,497	5,870,694	1,154,001	4,804,257	-	5,958,258	5,958,258
3. Debt securities issued	-	-	-	-	-	-	0	0	-	-	0	0
3.1 Bonds	-	-	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X	-	-	-	-	-	X
3.1.2 Other	-	-	-	-	-	X	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	0	0	-	-	0	0
3.2.1 Structured	-	-	-	-	-	X	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	X	-	-	-	-	-	X
Total A	**9,793,363**	**3,173,110**	**6,874,884**	**-**	**10,047,994**	**10,047,994**	**10,579,899**	**3,530,683**	**7,220,606**	**-**	**10,751,289**	**10,751,289**
B. Derivatives												
1. Financial derivatives		181,996	5,533,794	8,385	5,724,175	-		170,842	8,777,037	40,923	8,988,802	-
1.1 Trading	X	181,996	5,533,794	8,385	5,724,175	X	X	170,842	8,777,037	40,923	8,988,802	X
1.2 Fair value option (FVO)	X	-	-	-	-	X	X	-	0	-	0	X
1.3 Other	X	-	-	-	-	X	X	-	-	-	-	X
2. Credit derivatives	-	-	1,265,704	-	1,265,704	-	-	-	1,772,734	4,075	1,776,809	-
2.1 Trading	X	-	1,265,704	-	1,265,704	X	X	-	1,614,037	-	1,614,037	X
2.2 Fair value option (FVO)	X	-	-	-	-	X	X	-	-	-	0	X
2.3 Other	X	-	-	-	-	X	X	-	158,697	4,075	162,772	X
Total B	**X**	**181,996**	**6,799,498**	**8,385**	**6,989,879**	**X**	**X**	**170,842**	**10,549,771**	**44,998**	**10,765,611**	**X**
Total (A+B)	**X**	**3,355,106**	**13,674,382**	**8,385**	**17,037,873**	**X**	**X**	**3,701,525**	**17,770,377**	**44,998**	**21,516,900**	**X**

Key

FV = Fair value

FV = fair value calculated excluding value adjustments due to changes in the credit rating of the issuer since the date of issue.*

NV = Nominal or Notional Value

Criteria adopted for classification of financial instruments in the three levels of the "fair value hierarchy" are reported in Section A.3, "Fair value disclosure" of Part A, "Accounting policies" of the notes to the financial statements.

Amounts in Line "1. Deposits from banks" and "2. Deposits from customers" are primarily correlated with those of lines "1.Debt securities" and "4.Loans" in table 2.1 "Financial assets held for trading" and refer to the repo business of subsidiary MPS Capital Services - Banca per le imprese S.p.a. in the amount of EUR 1,144.8 mln and EUR 5,727.9 mln respectively; uncovered short positions of the Parent Company and subsidiary MPS Capital Services - Banca per le imprese S.p.a account for EUR 3,166.7 mln posted to deposits from banks and EUR 8.6 mln posted to deposits from customers.

Derivatives connected with fair value option instruments are also included in the trading book: these cover the risks of funding designated at fair value arising from possible interest rate fluctuations and from any embedded options in structured securities issued (natural and systematic hedging) . The fair value of these derivatives is shown in the table in line "B1.2 - Fair value option", if made directly with Group's external counterparties, but is represented by a portion of the held-for-trading derivatives (line B1.1) whenever the FVO hedge originally carried out with the subsidiary MPS Capital Services required risk externalisation.

For FVO derivatives arranged by Group companies with the subsidiary MPS Capital Services, it is worth noting that the relevant internal units responsible for risk management perform suitable tests at consolidated level in order to periodically test the effectiveness of the hedge established from the perspective of a 'natural hedge'.

4.2 Details of Item 40 "Financial liabilities held for trading": structured liabilities

The Group has issued no subordinated liabilities classified in the trading book.

4.3 Details of item 40 "Financial liabilities held for trading": structured liabilities

The Group has issued no structured liabilities classified in the trading book.

4.4 On-balance-sheet financial liabilities (other than "technical overdrafts") held for trading: annual changes

	Deposits from banks	Deposits from customers	Debt securities issued	Total 31 12 2013
A. Opening balance	**2,402,108**	**4,803,878**	**-**	**7,205,986**
B. Increases	**322,464,816**	**839,274,784**	**-**	**1,161,739,600**
B.1 Issues	-	-	-	-
B.2 Sales	322,359,544	839,269,889	-	1,161,629,433
B.3 Increases in fair value	-	-	-	-
B.4 Other increases	105,272	4,895	-	110,167
C. Decreases	**323,722,152**	**838,350,731**	**-**	**1,162,072,883**
C.1 Purchases	323,682,271	838,338,422	-	1,162,020,693
C.2 Redemptions	-	-	-	-
C.3 Decreases in fair value	-	-	-	-
C.4 Other decreases	39,881	12,309	-	52,190
D. Closing balance	**1,144,772**	**5,727,931**	**-**	**6,872,703**

For the “Deposits from banks” and “Deposits from customers” columns, changes in the item do not include technical overdrafts.

Section 5 – Financial liabilities designated at fair value – Item 50

5.1 Financial liabilities designated at fair value: breakdown

Type of transaction / Amount	Total 31 12 2013						Total 31 12 2012					
	NV	Fair value				FV*	VN	Fair value				FV*
		Level 1	Level 2	Level 3	Total			Level 1	Level 2	Level 3	Total	
1. Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	X	-	-	-	-	-	X
1.2 Other	-	-	-	-	-	X	-	-	-	-	-	X
2. Deposits from custon	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	X	-	-	-	-	-	X
2.2 Other	-	-	-	-	-	X	-	-	-	-	-	X
3. Debt securities issued	7,854,406	-	7,988,199	-	7,988,199	8,137,550	14,008,997	-	14,427,858	-	14,427,858	14,560,446
3.1 Structured	785,418	-	814,199	-	814,199	X	986,015	-	1,023,820	-	1,023,820	X
3.2 Other	7,068,988	-	7,174,000	-	7,174,000	X	13,022,982	-	13,404,038	-	13,404,038	X
Total	**7,854,406**	**-**	**7,988,199**	**-**	**7,988,199**	**8,137,550**	**14,008,997**	**-**	**14,427,858**	**-**	**14,427,858**	**14,560,446**

FV = fair value calculated excluding value adjustments due to changes in the credit rating of the issuer since the date of issue.*

VN = nominal or notional value

The table shows the financial liabilities represented by fixed-rate and structured bonds which have been classified at fair value and are systematically subject to hedging. Hedging occurs through derivative contracts and is used to cover the risk of interest rate fluctuations and the risk resulting from embedded options.

The fair value option has been adopted systematically for fixed-rate and structured debt securities issued by the Group companies, for which the risk of fair value changes has been hedged by derivatives upon issuance, with the aim of maintaining the hedge for the contractual duration of the hedged securities; derivatives used under the fair value option are classified in the trading book. Hedge accounting is used for securities issued by the Parent Company for which the decision to hedge was taken after issuance or for which there is no intention to maintain the hedge for the contractual duration of the securities.

Funding subject to hedging with derivative instruments under the fair value option is thus designated at fair value, in accordance with all the relative hedging derivatives which , for the purposes of the financial statements, have been classified under specific sub-items in the trading book.

Positive and negative spreads or margins in relation to derivative contracts settled or accrued until the balance sheet date are recorded in the income statement under interest income and expense, while valuation profits and losses are posted under Item 110, “Net profit (loss) from financial assets and liabilities designated at fair value”, in compliance with reporting used for funding instruments for which the fair value option was used.

5.1.a Financial liabilities designated at fair value: the Fair Value Option approach

Liabilities for which the fair value option was adopted include natural hedges through debt security derivatives for a book value of EUR 7,988.2 mln, as compared to EUR 14,4279.9 mln in the previous year.

5.2 Details of item 50 "Financial liabilities designated at fair value": subordinated liabilities

Type Regulatory	Name	Issue date	Maturity date	Currency	Rate	Book value 31 12 2013	Book value 31 12 2012
A) Tier I	PASCHI 01/31 7,59 SUB - Preferred	07/02/01	07/02/31	EUR	fixed (a)	147,628	156,837
					Total A) Tier I	**147,628**	**156,837**
C) Tier II Lower	PASCHI 22/2015 INDEX	07/07/00	07/07/15	EUR	variable	34,036	37,163
C) Tier II Lower	PASCHI 00/15 IND.	20/07/00	20/07/15	EUR	variable	27,406	29,293
					Total C) Tier II Lower	**61,442**	**66,456**
						209,070	**223,293**

(a) As of 7/2/2011 the rate is 3m Euribor + 630 bp (as communicated on 18/1/2011),

The table shows subordinated financial liabilities designated at fair value, with main technicalities. For the purpose of quantifying regulatory capital, subordinated liabilities are not designated at fair value, but on the basis of the amount which was actually collected (see Part F, Section 2, “Regulatory capital”).

In 2013 no new issues were finalised as part of the portfolio of financial liabilities designated at fair value.

5.3 Financial liabilities designated at fair value: annual changes

	Deposits from banks	Deposits from customers	Debt securities issued	Total 31 12 2013
A. Opening balance	**-**	**-**	**14,427,858**	**14,427,858**
B. Increases	**-**	**-**	**599,219**	**599,219**
B.1 Issues	-	-	18,000	18,000
B.2 Sales	-	-	-	-
B.3 Increases in fair value	-	-	30,463	30,463
B.4 Other increases	-	-	550,756	550,756
C. Decreases	**-**	**-**	**7,038,878**	**7,038,878**
C.1 Purchases	-	-	1,646,409	1,646,409
C.2 Redemptions	-	-	4,659,210	4,659,210
C.3 Decreases in fair value	-	-	138,822	138,822
C.4 Other decreases	-	-	594,437	594,437
D. Closing balance	**-**	**-**	**7,988,199**	**7,988,199**

The table shows changes in the main types of liabilities of the fair-valued portfolio during the year.
Line B3, "Increases in fair value", shows the increase in liabilities, resulting in the recognition of a corresponding capital loss in the income statement (Section 7, Table 7.1 of the income statement). Line C3, "Decreases in fair value", shows a decrease in liabilities, and thus the recognition of a corresponding capital gain in the income statement (Section 7, Table 7.1 of the income statement).
Lines B4 and C4 respectively include gains and losses from repurchase, in addition to accruals on issue discounts and coupon interest and effects of exchange rate fluctuations.

5.3.a Financial liabilities designated at fair value: structured liabilities

Item/Amount	Total 31 12 2013	Total 31 12 2012
Commodity Linked	6,675	9,105
Equity Linked	4,391	5,739
Fund Linked	10,720	15,772
Index Linked	403,435	557,260
Inflation Linked	45,556	58,936
Reverse Floater	143,663	149,115
Step - up, Step down	199,759	227,893
Total	**814,199**	**1,023,820**

The table reports the main types of structured bonds issued by the Group and measured at fair value. Since bonds are measured at fair value as an offset to profit or loss, embedded derivatives are not reported separately.

Section 6 – Hedging derivatives – Item 60

6.1 Hedging derivatives: breakdown by type of contract and underlying asset

	Fair Value 31 12 2013				NV	Fair Value 31 12 2012				NV
	Level 1	Level 2	Level 3	Total	31 12 2013	Level 1	Level 2	Level 3	Total	31 12 2012
A. Financial derivative	**-**	**3,324,657**	**-**	**3,324,657**	**22,360,683**	**-**	**5,574,567**	**-**	**5,574,567**	**23,707,220**
1) Fair value	-	2,943,682	-	2,943,682	19,476,529	-	5,217,699	-	5,217,699	22,059,706
2) Cash flows	-	380,975	-	380,975	2,884,154	-	356,868	-	356,868	1,647,514
3) Foreign investme	-	-	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**54**	**-**	**54**	**35,500**	**-**	**231**	**-**	**231**	**26,400**
1) Fair value	-	54	-	54	35,500	-	231	-	231	26,400
2) Cash flows	-	-	-	-	-	-	-	-	-	-
Total	**-**	**3,324,711**	**-**	**3,324,711**	**22,396,183**	**-**	**5,574,798**	**-**	**5,574,798**	**23,733,620**

Key

NV = Nominal or Notional Value

The table displays the negative book value (fair value) of hedging derivatives for hedges carried out through hedge accounting. Hedge accounting is used for the accounting of hedges of financial instruments posted to balance sheet items which do not provide for measurement at fair value as an offset to profit or loss: in particular, hedges of all financial assets and liabilities other than those represented by securities are managed through hedge accounting.

Hedges of financial liabilities represented by securities are normally managed through the fair value option.

Information on the underlying strategies and objectives of hedge transactions can be found in Section 2 "Market risks" of Part E "Risks and hedging policies".

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

Transaction/Type of hedge	Fair Value						Cash flow hedge			Total
	Micro Hedge					Macro-hedge	Micro-hedge	Macro-hedge	Foreign investments	31 12 2013
	interest rate risk	exchange risk	credit risk	price risk	multiple risks					
1. Financial assets available for sale	2,645,657	-	-	-	-	x	-	x	x	2,645,657
2. Loans and receivables	218,953	-	54	x	-	x	-	x	x	219,007
3. Financial assets held to maturity	x	-	-	x	-	x	-	x	x	-
4. Portfolio	x	x	x	x	x	71,095	x	-	x	71,095
5. Other transactions	-	-	-	-	-	x	-	x	-	-
Total assets	**2,864,610**	**-**	**54**	**-**	**-**	**71,095**	**-**	**-**	**-**	**2,935,759**
1. Financial liabilities	7,977	-	-	x	-	x	380,975	x	x	388,952
2. Portfolio	x	x	x	x	x	-	x	-	x	-
Total liabilities	**7,977**	**-**	**-**	**-**	**-**	**-**	**380,975**	**-**	**-**	**388,952**
1. Expected transactions	x	x	x	x	x	x	-	x	x	-
2. Financial assets and liabilities portfolio	x	x	x	x	x	-	x	-	-	-
Total	**2,872,587**	**-**	**54**	**-**	**-**	**71,095**	**380,975**	**-**	**-**	**3,324,711**

Transaction/Type of hedge	Fair Value						Cash flow hedge		Foreign investments	Total 31 12 2012
	Micro-hedge					Macro-hedge	Micro-hedge	Macro-hedge		
	interest rate risk	exchange risk	credit risk	price risk	multiple risks					
1. Financial assets available for sale	4,656,505	-	163	-	-	x	-	x	x	4,656,668
2. Loans and receivables	424,838	-	69	x	-	x	-	x	x	424,907
3. Financial assets held to maturity	x	-	-	x	-	x	-	x	x	-
4. Portfolio	x	x	x	x	x	128,511	x	-	x	128,511
5. Other transactions	-	-	-	-	-	x	-	x	-	-
Total assets	**5,081,343**	**-**	**232**	**-**	**-**	**128,511**	**-**	**-**	**-**	**5,210,086**
1. Financial liabilities	7,844	-	-	x	-	x	356,868	x	x	364,712
2. Portfolio	x	x	x	x	x	-	x	-	x	-
Total liabilities	**7,844**	**-**	**-**	**-**	**-**	**-**	**356,868**	**-**	**-**	**364,712**
1. Expected transactions	x	x	x	x	x	x	-	x	x	-
2. Financial assets and liabilities portfolio	x	x	x	x	x	-	x	-	-	-
Total	**5,089,187**	**-**	**232**	**-**	**-**	**128,511**	**356,868**	**-**	**-**	**5,574,798**

The tables shows the negative fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.
The year-on-year decrease in fair-value micro hedging on interest rate risk (line A.1 "Financial assets available for sale") includes EUR 699.5 mln from the settlement of the "Santorini" transaction in December 2013 (see press release of 19 December 2013).
In particular, on the assets side, fair value micro-hedging was used to hedge against interest-rate risk on fixed-rate and capped mortgages and bonds classified in the available-for-sale portfolio or among receivables, in order to protect them from unfavourable interest rate changes.
Fair value micro-hedging of the interest-rate risk on financial liabilities refers primarily to hedges of liabilities represented by securities for which the decision to hedge was taken after issuance or for which there is no intention to maintain the hedge for the contractual duration of the securities.

Section 7 – Changes in value of macro-hedged financial liabilities – Item 70

This item was left blank since no macro-hedges have been established on financial liabilities.

Section 8 – Tax liabilities – Item 80

See Section 14 of the Assets.

Section 9 – Liabilities associated with individual assets held for sale – Item 90

See Section 15 of the Assets.

Section 10 – Other liabilities – Item 100

10.1 Other liabilities: breakdown

	Total 31 12 2013	Total 31 12 2012*
Due to the Revenue and other tax levying authorities	208,417	170,856
Due to social security authorities	298,296	116,401
Amounts available to customers	274,958	253,955
Other amounts due to employees	76,114	136,440
Items in transit between branches	51,228	46,225
Items undergoing processing	836,595	758,531
Payables in relation to the payment of supplies of goods and services	796,289	960,778
Irrevocable commitments to disburse funds	72,859	53,117
Accrued expenses and unearned revenues not attributable to a separate acc	125,066	157,775
Payables for consolidated income tax return	885	2,288
Other	1,010,225	1,817,067
Total	**3,750,932**	**4,473,433**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

The lines "Items undergoing processing" and "Other" include transactions which were cleared during the first days of 2014.

Section 11 – Provision for employee severance pay – Item 110

11.1 Provision for employee severance pay: annual changes

	Total 31 12 2013	Total 31 12 2012*
A. Opening balance	**317,352**	**265,905**
Effects of changes in new accounting standards	-	68,682
B. Increases	**18,524**	**13,598**
B.1 Provision for the year	11,910	3,654
B.2 Other increases	6,614	9,944
C. Decreases	**74,505**	**30,833**
C.1 Severance payments	57,134	9,280
C.2 Other decreases	17,371	21,553
D. Closing balance	**261,371**	**317,352**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

11.2 Other information

Staff severance pay is considered as a defined benefit fund for the purpose of international accounting standards.

The provision for the year, as clarified by the Bank of Italy, does not include amounts which, as a result of the reform introduced by Legislative Decree no. 252 of 5 December 2005, are paid directly by the Bank, depending on the various employee options, to complementary pension schemes or to the treasury fund managed directly by the the Italian National Social Security Institute, INPS. These items are recognised in personnel expenses, as "contributions to external pension funds: defined contribution".

11.2.a Changes in net defined benefit liability during the year: Severance pay

The table below reports the information required by paragraphs 140 and 141 of IAS 19.

	Present Value of DBO	
	31 12 2013	31 12 2012*
Opening balance	**317,352**	**265,905**
Effects of changes in new accounting standards	-	68,683
Opening balance	**317,352**	**334,588**
Current service cost	622	748
Interest income/expense	11,289	2,906
Remeasurement of net defined benefit liability (asset):	5,548	2,907
Return on plan assets excluding interest	x	x
Actuarial gains (losses) arising from changes in demographic assumptions	-	-
Actuarial gains (losses) arising from changes in financial assumptions	5,548	2,907
Changes in effect of limiting net defined benefit asset to asset ceiling	x	x
Past service cost and gains (losses) arising from settlements	-	-
Changes in foreign exchange rates	-	-
Contributions to plan:	(495)	-
by employer	119	-
by employees	(614)	-
Payments from plan	(56,954)	(9,275)
Effect of business combinations and disposals	-	-
Effect of any plan curtailments	-	-
Effect of any plan settlements	-	-
Other changes	(15,991)	(14,522)
Closing balance	**261,371**	**317,352**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

11.2.b Key actuarial assumptions

Key actuarial assumptions/percentage	31 12 2013	31 12 2012
Discount rates	3,06-3,16%	3,58 - 3,88%
Expected rates of salary increases	x	x

11.2.c Sensitivity of defined benefit obligation to changes in key actuarial assumptions

Actuarial assumptions	Change in DBO	Change (%) in DBO
Discount rates		
Increase of 0.5%	(6,138)	-2.24%
Decrease of 0.5%	6,444	2.36%
Expected rates of salary increases		
Increase of 0.5%	-	0.00%
Decrease of 0.5%	-	0.00%

Section 12 – Provisions for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

Item/Amount	Total 31 12 2013	Total 31 12 2012*
1. Pensions and other post retirement benefit obligations	61,063	47,971
2. Other provisions for risks and charges	1,066,249	1,400,592
2.1 legal disputes	364,928	387,846
2.2 personnel charges	51,313	291,887
2.3 other	650,008	720,859
Total	1,127,312	1,448,563

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

The amount of EUR 291.9 mln included in item 2.2 “Other provisions for risks and charges – personnel expenses” as at 31.12.12 included the provision for the Solidarity Fund, amounting to EUR 256.0 mln.

12.2 Provisions for risks and charges: annual changes

Item/Amount	Total 31 12 2013			Total 31 12 2012*		
	Pensions and other post retirement benefit	Other provisions	Total	Pensions and other post retirement benefit	Other provisions	Total
A. Opening balance	**47,971**	**1,400,591**	**1,448,562**	**192,596**	**1,015,671**	**1,208,267**
B. Increases	**43,721**	**314,949**	**358,670**	**12,476**	**557,093**	**569,569**
B.1 Provision for the year	2,199	248,890	251,089	2,875	540,078	542,953
B.2 Changes due to the time value of money	1,819	1,920	3,739	1,288	4,352	5,640
B.3 Changes due to discount rate changes	-	1,153	1,153	-	12,512	12,512
B.4 Other increases	39,703	62,986	102,689	8,313	151	8,464
C. Decreases	**30,629**	**649,291**	**679,920**	**157,101**	**172,173**	**329,274**
C.1 Use during the year	3,685	213,430	217,115	20,132	147,628	167,760
C.2 Changes due to discount rate changes	-	1,685	1,685	-	-	-
C.3 Other decreases	26,944	434,176	461,120	136,969	24,545	161,514
D. Closing balance	**61,063**	**1,066,249**	**1,127,312**	**47,971**	**1,400,591**	**1,448,562**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

12.3 Defined benefit company pension funds

12.3.1 Description of funds and related risks

The sections below report disclosure required by IAS 19 for defined benefit plans, in which the Group substantially assumes the actuarial and investment risks, including those relating to staff severance pay provisions.

For supplementary defined benefit pension funds, the actuarial values required by IAS 19, "Employee Benefits", are determined by an independent actuary using the Projected Unit Credit Method as described in detail in "Part A – Accounting Policies" of the notes to the financial statements.

The defined benefit funds in which the Group has a joint and severance obligation are either internal funds or external complementary pension funds.

Internal funds

- Supplementary pension provision for staff in the former tax collection division of Banca Monte dei Paschi di Siena S.p.A. This is a supplementary pension fund designed to provide staff in retirement with supplementary pension in the form of a defined benefit (annuity). Banca Monte dei Paschi S.p.A. contributes to the fund for staff who are members of the defined benefit plan.
- National insurance (INPS) for ex-Banca Operaia di Bologna staff. The fund is intended to supplement and replace benefits paid out under compulsory pension schemes for ex-employees – active and retired – of former Banca Operaia di Bologna. The fund regulations allow INPS benefits to be supplemented based on a percentage of the final salary, calculated using specific coefficients for each grade.
- Pension provision for employees of former Banca di Credito Popolare e Cooperativo di Reggio Emilia. The sole aim of the fund is to supplement compulsory schemes in order to guarantee higher levels of insurance coverage for ex-employees of former Banca di Credito Popolare and Cooperativo di Reggio Emilia, as the direct beneficiaries of a life annuity or as the surviving spouse of a former employee.
- Pension provision for employees of former Banca Popolare Veneta. The fund is intended to supplement INPS pensions for employees already in retirement as of 7 December 1989 and their beneficiaries, in accordance with the legislation and agreements of 4 February 1956 and 1 January 1982 (for management personnel). The fund, to which only the parent company contributes, provides comprehensive coverage for retired personnel indexed to the "current" salary of an employee of the same grade.
- Pension provision for employees of former Banca Nazionale Agricoltura. This is an accumulation fund designed to supplement the INPS pension for employees already in retirement as of 1 October 2000, the date on which BNA merged with Antonveneta, or who will retire after that time, not having exercised their right, under the agreements of 12 September 2000, to transfer their contributions to Banca Antonveneta's corporate pension scheme (FAP).
- Complementary pension provision for employees of former Banca Toscana. This is a complementary or additional defined benefit pension fund reserved for personnel already in retirement as of 01/01/1999 and for active employees hired before 27/04/1993 who have expressed an interest in remaining with this plan. The Parent company's contribution is determined based on the mathematical reserve calculated by an independent actuary at the end of each financial year.
- Complementary pension provision for employees of former Mediocredito Toscano and former Istituto Nazionale di Credito Agrario (now included in MPS Capital Services Banca per le Imprese S.p.a.). This is a complementary or additional defined-benefit pension fund reserved for personnel in retirement as of 01/01/1999 and for active employees hired before

27/04/1993 who have expressed an interest in remaining with this plan. The company's contribution is determined based on the mathematical reserve calculated by an independent actuary at the end of each financial year.

- Supplementary pension scheme for personnel of former MPS Capital Services Banca per l'imprese S.p.A. This is a defined-benefit pension fund having separate assets but not an independent legal status.
- Finally, post-employment benefits include those relating to 3 former General Managers of the Bank.

Based on the mathematical reserve calculated by an independent actuary, the value of the afore-mentioned funds was proved adequate for ensuring payments to fund members.

External funds

- "Cassa di Previdenza Aziendale per il Personale del Monte dei Paschi di Siena" (the company pension scheme for employees of Monte dei Paschi di Siena), an independent legal entity with separate assets and asset management. The fund, reserved for current and retired employees of the Parent Company hired prior to 31/12/1990, is divided into two separate and independent plans: a defined contribution and a defined benefit plan. Information about the defined benefit plan can be found in the tables below.
- Pension Fund for personnel of former Banca Agricola Mantovana S.p.A. -Defined-benefit complementary pension fund. The sole aim of the fund is to supplement compulsory schemes in order to guarantee higher levels of insurance coverage to fund members. The fund value is consistent with the mathematical reserve calculated by the independent actuary, necessary to cover the present value of future obligations towards pensioners who have remained with the defined benefit scheme.
- The defined-benefit pension funds for Parent Company's personnel of the branches in London (BMPS UK Pension Fund) and New York (Retirement Plan) are designed to pay for the employees' benefits on retirement. The value of funds required to meet future payment obligations was proven to be in line with the mathematical reserve calculated by the independent actuary.

As required by the Bank of Italy, the internal fund statements can be found in the annexes to the financial statements.

12.3.2 Changes in net defined liability (asset) and reimbursement rights during the year

The following tables show movements for the year in internal and external funds which, according to international accounting standards, come under the heading of defined contribution funds.

12.3.2a Changes in net defined liability (asset) and reimbursement rights during the year – Internal Funds

Item/Amount	31 12 2013			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Opening balance	**(125,367)**	**154,548**	**11,340**	**40,521**
Current service cost	x	25	x	25
Interest income/expense	(5,147)	6,165	573	1,591
Remeasurement of net defined benefit liability (asset):	x	x	x	30,657
Return on plan assets excluding interest	547	x	x	547
Actuarial gains (losses) arising from changes in demographic assumptions	x	3,328	x	3,328
Actuarial gains (losses) arising from changes in financial assumptions	x	28,213	x	28,213
Changes in effect of limiting net defined benefit asset to asset ceiling	x	x	(1,431)	(1,431)
Past service cost and gains (losses) arising from settlements	x	-	x	-
Changes in foreign exchange rates	-	-	-	-
Contributions to plan:	(23,473)	9	-	(23,464)
by employer	(23,473)	8	x	(23,465)
by employee	-	1	x	1
Payments from plan	11,827	(15,512)	x	(3,685)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	x	-
Effect of any plan settlements	-	-	x	-
Other changes	(1,592)	(2)	1,592	(2)
Closing balance	**(143,205)**	**176,774**	**12,074**	**45,643**

Voci/Valori	31 12 2012*			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	**(128,950)**	**162,683**	**136,910**	**170,643**
Current service cost	x	198	x	198
Interest income/expense	(4,133)	5,710	(42)	1,535
Remeasurement of net defined benefit liability (asset):	x	x	x	2,456
Return on plan assets excluding interest	(5,005)	x	x	(5,005)
Actuarial gains (losses) arising from changes in demographic assumptions	x	2,041	x	2,041
Actuarial gains (losses) arising from changes in financial assumptions	x	(17)	x	(17)
Changes in effect of limiting net defined benefit asset to asset ceiling	x	x	5,437	5,437
Past service cost and gains (losses) arising from settlements	x	-	x	-
Changes in foreign exchange rates	-	-	-	-
Contributions to plan:	(1,594)	-	-	(1,594)
by employer	(1,594)	-	x	(1,594)
by employee	-	-	x	-
Payments from plan	12,269	(16,067)	x	(3,798)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	x	-
Effect of any plan settlements	-	-	x	-
Other changes	2,046	-	(130,965)	(128,919)
Closing balance	**(125,367)**	**154,548**	**11,340**	**40,521**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

12.3.2.b Changes in net defined liability (asset) and reimbursement rights during the year: External Funds

Item/Amount	31 12 2013			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	**(471,695)**	**432,283**	**46,861**	**7,450**
Current service cost	x	2,174	x	2,174
Interest income/expense	(19,679)	17,454	2,452	227
Remeasurement of net defined benefit liability (asset):	x	x	x	9,047
Return on plan assets excluding interest	66	x	x	66
Actuarial gains (losses) arising from changes in demographic assumptions	x	5,486	x	5,486
Actuarial gains (losses) arising from changes in financial assumptions	x	53,719	x	53,719
Changes in effect of limiting net defined benefit asset to asset ceiling	x	x	(50,224)	(50,224)
Past service cost and gains (losses) arising from settlements	x	-	x	-
Changes in foreign exchange rates	1,182	(1,439)	-	(257)
Contributions to plan:	(1,325)	-	-	(1,325)
by employer	(1,325)	-	x	(1,325)
by employee	-	-	x	-
Payments from plan	30,489	(30,489)	x	-
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	x	-
Effect of any plan settlements	-	-	x	-
Other changes	(2,807)	-	911	(1,896)
Closing balance	**(463,769)**	**479,188**	**-**	**15,420**

Item/Amount	31 12 2012*			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	**(462,121)**	**454,017**	**8,103**	**0**
Current service cost	x	2,677	x	2,677
Interessi attivi/passivi	(29,111)	18,547	10,317	(247)
Remeasurement of net defined benefit liability (asset):	x	x	x	(2,839)
Return on plan assets excluding interest	(19,680)	x	x	(19,680)
Actuarial gains (losses) arising from changes in demographic assumptions	x	(11,415)	x	(11,415)
Actuarial gains (losses) arising from changes in financial assumptions	x	-	x	-
Changes in effect of limiting net defined benefit asset to asset ceiling	x	x	28,256	28,256
Past service cost and gains (losses) arising from settlements	x	-	x	-
Changes in foreign exchange rates	(754)	786	-	32
Contributions to plan:	(4,984)	163	-	(4,821)
by employer	(4,821)	-	x	(4,821)
by employee	(163)	163	x	-
Payments from plan	35,553	(35,553)	x	-
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	x	-
Effect of any plan settlements	-	-	x	-
Other changes	9,402	3,061	185	12,648
Closing balance	**(471,695)**	**432,283**	**46,861**	**7,450**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

12.3.2.c Changes in net defined liability (asset) and reimbursement rights during the year: Total

Item/Amount	31 12 2013			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Internal funds	(143,205)	176,774	12,074	45,643
External funds	(463,769)	479,188	-	15,420
Total defined benefit funds	**(606,974)**	**655,962**	**12,074**	**61,063**

Item/Amount	31 12 2012*			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Internal funds	(125,367)	154,548	11,340	40,521
External funds	(471,695)	432,283	46,861	7,450
Total defined benefit funds	**(597,062)**	**586,831**	**58,201**	**47,971**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

12.3.3.a Information on Fair value of plan assets

Item	31 12 2013			
	Internal pension plans		External pension plans	
	Listed in active markets	Not listed in active markets	Listed in active markets	Not listed in active markets
Cash and cash equivalents	102,590	-	26,389	-
of which: used by the Group	102,590	-	-	-
Equity instruments	-	-	18,909	-
of which: issued by Group	-	-	1,180	-
Debt instruments	40,615	-	277,329	-
of which: issued by the Group	-	-	14,838	-
Real estate	-	-	64,535	-
of which: used by the Group	-	-	-	-
Derviatives	-	-	-	-
UCITS	-	-	76,607	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	**143,205**	**-**	**463,769**	**-**
of which: own instrumentsi/assets used by the Group	102,590	-	16,018	-

Item	31 12 2012			
	Internal pension plans		External pension plans	
	Listed in active markets	Not listed in active markets	Listed in active markets	Not listed in active markets
Cash and cash equivalents	83,653	-	93,936	-
of which: issued by Group	83,653	-	-	-
Equity instruments	-	-	22,191	-
of which: used by the Group	-	-	1,744	-
Debt instruments	41,714	-	289,843	-
of which: issued by the Group	-	-	14,382	-
Real estate	-	-	65,725	-
of which: used by the Group	-	-	-	-
Derviatives	-	-	-	-
UCITS	-	-	-	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	**125,367**	**-**	**471,695**	**-**
of which: own instrumentsi/assets used by the Group	83,653	-	16,126	-

This table provides a detailed illustration of plan assets at year-end, and thus of the assets of the funds indicated in Table 12.3.3, by major asset classes (financial and non-financial). Other assets mainly consist of investments in mutual funds and open-end collective investment schemes (Sicavs)

12.3.4 Key actuarial assumptions used

Key actuarial assumptions/percentages	31 12 2013		31 12 2012	
	Defined benefit funds		Defined benefit funds	
	Internal pension plans	External pension plans	Internal pension plans	External pension plans
Discount rates	2.05%	2.53%	4.20%	4.20%
Expected rates of salary increases	1.00%	1.32%	1.50%	2.60%

A discount rate of 2.05 % was used for internal plans and 2.53% for external ones (3.06% for Provision for severance pay, see section 11.2) , calculated as a weighted average of interest rates in EUR Composite AA yield curve as at 31.12.2013, using. as weights, the ratio between the amount paid / paid in advance for each maturity and the total amount to be paid /paid in advance for the entire duration of the population considered.

12.3.5 Information on amount, timing and uncertainty of cash flows

Actuarial assumption	Change in DBO	Change (%) in DBO
Discount rate		
Increase of 0.5%	(16,007)	-2.50%
Decrease of 0.5%	15,371	2.40%
Expected rates of salary increases		
Increase of 0.5%	14,941	2.35%
Decrease of 0.5%	(15,804)	-2.49%

12.4 - Provisions for risks and charges - Other provisions

Items/Amounts	Total 31 12 2013	Total 31 12 2012*
2.1 legal disputes	364,928	387,846
2.2 personnel charges	51,313	291,887
2.3 other	650,008	720,859
- clawback actions	149,767	170,216
- charges arising from contractual obligations	51,819	71,800
- customer claims	4,096	3,811
-other	444,326	475,032
Total	**1,066,249**	**1,400,592**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

Provisions to the fund for legal disputes primarily include appropriations to cover the cost of actions filed against the Bank. Provisions for "charges arising from contractual obligations" consist in appropriations for charges deriving from contracts and agreements associated with the disposal of investments and/or business segments, completed in previous years.

Section 13 – Insurance reserves – Item 130

The tables in this section have not been completed as no data is present for either current or previous year.

Section 14 – Redeemable shares – Item 150

The tables in this section have not been completed as no data is present for the current year or for the previous year.

Section 15 – Group equity – Items 140,160,170,180,190,200 and 220

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

15.1.a "Share capital": breakdown

Items/Amounts	31 12 2013		31 12 2012	
	Implied par value share (a)	Par value of fully paid shares	Par value per share	Par value of fully paid shares
Ordinary shares	0.6407	7,484,508,171	0.6407	7,484,508,171
Preferred shares		-		-
Savings shares		-		-
Total share capital		**7,484,508,171**		**7,484,508,171**

a) On 6 June 2011, the Bank's Extraordinary Shareholders' Meeting resolved that indication of the par value of the three classes of shares be eliminated; accordingly, as at 31.12.2011, the so-called "non-expressed par value" is indicated, which is obtained by dividing the total share capital amount by the number of shares in the same category, outstanding at the reference date.

Ordinary shares are registered and indivisible. Each share entitles to one vote.

Information on the number of fully paid-up shares can be found in the notes to Table 15.2, "Share capital – number of shares: annual changes".

15.1.b Treasury shares: breakdown

Items/Amounts	31 12 2013		31 12 2012	
	Implied par value share	Book Balance	Par Value	Book Balance
Ordinary shares	34,915,189	(24,532,421)	34,915,189	(24,532,421)
Preferred shares	-	-	-	-
Savings shares	-	-	-	-
Total share capital	**34,915,189**	**(24,532,421)**	**34,915,189**	**(24,532,421)**

Under international accounting standards, any repurchase of treasury shares is treated as capital repayment. For this reason, the consideration recognised for share repurchase is ideally deducted directly from equity.

15.2 Share capital - Parent company's number of shares: annual changes

Item/Type	31 12 2013			31 12 2012		
	Ordinary	Preferred	Savings	Ordinary	Preferred	Savings
A. Shares outstanding as at the beginning of the year	11,681,539,706	-	-	10,980,795,908	681,879,458	18,864,340
- fully paid	11,681,539,706	-	-	10,980,795,908	681,879,458	18,864,340
- not fully paid	-	-	-	-	-	-
A.1 Treasury shares (-)	54,495,378	-	-	54,232,440	-	-
A.2 Shares outstanding: opening balance	11,627,044,328	-	-	10,926,563,468	681,879,458	18,864,340
B. Increases	-	-	-	708,980,860	-	-
B.1 New issues	-	-	-	-	-	-
- against payment:	-	-	-	-	-	-
- business combinations	-	-	-	-	-	-
- bonds converted	-	-	-	-	-	-
- warrants exercised	-	-	-	-	-	-
- other	-	-	-	-	-	-
- without payment:	-	-	-	-	-	-
- to employees	-	-	-	-	-	-
- to directors	-	-	-	-	-	-
- other	-	-	-	-	-	-
B.2 Sale of treasury shares	-	-	-	8,237,062	-	-
B.3 Other increases	-	-	-	700,743,798	-	-
C. Decreases	-	-	-	8,500,000	681,879,458	18,864,340
C.1 Cancellation	-	-	-	-	-	-
C.2 Purchase of treasury shares	-	-	-	8,500,000	-	-
C.3 Business transferred	-	-	-	-	-	-
C.4 Other decreases	-	-	-	-	681,879,458	18,864,340
D. Shares outstanding: closing balance	11,627,044,328	-	-	11,627,044,328	-	-
D.1 Treasury shares (+)	54,495,378	-	-	54,495,378	-	-
D.2 Shares outstanding as at the end of the year	11,681,539,706	-	-	11,681,539,706	-	-
- fully paid	11,681,539,706	-	-	11,681,539,706	-	-
- not fully paid	-	-	-	-	-	-

Share capital consists of 11,681,539,706 ordinary shares.

15.3 Share capital - other information

Of the 295,236,070 ordinary shares representing a total nominal value of € 197,808,166.90, a restriction exists on the payout of dividends since the Parent Company has acquired usufruct in these shares.

15.3a Equity instruments: breakdown and annual changes

	31 12 2013			31 12 2012		
	Equity component of convertible bonds	Other equity instruments	Total	Equity component of convertible bonds	Other equity instruments	Total
A. Opening balance	**3,002**	**-**	**3,002**	**3,002**	**1,900,000**	**1,903,002**
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**
B.1 New issues	-	-	-	-	-	-
B.2 Sales	-	-	-	-	-	-
B.3 Other increases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**	**1,900,000**	**1,900,000**
C.1 Redemptions	-	-	-	-	-	-
C.2 Repurchases	-	-	-	-	-	-
C.3 Other decreases	-	-	-	-	1,900,000	1,900,000
D. Closing balance	**3,002**	**-**	**3,002**	**3,002**	**-**	**3,002**

The item "Equity Instruments" includes, in the "Equity component of convertible bonds" column, the equity component of bonds issued and convertible into treasury shares. This mainly concerns the value determined upon issue of the Convertible Preferred Securities in relation to the embedded option which, according to IAS 32, must be separated from the bond instrument since it is considered an equity instrument.

15.4 Retained earnings: other information

See Section F, "Information on consolidated equity" of these notes to the financial statements.

15.5 Other information

See Section F, "Information on consolidated equity" of these notes to the financial statements.

Section 16 – Non-controlling interests - Item 210

16.1 Equity instruments: breakdown and annual changes

Items/Amounts	Total 31 12 2013	Total 31 12 2012
1) Share capital	1,190	830
2) Share premium reserve	5,159	211
3) Reserves	526	22,173
4) (Treasury shares)	-	-
5) Valuation reserves	1,219	1,226
6) Equity instruments	-	-
7) Profit (loss) for the year - Non-controlling interests	120	(21,584)
Total	**8,214**	**2,856**

Other information

1 Guarantees and commitments

	Transactions	Amount 31 12 2013	Amount 31 12 2012
1)	Financial guarantees given to	2,925,788	3,357,718
	a) Banks	445,042	560,430
	b) Customers	2,480,746	2,797,288
2)	Commercial guarantees given to	4,823,636	4,996,210
	a) Banks	309,700	293,858
	b) Customers	4,513,936	4,702,352
3)	Irrevocable commitments to disburse funds	6,152,251	7,014,949
	a) Banks	480,183	258,012
	i) usage certain	480,183	257,451
	ii) usage uncertain	-	561
	b) Customers	5,672,068	6,756,937
	i) usage certain	3,080,341	3,323,118
	ii) usage uncertain	2,591,727	3,433,819
4)	Underlying commitments on credit derivatives: sales of protection	22,984,624	28,280,183
5)	Assets pledged as collateral for third-party commitments	44,168	7,519
6)	Other commitments	1,011,461	1,274,158
		37,941,928	**44,930,737**

2 Assets pledged as collateral for liabilities and commitments

Portfolios	31 12 2013	31 12 2012
1. Financial assets held for trading	6,243,740	3,155,972
2. Financial assets designated at fair value	-	-
3. Financial assets available for sale	22,043,628	22,924,294
4. Financial assets held to maturity	-	-
5. Loans to banks	7,250,717	7,485,423
6. Loans to customers	34,207,946	33,625,964
7. Property, plant and equipment	1,431,469	-

3 Operating leases

3.1 Future minimum lease payments due under operating leases

Items/Amounts	31 12 2013
Up to 1 year	409
From 1 to 5 years	170
Over 5 years	-
Future minimum lease payments due	**579**
Non-cancellable future minimum lease payments receivable	23,740

Since the vehicle company Perimetro Gestione Proprietà Immobiliari S.C.P.A.is included in the scope of consolidation, the lease payments to Perimetro Gestione Proprietà Immobiliari S.C.P.A. are cancelled as an intragroup item and are no longer represented in the table.

4 Investments in unit-linked and index-linked policies: breakdown

No data to report for the current or the previous year.

5 Asset management and trading on behalf of third parties

Type of services	Amount 31 12 2013
1. Trading of financial instruments on behalf of third parties	
a) Purchases	18,487,979
1. Settled	18,423,765
2. Unsettled	64,214
b) Sales	17,232,806
1. Settled	17,192,032
2. Unsettled	40,774
2. Asset management accounts	
a) individual	4,174,593
b) collective	16,033
3. Custody and administration of securities	
a) third party securities on deposit associated with custodian bank transactions (excluding asset management)	-
1. Securities issued by companies included in consolidation	-
2. Other securities	-
b) Other third party securities on deposit (excluding asset management)	113,353,885
1. Securities issued by companies included in consolidation	25,667,707
2. Other securities	87,686,178
c) third party securities deposited with third parties	112,371,172
d) own securities deposited with third parties	66,022,809
4. Other transactions	
4.1 Credit collection on behalf of third parties: debit and credit adjustments	
a) Debit adjustments	12,328,018
1. current accounts	40,863
2. banking book	10,654,226
3. cash	1,088
4. other accounts	1,631,841
b) Credit adjustments	12,831,720
1. current accounts	109,864
2. transfer of bills and notes	12,721,856
4.2 Other transactions	
a) Third party portfolios for collection	2,663,483
b) Other	12,549,699

6 Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

Type	Gross amount of financial assets (a)	Amount of financial liabilities offset in balance sheet (b)	Net amount of financial assets recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31 12 2013	Net amount (f=c-d-e) 31 12 2012
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	9,428,275	-	9,428,275	7,760,781	673,013	994,481	1,810,548
2. Repurchase agreements	6,541,735	-	6,541,735	6,435,477	2,523	103,735	31,055
3. Securities lending	-	-	-	-	-	-	0
4. Other	-	-	-	-	-	-	0
Total as at 31 12 2013	**15,970,010**	**-**	**15,970,010**	**14,196,258**	**675,536**	**1,098,216**	**X**
Total as at 31 12 2012	**-**	**-**	**-**	**-**	**-**	**X**	**1,841,603**

7 Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

Type	Gross amount of financial liabilities (a)	Amount of financial assets offset in balance sheet (b)	Net amount of financial liabilities recognised in the balance sheet (c=a-	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31 12 2013	Net amount (f=c-d-e) 31 12 2012
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	10,180,168	-	10,180,168	7,039,617	338,235	2,802,316	5,026,643
2. Repurchase agreements	26,399,481	-	26,399,481	26,318,729	-	80,752	71,250
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total as at 31 12 2013	**36,579,649**	**-**	**36,579,649**	**33,358,346**	**338,235**	**2,883,068**	**X**
Total as at 31 12 2012	**-**	**-**	**-**	**-**	**-**	**X**	**5,097,893**

With regard to securities lending transactions, it should be noted that the above tables 6 and 7 include transactions involving the payment of cash collateral fully owned by the lender since they are the only transactions which are recognised in the balance sheet. These transactions are included in line "Repurchase agreements" for the purpose of reconciliation with the balances shown in line "Repurchase agreements/Reverse repurchase agreements" in the tables containing a breakdown of loans to/deposits from customers and banks by counterparty, provided in Part B – Information on the balance sheet.

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Section 1 – interest income/expense and similar revenues/charges – items 10 and 20

1.1 Interest income and similar revenues: breakdown

Item/Type	Debt securities	Loans	Other transactions	Total 31 12 2013	Total 31 12 2012
1. Financial assets held for trading	93,054	16,918	168,915	278,887	369,030
2. Financial assets designate at fair value	-	-	-	-	-
3. Financial assets available for sale	836,500	-	-	836,500	815,120
4. Financial assets held to maturity	-	-	-	-	-
5. Loans to banks	22,962	31,025	606	54,593	107,297
6. Loans to customers	62,600	4,730,610	15,113	4,808,323	5,409,114
7. Hedging derivatives	x	x	-	-	-
8. Other assets	x	x	9,061	9,061	10,452
Total	**1,015,116**	**4,778,553**	**193,695**	**5,987,364**	**6,711,013**

Line “1. Financial assets held for trading”, in the “Other transactions” column, includes the positive net total of spreads relating to derivatives connected with financial liabilities designated at fair value (fair value option), for an amount of EUR 168.9 mln.

Lines 5 and 6, “Loans to banks” and “Loans to customers”, in the “Debt securities” column, include interest income on treasury securities not listed in active markets and classified in these portfolios.

Line “7. Hedging derivatives”, “Other transactions” column: the amount indicated is zero because the difference between positive and negative spreads concerning derivatives classified as hedging derivatives according to hedge accounting rules is negative. Therefore, this difference was accounted for in Table 1.4, “Interest expense and similar charges: breakdown”, with details given in Table 1.5, “Interest expense and similar charges: spreads on hedging transactions” in this section.

Line “8. “Other assets”, in the “Other transactions” column, shows interest accrued on tax credits and other residual assets.

Interest other than that recognised in item 130 “Net impairment losses (reversals) on loans” and accrued during the year for positions that are classified as “non-performing” as at balance-sheet date totalled € 894.5 mln. This interest is calculated for financial assets measured at amortised cost under the effective interest rate method and is entered in different columns based on the original 'technical form'. Interest on arrears accrued during the year is posted to interest income only for the portion actually recovered. The portion of interest on arrears not recovered is written down and deducted directly from interest accrued. Any amounts recovered in subsequent years are treated as a write-back on receivables and recognised in Item 130 of the income statement, “Net impairment losses/reversals on loans”.

1.2 Interest income and similar revenues: spreads on hedging transactions

Information on spreads relating to hedging transactions is provided in Table 1.5.

1.3 Interest income and similar revenues: other information

1.3.1 Interest income from financial assets denominated in foreign currency

Interest income from financial assets denominated in foreign currency for 2013 amounted to EUR 50.7 mln as compared to EUR 67.2 mln in 2012.

1.3.2 Interest income from finance leases

Interest income from financial leasing transactions for 2013 amounted to EUR 146 mln as compared to EUR 154.7 mln in 2012.

1.4 Interest expense and similar charges: breakdown

Item/Type	Deposits	Securities	Other transactions	Total 31 12 2013	Total 31 12 2012
1. Deposits from central banks	(175,584)	x	-	(175,584)	(300,181)
2. Deposits from banks	(210,012)	x	(2,796)	(212,808)	(202,660)
3. Deposits from customers	(999,212)	x	(1)	(999,213)	(1,027,577)
4. Debt securities issued	x	(1,735,491)	(50)	(1,735,541)	(1,555,316)
5. Financial liabilities held for trading	(12,101)	-	-	(12,101)	(31,221)
6. Financial liabilities designated at fair va	-	(269,200)	-	(269,200)	(430,279)
7. Other liabilities	x	x	(4,865)	(4,865)	(7,625)
8. Hedging derivatives	x	x	(456,506)	(456,506)	(371,529)
Total	**(1,396,909)**	**(2,004,691)**	**(464,218)**	**(3,865,818)**	**(3,926,388)**

Lines 2, "Deposits from banks" and 3, "Deposits from customers", in the "Deposits" column, include:

- interest on payables under repurchase agreements on: treasury securities; securities obtained through repo transactions or securities lending; and securities from self-securitisations not recognised in the balance-sheet;
- the expense relating to liabilities arising from the assignment of tax credits not derecognised in accordance with IAS 39 on derecognition of financial assets.

Line 4, "Securities issued", indicates the interest expense accrued during the year on bonds and certificates of deposit valued at amortised cost. In particular, interest on the New Financial Instruments/ former Tremonti Bonds accrued in 2013, totalling EUR 333.1 mln, was posted to this item; for further information see table 3.1 "Securities issued: breakdown" in these Notes to the Financial Statements.

Line "6. "Financial liabilities designated at fair value", includes interest expense accrued on structured fixed-rate bonds issued and systematically hedged by derivative contracts under the fair value option.

1.5 Interest expense and similar charges: spreads on hedging transactions

Items	Total 31 12 2013	Total 31 12 2012
A. Positive spreads on hedging transactions	684,084	911,727
B. Negative spreads on hedging transactions	(1,140,590)	(1,283,256)
C. Balance (A+B)	**(456,506)**	**(371,529)**

In line with its hedging objectives and consequent minimisation of risks in the banking book, the Group carries out both fair value and cash flow hedging transactions.

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on liabilities denominated in foreign currency

Interest expense on financial liabilities denominated in foreign currency for 2013 amounted to EUR 27.2 mln as compared to EUR 37.6 mln in 2012.

1.6.2 Interest expense on liabilities from finance leases

No values are shown in this table as no data is to be reported for either the current or the previous year.

Section 2 – Fee and commission income/expense – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service / Amount	Total 31 12 2013	Total 31 12 2012
a) guarantees issued	87,687	85,416
b) credit derivatives	-	-
c) management, brokerage and advisory services:	836,513	731,638
1. trading of financial instruments	18,278	16,150
2. currency trading	5,136	5,861
3. asset management	47,736	48,219
3.1 individual accounts	47,736	48,219
3.2. collective investment schemes	-	-
4. custody and administration of securities	11,338	9,607
5. custodian bank	1	1,588
6. placement of securities	81,922	52,539
7. client instructions	65,226	66,115
8. advisory on	1,048	4,290
8.1 investments	1,048	4,290
8.2 financial structure	-	-
9. distribution of third-party services	605,828	527,269
9.1. asset management	-	-
9.1.1 individual accounts	-	-
9.1.2 collective investment schemes	-	-
9.2 insurance products	235,104	236,678
9.3 other products	370,724	290,591
d) collection and payment services	233,640	169,497
e) servicing of securitisations	150	650
f) factoring transaction services	17,490	20,661
g) tax collection services	-	-
h) management of multilateral trade systems	-	-
i) current account keeping	647,256	695,050
j) other services	296,836	348,656
Total	2,119,572	2,051,568

2.2 Fee and commission expense: breakdown

Type of service / Amount	Total 31 12 2013	Total 31 12 2012
a) guarantees received	(104,222)	(102,251)
b) credit derivatives	-	-
c) management, brokerage and advisory services:	(144,990)	(123,380)
1. trading of financial instruments	(22,062)	(22,068)
2. currency trading	(98)	(183)
3. asset management:	(1,172)	(1,518)
3.1 own portfolio	(18)	(12)
3.2 third-party portfolios	(1,154)	(1,506)
4. custody and administration of securities	(12,447)	(14,297)
5. placement of financial instruments	(34,114)	(29,233)
6. off-site marketing of financial instruments, products and services	(75,097)	(56,081)
d) collection and payment services	(67,621)	(18,251)
e) other services	(145,182)	(174,868)
Total	**(462,015)**	**(418,750)**

Line "c) 6 "off-site marketing of financial instruments, products and services" includes fees and commissions paid to Financial Advisors.

Line "a) guarantees received" includes EUR 102.7 mln of commissions paid by the Parent Company for the guarantee pledged by the Italian Government on certain bond issuances.

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Item/Income	31 12 2013			31 12 2012		
	Dividends	Income from units in UCITS	Total	Dividends	Income from units in UCITS	Total
A. Financial assets held for trading	3,248	852	4,100	53,376	337	53,713
B. Financial assets available for sale	8,335	4,867	13,202	5,207	3,938	9,145
C. Financial assets designated at fair value	-	-	-	-	-	-
D. Investments	-	x	-	-	x	-
Total	**11,583**	**5,719**	**17,302**	**58,583**	**4,275**	**62,858**

The table shows the amount of dividends received on shares traded within the trading book and non-controlling interest classified in the available-for-sale asset portfolio.

Conversely, dividends relating to the Group's subsidiaries and associates, consolidated line-by-line or under the equity method, are excluded.

Section 4 – Net profit (loss) from trading – Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions / P&L items	Capital Gains (A)	Trading Profit (B)	Capital Losses (C)	Trading Losses (D)	Net Profit (Loss) (A+B)-(C+D) 31 12 2013	Net Profit (Loss) (A+B)-(C+D) 31 12 2012
1. Financial assets held for trading	**122,829**	**218,294**	**(50,104)**	**(102,886)**	**188,133**	**439,920**
1.1 Debt securities	109,629	173,744	(48,096)	(74,963)	160,314	477,168
1.2 Equity instruments	5,498	19,088	(34)	(5,929)	18,623	(56,978)
1.3 Units of UCITS	6,909	18,946	(1,688)	(4,053)	20,114	15,683
1.4 Loans	793	1,113	(286)	-	1,620	3,917
1.5 Other	-	5,403	-	(17,941)	(12,538)	130
2. Financial liabilities held for	**10,342**	**26,620**	**(65,860)**	**(127,888)**	**(156,786)**	**(285,310)**
2.1 Debt securities	9,835	22,869	(59,037)	(126,133)	(152,466)	(280,213)
2.2 Deposits	-	-	-	-	-	-
2.3 Other	507	3,751	(6,823)	(1,755)	(4,320)	(5,097)
3. Other financial assets and liabilities: exchange differences	**x**	**x**	**x**	**x**	**23,222**	**23,930**
4. Derivatives	**3,007,976**	**11,618,597**	**(2,115,591)**	**(12,560,276)**	**16,145**	**(119,225)**
4.1 Financial derivatives:	2,475,694	10,192,007	(1,662,460)	(11,130,451)	(59,771)	(10,026)
- on debt securities and interest	1,769,651	8,540,460	(945,942)	(9,132,988)	231,181	(30,887)
- on equity instruments and stock	508,990	1,241,259	(485,434)	(1,451,219)	(186,404)	(1,066)
- on currency and gold	x	x	x	x	65,439	10,974
- other	197,053	410,288	(231,084)	(546,244)	(169,987)	10,953
4.2 Credit derivatives	532,282	1,426,590	(453,131)	(1,429,825)	75,916	(109,199)
Total	**3,141,147**	**11,863,511**	**(2,231,555)**	**(12,791,050)**	**70,714**	**59,315**

The table shows the profit and loss attributable to the portfolio of financial assets and liabilities held for trading, except for derivative contracts hedging financial instruments under the fair value option, whose valuation results are indicated in Part C, Section 7, "Net profit (loss) on financial assets and liabilities designated at fair value – Account 110" in these notes to the financial statements.

In line "3. Other financial assets and liabilities: exchange differences", the positive or negative balance of any changes in value of financial assets and liabilities denominated in currencies other than the trading currencies has been indicated in accordance with standard practice. For trading instruments, the effect resulting from any changes due to foreign exchange is not reported separately.

Section 5 – Net profit (loss) from hedging – Item 90

5.1 Net profit (loss) from hedging: breakdown

P&L items/Values	Total 31 12 2013	Total 31 12 2012
A. Gains on:		
A.1 Fair value hedging instruments	1,325,140	335,215
A.2 Hedged financial assets (fair value)	-	1,380,483
A.3 Hedged financial liabilities (fair value)	144,536	828
A.4 Cash-flow hedging derivatives	3,612	1,847
A.5 Assets and liabilities denominated in foreign currency	-	-
Total gains on hedging activities (A)	**1,473,288**	**1,718,373**
B. Losses on:		
B.1 Fair value hedging instruments	(142,394)	(1,505,206)
B.2 Hedged financial assets (fair value)	(1,321,830)	(21,841)
B.3 Hedged financial liabilities (fair value)	(1,826)	(185,431)
B.4 Cash-flow hedging derivatives	-	(2,841)
B.5 Assets and liabilities denominated in foreign currency	-	-
Total losses on hedging activities (B)	**(1,466,050)**	**(1,715,319)**
C. Net profit (loss) from hedging activities (A - B)	**7,238**	**3,054**

The table shows the realised income components posted to the income statement resulting from the valuation of both assets and liabilities subject to hedging, and the relative hedging derivative contracts, including any foreign exchange differences. During the year, other hedging transactions were carried out against adverse changes in interest rate risk, exchange risk and credit risk, mainly for bonds classified in the available-for-sale asset portfolio and debt securities issued by the Group and posted to Item 30 of the Liabilities, "Securities issued".

For information on hedging derivatives, the gains and losses on which are indicated in lines A.1 and A.4, B.1 and B.4 of this table, see Section 8, "Hedging derivatives – Item 80" of the Assets and Section 6, "Hedging derivatives – item 60" of the Liabilities in Part B of the notes to the financial statements.

More information on hedged assets and liabilities can be found in the tables in Part B of the notes for each section of the accounts to which hedges are posted.

Prospective and retrospective tests performed in 2013 in accordance with IAS 39 confirmed the effectiveness of hedging relationships.

Section 6 - Gains (losses) on disposal/repurchase - Item 100

6.1 Gains (losses) on disposal / repurchase: breakdown

Items / P&L items	Total 31 12 2013			Total 31 12 2012		
	Gains	Losses	Net Profit (Loss)	Gains	Losses	Net Profit (Loss)
1. Financial assets						
1. Loans to banks	2,155	(2,368)	(213)	8,372	(10,088)	(1,716)
2. Loans to customers	3,443	(65,868)	(62,425)	6,006	(37,951)	(31,945)
3. Financial assets available for sale	302,719	(417,766)	(115,047)	84,888	(22,494)	62,394
3.1 Debt securities issued	52,662	(406,371)	(353,709)	19,010	(14,001)	5,009
3.2 Equity instruments	210,791	(42)	210,749	30,493	(1,023)	29,470
3.3 Units of UCITS	39,266	(11,353)	27,913	35,385	(7,470)	27,915
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	**308,317**	**(486,002)**	**(177,685)**	**99,266**	**(70,533)**	**28,733**
1. Financial liabilities						
1. Deposits from banks	101,363	-	101,363	3,216	-	3,216
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities issued	8,056	(15,628)	(7,572)	212,125	(43,717)	168,408
Total liabilities	**109,419**	**(15,628)**	**93,791**	**215,341**	**(43,717)**	**171,624**

The table shows the net profit/loss arising on the disposal of financial assets other than those held for trading and those designated at fair value, and the net profit/loss arising on the repurchase of own financial liabilities.

With regard to financial liabilities, the repurchase of own liabilities is treated as advance repayment with derecognition of the financial instrument and subsequent realisation of gains or losses on repurchase.

Settlement of the "Santorini" transaction resulted in the recognition of a EUR 388.5 mln loss in line 3.1 "Debt securities issued", consequent to the derecognition of Italian Government Bonds (BTPs) linked to the transaction, and a gain of EUR 101.4 mln resulting from the derecognition of the long term repo, registered in line "Financial liabilities – deposits from banks".

Recognition of the new shares in the capital of the Bank of Italy and derecognition of pre-existing shares, which were cancelled upon approval of the capital increase by the Bank of Italy's extraordinary shareholders' meeting of 23 December 2013, led to the recognition of a EUR 187.5 mln gain, posted to line 3.2 "Financial assets – equity instruments".

The amount of EUR -7.6 mln posted to line "1. Financial liabilities – 3 Debt securities issued" represents the net result of gains (EUR 8 mln) and losses (EUR 15.6 mln) arising from the repurchase, in whole or in part, of fixed and floating rate issuances completed in the course of 2013 and recognised in item "30 - Debt securities issued" of the liabilities.

Section 7 – Net profit (loss) from financial assets and liabilities designated at fair value – Item 110

7.1 Net changes in financial assets and liabilities designated at fair value: breakdown

Transactions / P&L items	Capital Gains (A)	Gains following disposal (B)	Capital Losses (C)	Losses following disposal (D)	Net Profit (A+B)-(C+D) 31 12 2013	Net Profit (A+B)-(C+D) 31 12 2012
1. Financial assets	-	-	-	-	-	-
1.1 Debt securities issued	-	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-	-
1.3 Units of UCITS	-	-	-	-	-	-
1.4 Loans	-	-	-	-	-	-
2. Financial liabilities	138,822	69,010	(30,463)	(1,534)	175,835	21,708
2.1 Debt securities issued	138,822	69,010	(30,463)	(1,534)	175,835	21,708
2.2. Deposits from banks	-	-	-	-	-	-
2.3. Deposits from customers	-	-	-	-	-	-
3. Financial assets and liabilities	x	x	x	x	-	-
4. Credit and financial derivatives	43,228	105,186	(135,764)	(178,341)	(165,691)	95,628
Total	182,050	174,196	(166,227)	(179,875)	10,144	117,336

7.1.a Net profit (loss) from financial assets and liabilities designated at fair value under the fair value option

Type/Item	Capital Gains	Gains following disposal	Capital Losses	Losses following disposal	Net Profit (Loss)	
					31 12 2013	31 12 2012
Assets	-	-	-	-	-	-
Natural hedges through derivatives	-	-	-	-	-	-
Liabilities	138,822	69,010	(30,463)	(1,534)	175,835	21,708
Natural hedges through derivatives	138,822	69,010	(30,463)	(1,534)	175,835	21,708
	-	-	-	-	-	-
Financial derivatives	43,228	105,186	(135,764)	(178,341)	(165,691)	95,628
Natural hedges	43,228	105,186	(135,764)	(178,341)	(165,691)	95,628
Credit derivatives	-	-	-	-	-	-
Total	182,050	174,196	(166,227)	(179,875)	10,144	117,336

During the year, changes in fair value of financial liabilities (FVO) arising from changes in own creditworthiness resulted in capital gains of EUR 19.9 mln (cumulative EUR 149.3 mln), against EUR 99.5 mln in 2012.

Changes in the fair value of liabilities issued due to changes in own creditworthiness are 'immunised' for the purpose of regulatory capital quantification.

Section 8 – Net impairment losses (reversals) – Item 130

8.1 Net impairment losses (reversals) on loans: breakdown

Transactions / P&L items	Value adjustments			Write-back				Total 31 12 2013	Total 31 12 2012
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Others		A	B	A	B		
A. Loans to banks	-	(219)	(14,213)	113	252	-	396	(13,671)	(10,768)
- Loans	-	(219)	(747)	113	252	-	1	(600)	(1,662)
- Debt securities	-	-	(13,466)	-	-	-	395	(13,071)	(9,106)
B. Loans to customers	(35,345)	(3,370,556)	(62,792)	426,748	239,926	-	65,916	(2,736,103)	(2,655,780)
Non-performing loans pu	-	(8,066)	-	-	4,405	-	-	(3,661)	-
- Loans	-	(8,066)	X	-	4,405	-	X	(3,661)	-
- Debt securities	-	-	X	-	-	-	X	-	-
Other receivables	(35,345)	(3,362,490)	(62,792)	426,748	235,521	-	65,916	(2,732,442)	(2,655,780)
- Loans	(35,345)	(3,362,490)	(62,704)	426,748	235,521	-	62,916	(2,735,354)	(2,650,109)
- Debt securities	-	-	(88)	-	-	-	3,000	2,912	(5,671)
C. Total	**(35,345)**	**(3,370,775)**	**(77,005)**	**426,861**	**240,178**	**-**	**66,312**	**(2,749,774)**	**(2,666,548)**

Key

A = From interest

B = Other reversals

In particular, the column "Write-offs" shows losses recorded in relation to the derecognition of financial instruments allocated to the portfolios of loans to customers and loans to banks, whereas the "Other" column includes specific write-downs on non-performing loans subject to analytical valuation. Portfolio value adjustments were quantified with reference to 'performing' financial instruments.

Column A (specific reversals) incorporates the reversals represented by interest released on non-performing positions valued at amortised cost and interest on arrears recovered and written down in the year of accrual.

For further information on loans to banks and customers, see Section 1, "Credit risk", in Part E of the notes to the financial statements.

8.2 Net impairment losses (reversals) on financial assets available for sale: breakdown

Transactions / P&L items	Value Adjustments		Write-backs		Total	Total
	Specific		Specific		31 12 2013	31 12 2012
	Write-offs	Others	A	B		
A. Debt securities issued	-	(2,305)	-	620	(1,685)	(5,406)
B. Equity instruments	(1)	(41,158)	X	X	(41,159)	(143,607)
C. Units in UCITS	-	(16,360)	X	-	(16,360)	(58,727)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**(1)**	**(59,823)**	**-**	**620**	**(59,204)**	**(207,740)**

Key

A = From interest

B = Other reversals

8.3 Net impairment losses (reversals) on financial assets held to maturity: breakdown

This table has not been completed since these value adjustments were not present for the Group in 2013 or in the year of comparison.

8.4 Net impairment losses (reversals) on other financial transactions: breakdown

Transactions / P&L items	Value adjustments			Write-backs				Total 31 12 2013	Total 31 12 2012
	Specific			Specific		Portfolio			
	Write-offs	Others	Portfolio	A	B	A	B		
A. Guarantees issued	-	(7,302)	(8,436)	-	418	-	1,515	(13,805)	(4,227)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	(2)	(34)	-	214	-	554	732	(835)
D. Other transactions	-	(1,265)	-	-	23	-	-	(1,242)	(719)
E. Total	**-**	**(8,569)**	**(8,470)**	**-**	**655**	**-**	**2,069**	**(14,315)**	**(5,781)**

Key

A = From interest

B = Other reversals

This item shows impairment losses/reversals (against expected loss) on guarantees issued, if executed.

Section 9 – Net premiums – Item 150

The tables in this section were not completed since the Group has no net premiums to report for either the current or previous year.

Section 10 – Other net insurance income/expense – Item 160

The tables in this section were not completed since the Group has no insurance management activities to report for either the current or previous year.

Section 11 – Administrative expenses – Item 180

11.1 Personnel expenses: breakdown

Type of Expense / Area	Total 31 12 2013	Total 31 12 2012 **
1. Employees	(1,729,771)	(2,203,780)
a) wages and salaries	(1,248,460)	(1,368,366)
b) social-welfare charges	(336,264)	(379,663)
c) severance pay	(43,870)	(77,852)
d) social security expenses	-	-
e) provision for staff severance pay	(11,910)	(3,654)
f) pension fund and similar obligations:	(2,176)	(2,370)
- defined contribution	(560)	(637)
- defined benefit	(1,616)	(1,733)
g) contributions to external pension funds:	(17,334)	(35,570)
- defined contribution	(17,085)	(30,703)
- defined benefit	(249)	(4,867)
h) costs related to share-based payments	-	-
i) other employee benefits	(69,757)	(336,305)
2. Other staff	(2,079)	(1,583)
3. Directors and Statutory Auditors	(4,627)	(6,057)
4. Retired personnel	(6,733)	(7,221)
Total	**(1,743,210)**	**(2,218,641)**

*** With respect to published accounts, prior period balances are reflective of:*

- changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.

- changes due to the reclassification to item 310 'Profit (loss) from groups of assets held for sale and discontinued operations" of the P&L items related to the transfer of the administrative, accounting and ancillary services business unit to the company 'Fruendo Srl' .

Line f) "pension fund and similar obligations" includes amounts set aside for internal funds, while line g) "contributions to external pension funds" includes contributions paid and adjustments made to external pension funds.

Line i) "Other employee benefits" includes employee incentives for employment termination for an amount of EUR 24,5 mln.

11.2 Average number of employees by category

Category / Average Number	31 12 2013	31 12 2012
Employees:	**28,009**	**30,266**
a) executives	398	440
b) middle managers	11,002	11,714
c) remaining staff	16,609	18,112
Other personnel	**4**	**116**
Total	**28,013**	**30,382**

11.3 Defined benefit pension funds: costs and revenues

Voci/Valori	31 12 2013			31 12 2012		
	Defined benefit company pension funds		Provision for staff severance pay	Defined benefit company pension funds		Provision for staff severance pay
	Internal pension	External pension		Internal pension	External pension	
Interest income/expense	(1,591)	(227)	(11,289)	(1,535)	247	(2,906)
Current service cost and gains (losses) arising from settlements**	(25)	(2,174)	(622)	(198)	(2,677)	(748)
Past service cost	-	-	-	-	-	-
Gains (losses) arising from settlements*	-	-	-	-	-	-
Total	**(1,616)**	**(2,401)**	**(11,911)**	**(1,733)**	**(2,430)**	**(3,654)**

* Past service cost and gains and losses arising from settlements need not be distinguished if they occur together (IAS 19.100)

** Only in the event of settlement not set out in the terms of the plan

11.4 Other employee benefits

No information to report pursuant to sections 131, 141 and 142 of IAS 19.

11.5 Other administrative expenses: breakdown

Items/Amounts	31 12 2013	31 12 2012 ***
Stamp duties	(213,896)	(182,442)
Indirect taxes and duties	(38,201)	(35,790)
Municipal immovable property tax	(9,509)	(8,989)
Subscription and purchase of publications	(424)	(894)
Property rentals	(238,361)	(267,655)
Cleaning service contracts	(18,293)	(24,946)
Insurance	(20,374)	(22,419)
Rentals	(40,983)	(45,403)
Remuneration of external professionals	(99,293)	(105,951)
Third-party data processing	(62,369)	(71,868)
Title searches and land registry surveys	(4,948)	(7,418)
Lease of equipment	(88,606)	(65,126)
Utilities	(47,754)	(49,918)
Maintenance of movable and immovable properties (used in the business)	(29,046)	(30,282)
Data transmission rental	(27,086)	(25,877)
Postage	(46,476)	(55,032)
Advertising, sponsorships and promotions	(18,638)	(42,669)
Membership dues	(5,536)	(6,238)
Reimbursement of employee car and travel expenses	(9,484)	(26,482)
Security services	(34,760)	(49,079)
Software	(40,863)	(81,706)
Corporate entertainment expenses	(3,013)	(4,630)
Expenses for non-rented investment real estate	(354)	(1,496)
Printing and stationery	(8,451)	(9,197)
Telephone, telefax and telegraph	(7,535)	(11,171)
Transportation	(37,236)	(47,663)
Sundry occupancy expenses and refunds for release of immovable property used in the business	(7,401)	(6,659)
Others	(74,605)	(84,822)
Total	**(1,233,495)**	**(1,371,822)**

*** *With respect to published accounts, prior period balances are reflective of changes due to the reclassification to item 310 'Profit (loss) from groups of assets held for sale and discontinued operations" of the P&L items related to the transfer of the administrative, accounting and ancillary services business unit to the company 'Fruendo Srl' .*

Line “Advertising, sponsorships and promotions" for an amount of EUR 18.6 mln includes advertising, events and printing (EUR 2.5 mln), sponsorships and promotions (EUR 15,5 mln) and other communication expenses (EUR 0.6 mln).

Section 12 – Net provisions for risks and charges – Item 190

12.1 Net provisions for risks and charges: breakdown

Items/Amounts	31 12 2013				31 12 2012			
	Legal disputes	Personnel costs	Others	Total	Legal disputes	Personnel costs	Others	Total
Provisions for the year	(114,350)	(20,449)	(84,750)	(219,549)	(64,662)	(7,822)	(228,537)	(301,021)
Write-backs	46,528	4,339	138,739	189,606	5,779	-	10,318	16,097
Total	**(67,822)**	**(16,110)**	**53,989**	**(29,943)**	**(58,883)**	**(7,822)**	**(218,219)**	**(284,924)**

Changes due to the time value of money are included in "Provisions for the year" and show the amount of “time value” accrued during the year due to the expected imminent maturity of the estimated liability.

Section 13 – Net losses (reversals) on property, plant and equipment – Item 200

13.1 Net losses (reversals) on property, plant and equipment: breakdown

Assets / P&L items	Amortization (a)	Impairment losses (b)	Write-backs (c)	Net Profit (loss) (a+b-c) 31 12 2013	Net Profit (loss) (a+b-c) 31 12 2012
Tangible assets					
A.1 Owned	(78,004)	(3,830)	-	(81,834)	(75,916)
- used in the business	(72,085)	(1,707)	-	(73,792)	(69,749)
- held for investment	(5,919)	(2,123)	-	(8,042)	(6,167)
A.2 Leased	-	-	-	-	-
- used in the business	-	-	-	-	-
- held for investment	-	-	-	-	-
Total	**(78,004)**	**(3,830)**	**-**	**(81,834)**	**(75,916)**

Property and equipment with a finite life is tested for impairment.

Section 14 – Net adjustments to (recoveries on) intangible assets – Item 210

14.1 Net adjustments to (recoveries on) intangible assets: breakdown

Assets / P&L items	Amortization (a)	Impairment losses (b)	Write-backs (c)	Net profit (loss) (a+b-c) 31 12 2013	Net profit (loss) (a +b-c) 31 12 2012
Intangible assets					
A.1 Owned	(99,841)	(1,008)	-	(100,849)	(319,698)
- generated internally by the company	(19,803)	(619)	-	(20,422)	(88,462)
- other	(80,038)	(389)	-	(80,427)	(231,236)
A.2 Leased	-	-	-	-	-
Total	**(99,841)**	**(1,008)**	**-**	**(100,849)**	**(319,698)**

Amortisation mainly relates to software held by the MPS Consorzio Operativo di Gruppo and finite life intangible assets identified during the PPA process for former subsidiary Banca Antonveneta.

Section 15 – Other operating expenses (income) – Item 220

15.1 Other operating expenses: breakdown

Items/Amounts	Total 31 12 2013	Total 31 12 2012
Costs of robberies	(5,786)	(6,847)
Write-downs on improvements of third-party goods recognized as "Other Assets"	(17,334)	(23,591)
Other expenses on real estate (real estate inventory)	(1,492)	(583)
Cost of financial lease transactions	(14,460)	(17,537)
Expenses from reassessment of market rental value "Chianti transaction"	(223,664)	-
Other	(136,953)	(98,761)
Total	**(399,689)**	**(147,319)**

"Expenses from reassessment of market rental value Chianti transaction" refers to the impact from consolidation of Perimetro Gestione Proprietà Immobiliari. Following the acquisition of control of the subsidiary Perimetro/Casaforte, the Estimated Rental Value (ERV) of the property unit was reassessed; this latest assessment revealed a market rental value which was lower than the contractual rent for 2013. This resulted in two sets of economic impacts:

- derecognition of prepayments (accounted for pro rata to take account of the differences between financial and operating leases pursuant to IAS 17) posted by the companies of the MPS Group entities for a total of EUR 128.5 mln; in fact, the estimated rental current value recalculated at the end of 2013 excluded the possibility of recognising a corresponding deferred income in Perimetro;
- the recognition of a further loss of EUR 95.1 mln.

For further details, *see* Part G.

15.2 Other operating income: breakdown

Items/Amounts	Total 31 12 2013	Total 31 12 2012
Rents from investment real estate	9,564	15,967
Other revenues from real estate (real estate inventory)	1,522	3,801
Recovery of taxes	215,898	186,246
Recovery of insurance premiums	9,729	11,925
Income from financial lease transaction	7,240	8,211
Other	238,255	142,747
Total	**482,208**	**368,897**

The amount EUR 238.2 mln classified under "Other" includes the "fast-track facility fee" introduced by Law Decree 201/2011 ("Save Italy Decree") amounting to EUR 112.2 mln .

Section 16 – Gains (losses) on investments – Item 240

16.1 Gains (losses) on investments: breakdown

P&L items/Sectors	Total 31 12 2013	Total 31 12 2012
1) Jointly owned companies		
A. Income	-	-
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Expense	-	-
1. Write-downs	-	-
2. Impairment losses	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net Profit (Loss)	**-**	**-**
2) Companies subject to significant influence		
A. Income	134,852	93,061
1. Revaluations	131,350	92,102
2. Gains on disposal	1,701	824
3. Write-backs	-	-
4. Other income	1,801	135
B. Expense	(66,340)	(93,865)
1. Write-downs	(28,664)	(13,748)
2. Impairment losses	(37,676)	(80,117)
3. Losses on disposal	-	-
4. Other expenses	-	-
Net Profit (Loss)	**68,512**	**(804)**
3) Subsidiaries		
A. Income	-	8
1. Revaluations	-	-
2. Gains on disposal	-	8
3. Write-backs	-	-
4. Other income	-	-
B. Expense	-	(3)
1. Write-downs	-	-
2. Impairment losses	-	-
3. Losses on disposal	-	(3)
4. Other expenses	-	-
Net Profit (Loss)	**-**	**5**
Total	**68,512**	**(799)**

As for item “2) Companies subject to significant influence”, it is noted that: line 2 “Impairment losses” contains write-downs on stakes in associates. Impairment losses recognised in 2013 include those relating to Fenice Holding for EUR 36.4 mln and Industria e Innovazione for EUR 1.3 mln..

For further information on the methodology for determining impairment losses, please see section 10.3, part B, of these notes to the financial statements.

Section 17 – Net gains (losses) on tangible and intangible assets measured at fair value – Item 250

The tables for this section were not completed since the Group has no tangible and intangible assets carried at fair value to report for either the current or previous year.

Section 18 – Impairment of goodwill – Item 260

18.1 Impairment of goodwill: breakdown

Owing to its indefinite or unlimited useful life, goodwill is tested at the end of each year to assess whether its carrying value is fairly stated or recoverable. The impairment test conducted in 2013 did not result in any impairment losses on goodwill; in 2012 the test resulted in an impairment loss of EUR 1,528 mln being reported for goodwill allocated to the Cash Generating Units (CGUs).

For additional information concerning the methods for conducting impairment tests, see the appropriate section in Part B of the Notes to the Financial Statements – Information on the Balance Sheet – Section 12.1 of Assets – Intangible Assets: breakdown by type.

Section 19 – Gains (losses) on disposal of investments – Item 270

19.1 Gains (losses) on disposals of investments: breakdown

P&L items/Sectors	Total 31 12 2013	Total 31 12 2012
A. Property	1,423	7,261
- Gains on disposal	3,351	7,261
- Losses on disposal	(1,928)	-
B. Other assets	(11)	4
- Gains on disposal	-	39
- Losses on disposal	(11)	(35)
Net Profit (Loss)	**1,412**	**7,265**

Section 20 – Tax expense (recovery) on income from continuing operations – Item 290

20.1 Tax expense (recovery) on income from continuing operations: breakdown

P&L items/Sectors	Total	
	31 12 2013	31 12 2012 **
1. Current tax (-)	(66,043)	(220,060)
2. Adjustments to current tax of prior years (+/-)	182,949	135,064
3. Reduction of current tax for the year (+)	-	-
3.bis "Reduction in current tax for the period due to tax credits under Law 214/2011	806,894	1,204,749
4. Changes in prepaid taxes (+/-)	(282,867)	(690,432)
5. Changes in deferred taxes (+/-)	30,944	13,225
6. Tax expense for the year (-) (-1+/-2 +3+/-4+/-5)	**671,877**	**442,546**

*** With respect to published accounts, prior period balances are reflective of:*
- *changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*
- *changes due to the reclassification to item 310 "Profit (loss) from groups of assets held for sale and discontinued operations" of the P&L items related to the transfer of the administrative, accounting and ancillary services business unit to the company 'Fruendo Srl' .*

The line "current tax" mainly refers to IRES (corporate income tax) due by companies not adhering to fiscal consolidation and IRAP (regional tax on productivity) due by Group companies for the current year. With reference to the Parent Company, the line also includes the substitute tax on the adjusted value of the shareholding in the Bank of Italy as well as the amount of "tax for fiscal transparency" of a foreign subsidiary.

No IRES expenses were recognised under fiscal consolidation since the taxable result for 2013 was negative.

The line "Adjustments to current tax of prior years" was positively impacted by the Parent Company's recalculation of tax arising from the correction of prior period accounts. The amount of EUR 172.8 mln reported in this item, together with -EUR 109.3 mln in line "Changes in prepaid tax assets", reflects a net impact of EUR 63.5 mln from this recalculation.

Line "3.bis Reduction in current tax for the period due to tax credits under Law 214/2011" represents the positive component corresponding to the tax credit generated by the conversion of deferred tax assets by the Parent Company and MPS Leasing & Factoring S.p.a., following the recognition of loss for 2012, commented in the footnote to table 14.1.

The line "Changes in deferred tax assets" was affected by the reduction in deferred tax assets owing to the conversion referred to in point 3.bis above and the Parent Company's recalculation of tax arising from the correction of accounting errors. The reduction is partially offset by the deferred tax assets for the year relating primarily to writedowns and losses on loans as well as consolidated tax loss.

20.2 Reconciliation of theoretical to actual tax charge

Items/Amounts	31 12 2013	31 12 2012 ***
(A) Pre-tax profit (loss) from continuing operations	(2,059,576)	(3,590,664)
(B) Pre-tax profit (loss) from groups of assets held for sale	(72,301)	(58,526)
(A+B) Pre-tax profit (loss)	**(2,131,877)**	**(3,649,190)**
Current rate of corporate income tax (IRES)	27.5	27.5
Theoretical tax rate	**586,266**	**1,003,527**
Permanent differences	40,498	(465,802)
Other	26,019	61,621
Regional tax on productivity (IRAP) - ordinary rate	40,171	(139,977)
Income taxes for the year	**692,954**	**459,369**
of which:		
Taxes on income from continuing operations	671,877	442,546
Taxes on the income of groups of assets held for sale	21,077	16,823

****With respect to published accounts, prior period balances are reflective of:*
- *changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*
- *changes due to the reclassification to item 310 "Profit (loss) from groups of assets held for sale and discontinued operations" of the P&L items related to the transfer of the administrative, accounting and ancillary services business unit to the company 'Fruendo Srl' .*

The line "Permanent differences" reflects the effect of changes made to the profit reported in the income statement to determine profit subject to IRES taxation.

With respect to increases, the amount refers primarily to non-deductible interest expense (Art. 96 of the Income Tax Act, TUIR) and losses from disposal or valuation of PEX equity investments; with respect to decreases, the amount refers to the tax exemption of capital gains on PEX investments (Art. 87 of the Income Tax Act, TUIR) and the deduction of IRAP.

The line "Other" mainly reflects the positive impact from the recalculation of tax arising from the correction of prior period accounts, commented on in the footnote to table 20.1, partly compensating for the negative impact from the provision for substitute tax on the adjusted value of the shareholding in the Bank of Italy.

Section 21 – Profit (loss) after tax from assets held for sale and discontinued operations – Item 310

21.1 Profit (loss) after tax from assets / liabilities held for sale and discontinued operations: breakdown

P&L items/Sectors	Total 31 12 2013	Total 31 12 2012 ***
1. Income	-	215,626
2. Expense	(72,301)	(274,267)
3. Profit (loss) from valuation of groups of assets and related liabilities	-	-
4. Profit (loss) from disposal	-	115
5. Taxes and duties	21,077	16,823
Profit (Loss)	**(51,224)**	**(41,703)**

**** With respect to published accounts, prior period balances are reflective of changes due to the reclassification to item 310 "Profit (loss) from groups of assets held for sale and discontinued operations" of the P&L items related to the transfer of the administrative, accounting and ancillary services business unit to the company 'Fruendo Srl' .*

The loss on assets held for sale and discontinued operations refers to the economic items relating to the administrative, accounting and ancillary services business unit transferred to the company 'Fruendo Srl', effective as of 1 January 2014.

21.2 Breakdown of income taxes on groups of assets/liabilities held for sale

	Total 31 12 2013	Total 31 12 2012
1. Current taxes (-)	21,077	11,359
2. Changes in prepaid taxes (+/-)	-	2,032
3. Changes in deferred taxes (+/-)	-	3,432
4. Income taxes for the period (-1 +/-2 +/-3)	**21,077**	**16,823**

Section 22 – Profit (loss) for the period: non-controlling interests – Item 330

22.1 Breakdown of item 330 "profit (loss) for the period: non-controlling interests"

	Total 31 12 2013	Total 31 12 2012
Mps Capital Services Banca per le Imprese S.p.A.	81	2
G. Imm. Astor S.r.l.	39	78
Biverbanca Cassa di Risparmio di Biella e Vercelli S.p.A.	-	(21,658)
Others	-	(6)
Total	**120**	**(21,584)**

Section 23 – Other information

No additional disclosure to that presented in accordance with the international accounting standards and Circular letter no. 262 of the Bank of Italy is required.

Section 24 – Earnings per Share (EPS)

24.1 Average number of diluted ordinary shares

Items/Amounts	31 12 2013	31 12 2012
Weighted average number of ordinary shares outstanding (+)	11,627,044,328	11,462,827,047
Dilutive effect from put options sold (+)	-	-
Dilutive effect from ordinary shares to be assigned as a result of treasury share-based	-	-
Dilutive effect from convertible liabilities (+)	-	-
Dilutive effect from convertible liabilities (+)	-	-
Weighted average number of ordinary shares outstanding by diluted earnings per share	**11,627,044,328**	**11,462,827,047**

24.2 Other information

24.2a Reconciliation of net profit (loss) for the year - numerator for basic earnings per share

Item/Amount	31 12 2013			31 12 2012 **		
	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company
Net Profit (Loss)	(1,387,826)	(51,217)	(1,439,043)	(3,147,480)	(20,757)	(3,168,237)
Profit (loss) attributable to other types of shares	-	-	-	-	-	-
Net profit (loss) attributable to ordinary shares - numerator for basic earnings per share	**(1,387,826)**	**(51,217)**	**(1,439,043)**	**(3,147,480)**	**(20,757)**	**(3,168,237)**

** *With respect to published accounts, prior period balances are reflective of:*

- *changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*
- *changes due to the reclassification to item 310 "Profit (loss) from groups of assets held for sale and discontinued operations" of the P&L items related to the transfer of the administrative, accounting and ancillary services business unit to the company 'Fruendo Srl' .*

24.2.b Reconciliation of net profit (loss) for the period – numerator for diluted earnings per share

Item/Amount	31 12 2013			31 12 2012 **		
	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company
Net Profit (Loss)	(1,387,826)	(51,217)	(1,439,043)	(3,147,480)	(20,757)	(3,168,237)
Dilutive effect from convertible liabilities	-	-	-	-	-	-
Profit (loss) attributable to other types of shares	-	-	-	-	-	-
Interest expenses on convertible instruments (+)	-	-	-	-	-	-
Other (+/-)	-	-	-	-	-	-
Net profit (loss) attributable to ordinary shares - numerator for diluted earnings per share	**(1,387,826)**	**(51,217)**	**(1,439,043)**	**(3,147,480)**	**(20,757)**	**(3,168,237)**

*** With respect to published accounts, prior period balances are reflective of:*
- *changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*
- *changes due to the reclassification to item 310 "Profit (loss) from groups of assets held for sale and discontinued operations" of the P&L items related to the transfer of the administrative, accounting and ancillary services business unit to the company 'Fruendo Srl' .*

24.2.c Basic and diluted earnings per share

Item/Amount	31 12 2013			31 12 2012 **		
	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company
Basic Earnings per Share	(0.119)	(0.005)	(0.124)	(0.274)	(0.002)	(0.276)
Diluted Earnings per Share	(0.119)	(0.005)	(0.124)	(0.274)	(0.002)	(0.276)

*** With respect to published accounts, prior period balances are reflective of:*

- changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.

- changes due to the reclassification to item 310 "Profit (loss) from groups of assets held for sale and discontinued operations" of the P&L items related to the transfer of the administrative, accounting and ancillary services business unit to the company 'Fruendo Srl' .

The loss per base share is calculated by dividing the Parent Company's overall net result by the weighted average of ordinary shares issued.

It should be noted that, as at 31 December 2013, the loss per diluted share coincides with the loss per base share as a result of the negative result recognised.

Part D – Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income

31 12 2013

	Items	Gross	Income Tax	Net
10.	**Proft (loss) for the period**	X	X	(1,438,922)
	Other income components without reversal to profit & loss		-	-
20.	Tangible assets	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	(49,617)	14,675	(34,942)
50.	Non-current assets held for sale	-	-	-
60.	Share of valuation reserves of equity instruments valued at equity	13	(4)	9
	Other income components with reversal to profit & loss			
70.	**Hedges of foreign investments:**	**-**	**-**	**-**
	a) changes in fair value	-	-	-
	b) reversal to profit & loss	-	-	-
	c) other changes	-	-	-
80.	**Exchange differences:**	**(3,100)**	**1,018**	**(2,082)**
	a) changes in value	-	-	-
	b) reversal to profit & loss	-	-	-
	c) other changes	(3,100)	1,018	(2,082)
90.	**Cash flow hedges:**	**111,846**	**(30,870)**	**80,976**
	a) changes in fair value	60,766	(20,573)	40,193
	b) reversal to profit & loss	-	-	-
	c) other changes	51,080	(10,297)	40,783
100.	**Financial assets available for sale:**	**1,924,414**	**(749,558)**	**1,174,856**
	a) changes in fair value	1,710,602	(621,584)	1,089,018
	b) reversal to profit & loss	242,413	(120,089)	122,324
	- impairment provisions	59,823	(9,129)	50,694
	- realised net gains/losses	182,590	(110,960)	71,630
	c) other changes	(28,601)	(7,885)	(36,486)
110.	**Non-current assets held for sale:**	**30,861**	**(2,075)**	**28,786**
	a) changes in value	-	-	-
	b) reversal to profit & loss	-	-	-
	c) other changes	30,861	(2,075)	28,786
120.	**Share of valuation reserves of equity investments valued at equity:**	**39,482**	**(12,830)**	**26,652**
	a) changes in fair value	39,499	(12,830)	26,669
	b) reversal to profit & loss	-	-	-
	- impairment provisions	-	-	-
	- realised net gains/losses	-	-	-
	c) other changes	(17)	-	(17)
130.	**Other income components**	**2,053,899**	**(779,644)**	**1,274,255**
140.	**Total comprehensive income (Item 10 + 130)**	**2,053,899**	**(779,644)**	**(164,667)**
150.	Consolidated comprehensive income attributable to non-controlling interests	114	-	114
160.	**Consolidated comprehensive income attributable to Parent Company**	**2,053,785**	**(779,644)**	**(164,781)**

Part E – Information on risks and hedging policies

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As required by law (BoI Circular no. 263 of 27 December 2006, Title IV), the Pillar 3 (of Basel 2) public disclosure will be published on the Montepaschi Group's website www.mps.it/Investor+Relations.

Foreword

For an overview of how the Montepaschi Group's risk governance is organised, including processes and key functions, information regarding Risk Management objectives, related tasks and responsibilities as well as the means through which independence is ensured, as previously indicated please refer to the paragraph "Risk and capital management" in the Consolidated Report on Operations.

Section 1 – Risks of the banking group

1.1 Credit risk

Qualitative Information

1.1.1 General aspects

Within the guidelines of the Business Plan approved by the Board of Directors of the Parent Company, the Group pursues the priority objective of improving the quality of the managed loan book and consequently reducing the cost of credit.

The Group's credit activity is managed with a view to monitoring risk and enhancing growth opportunities, through the development of credit policies and systems aimed at making the most of trend data in connection with individual borrowers, against a background of in-depth knowledge and strategic management of positions.

1.1.2 Credit risk management policies

Organisational aspects

During 2012, the Parent Company's organisational review of the Head Office units led to the setting up of the Credit Division, merging under one single accountability the different functions that interface with network customers (except for funding/lending activities under centralised management - Large Corporate clients and International banking, covered by a dedicated unit) thus allowing for the achievement of scale and scope synergies that are useful to improve the quality of the Group's loan book.

The model was recently modified (25/06/2013) by the Parent Company's Board of Directors for the purpose of optimising the P&L/Balance Sheet performance of an area that has always been strategic and addressing the findings received from Supervisory Authorities.

In particular, the main changes introduced concern:

- the Credit Committee, with the setting up of specific theme sessions: Credit, Credit Policies, Credit Assessment; the Credit session continues to have the prevailing traditional mandate of assessing loan applications; the Credit Policies session focuses on approval and monitoring of the Group's credit policies; the purpose of the third session, Credit Assessment, is to collectively validate the fairness of assessments and doubtful amounts for preparation of the financial statements;
- strengthening of budgeting and disbursement control processes;
- tracking of criteria for transitioning loan files to the debt collection phase in the aim to shorten the time of acceptance for processing by the Debt Collection Area.

As its distinctive mission, the "new" Credit Division performs activities of credit risk taking and operational monitoring of credit quality, giving guidance and support to the network in credit activities, monitoring trends in the cost of credit and ensuring coverage of the Group's major risks and financial restructuring transactions.

In September, the organisational model of the Credit Division was reviewed to ensure greater forcefulness in pursuing corporate objectives.

More specifically, the new organisational model aims at improving the level of service provided by the Division to the sales & distribution network and product companies, by:

- improving risk assumption activities, which are first and foremost in the monitoring of credit quality;

- reducing response times to support Network activities with a view to optimising costs;
- monitoring the full roll-out of particularly complex operations such as corporate restructuring plans, with the use of appropriate professional skills;
- maximising debt collection activities on insolvent customers by leveraging on innovative methods;
- providing a services unit to support the division and all Head Office structures.

The Credit Division includes four structures dedicated to the monitoring and management of the entire credit life cycle, from disbursement to collection.

The newly-established 'Loan Disbursement and Quality Area' exercises responsibility in matters of lending with a focus on quality, reduction in response times, management and prevention of quality deterioration.

The Problem Loan Management Area manages problem loans that require the implementation of restructuring actions. It also manages "substandard loans" which is the category of loans showing temporary difficulty, for which a structured solution has not yet been identified. Particular focus was given to the operational consequences of the new debt crisis solution tools for companies introduced by recent bankruptcy law amendments. In this context, following the merger of Banca Antonveneta, the Loan Restructuring Service launched a pilot expansion of the scope of intervention for amounts lower than EUR 4 mln in its specific Sectoral Unit (coinciding with the new Local Market Unit of Antonveneta).

The Debt Collection Area has made it possible to centralise in one single unit all in-court and out-of-court debt collection activities for “non-performing” loans (previously mandated to the merged entity, MPS GCB). Its “mission” is to maximise results from debt collection activities using both traditional debt collection methodologies (legal action and external companies for mass debt collection on small-ticket receivables) and more advanced methods, connected with portfolio disposals or using companies specialised in debt collection. The developments in progress will lead the area to become the point of reference for debt collection at any stage of the exposure's life cycle, regardless of loan classification.

The 'Specialised Credit Services' Area provides services to the credit supply chain to ensure operational continuity. The Area is committed to developing and upgrading credit assessment and post-disbursement monitoring processes made available to the Branch Network, post-disbursement services for the real-estate loan sector and servicing activities on securitisations and covered bonds.

Credit quality, which is determined in accordance with Supervisory guidance, is constantly monitored by central and outer units. Moreover, for an ever more accurate monitoring, the following initiatives have been put in place: 1) new decision-making units have been introduced in the Regional Areas, filled by the new roles of “Decision-makers in charge”; 2) the loan disbursement process has seen the introduction of an automatic check for consistency of the proposed facility with credit policies in place; 3) the Credit Monitoring process originally introduced in 2012 has been strengthened/improved by expanding the scope of positions which can be mass-managed through collection and by shortening the 'arrears tolerance time' for mortgage loans; 4) the method of assessment for Retail customers has been revised to enable transition from a system based on traditional indicators (instalment-to-income ratio, LTV, Duration) assessed by “steps of risk” indicator analysis (transaction risk and customer risk) to an "integrated score" system, which introduces the concept of actual sustainability of the application.

Management, measurement and control systems

Starting in 2008, statistical models aimed at creating the Internal Rating Model and rating assignment processes were authorised by the Supervisory Authority for the calculation of capital requirements using the Advanced IRB approach (AIRB).

Basel 2 requires the Parent Company to adopt the following credit risk measures needed to calculate regulatory capital (AIRB approach):

- Probability of Default (PD):
- Loss Given Default (LGD);
- Exposure at Default (EAD).

The new methodology with the greatest impact on risk measurements is "Probability of Default”, which is a reflection of the borrower’s rating, meaning its ability to meet obligations assumed over a time horizon of one year. Thus, a rating is a probability-based approach to risk assessment, and represents a projection of

portfolio quality that forms a part of daily processes of credit facility assessment, loan management and pricing, as well as of the procedures used to determine loan loss provisions and reports used by management.

The statutory adoption of risk criteria has made it possible for the Bank to obtain significant operational advantages, both in terms of a higher accuracy in credit budgeting forecasts and in terms of a more effective monitoring of credit aggregates: based on the risk criteria, the Group sets the process for the yearly budgeting of credit items and makes accurate and sustainable forecasts in relation to the loan book, substandard and doubtful loan flows and loan-loss provisions.

Forecast sustainability is ensured by the definition of concrete loan book actions which are communicated to the outlying branch networks through an internal regulatory document as well as by amending the credit disbursement and management processes and criteria.

All credit processes use the borrower rating as a decision-making driver, and they are conceived as a function of the specific nature of various customer segments in order to optimise the use of resources employed in loan management/monitoring and to achieve the right balance between the push for sales and an effective loan management system. The internal rating system, which affects the Corporate and Retail portfolios, is based on the development of several statistical models specialised by customer type with the aim of assigning a solvency rating for prospective borrowers (first-time lending models based on financial and demographic information taken from third party databases) and for existing borrowers (for which behavioural models have also been used, which incorporate internal performance data).

With a view to increasing the levels of efficiency in managing internal ratings, the current scope of activity of the Rating Agencies has been reviewed for them to become a single point of reference for all units on rating issues. The new role of the [internal] Rating Agencies will allow for a closer interaction with the Branch Network to make assistance more effective, generate more synergies and enable a more efficient transfer of knowledge.

Credit risk is analysed using the Credit Portfolio Model, which was developed internally by the Parent Company and produces detailed outputs in the form of traditional risk measures such as Expected Loss, Unexpected Loss and intra-risk diversified Economic Capital with a representative period of one year and a confidence interval calibrated to the target rating assigned to the Group. Several inputs are considered: Probability of Default (PD), Loss Given Default (LGD) rates, number and types of guarantees supporting the credit facility, internal operational Exposure at Default (EAD).

The internal PD, LGD and EAD models for risk measurement are one of the main elements of assessment for all Group units involved in the credit industry, both at Head Office level (Risk Management, Chief Financial Officer, General Management, Risk Committee, Board of Directors) and at branch level (Credit Division, Rating agencies and Relationship Managers). The Group is currently authorised to use the Advanced Internal Rating Based (AIRB) models to determine capital requirements against credit risk on the portfolios of "corporate exposures " and "retail exposures" of Banca Monte dei Paschi di Siena, MPS Capital Services and MPS Leasing & Factoring, and is awaiting validation of the EAD parameter and rollout of the domestic NBFI portfolio for these counterparties.

The development of the internal rating systems involved the adoption of strict and advanced statistical methodologies in compliance with the requirements set out in the regulations; at the same time, models were selected in such a way as to make results consistent with the historical experience of the bank in credit management. Lastly, in order to optimise the proper use of these new instruments, the rating models were shared with a top-down approach – from Risk Management down to individual client managers. Estimation of the LGD model was based on internal data relative to capital flows, recoveries and expenses actually incurred on positions transferred to the doubtful loans portfolio. Results obtained from model application were then compared with data recorded by the Debt Collection Area which, within the Credit Division, is dedicated to the management and recovery of non-performing loans.

The main characteristics of the advanced rating systems are as follows:

- for all validated regulatory portfolios, the rating is calculated with a counterparty-based approach for each individual borrower, in line with the accepted management practice which provides for the assessment of credit risk, both in the disbursement and monitoring phases;

- ratings are based upon a Group logic: each individual counterparty is assigned a single rating at banking Group level, based on the set of information pertaining to all lending banks within the AIRB scope; the LGD is different for each company given the diversity of products issued and the type of customers to whom they are offered;
- The rating model segmentation is defined in such a way as to make the individual model clusters consistent with commercial objectives, credit processes and regulatory portfolios set out in the regulations;
- The calculation of the final rating is differentiated by type of counterparty. The credit process envisages a level of in-depth analysis proportional to counterparty risk: the assessment of loan disbursements is based on a complex multi-level structure for medium-large corporate counterparties (SME and Large Corporate (LC) segments), whose exposure and concentration risks are higher, and a simplified structure for Small Business and Retail clients;
- in line with this process, the final rating for SMEs and LC is the result of a number of different factors: statistical rating, qualitative rating, overrides and valuation of the 'economic group' which businesses belong to; for SB and Retail counterparties the rating is calculated only on the basis of statistical factors;
- The rating has a 12-month internal validity period and is usually reviewed on a yearly basis, except for rating reviews following well-structured codified practices or that are brought forward on client managers' request or following serious counterparty deterioration.
- LGD reflects the economic (and not only the accounting) loss incurred; for this reason, LGD estimates must also include the costs incurred for the recovery process and a time factor;
- Loss given default is differentiated by type of loans and an LGD value is assigned at the level of each individual transaction; it is differentiated by geographical area since historical and current recovery rates are different among Northern Italy, Central and Southern Italy and Islands
- Loss on defaulted positions other than doubtful loans is estimated with a Cure Rate approach. With regard to counterparties whose exposures are classified as Substandard, Restructured and Past Due, the percentage of exposures reverting back to a performing status was calculated and used to adjust the estimated LGD, starting from doubtful loans.

The Montepaschi Group has adopted a single Master Scale for all types of exposures; this enables all units involved in credit management to immediately compare the risk level associated with different counterparties or portfolios; furthermore, the probabilities of default of internal rating classes were mapped against Standard&Poor's external rating scale so as to make internal risk measurements comparable to those available on the financial market.

The development and monitoring of rating systems has been functionally assigned to Risk Management and is subject to control by the Internal Validation and Internal Control functions.

The Montepaschi Group has used PD, LGD and EAD parameters, estimated for regulatory purposes to calculate Risk Weighted Assets, also for other operational and internal management purposes. These provide the basis of calculation for different systems of measurement and monitoring, and specifically for the:

- measurement of economic capital for credit risk.
- calculation of risk-adjusted performance and measurement of value creation,
- risk-adjusted pricing processes,
- Across all credit processes (disbursement, review, management and follow-up) which are fully "engineered" in the Electronic Loan File application (it. Pratica Elettronica di Fido or PEF), under which the borrower's rating is the result of a process which evaluates - in a transparent, structured and consistent manner - all the economic-financial, behavioural and qualitative information regarding customers with whom the bank has credit risk exposures.

The Credit Portfolio Model developed within the Montepaschi Group uses a Merton approach to represent the insolvency of each counterparty in the portfolio. According to this approach, a counterparty becomes insolvent when a synthetic variable expressing its creditworthiness falls below a pre-determined threshold value for a representative period (normally one year). The synthetic variable expressing the creditworthiness of the counterparty is known as the Credit Worthiness Index (CWI), which consists in both the risk that is specific to a counterparty and the systemic risk. Each counterparty's creditworthiness sensitivity to changes in macroeconomic factors is estimated using an econometric model of multivariate regression between the

counterparty's probability of default (PD) variable and selected credit drivers. The breakdown of losses is estimated with suitable statistical functions which approximate the breakdown of losses by counterparty through the use of conditioned default probabilities.

The portfolio model output provides detailed measures for individual positions as well as the absorbed operating capital component and indicates the extent of portfolio diversification.

The model displays the change in credit risk over time based on various combinations of the variables under analysis, by legal entity, customer type, geographical area, business area, rating class and continental areas. Other information derived from the Credit Portfolio Model concerns "what-if" analyses produced for certain discriminating variables such as probability of default, LGD rates, changes in the value of collaterals and in margins available on credit lines, in order to quantify the levels of Expected Loss and Economic Capital should the underlying (discretionary or trend-based) assumptions materialise.

In compliance with the guidelines set forth by the Basel Committee and Best Practices, new prudential supervisory provisions for banks require credit institutions to carry out adequate stress testing exercises.

The Montepaschi Group regularly conducts stress tests on all risk factors. Stress tests are used to assess the bank's capacity to absorb large potential losses in extreme market situations, so as to identify the measures necessary to reduce the risk profile and preserve assets.

Stress tests are developed on the basis of discretionary and trend-based scenarios.

- trend-based scenarios: assumptions are made of shocks that are due to a combination of risk factors which were historically observed in the past and whose recurrence and plausibility retain a certain degree of likelihood;
- discretionary scenarios: assumptions are made of shocks that are due to a combination of risk factors which may emerge in the near future, depending on the foreseeable environmental, social and economic developments. Simple discretionary scenarios are currently being developed (variation of a single risk factor) as well as multiple ones (variations of several risk factors simultaneously). Simple discretionary scenarios are calibrated to independently deal with one category of risk factors at a time, assuming shocks do not spread to the other factors. Multiple discretionary scenarios, on the other hand, aim to assess the impact of global shocks that simultaneously affect all types of risk factors.

The Montepaschi Group's methodological approach to stress-testing is based upon the identification of main risk factors whose objective is to select events or combinations of events (scenarios) which reveal specific vulnerabilities at Group-level. To this end, specific stress plans have been put in place on Pillar I risks (credit, market and operational) which were then made to converge – together with stress events designed ad hoc on other risk factors – into an overall Pillar II stress test plan, aimed at determining the potential impact on the Group within the ICAAP process.

With regard to Credit risk in particular, the Montepaschi Group has defined a macro-economic regression model to estimate the variations in the Probability of Default as a function of changes in the main credit drivers. Credit drivers which significantly describe PD variations are identified beforehand.

On the basis of the regression model, credit driver disturbances are then estimated according to the current and prospective economic situation. The shock applied to the credit drivers determines the change in credit portfolio PD, triggering the simulation of a hypothetical counterparty downgrading, with consequent risk variations in terms of Expected Loss, Unexpected Loss and input from new Defaults.

The results from the stress test are submitted to the Top Management and Board of Directors. They are formally examined by the BoD as part of the ICAAP Annual Report approval process, with a view to providing a self-assessment of the current and prospective capital adequacy of the Montepaschi Group.

Credit policies

Since 2008, the credit policy definition process, fed with data input from the metrics described above, has been based on analytical portfolio estimates and has continuously been optimised and fine-tuned.

The model adopted, which is integrated in the Group's budgeting process, has among its main objectives the re-qualification of the loan book and containment of the cost of credit. Furthermore, the model provides

guidance for loan book management and growth, by setting out criteria for customer selection and approaches for the identification of portfolios to be re-qualified/run off in different ways depending on customer segment, business sector, geographic area, quality of counterparties, form of lending and collateral pledged.

The process starts out from the MPS Group's strategic objectives regarding credit and any existing structural constraints and, taking into account the expected macroeconomic scenario, develops and defines the strategic guidelines within three main areas:

- **Analysis of attractiveness**: Classification of "attractiveness" of portfolio clusters (Customer Segment, Economic Sector and Regional Area, Counterparty Quality) on the basis of risk/return and scenario; sub-division of loan book into Areas of Focus (Development and Requalification) characterised by diversified lending strategies.
- **Allocation of credit production**: Formulation of loan development objectives based on the level of attractiveness and concentrated in the Area of Development.
- **Requalification actions**: Downsizing/exit strategies on riskier clusters (Area of Requalification), aimed at improving the quality of the performing loans portfolio and reducing defaults; emphasis on the monitoring of the non-performing loans portfolio.

The process culminates in the approval of the credit policy guidelines by the BoD, consequent review of the internal regulatory framework of reference and transmission of guidelines and quantitative objectives to the regional structures and individual operating units.

Loan disbursement processes

Loan disbursement processes are aimed at improving the effectiveness, efficiency and level of service in loan management with the goal of:

- standardising and automating loan proposals and risk assessment to the extent possible;
- adapting processes to the branch network's organisational and operational requirements;
- assessing creditworthiness, also through the assignment of internal ratings to individual borrowers;
- improving customer response time.

The procedure available to the branch network and the Head Office for managing all phases of the loan disbursement process, consists in the Electronic Loan File (it. *Pratica Elettronica di Fido* or P.E.F.). This tool is continually optimised with the aim of improving both response time and the selection of acceptable risk.

The assessment and approval methods implemented in the P.E.F. reflect the principles and rules of the internal rating system Thus, methods differ depending on whether the customer is an individual/consumer (retail) or a business (a corporation with revenues under € 5 million, or a corporation with revenues over € 5 million) and on whether the customer is a prospect or existing customer.

In keeping with the regulatory provisions issued by the Supervisory Authority, the P.E.F. was designed to use one single rating when borrowers have relationships with several MPS Group banks. In terms of activities aimed at complying with AIRB requirements, the assignment of decision-making authorities in the loan disbursement process based on risk-based approaches is one of the key elements in meeting the expertise requirements mandated by the Bank of Italy. These approaches, which escalate to decision-making bodies having higher levels of power in the event of higher levels of risk underlying the credit facility, made it possible to achieve regulatory and operational advantages.

In 2013, modifications were made to the loan assessment and approval processes for Retail customers:

- a new Retail customer assessment module was released, which is based on the "sustainable instalment" concept;
- credit approval processes and related decision-making powers were reviewed to reflect the organisational changes in head office and network units.
- credit policy guidelines were included in the loan assessment process in order to verify the consistency of the proposed transactions with the guidelines provided.

Monitoring processes

The Credit Monitoring process introduced in 2012 as a single tool for the management of post-disbursement activities, is an effective aid to obtain credit cost reduction by leveraging two main factors :

- identification of high insolvency risk positions ('screening');
- 'customer-type differentiated' treatment of positions (dedicated 'routing').

Identification of high insolvency risk positions

Ordinary-risk positions are scanned by a 'screening' engine which selects the highest-risk positions on a weekly basis, so as to identify the counterparties bound to become insolvent at a sufficiently early stage. Screening is based on a 'performance risk indicator' (it.: "indicatore di rischio andamentale", IRA) which summarises a set of critical elements including the worsening of leading indicators, ratings, information on related counterparties and days past due (with thresholds differentiated by customer segments and amounts used). "Customised" parameters make it possible to diversify the screening criteria for risk positions by type of customer with respect to the criteria used by the "Loan Performance Management" system.

'Customer-type differentiated' treatment of positions

This choice was based on the need for differentiating the treatment of positions by customer segments, in the conviction that a corporate client cannot be treated in the same way as a retail client and that specific client management needs should be met with 'ad hoc' processes. Ordinary-risk positions, reported as higher risk by the 'screening' engine, are routed to specific processing queues depending on the type of customer and credit facility involved:

- a 'Mass Retail' procedure for 'Retail Family' clients;
- a 'Standard Retail' procedure for Retail, Affluent and Private customers, as well as small-sized businesses with limited exposure;
- a dedicated Corporate procedure for corporate customers.

In 2013, Credit Monitoring witnessed the introduction of the following innovations:

- release of new operating events in the process flow, that allow for the detection of positions in a 'pre-bankruptcy agreement' phase;
- shortening of the time for activation of collection initiatives on mortgage loan instalments in arrears;
- wider scope for possible routing of low-amount positions to amicable debt collection processes (outsourced to external specialised operators coordinated by the Debt Collection Bureau of the Debt Collection Area).

A number of developments in the process, chiefly relating to the optimal management of specialist loan collection and requalification activities, will be issued by the end of 2014. In particular:

- specialisation of process for management of loans under restructuring;
- centralisation to Regional Areas of a number of portfolios upon which to initiate recovery actions through external credit collectors.

Credit risk mitigation policies

With reference to the retail and corporate loan portfolio, the Montepaschi Group does not apply any netting processes to the credit risk exposures in on- and off-balance sheet items with opposite sign. The Montepaschi Group adopts policies to reduce counterparty risk with institutional counterparties, by entering into netting agreements according to the international ISDA and ISMA standards and related collateral agreements for both derivatives and repos (repurchase agreements).

The main forms of real guarantees for credit protection used by the Montepaschi Group include pledges, mortgages and other collateral (insurance, guarantee funds).

As at today, the pledge of sums or the pledge of securities and mutual funds deposited with the Bank and mortgages on properties account for over 98% of the nominal amount of collaterals received and ensure full

compliance with regulatory/legal/organisational requirements set out by the New Supervisory Regulations for the enforcement of credit risk mitigation standards.

The Montepaschi Group has developed one single process for the acquisition of collaterals which is at the same time a working instrument and the expression of the Group's management policies. The management of collateral is activated after loan disbursement is approved and its process is organised into a number of different stages:

- acquisition (including multiple acquisition): the controls of (formal and amount) consistency with the guarantees proposed during the authorisation phase are performed in this stage;
- adjustment/change/amendment: useful to amend the characteristics of a guarantee without interrupting loan protection;
- query: gives information about the present data and the historical trend of guarantees received;
- Repayment/Cancellation.

If the measures for monitoring collaterals on loans show operational irregularities during the acquisition phase or any inadequacies/losses of the values received as a pledge, events falling within the scope of credit monitoring policies are put in place, which trigger operational obligations of credit risk assessment.

The Montepaschi Group accepts different instruments to protect loans which can be summarised in the following categories:

- Guarantees (including omnibus guarantees and personal guarantees issued by third parties);
- Endorsement;
- Guarantee policy;
- Credit mandate;
- Strong/binding patronage letter;
- Negotiable instruments;
- Performance bond agreement;
- Debt delegation;
- Expromission;
- Assumption of debt;
- Personal Collateral governed by foreign law;
- Credit derivatives:
    - Credit default swaps;
    - total return swaps;
    - credit linked notes;

The main parties issuing the above credit-protection instruments are:

- Sovereign governments and central banks,
- Public sector and local agencies,
- Multilateral development banks,
- Regulated intermediaries,
- Guarantee institutions (Confidi),
- Companies and individuals.

Over 90% of personal guarantees is traceable to companies and individuals as guarantors. The internal rating can be assigned only to a limited portion of these customers, since these guarantors are not borrowers of Group companies.

The main concentration of collaterals is linked with retail mortgage loans. However, it cannot be referred to as risk concentration by virtue of the principle of risk fragmentation which is implicit in this type of customers. The value of properties underlying real estate guarantees is updated through the measurement of the average values of the real estate market. Any information on the evaluations is provided, on a half-yearly

basis, by specialised industry operators (extraordinary updates may be generated by significant variations in the very short period).

The disbursement of loans secured by collaterals is subject to specific control measures, differentiated by type of guarantee pledged, which are applied during the phase of disbursement and monitoring.

The general requirements for ensuring the legal certainty and enforceability of guarantees are verified by checking compliance with the following relevant conditions:

- binding nature of the legal obligation entered into by the parties and enforceability in the event of legal proceedings;
- documented evidence and enforceability of the instrument against third parties in all relevant jurisdictions for the purpose of its exercise and execution;
- timely liquidation in case of non-fulfillment;
- compliance with organisational requirements.

With reference to compliance with organisational requirements, mitigation of risk is ensured by:

- the presence of an IT system in support of the life cycle phases of the guarantees (acquisition, valuation, management, re-valuation and enforcement);
- the existence of regulated policies for the management of guarantees (principles, practices, processes), available to all users.

Non-performing financial assets

The Credit Division oversees the process for the updating and usage of non-performing loan assessment criteria, availing itself of the Credit Assessment Staff within the Specialised Credit Services Area. Within its area of competence, the Staff ensures appropriate implementation of the operating rules and processes of assessment; it operationally coordinates the Functions involved in the various steps of the process, verifies and organises data and information received.

As previously stated in paragraph 2.1, a specific session was added to the Parent Company's Credit Committee in 2013 for the purpose of collectively validating the fairness of assessments and doubtful amounts for preparation of financial statements by the Credit Assessment Staff with regard to Non-performing, Substandard and Restructured loan books of the Networks and Group companies.

The assessment process for doubtful loans was also strengthened in the last quarter of 2013 with the request for approval by progressively higher levels of decision-making bodies up to the Credit Committee.

Quantitative Information

A. CREDIT QUALITY

A.1 Non-performing and performing loans: amounts, value adjustments, changes, breakdown by business sector and geographical area

A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)

Portfolio/quality	Banking Group						Other entities		
	Doubtful loans	Substandard loans	Restructured	Past-due	Other assets	Impaired	Other		Total
1. Financial assets held for trading	1,017	31,004	10,212	60,387	-	19,634,876	-	-	19,737,496
2. Financial assets available for sale	107	2,115	7,128	-	-	22,881,735	-	-	22,891,085
3. Financial assets held to maturity	-	-	-	-	-	-	-	-	-
4. Loans to banks	1,878	25,361	-	-	1,230	8,832,080	-	1,053,434	9,913,983
5. Loans to customers	8,880,034	7,510,625	1,683,302	2,918,169	5,388,345	104,837,921	-	-	131,218,396
6. Financial assets designated at fair value	-	-	-	-	-	-	-	-	-
7. Financial assets held for sale	-	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	397,933	-	-	397,933
Total 31 12 2013	8,883,036	7,569,105	1,700,642	2,978,556	5,389,575	156,584,545	-	1,053,434	184,158,893
Total 31 12 2012	7,304,576	6,010,625	1,421,709	2,753,148	6,020,592	177,697,664	-	-	201,208,314

With regard to the various portfolios of financial assets, the table provides a breakdown by credit quality using the definition of non-performing exposure set out by the Bank of Italy and adopted for the purposes of the financial statements.

Since the entire portfolio of financial assets is subject to classification by credit quality, it should be noted that the items "Loans to banks" and "Loans to customers" include not only loans but also other types of assets (securities, etc.). All amounts are book values, and thus, net of any related doubtful amounts.

A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net values)

Portfolio/quality	Non performing assets			Performing			Total (net exposure)
	Gross exposure	Specific write-downs	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
A. Banking Group							
1. Financial assets held for trading	143,953	41,333	102,620	x	x	19,634,876	19,737,496
2. Financial assets available for sale	26,629	17,279	9,350	22,881,735	-	22,881,735	22,891,085
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Loans to banks	81,465	54,226	27,239	8,847,015	13,704	8,833,311	8,860,550
5. Loans to customers	36,039,376	15,047,246	20,992,130	110,892,719	666,454	110,226,265	131,218,395
6. Financial assets designated at fair value	-	-	-	x	x	-	-
7. Financial assets held for sale	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	x	x	397,933	397,933
Total A	36,291,423	15,160,084	21,131,339	142,621,469	680,158	161,974,120	183,105,459
B. Other consolidated companies							
1. Financial assets held for trading	-	-	-	x	x	-	-
2. Financial assets available for sale	-	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Loans to banks	-	-	-	1,053,434	-	1,053,434	1,053,434
5. Loans to customers	-	-	-	-	-	-	-
6. Financial assets designated at fair value	-	-	-	x	x	-	-
7. Financial assets held for sale	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	x	x	-	-
Total B	-	-	-	1,053,434	-	1,053,434	1,053,434
Total 31 12 2013	36,291,423	15,160,084	21,131,339	143,674,903	680,158	163,027,554	184,158,893
Total 31 12 2012	29,682,951	12,192,893	17,490,058	160,840,509	733,167	183,718,257	201,208,315

The table provides a breakdown of the various portfolios of financial assets by credit quality using the definition of non-performing exposure set out by the Bank of Italy and adopted for the purposes of the financial statements.

Since the entire portfolio of financial assets is subject to classification by credit quality, it should be noted that the items "Loans to banks" and "Loans to customers" include not only loans but also other types of assets (e.g. securities).

All amounts are book values, before and after any doubtful amounts.

Pursuant to Bank of Italy's requirements, the following table reports performing loans to customers (line 5 of previous table, "performing" column), broken down by portfolio into exposures whose terms were renegotiated in collective agreements and other exposures. For both groups, past-due positions are reported by months behind schedule (the amounts of past due loans to be repaid in instalments includes both the amount past due and the amount becoming due and payable).

31 12 2013

Portfolio/quality	Exposure renegotiated under collective agreements					Other exposure					Total net exposure
	Past due up to 3 months	Past due 3 to 6 months	Past due 6 months to 1 year	Over 1 year	Not past due	Past due up to 3 months	Past due 3 to 6 months	Past due 6 months to 1 year	Over 1 year	Not past due	
1 Financial assets held for trading	-	-	-	-	-	-	-	-	-	19,634,876	19,634,876
2 Financial assets availabel for sale	-	-	-	-	-	-	-	-	-	22,881,735	22,881,735
3 Financial assets held to maturity	-	-	-	-	-	-	-	-	-	-	-
4 Loans to banks	-	-	-	-	-	1,230	-	-	-	9,885,515	9,886,745
5 Loans to customers	137,475	55,085	41,570	4,662	3,044,181	3,707,590	1,192,353	917,217	373,437	100,752,695	110,226,265
6 Financial assets designated to fair value	-	-	-	-	-	-	-	-	-	-	-
7 Financial assets held for sale	-	-	-	-	-	-	-	-	-	-	-
8 Hedging derivatives	-	-	-	-	-	-	-	-	-	397,933	397,933
Total net performing exposure	137,475	55,085	41,570	4,662	3,044,181	3,708,820	1,192,353	917,217	373,437	153,552,754	163,027,554

With regard to the disclosure requested by Bank of Italy in its notice of 7 February 2014, as at 31 December 2013 the Group had 541 positions relating to creditors who had filed a "blank" request for a pre-insolvency creditor arrangement procedure (concordato in bianco)* for a net exposure of approx. EUR 679 mln and 13 positions relating to creditors who had filed a request for a pre-insolvency creditor arrangement with going concern for a net exposure of approx. EUR 66 mln.

*A key change introduced by amended article 161 of the Italian Bankruptcy Law is that a company can submit to the Court a request to admit a pre-insolvency creditor arrangement without submitting the arrangement plan. The company can file the "blank" request with the competent court, provided that the detailed plan and other necessary documents are submitted to the court for approval in a time frame of between 60 and 120 days from the date of filing the blank request.

A.1.3 Banking Group - Balance sheet and off-balance sheet exposure to banks: gross and net amounts

31 12 2013

Type of exposure/ Amount	Gross exposure	Specific write-downs	Portfolio adjustments	Net exposure
A. Balance-sheet exposure				
a) Doubtful loans	27,369	25,384	x	1,985
b) Substandard loans	58,544	31,063	x	27,481
c) Restructured loans	-	-	x	-
d) Past due	-	-	x	-
e) Other assets	10,385,080	x	13,705	10,371,375
Total A	**10,470,993**	**56,447**	**13,705**	**10,400,841**
B. Off-balance-sheet exposure	**-**	**-**	**-**	**-**
a) Non performing	-	-	x	-
b) Other	7,448,623	x	825	7,447,798
Total B	**7,448,623**	**-**	**825**	**7,447,798**
Total (A+B)	**17,919,616**	**56,447**	**14,530**	**17,848,639**

The table provides a breakdown of dealings with banks by credit quality, using the definition of impaired exposures set out by the Bank of Italy and adopted for the purposes of the financial statements.

Thus, all balance-sheet exposure amounts are stated at book values, before and after any doubtful amounts. In particular, balance-sheet exposures encompass all financial assets related to banks arising from financial statement Item 20 “Financial assets held-for-trading,” Item 30 “Financial assets designated at fair value,” Item 40 “Financial assets available-for-sale and Item 60 “Loans to banks” with the exception of derivative contracts which are considered as off-balance-sheet in this section.

Off-balance-sheet exposures include all financial transactions other than balance-sheet transactions (guarantees issued, commitments and derivatives, including those used for hedging purposes) involving the assumption of credit risk and valued using the measurement criteria set forth by the Bank of Italy.

A.1.4 Banking Group - Balance-sheet exposure to banks: changes in gross non-performing loans

31 12 2013

Source / Categories	Doubtful loans	Substandard loans	Restructured loans	Past-due
A. Gross exposure, opening balance	**27,255**	**19,260**	**-**	**-**
- of which: sold but not derecognised	-	-	-	-
B. Increases	**245**	**41,803**	**-**	**-**
B.1 transfers from performing loans	-	41,495	-	-
B.2 transfers from other impaired loans	-	-	-	-
B.3 other increases	245	308	-	-
C. Other decreases	**131**	**2,519**	**-**	**-**
C.1 transfers to performing loans	-	-	-	-
C.2 write-offs	-	-	-	-
C.3 collections	34	2,519	-	-
C.4 amounts realised upon disposal of positions	-	-	-	-
C.4 bis losses from disposal	-	-	-	-
C.5 transfers to other categories of impaired exposure	-	-	-	-
C.6 other decreases	97	-	-	-
D. Gross exposure, closing balance	**27,369**	**58,544**	**-**	**-**
- of which: sold but not derecognised	-	-	-	-

With regard to balance-sheet exposures to banks, the table shows changes in non-performing exposures in the course of the year.

Since the entire portfolio of financial asset exposures to banks is subject to classification by credit quality, exposures include not only loans but also other types of assets (e.g. securities). Balance-sheet exposures are expressed at book value.

A.1.5 Banking Group - Balance-sheet exposure to banks: changes in overall value adjustments

31 12 2013

Source / Categories	Doubtful loans	Substandard loans	Restructured loans	Past-due
A. Opening balance of overall adjustments	**25,441**	**14,182**	**-**	**-**
- of which: sold but not derecognised	-	-	-	-
B. Increases	**294**	**17,760**	**-**	**-**
B.1 value adjustments	294	17,760	-	-
B.1bis loss from disposal	-	-	-	-
B.2 transfers from other categories of impaired exposures	-	-	-	-
B.3 other increases	-	-	-	-
C. Other decreases	**351**	**879**	**-**	**-**
C.1 write-backs from valuation	258	106	-	-
C.2 write-backs from collection	-	773	-	-
C.2bis profit from disposal	-	-	-	-
C.3 write-offs	-	-	-	-
C.4 transfers to other categories of impaired exposure	-	-	-	-
C.5 other decreases	93	-	-	-
D. Closing balance of overall adjustments	**25,384**	**31,063**	**-**	**-**
- of which: sold but not derecognised	-	-	-	-

With regard to balance-sheet exposures to banks, the table shows changes in overall value adjustments on impaired exposure during the year.

Since the entire portfolio of financial assets to banks is subject to classification by credit quality, value adjustments shown refer not only to loans but also to other types of assets (e.g. securities). Balance-sheet value adjustments are expressed at book value

A.1.6 Banking Group - Balance sheet and off-balance sheet exposure to customers: gross and net amounts

31 12 2013

Type of exposure/ Amount	Gross exposure	Specific write-downs	Portfolio adjustments	Net exposure
A. Balance-sheet exposure				
a) Doubtful loans	21,563,226	12,682,678	x	8,880,548
b) Substandard loans	9,440,271	1,929,646	x	7,510,625
c) Restructured loans	1,923,548	233,118	x	1,690,430
d) Past due	3,135,032	216,863	x	2,918,169
e) Other assets	144,002,784	x	666,460	143,336,324
Total A	**180,064,861**	**15,062,305**	**666,460**	**164,336,096**
B. Off-balance-sheet exposure	-	-	€ -	€ -
a) Non performing	797,896	111,627	x	686,269
b) Other	31,784,213	x	65,697	31,718,516
Total B	**32,582,109**	**111,627**	**65,697**	**32,404,785**
Total (A+B)	**212,646,970**	**15,173,932**	**732,157**	**196,740,881**

The table provides a breakdown by credit quality using the definition of impaired exposure set forth by the Bank of Italy and adopted for the purposes of the financial statements.

Please see the report on operations for quantification of and reporting on capital ratios for coverage of lending relationships.

Thus, all balance-sheet exposures are stated at book values, before and after any doubtful amounts. In particular, balance-sheet exposure summarises all financial assets related to customers arising from financial statement Item 20 "Financial assets held-for-trading," Item 30 "Financial assets designated at fair value," Item 40 "Financial assets available-for-sale " and Item 70 "Loans to customers" with the exception of derivative contracts which are considered as off-balance-sheet in this section.

Off-balance-sheet exposures include all financial transactions other than balance-sheet transactions (guarantees issued, commitments and derivatives, including those used for hedging purposes) involving the assumption of credit risk and valued using the measurement criteria set forth by the Bank of Italy.

Balance-sheet exposure also includes loans sold but not derecognised in relation to performing and non-performing securitisation transactions.

Exposure to sovereign debt risk

Below is a breakdown of the Group's exposure to sovereign debt risk in government bonds, loans and credit derivatives as at 31 December 2013. The exposures are broken down by accounting categories. For securities classified as 'Loans and Receivables (L&R)' and "Loans", the book value (amortised cost) is reported.

(in millions of eur)

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets held for trading		Financial assets available for sale		L&R	L&R	Financial assets HFT
	Nominal	Fair value= book value	Nominal	Fair value= book value	Book value	Book value	Nominal
Argentina	0.35	0.28	-	-	-	-	-
Austria	(19.69)	(21.14)	-	-	-	-	0.01
Belgium	(9.82)	(10.62)	59.25	64.93	-	-	(0.01)
Bosnia	0.01	0.01	-	-	-	-	-
Brazil	0.04	0.06	-	-	-	-	-
China	-	-	-	-	-	-	(3.15)
Croatia	0.22	0.23	10.00	11.10	-	-	-
Philippines	0.04	0.06	-	-	-	-	-
France	(18.89)	(19.77)	-	-	-	-	(0.01)
Germany	(110.93)	(110.33)	-	-	-	-	(0.01)
Greece	0.01	0.01	-	-	-	-	-
Ireland	-	-	-	-	-	-	(0.01)
Italiy	3,264.39	3,372.21	20,464.00	21,631.00	354.64	3,298.39	877.03
Latvia	-	-	10.00	10.39	-	-	-
Lituania	-	-	10.00	10.92	-	-	-
Mexico	0.14	0.20	-	-	-	-	-
Norway	-	-	-	-	-	-	(0.01)
Holland	3.02	3.13	-	-	-	-	(0.01)
Poland	-	-	10.00	11.22	-	-	-
Portugal	-	-	165.00	167.10	-	-	0.01
United Kingdom	0.04	0.04	-	-	-	-	0.01
Romania	-	-	10.00	10.83	-	-	-
Russia	0.00	0.00	-	-	4.78	-	-
Spain	(2.99)	(3.12)	205.00	220.21	-	-	(0.01)
United States	0.13	0.14	-	-	-	-	-
Turkey	0.10	0.11	10.00	11.05	-	-	-
Ukraina	0.73	0.73	-	-	-	-	-
Hungary	1.70	1.77	10.00	10.43	-	-	-
Venezuela	0.45	0.45	-	-	-	-	-
Other Countries	-	-	23.38	23.38	-	-	(0.01)
Total 31 12 2013	3,109.05	3,214.46	20,986.63	22,182.56	359.42	3,298.39	873.87
Total 31 12 2012	2,964.84	3,064.32	22,289.08	23,312.36	472.86	3,931.79	1,383.94

These financial instruments were measured according to the standards applicable to the category they belong to.

In particular, securities classified as "Financial assets available for sale - AFS" and "Financial assets held for trading - HFT" were measured at the fair value of the consideration receivable as at 31 December 2013. Loans and securities included in the L&R portfolio are recognised at amortised cost.

The overall exposure consists almost entirely in Italian debt and is concentrated under the AFS accounting category. The Group has no exposure to Cyprus.

All exposures to Italy and Spain are level 1, except for EUR 180.4 mln in government bonds and EUR 206.6 mln in debt instruments issued by local institutions (municipal, provincial and regional).

Exposures to Ireland, Portugal and Spain reported in the accounting portfolios “Financial assets available for sale” and “L&R” were not written down as it was determined that there was no objective evidence of impairment strictly associated, in this specific case, with the issuer's capacity to meet its obligations.

Following are the details of Italian AFS reserves and credit derivatives (in EUR/mln):

AFS securities: Italy	31 12 2013	31 12 2012
Book value	21,631.0	22,729.9
AFS reserve (after tax)	(936.5)	(2,529.7)
of which: hedging effect (after tax)	(1,598.4)	(2,933.1)

Credit derivatives - Italy	31 12 2013	31 12 2012
Purchase of protection		
Nominal	(4,626.2)	(3,932.5)
Positive fair value	773.4	873.9
Negative fair value	-	-
Sale of protection	-	-
Nominal	5,515.0	5,317.4
Positive fair value	0.1	-
Negative fair value	(970.3)	(1,317.5)

A.1.7 Banking Group - Balance-sheet exposure to customers: changes in gross non-performing loans

Source / Categories	Doubtful loans	Substandard loans	Restructured loans	Past-due
A. Gross exposure, opening balance	**17,330,160**	**7,636,816**	**1,637,954**	**2,923,704**
- of which: sold but not derecognised	4,477	4,328	-	12,593
B. Increases	**4,966,072**	**5,329,416**	**736,468**	**3,158,634**
B.1 transfers from performing loans	999,055	3,173,356	383,228	2,898,249
B.2 transfers from other impaired loans	3,185,148	1,612,677	200,547	60,588
B.3 other increases	781,869	543,383	152,693	199,797
C. Other decreases	**733,006**	**3,525,961**	**450,874**	**2,947,306**
C.1 transfers to performing loans	1,810	266,382	11,247	608,932
C.2 write-offs	139,936	47,158	44,224	9,377
C.3 collections	470,171	394,768	135,305	314,414
C.4 amounts realised upon disposal of positions	78,943	3,784	4,535	5,111
C.4 bis Losses from disposal	630	-	-	-
C.5 transfers to other categories of impaired exposure	1,150	2,809,362	255,258	1,993,189
C.6 other decreases	40,366	4,507	305	16,283
D. Gross exposure, closing balance	**21,563,226**	**9,440,271**	**1,923,548**	**3,135,032**
- of which: sold but not derecognised	15,037	7,106	-	14,631

With regard to balance-sheet exposures to customers, the table shows changes in non-performing exposures during the year. In particular, write-offs include reductions due to loan redemptions. Since the entire portfolio of financial asset exposures to customers is subject to classification by credit quality, it should be noted that it includes not only loans but also other types of assets (e.g. securities). Balance-sheet exposures are expressed at book value.
Item C.2 “Write-offs” also includes write-offs of positions that have been completely amortised.

A.1.8 Banking Group - Balance-sheet exposure to customers: changes in overall value adjustments

31 12 2013

Source / Categories	Doubtful loans	Substandard loans	Restructured loans	Past-due
A. Opening balance of overall adjustments	**10,028,862**	**1,673,900**	**233,003**	**187,108**
- of which: sold but not derecognised	1,036	369	-	627
B. Increases	**3,400,435**	**1,227,372**	**108,034**	**251,366**
B.1 value adjustments	2,454,448	1,059,057	98,249	146,449
B.1bis loss from disposal	1,350	-	46	-
B.2 transfers from other categories of impaired exposures	733,453	89,797	9,681	1,003
B.3 other increases	211,184	78,518	58	103,914
C. Other decreases	**746,619**	**971,626**	**107,919**	**221,611**
C.1 write-backs from valuation	463,552	196,363	17,945	113,022
C.2 write-backs from collection	68,861	23,213	2,280	6,343
C.2bis profit from disposal	331	-	-	-
C.3 write-offs	138,864	47,158	44,224	9,377
C.4 transfers to other categories of impaired exposures	381	702,960	43,398	87,195
C.5 other decreases	74,630	1,932	72	5,674
D. Closing balance of overall adjustments	**12,682,678**	**1,929,646**	**233,118**	**216,863**
- of which: sold but not derecognised	3,560	717	-	799

With regard to balance-sheet exposures to customers, the table shows changes in overall value adjustments on non-performing exposure subject to country risk during the year.
Since the entire portfolio of financial asset exposures to customers is subject to classification by credit quality, it includes not only loans but also other types of assets (e.g. debt securities, etc.). Balance-sheet exposures are expressed at book value.
Item C.3 “Write-offs” also includes write-offs of positions that have been completely amortised.
Exposures sold but not derecognised, under captions “A” and “D - of which: sold but not derecognised" refer to non-performing assets in performing securitisations.

A.2 Classification of exposure by external and internal ratings

A.2.1 Banking Group - Breakdown of balance sheet and off-balance sheet exposures by external ratings

31 12 2013

Esposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Balance-sheet exposure	596,740	4,496,763	31,770,873	1,395,684	558,252	11,987	136,295,054	175,125,353
B. Derivatives	555,459	5,943,710	4,037,312	788,214	126,797	15,845	12,029,600	23,496,937
B.1 Financial derivatives	28,860	589,142	301,226	50,674	274	-	1,639,981	2,610,157
B.2 Credit derivatives	526,599	5,354,568	3,736,086	737,540	126,523	15,845	10,389,619	20,886,780
C. Guarantees issued	9,215	349,211	110,706	734,344	86,483	-	6,489,441	7,779,400
D. Commitments to disburse fun	91,074	41,577	2,227,198	89,253	9,048	736	4,754,608	7,213,494
E. Others	-	581,649	610,638	4,762	-	-	165,702	1,362,751
Total	**1,252,488**	**11,412,910**	**38,756,727**	**3,012,257**	**780,580**	**28,568**	**159,734,405**	**214,977,935**

class 1=AAA/AA- class 2=A+/A- class 3=BBB+/BBB- class 4=BB+/BB- class 5=B+/B- class 6=lower than B-

The external rating categories used to complete the table are from Standard & Poor's. The exposures shown are those reported in Table A.1.3 (exposures to banks) and A.1.6 (exposures to customers) above. If multiple external ratings are assigned, the rating is selected based on Bank of Italy's criteria (when two ratings are available, the lower of the two is used, and when three or more ratings are assigned, the second highest rating is selected). To ensure relevance of information, internal cross-reference tables were used to convert classification by various rating agencies into classification by Standard & Poor's.

External ratings cover about 25.7% of total exposure. 23% of exposure covered by external ratings is with customers having a credit rating equivalent to S&P classes between AAA and A-.

From a combined analysis of internal ratings (thus, limited only to portfolios that are subject to possible validation) and external ratings, it was shown that about 71% of total cash exposures are covered by an external rating or a rating from an internal model, 11% are defaulted, while the remaining 18% is not rated.

A.2.2 Banking Group - Breakdown of balance sheet and off-balance sheet exposures by internal ratings

31 12 2013

Esposures	Internal rating classes							No rating	Total
	High quality	Average quality	Fair quality	Mediocry quality	Poor quality	Default	Group administrative default		
A. Balance-sheet exposure	15,590,804	19,505,034	30,208,790	17,481,501	4,471,334	15,140,588	7,150,765	65,188,121	174,736,937
B. Derivatives	150,165	347,555	189,198	116,872	18,418	102,101	7,459	22,565,169	23,496,937
B.1 Financial derivatives	30,726	133,065	181,378	116,872	18,418	102,101	7,459	2,020,138	2,610,157
B.2 Credit derivatives	119,439	214,490	7,820	-	-	-	-	20,545,031	20,886,780
C. Guarantees issued	975,664	1,901,388	2,171,331	903,375	280,892	317,730	25,278	1,203,742	7,779,400
D. Commitments to disburse fund	332,195	554,913	1,143,539	599,443	248,281	185,271	208,871	3,940,981	7,213,494
E. Others	4,986	1,961	601	-	-	-	-	1,355,203	1,362,751
Total	**17,053,814**	**22,310,851**	**33,713,459**	**19,101,191**	**5,018,925**	**15,745,690**	**7,392,373**	**94,253,216**	**214,589,519**

The table provides a breakdown of customers of the MPS Group by risk categories assigned on the basis of ratings arising from internal models. For this purpose, account is given only of exposures (borrowers) for which an internal rating is periodically recorded for models/legal entities/portfolios which have been subject to a validation process with the regulatory authorities without any cross-reference from official ratings to internal ratings especially with regard to the following customer segments: “Banks,” “Non-banking financial institutions,” and “Governments and Public Administration”. Thus, based on this provision, exposures related to the latter segments, even if covered by official ratings, were reported as “unrated” in the internal rating models.
The table shows that 14.2% of exposures rated internally come from High Quality customers (Master Scale categories AAA and A1), 18.5% from Good Quality Customers (Master Scale categories A2, A3 and B1), 28% from Fair Quality customers (Master Scale categories B2, B3, C1 and C2), 15.9% from Mediocre Quality customer s(Master Scale categories C3, D1, D2 and D3) and 4.2% from Poor Quality customers (Master Scale categories E1, E2 and E3). Customers rated as Investment Grade (Master Scale categories AAA-B1) accounted for 32.7% of total internally rated exposures.
Unrated exposures totalled approx. EUR 94 bn, or 44% of the total portfolio amount.

A.3 Breakdown of secured exposures by type of collateral

A.3.1 Banking Group - Secured exposures to banks

31 12 2013

	Amount of Net Exposure	Real guarantees				Personal guarantees									Total real and personal guarantees
						Credit derivatives					Unsecured signature loans				
							Other derivatives								
		Real estate mortgages	Real estate leasing	Securities	Other collaterals	CLN	Governments and central banks	Other public entities	Banks	Other entities	Governments and central banks	Other public entities	Banks	Other entities	
1. Secured balance-sheet exposures:	1,250,254	21,654	-	978,768	-	-	-	-	-	-	-	-	-	-	1,000,422
1.1 totally secured	1,250,254	21,654	-	978,768	-	-	-	-	-	-	-	-	-	-	1,000,422
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet exposures:	809,245	-	-	17,044	704,087	-	-	-	-	-	-	-	171	-	721,302
2.1 totally secured	263,996	-	-	12,044	262,869	-	-	-	-	-	-	-	113	-	275,026
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	545,249	-	-	5,000	441,218	-	-	-	-	-	-	-	58	-	446,276
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The table shows the amount of balance-sheet exposures to banks that are partially or fully secured. Thus, the table does not correspond to total balance-sheet exposures since it excludes the unsecured portion. As in the tables above, balance-sheet exposures to banks include not only loans but all financial assets, except for derivative contracts. As regards personal guarantees, the economic segments to which guarantors and sellers of protection belong (in the case of unsecured loans and credit derivatives, respectively) are identified making reference to the classification criteria provided for in the brochure “classification of customers by segments and groups of economic activity” published by the Bank of Italy. The column "Amount of exposure" posts the amount of net exposure. The exposure amount includes performing and non-performing securitisation transactions, whose have not been derecognised.

The fair value of collaterals estimated as at the balance sheet date is shown in the columns "Real guarantees" and "Personal guarantees"; if such information is not available, the contractual value is reported.

A.3.2 Banking Group - Secured exposures to customers

31 12 2013

		Real guarantees				Personal guarantees									
						Credit derivatives					Unsecured signature loans				
							Other derivatives								
	Amount of Net Exposure	Real estate mortgages	Real estate leasing	Securities	Other collaterals	CLN	Governments and central banks	Other public entities	Banks	Other entities	Governments and central banks	Other public entities	Banks	Other entities	Total real and personal guarantees
1. Secured balance-sheet exposures:	94,931,773	153,468,488	6,866,050	9,619,757	2,457,556	-	-	-	-	-	4,666	530,587	79,938	83,863,168	256,890,210
1.1 totally secured	90,553,951	153,185,470	6,866,050	9,107,222	2,392,370	-	-	-	-	-	3,059	432,949	67,920	82,402,255	254,457,295
- of which non perfroming	14,679,599	24,690,737	1,417,566	339,003	391,558	-	-	-	-	-	2,781	56,018	34,465	14,515,337	41,447,465
1.2 partially secured	4,377,822	283,018	-	512,535	65,186	-	-	-	-	-	1,607	97,638	12,018	1,460,913	2,432,915
- of which non perfroming	1,213,563	180,422	-	158,319	18,383	-	-	-	-	-	44	12,578	5,497	682,715	1,057,958
2. Secured off-balance sheet exposures:	4,801,051	1,153,533	-	681,845	1,113,795	-	-	-	-	-	-	6,157	55,525	5,200,080	8,210,935
2.1 totally secured	4,093,795	1,146,399	-	640,080	993,566	-	-	-	-	-	-	4,524	52,818	4,928,083	7,765,470
- of which non perfroming	244,454	173,633	-	5,381	4,766	-	-	-	-	-	-	-	-	330,070	513,850
2.2 partially secured	707,256	7,134	-	41,765	120,229	-	-	-	-	-	-	1,633	2,707	271,997	445,465
- of which non perfroming	62,036	2,943	-	1,614	2,206	-	-	-	-	-	-	381	-	11,400	18,544

The table shows the amount of off-balance-sheet exposures to customers, including derivative contracts, which are fully or partially secured. As regards personal guarantees, the economic segments to which guarantors and sellers of protection belong (in the case of unsecured loans and credit derivatives, respectively) are identified making reference to the classification criteria provided for in the brochure “classification of customers by segments and groups of economic activity” published by the Bank of Italy. The fair value of collaterals estimated as at the balance sheet date is shown in the columns "Real guarantees" and "Personal guarantees"; if such information is not available, the contractual value up to the net exposure value is reported.

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURE

B.1 Banking Group - Breakdown of on- and off-balance sheet exposures to customers by business segment (book values)

31 12 2013

Exposure/Customers	Governments			Other public entities			Financial companies			Insurance companies			Non financial companies			Other entities		
	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments
A. Balance-sheet exposure																		
A.1 Doubtful loans	189	-	X	694	984	X	35,411	109,838	X	1	6	x	7,594,562	10,592,418	X	1,249,690	1,979,432	x
A.2 Substandard loans	-	-	X	1	3	X	97,845	22,472	X	-	-	x	6,705,663	1,683,692	X	707,116	223,479	X
A.3 Restructured loans	-	-	X	-	-	X	-	-	X	-	-	X	1,688,035	232,055	X	2,395	1,063	X
A.4 Past due	13	1	X	1	-	X	6,710	284	X	-	-	X	2,301,359	151,447	X	610,086	65,131	X
A.5 Other exposures	29,330,767	X	1,018	2,730,824	X	3,046	13,457,737	X	12,905	732,894	X	515	60,057,441	X	510,293	37,026,661	X	138,683
Total A	29,330,969	1	1,018	2,731,520	987	3,046	13,597,703	132,594	12,905	732,895	6	515	78,347,060	12,659,612	510,293	39,595,948	2,269,105	138,683
B. Off-balance-sheet exposures																		
B.1 Doubtful loans	-	-	X	-	-	X	-	-	X	-	-	X	118,634	36,573	X	1,268	52	X
B.2 Substandard loans	-	-	X	-	-	X	1,151	1,500	X	-	-	X	323,576	36,804	X	1,992	29	X
B.3 Other non performir	-	-	X	-	-	X	-	-	X	-	-	X	238,649	36,644	X	998	25	X
B.4 Other exposures	11,199,929	X	4	340,649	X	220	3,481,893	X	681	949,917	X	9	15,249,537	X	63,923	401,999	X	861
Total B	11,199,929	-	4	340,649	-	220	3,483,044	1,500	681	949,917	-	9	15,930,396	110,021	63,923	406,257	106	861
Total (A+B) 31 12 2013	40,530,898	1	1,022	3,072,169	987	3,266	17,080,747	134,094	13,586	1,682,812	6	524	94,277,456	12,769,633	574,216	40,002,205	2,269,211	139,544
Total (A-B) 31 12 2012	42,559,250	34	1,048	3,649,254	932	3,138	17,487,612	198,308	21,731	2,419,515	4	533	105,312,841	10,150,645	604,506	43,410,992	1,829,688	137,389

Balance sheet exposures reported in the table below are the same as those reported in the financial statements, net of any doubtful amounts and inclusive of specific/portfolio value adjustments, while off-balance-sheet transactions include all financial transactions other than balance-sheet transactions (guarantees issued, commitments and derivatives) involving the assumption of credit risk and valued using the measurement criteria set forth by the Bank of Italy. The business segments to which borrowers and collateral providers belong are identified making reference to the classification criteria provided for in the brochure "Classification of customers by segments and groups of economic activity" published by the Bank of Italy.

B.2 Banking Group - Breakdown of on- and off-balance-sheet exposures to customers by geographic area (book values)

31 12 2013

Exposure / Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Balance-sheet exposure										
A.1 Doubtful loans	8,826,176	12,561,950	53,420	113,971	731	1,732	5	3,478	215	1,547
A.2 Substandard loans	7,443,120	1,920,123	64,485	8,306	1,200	137	1,657	495	162	585
A.3 Restructured loans	1,689,390	233,071	1,039	48	-	-	-	-	-	-
A.4 Past due	2,888,431	211,053	18,922	5,016	680	32	10,114	761	23	1
A.5 Other exposures	133,373,052	652,928	9,211,873	8,751	413,647	2,716	242,164	1,635	95,587	431
Total A	154,220,169	15,579,125	9,349,739	136,092	416,258	4,617	253,940	6,369	95,987	2,564
B. Off-balance-sheet exposures										
B.1 Doubtful loans	118,995	36,308	700	266	207	52	-	-	-	-
B.2 Substandard loans	326,616	38,333	104	-	-	-	-	-	-	-
B.3 Other non performing as:	239,647	36,668	-	-	-	-	-	-	-	-
B.4 Other exposures	18,947,415	64,636	10,982,557	810	1,421,990	103	135,495	24	136,467	124
Total B	19,632,673	175,945	10,983,361	1,076	1,422,197	155	135,495	24	136,467	124
Total (A+B) 31 12 2013	173,852,842	15,755,070	20,333,100	137,168	1,838,455	4,772	389,435	6,393	232,454	2,688
Total (A+B) 31 12 2012	185,995,016	12,781,250	25,805,433	131,259	2,282,687	26,494	416,117	6,635	340,211	2,319

Balance-sheet exposures reported in the table below are the same as those reported in the financial statements, while off-balance-sheet transactions include all financial transactions other than balance-sheet transactions (guarantees issued, commitments and derivatives) involving the assumption of credit risk and valued using the measurement criteria set forth by the Bank of Italy.
Amounts are stated before and after any doubtful amounts.
Exposures are broken down geographically by the country of residence of the borrower.

B.3 Banking Group - Breakdown of on- and off-balance-sheet exposures to banks by geographic area (book values)

31 12 2013

Exposure / Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Balance-sheet exposure										
A.1 Doubtful loans	-	-	644	4,875	1,250	20,364	-	-	91	145
A.2 Substandard loans	2,115	-	25,241	30,997	-	-	125	66	-	-
A.3 Restructured loans	-	-	-	-	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-	-	-	-	-
A.5 Other exposures	7,409,354	10,237	2,390,942	3,021	484,056	218	67,827	190	19,196	39
Total A	7,411,469	10,237	2,416,827	38,893	485,306	20,582	67,952	256	19,287	184
B. Off-balance-sheet exposures										
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3 Other non performing as:	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	1,133,702	14	4,341,244	512	514,121	22	86,736	52	103,835	226
Total B	1,133,702	14	4,341,244	512	514,121	22	86,736	52	103,835	226
Total (A+B) 31 12 2013	8,545,171	10,251	6,758,071	39,405	999,427	20,604	154,688	308	123,122	410
Total (A+B) 31 12 2012	7,734,034	14,474	11,607,651	23,592	1,594,061	20,725	237,192	511	132,561	384

Balance-sheet exposures reported in the table below are the same as those reported in the financial statements, while off-balance-sheet transactions include all financial transactions other than balance-sheet transactions (guarantees issued, commitments and derivatives) involving the assumption of risk and valued using the measurement of criteria set forth by the Bank of Italy.

Amounts are stated before and after any doubtful amounts.

Exposures are broken down geographically by the country of residence of the borrower.

B.4 Large exposures

Item/Amount	31 12 2013	31 12 2012
a) Amount	46,158,105	43,410,122
b) Weighted value	4,644,980	7,564,153
c) Number	6	6

Regulations provide for positions to be defined as "large exposures" by making reference to credit-risk unweighted exposures.

An exposure is deemed as a "large exposure" when its amount is equal to or greater than 10% of regulatory capital.

Pursuant to the afore-mentioned regulations, exposures in government securities were also included.

C. ASSET SECURITISATION AND DISPOSAL TRANSACTIONS

C.1 Securitisation transactions

Qualitative Information

Structures, processes and goals

In line with the organisational model established at Group level for the governance and management of risks, securitisation risk is governed by a specific Group directive.

The Parent Company's Group ALM & Capital Management Service establishes general practices and coordinates activities in relation to securitisation transactions. The criteria and rules for managing securitisation transactions are instead determined by the Parent Company's "Specialised Credit Services" Area. More specifically, the Special-purpose Loans and Securitisations service within this Area is responsible for establishing operational guidelines and general practices for the securitisation of performing loans. For this purpose, the aforementioned service looks after related aspects and obligations associated with servicing activities and monitors the performance of existing transactions through monthly and quarterly reports on collections of remaining principal, positions in arrears and disputed positions arising from securitisation transactions.

The Special-purpose Loans and Securitisations Service prepares summary reports on portfolios sold. As part of critical situation management, the ALM & Capital Management Service notifies cases that may pose potential risks for noteholders to the relevant functions in the organisation.

In its capacity as third-level control body, the Internal Audit Area uses sampling procedures to periodically validate:

- whether the degree of recoverability of loans sold is accurate and, as a result, whether the fair value of securities issued is appropriate;
- whether line checks assigned to the various units have been carried out and roles and responsibilities properly identified;
- the compliance of reporting/accounting procedures with current regulations in collaboration with other units, as necessary;
- the existence of any conflicts of interest with respect to noteholders; and compliance, on a sampling basis, with the obligations of Law 197/91, as amended.

Non-performing securitisations, on the other hand, are handled by the Debt Collection Area, while all activities connected with the securitisation of loans originated by other subsidiaries (in particular, Consum.it SpA, Mps Capital Services and Mps Leasing &Factoring) are managed by them.

Redemption of securitisations

In 2013 , the Mantegna Finance II securitisation was redeemed, with economic effect as of 9 July 2013. The securitisation involved residential mortgages originated by the former Banca Agricola Mantovana and sold by them to the Vehicle "Mantegna Finance II Srl" on 20 December 2002.

On 5 November 2013, Banca Popolare di Spoleto (a subsidiary of the Parent Company) redeemed the securitisation Ulisse 4, a securitisation of non-performing loans which was originated in 2001 and had a remaining debt balance of EUR 13.0 mln as at 30 09 2013.

Securitisations originated in previous financial years, outstanding as at 31.12.2013

Following is an outline of the Group's performing securitisation transactions originated in previous financial years, outstanding as at 31/12/2013, all of which qualifying for derecognition of the underlying assets.

Gonzaga Finance S.r.l.

In 2000 Banca Agricola Mantovana SpA used securities as collateral for securitisatons through the special-purpose Vehicle, "Gonzaga Finance Srl"; as at today, the remaining debt balance on the portfolio sold stands as at EUR 10 mln.

Siena Mortgages 10-7 S.r.l.

On 30 September 2010, a portfolio of 34,971 performing residential mortgages originated by MPS was sold for approx. EUR 3.5 bn. As at 31/12/2013, the remaining debt balance on the portfolio sold amounted to EUR 2,755.4 mln (30,431 outstanding mortgages).

To fund the acquisition of the portfolio, the Vehicle issued residential mortgage-backed securities (RMBS); Class A1 and A2 notes were placed with market investors, whereas the remaining classes of notes issued were underwritten by the Parent Company. Market placement of classes A1 and A2 did not entail the derecognition of the underlying assets from the balance sheet of the Parent Company (transferor), which has substantially retained all risks and rewards associated with the property of the assets sold. Consequently, an offsetting entry for the cashflows arising from the disposal of tranche A1 and A2 was posted on the liabilities side of the balance sheet.

Casaforte S.r.l.

This securitisation was carried out in 2010 and consisted in the transfer to Vehicle Casaforte Srl of a pool of receivables arising from a mortgage loan granted to the consortium company, Perimetro Gestione Proprietà Immobiliari. The remaining debt on the portfolio sold as at 31/12/2013 amounted to EUR 1,462.0 mln.

The subsidiary MPS Capital Services holds Class A (Senior) and Class B (Mezzanine) notes in its portfolio. In December the Parent Company announced the completed buyback in full of the PGPI 2010 equity financial instruments and related Class Z Notes for a value of approximately EUR 70 mln. As a result of these purchases, the Parent Company acquired control of the Company, which was subsequently consolidated in the 2013 Financial Statements.

Securitisation transactions completed in 2013

In December, the securitisation of a portfolio of special purpose, personal and auto loans was launched. The loans were originated by the subsidiary Consum.it and sold to the Vehicle "Siena Consumer Srl", with Class A notes being privately placed with international investors.

As at 31/12/2013, the remaining debt balance on the portfolio sold amounted to approx. EUR 1.5 bn.

Quantitative Information

C.1.1 Banking Group - Exposures arising from securitisation transactions broken down by quality of underlying assets

31 12 2013

Quality of underlying assets/ Exposures	Balance-sheet exposure						Guarantee issued						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With own underlying assets:	259,184	259,184	3,062,376	3,101,562	160,916	160,911	-	-	-	-	-	-	-	-	-	-	-	-
a) Non -performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	259,184	259,184	3,062,376	3,101,562	160,916	160,911	-	-	-	-	-	-	-	-	-	-	-	-
B. With third-party underlying assets:	365,835	363,329	21,287	21,287	5,377	5,167	-	-	-	-	-	-	-	-	-	-	-	-
a) Non-performing	49,969	49,865	1,112	1,112	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	315,866	313,464	20,175	20,175	5,377	5,167	-	-	-	-	-	-	-	-	-	-	-	-

In relation to securitisation transactions with own and third-party underlying assets, the table indicates balance-sheet exposures, unsecured exposures, and other forms of 'credit enhancement'.

'Third-party' securitised exposures exclusively include balance-sheet exposures and consist in securities issued by third parties' vehicles.

C.1.2 Banking Group - Exposures arising from major own securitisation transactions broken down by type of securitised assets and exposures

31 12 2013

	Balance-sheet exposure						Guarantees issued						Lines of credits					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Write-downs/ write-backs	Book value	Write-downs/ write-backs	Book value	Write-downs/ write-backs	Book value	Write-downs/ write-backs	Book value	Write-downs/ write-backs	Book value	Write-downs/ write-backs	Book value	Write-downs/ write-backs	Book value	Write-downs/ write-backs	Book value	Write-downs/ write-backs
A. Fully derecognised																		
A.3 Casaforte	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- non residential mortgages	259,184	-	89,576	-	2,815	- 6	-	-	-	-	-	-	-	-	-	-	-	-
A.12 SIENA MTGE 04/38 TV	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Oggetto di parziale cancellazione dal bilancio	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Non cancellate dal bilancio	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C.1 SIENA MORTGAGES 10-7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- residential mortgages	-	-	2,523,686	-	136,196	-	-	-	-	-	-	-	-	-	-	-	-	-
A.14 Siena Consumer	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- consumer credit	-	-	488,300	-	21,900	-	-	-	-	-	-	-	-	-	-	-	-	-
A.15Siena Mortgages 09-6 Srl	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- mortgages	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

In relation to securitisation transactions with own and third-party underlying assets, the table indicates balance-sheet exposures, unsecured exposures, and other forms of 'credit enhancement'.

C.1.3 Banking Group - Exposures arising from major 'third-party' securitisation transactions broken down by type of securitised asset and type of exposure

31 12 2013

Type of securitised asset/Exposure	Balance-sheet exposure						Guarantees issued						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Write-downs/ write-backs	Book value	Write-downs / write-	Book value	Write-downs / write-	Book value	Write-downs / write-	Book value	Write-downs / write-	Book value	Write-downs / write-	Book value	Write-downs / write-	Book value	Write-downs / write-	Book value	Write-downs / write-
A.13 AyT CEDULAS CAJAS GLOBAL																		
-bond	27,973	- 163	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.16 BERICA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- residential mortgages	9,833	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.19 CCS TV JN43	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- residential mortgages	8,913	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.20 CLARF-TV 11/60 A2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- residential mortgages	5,004	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.21 CLOVERIE TVSE14	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
bond	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.22 COLOMBO Srl	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- residential mortgages	-	-	16,670	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.24 CORDUSIO TVDE23	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
residential mortgages	2,365	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.32 ENTASI Srl	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non performing loans	49,866	- 103	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.35 FIPFD 05/23 TV	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non performing loans	19,790	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.43 GREYL TV MR14	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
bond	8,934	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.51 MONTE 2008 B.V.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non residential mortgages	167,946	(2,556)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.52 PATAG ZC DE16	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
bond	59,780	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.53 PATAGONIA FINANCE s.a.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
bond	-	-	-	-	3,559	- 209	-	-	-	-	-	-	-	-	-	-	-	-

31 12 2013

Type of securitised asset/Exposure	Balance-sheet exposure						Guarantees issued						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Write-downs/ write-backs	Book value	Write-downs / write-	Book value	Write-downs / write-	Book value	Write-downs / write-	Book value	Write-downs / write-	Book value	Write-downs / write-	Book value	Write-downs / write-	Book value	Write-downs / write-	Book value	Write-downs / write-
A.62 PTRMO1B TV DE12	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non residential mortgages	-	-	1,204	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.67 SANTANDER FINANCIACION 1 FO!	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
residential mortgages	-	-	1,112	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.70 SEMPER FINANCE 2007-1 G.M.B.H	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
residential mortgages	-	-	2,299	-	1,608	-	-	-	-	-	-	-	-	-	-	-	-	-
A.80 VELA HOME S.r.l.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
residential mortgages	255	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.81 Spoleto Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
first mortgages real estate loans	2,670	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Totale Cartolarizzazioni di terzi	363,329	(2,821)	21,286	-	5,167	- 209	-	-	-	-	-	-	-	-	-	-	-	-

The table indicates the exposures assumed by the Group in relation to each third-party securitisation transaction, and also reports the contractual type of assets sold. The column "Write-downs/write-backs" indicates the amount of any write-downs or write-backs during the year as well as depreciations and revaluations posted to profit and loss or directly to equity reserves, in the case of AFS securities.

The only exposure to non-performing securitisations for an amount of EUR 49.9 mln is in the case of Entasi S.r.l.
Exposures to third parties represented by junior notes include: Patagonia Finance for an amount of EUR 3.6 mln and Semper Finance 2007-1 for an amount of EUR 1.1 mln.

C.1.4 Banking Group - Exposures arising from securitisation transactions broken down by portfolio and type

Exposure/portfolio	Financial assets held for trading	Financial assets designated at fair value	Financial assets available for sale	Financial assets held to maturity	Loans	Total 31 12 2013	Total 31 12 2012
1. Balance-sheet exposure	**480,319**	**-**	**17,506**	**-**	**243,534**	**741,359**	**700,823**
- Senior	382,162	-	16,302	-	224,049	622,513	630,039
- Mezzanine	92,989	-	1,204	-	16,670	110,863	54,082
- Junior	5,168	-	-	-	2,815	7,983	16,702
2. Off-balance-sheet exposures	**54,296**	**-**	**-**	**-**	**-**	**54,296**	**4,570**
- Senior	54,296	-	-	-	-	54,296	4,570
- Mezzanine	-	-	-	-	-	-	-
- Junior	-	-	-	-	-	-	-

The table indicates the Group's exposures in relation to each of its own and third-party securitisation transactions, and also reports balance-sheet portfolios to which these assets were allocated.

C.1.5 Banking Group – Total amount of securitised assets underlying junior securities or other forms of credit enhancement

31 12 2013

Asset / Amount	Traditional securitisations	Synthetic secularisations
A. With own underlying assets:	**5,655,758**	**-**
A.1 Fully derecognised	1,462,064	-
1.Doubtful loans	-	x
2. Substandard loans	-	x
3. Restructured loans	-	x
4. Past-due	-	x
5. Other assets	1,462,064	x
A.2 Partially derecognised	-	-
1.Doubtful loans	-	x
2. Substandard loans	-	x
3. Restructured loans	-	x
4. Past-due	-	x
5. Other assets	-	x
A.3 Not derecognised	4,193,694	-
1.Doubtful loans	11,478	-
2. Substandard loans	6,389	-
3. Restructured loans	-	-
4. Past-due	13,833	-
5. Other assets	4,161,994	-
B. With third-party underlying assets:	**252,555**	**-**
1.Doubtful loans	-	-
2. Substandard loans	-	-
B.3 Restructured loans	-	-
B.4 Past due	173	-
B.5 Other assets	252,382	-

The table indicates, in terms of junior securities and other forms of credit enhancement held, the amount of the existing portfolio of securitised assets on reporting date broken down by quality of securitised assets and origin (own or third-party assets).

Line “A.1 Fully derecognised” includes assets underlying the performing junior notes of the Casaforte S.rl. securitisation.

Line “A.3 Not derecognised" comprises the underlying assets recognised under assets in the balance sheet, broken down by quality of receivables, in relation to the performing securitisation of residential mortgage loans, Siena Mortgages 10-7 and Siena Consumer.

Line “B. Third-party underlying assets" includes the underlying assets of Patagonia Finance.

C.1.6 Banking Group - Stakes in special purpose vehicles

Name	Registered Office	Stake %
Siena Mortgages 10-7 S.r.l.	Conegliano (TV) - Via V. Alfieri n.1	7%
Siena Consumer S.r.l.	Conegliano (TV) - Via V. Alfieri n.1	10%

This table shows the stakes held in special purpose vehicles. All of the above are stakes in own securitisation vehicles. Stakes in vehicles that have no pools of securitised assets are not shown in the table.

C.1.7 Banking Group - Servicer activities - Collections of securitised loans and redemptions of securities issued by special purpose vehicles

31 12 2013

Servicer	Special Purpose Veicle	Securitised assets (year-end data)		Loans collected during the year		Percentage of securities redeemed (year-end data)					
						Senior		Mezzanine		Junior	
		Impaired	Performing	Impaired	Performing	Impaired	Performing	Impaired	Performing	Impaired	
Consum.it	Siena Consumer S.r.l.	1,370	1,463,953	10	43,830	-	-	-	-	-	-
BMPS	Siena Mortgages 10-07 S	30,973	2,724,468	-	47,714	-	22.35%	-	-	-	8.25%
BMPS	Casaforte Srl	-	1,462,064	48	241,679	-	-	-	-	-	-
BMPS	Gonzaga Finance Srl	-	10,000	-	400	-	100.00%	-	-	-	51.49%
	Total 31 12 2013	**32,343**	**5,660,485**	**58**	**333,623**	-	-	-	-	-	-
	Total 31 12 2012	**23,776**	**4,485,442**	**1,993**	**379,917**	-	-	-	-	-	-

The table shows own securitisations where the Parent Company plays the role of servicer. With reference to multi-originator securitisation transactions, the originator banks are in charge of servicing in relation to the portion of loans sold.

C.1.8 Banking Group - Special purpose vehicles controlled by the Banking Group

A summary of the securitisation transactions of the Group's vehicle companies is provided in the section on qualitative information.

C.2 Transfers

A. Financial assets sold and not fully derecognised:

Qualitative Information

For a description of the transactions contained in the tables reported in this section, please refer to the footnotes of the tables themselves.

With a particular regard to transactions in debt securities against medium and long term repurchase agreements, please refer to the Part B of these Notes to the Financial Statements.

Quantitative Information

C.2.1 Banking Group - Financial assets sold and not derecognised: book value and full value

31 12 2013

Type/portfolio	Financial assets held for trading			Financial assets designated at fair value			Financial assets available for sale			Financial assets held to maturity			Loans to banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31 12 2013	31 12 2012
A. Balance-sheet assets	6,090,336	-	-	-	-	-	17,561,411	-	-	-	-	-	210,846	-	-	5,166,529	-	-	29,029,122	25,416,622
1. Debt securities	6,013,752	-	-	-	-	-	17,561,411	-	-	-	-	-	210,846	-	-	972,836	-	-	24,758,845	22,423,690
2. Equity instruments	76,584	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	76,584	44,276
3. UCITS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,193,693	-	-	4,193,693	2,948,656
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total 31 12 2013	**6,090,336**	**-**	**-**	**-**	**-**	**-**	**17,561,411**	**-**	**-**	**-**	**-**	**-**	**210,846**	**-**	**-**	**5,166,529**	**-**	**-**	**29,029,122**	**X**
of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*31,699*	-	-	*31,699*	*X*
Total 31 12 2012	**6,325,947**	**-**	**-**	**-**	**-**	**-**	**15,223,761**	**-**	**-**	**-**	**-**	**-**	**833,367**	**-**	**-**	**3,033,547**	**-**	**-**	**X**	**25,416,622**
of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*19,366*	-	-	*X*	*19,366*

Key:
A = Financial assets sold and fully recognised (book value)
B = Financial assets sold and partially recognised (book value)
C = Financial assets sold and partially recognised (full value)

The table reports the book value of financial assets sold but not derecognised, and still partially or fully reported in balance sheet assets. Line “1. Debt securities" exclusively includes securities sold in sale and repurchase agreements; the amount in line "4. Loans" refers to performing loans included in securitisation transaction without derecognition, Siena 10-7and Siena Consumer S.r.l.

C.2.1.a – Types of transfers of financial assets not derecognised

Item/Amount	Total 31 12 2013	Total 31 12 2012
Reverse repurchase agreements	24,779,362	22,343,483
Securisations	4,193,693	2,948,656
Securities lending	56,066	124,483

C.2.2 Banking Group - Financial liabilities associated with transferred financial assets that are not derecognised: book value

Liabilities/Asset Portfolios	Financial assets held for trading	Financial assets designated at fair value	Financial assets available for sale	Financial assets held to maturity	Loans to banks	Loans to customers	Total
1. Deposits from customers	**1,947,059**	**-**	**12,890,338**	**-**	**-**	**1,087,784**	**15,925,181**
a) relating to fully recognised assets	1,947,059	-	12,890,338	-	-	1,087,784	15,925,181
b) relating to partially recognised assets	-	-	-	-	-	-	-
2. Deposits from banks	**137,777**	**-**	**1,894,106**	**-**	**146,328**	**351,996**	**2,530,207**
a) relating to fully recognised assets	137,777	-	1,894,106	-	146,328	351,996	2,530,207
b) relating to partially recognised assets	-	-	-	-	-	-	-
3. Debt securities issued	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) relating to fully recognised assets	-	-	-	-	-	-	-
b) relating to partially recognised assets	-	-	-	-	-	-	-
Total 31 12 2013	**2,084,836**	**-**	**14,784,444**	**-**	**146,328**	**1,439,780**	**18,455,388**
Total 31 12 2012	**2,643,311**	**-**	**12,842,854**	**-**	**173,312**	**1,363,448**	**17,022,925**

The table indicates the book value of financial liabilities posted as offsetting entries to financial assets sold and not derecognised partially or in their entirety from balance sheet assets. This category only involves liabilities posted against repurchase agreements.

C.2.3 Sales transactions relating to financial liabilities with repayment exclusively based on assets sold and not derecognised: fair value

31 12 2013

Type/ Portfolio	Financial assets held for trading		Financial assets designated at fair value		Financial assets available for sale		Financial assets held to maturity (fair value)		Loans to banks (fair value)		Loans to customers (fair value)		Total	
	A	B	A	B	A	B	A	B	A	B	A	B	31 12 2013	31 12 2012
A. Balance-sheet assets	-	-	-	-	-	-	-	-	-	-	4,148,025	-	4,148,025	2,950,327
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.Equity instruments	-	-	-	-	-	-	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	4,148,025	-	4,148,025	2,950,327
B. Derivatives	-	-	X	X	X	X	X	X	X	X	X	X	-	-
Total assets	-	-	-	-	-	-	-	-	-	-	4,148,025	-	4,148,025	2,950,327
C. Associated financial liabilities	-	-	-	-	-	-	-	-	-	-	1,087,162	-	X	X
1. Deposits from customers	-	-	-	-	-	-	-	-	-	-	1,087,162	-	X	X
2. Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-	X	X
Total liabilities	-	-	-	-	-	-	-	-	-	-	1,087,162	-	1,087,162	277,348
Net value 31/12/2013	-	-	-	-	-	-	-	-	-	-	3,060,863	-	3,060,863	X
Net value 31/12/2012	-	-	-	-	-	-	-	-	-	-	2,672,979	-	X	2,672,979

Key:
A = Financial assets sold and fully recognised (book value)
B = Financial assets sold and partially recognised (book value)

The amount reported in the column "Loans to customers – fair value" exclusively refers to the fair value of receivables sold with securitisation Siena 10-7 and Siena Consumer S.r.l.,which continue to be fully recognised in the Parent Company's and in the subsidiary Consum.it balance sheet assets. The amount of EUR 1,087.2 mln reported under associated liabilities refers to the fair value of the portion of *senior* notes sold to a leading banking counterparty as part of the same securitisation. The Parent Company and the subsidiary Consum.it have recognised a liability with the notes-issuing vehicles as an offsetting entry for the cashflows arising from this disposal. Against this liability, the creditor's entitlement to repayment is limited to cashflows arising from the assets underlying senior notes sold.

B. Financial assets sold and fully derecognised with assessment of "continuing involvement"

Qualitative Information

Quantitative Information

None to report as at 31 December 2013.

C.3 Banking Group – Covered bond transactions

Characteristics of the Covered Bond Issuance Programmes

In the course of 2010, the Parent Company launched a programme for the issuance of Covered Bonds for an amount of EUR 10,000 mln. The programme is intended to place a new product on the market, offering covered bonds as a preferred instrument for financial profile improvement in the short and mid term. In light of the developments in the financial markets, the programme should be considered as part of a wider strategy, aimed at:

- curbing the costs of funding: covered bonds are widely preferred, inasmuch as they are issued directly by the Bank and their repayment is guaranteed by a segregated pool of assets (in this case, residential mortgage loans); in the event of issuer bankruptcy, covered bond holders enjoy a right of recourse on a portfolio of segregated high-quality assets and are, therefore, willing to accept a lower yield than the one offered by similar uncovered bonds;
- diversifying the Bank's funding sources on the international market;
- lengthening its average debt duration;

With a view to improving the efficiency and stability of the Group's Counterbalancing Capacity, in 2012 a second issuance programme was authorised for a maximum of EUR 20 bn. The covered bonds were not explicitly rated when launched but, in the course of 2013, were assigned a rating (A) by the agency, DBRS. The programme is not intended for the market but for transactions eligible as collateral in refinancing transactions through the European Central Bank.

The structure of the Group's Covered Bond programmes requires fulfillment of the following activities:

a) the Parent Company or another Group company transfers, without recourse, a pool of assets, which may consist of cash and other assets as appropriate (real-estate backed, residential and commercial mortgage loans, receivables from or guaranteed by the Public Administration and securities issued as part of securitisations involved these same types of loans and receivables), to the vehicles MPS Covered Bond S.r.l. and MPS Covered Bond 2 S.r.l., thereby forming a cover pool;
b) the Transferor grants a subordinated loan to the vehicle, for the purpose of financing payment of the assets' purchase price by the vehicle;
c) the Parent Company issues covered bonds secured by an autonomous, irrevocable and unconditional first-demand guarantee issued by the vehicle for the only benefit of the bond-holding investors and senior debtors in the Programme; the guarantee involves limited recourse to the assets of the Cover Pool owned by the vehicle (*guarantor*).

Accounting treatment

Pursuant to IAS 39, the derecognition of a financial instrument from the balance sheet of the transferor is determined on the basis of the substance of the contract,) rather than its legal form.

Having said this, the deal is recognised as follows:

- transferred loans continue to be reported in the Parent Company's balance sheet under sub-item "Loans" of item 70 " Loans to customers" on the asset side, inasmuch as the Parent Company retains the risks and rewards of ownership of the loans transferred;
- the loan disbursed by the Parent to the Vehicle is not classified as a separate item in the balance sheet, since it is offset with the amount due to the Vehicle in which the initial transfer price was recognised. The loan, therefore, is not subject to credit risk assessment, because this risk is entirely reflected in the assessment of transferred loans, which continue to be reported in the Parent Company's balance sheet.
- Loans are subject to movements based on own events (figures and assessment); instalments collected by the Parent (which also acts as a servicer) are reallocated daily to the Vehicle's "Collection Account" and accounted for by the Parent as follows:

- collection of principal from borrower is recognised as an offsetting entry to the reduction in the loan to the borrower;
- reallocation of principal to the Vehicle is recognised as an offsetting entry to the recognition of a loan to the Vehicle;
  - this loan is paid off upon repayment of the subordinated loan;
  - interest from borrower is recognised as an offsetting entry to Account 10 "Interest income: Loans and advances to customers" (interest on loans continues to be recognised on an accrual basis);
  - reallocation of interest to the Vehicle is recognised as an offsetting entry to the recognition of a loan to the Vehicle;
  - this loan is paid off upon collection of the receive leg of the Cover Pool Swap;
- The vehicles “MPS Covered Bond S.r.l.” and “MPS Covered Bond 2 S.r.l.” are invested in by the Parent Company for a control stake of 90%, recognised under Item 100 “Equity Investments” and included in the Group's consolidated financial statements under the comprehensive approach.
- Bonds issued are posted to Item 30 "Debt securities issued" on the liabilities side, and related interest expense is recognised on an accrual basis.

In consideration of the characteristics and accounting treatment of the deal, the swaps associated to the transaction are not recognised in the balance sheet, since their recognition would entail, pursuant to par. AG49 of IAS 39, a duplication of rights and obligations already recognised due to loans transferred being maintained on the balance sheet.

Risks and Control Measures

In order to allow the transferee to meet the obligations of the collateral pledged, the Parent Company uses appropriate *Asset & Liability Management* techniques to secure a trend of substantial balance between the maturities of cash flows arising from the assets sold and maturities of payments due in relation with the covered bonds issued and other costs of the transaction.

The Programmes were structured in compliance with applicable rules and regulations which authorise the issuance of covered bonds only if the transferring and issuing banks meet certain capital requirements.

The structure of the debt issuance programmes of the Parent Company (transferor and servicer) is subject to stringent regulatory requirements and calls for continuous actions by the Specialised Credit Processes and Services Area; Finance, Treasury & Capital Management and Risk Management Areas, as well as supervision by an external auditor (Deloitte & Touche) as Asset Monitors. In particular, these actions include:

- assessment of capital requirements mandated by Supervisory Instructions when it comes to covered bond issuance programmes;
- assessment of the quality and integrity of assets transferred with regard, in particular, to the estimated value of properties, both residential and non-residential, on which a mortgage in relation with the asset-backed loans is placed; this assessment may result in repurchases, integrations and additional transfers of supplemental assets;
- assessment of an appropriate ratio being maintained between bonds issued and assets transferred as collateral (Cover Pool - mortgage and residential assets; commercial assets for the second programme);
- assessment of transfer limits and integration practices;
- assessment on whether risks are effectively and adequately hedged by derivative contracts in relation to the transaction.

In the course of 2013, the mitigation strategy for interest rate risk on the first Programme was restructured in order to minimise the Vehicle's exposure to market counterparties. In particular, the newly-defined strategy aims to only cover the Vehicle's net exposure to interest rate risk, as opposed to the nominal amount. At the same time, the outsourcing of three Covered Bond Swaps with market counterparties was carried out.

Description of individual issuances

Here follows a summary of the main characteristics regarding transfers in the first Programme:

FIRST PROGRAM

Cover Pool transfer date	Type of securitised assets	Transferor	Total value of assets transferred (in units of €)	no. of mortgage loans transferred	Breakdown of transferred debtors by business sectors
21 05 2010	Residential mortgage loans	Banca MPS	4,413,282,561	36,711	100% natural persons
19 11 2010	Residential mortgage loans	Banca MPS	2,400,343,585	19,058	100% natural persons
25 02 2011	Residential mortgage loans	Banca MPS	3,887,509,799	40,627	100% natural persons
20 05 2011	Residential mortgage loans	Banca MPS (ex Banca Antonveneta)	2,343,829,924	26,804	100% natural persons
16 09 2011	Residential mortgage loans	Banca MPS	2,323,368,355	27,973	100% natural persons
14 06 2013	Residential mortgage loans	Banca MPS	415,948,266	4,259	100% natural persons
Total			**15,784,282,490**	**155,432**	

Here follows a summary of the main characteristics regarding transfers in the second Programme:

SECOND PROGRAM

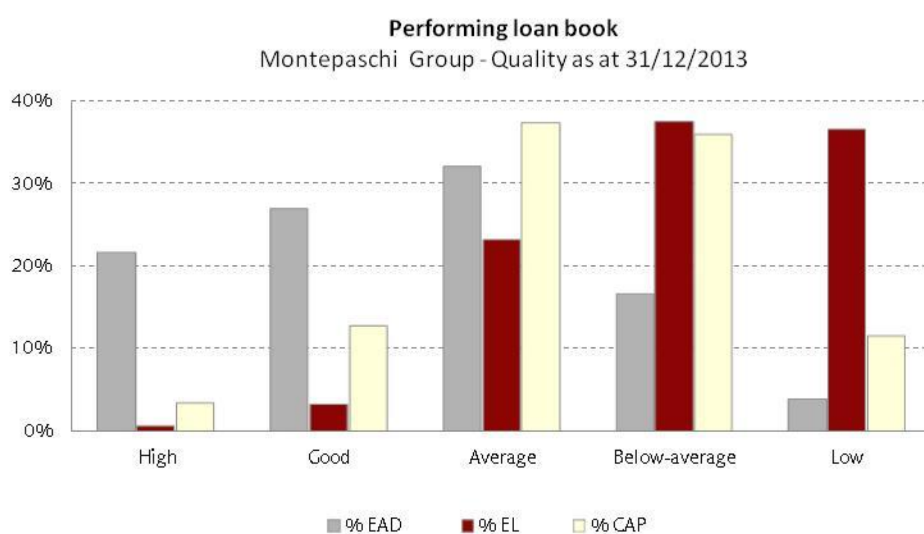
Cover Pool transfer date	Type of securitised assets	Transferor	Total value of assets transferred (in units of €)	no. of mortgage loans transferred	Breakdown of transferred debtors by business sectors
27 04 2012	Residential mortgage loans	Banca MPS	2,384,995,478	27,302	100% natural persons
22 06 2012	Residential and commercial mortgage loans	Banca MPS	2,478,270,455	14,008	Mixed
24 08 2012	Residential and commercial mortgage loans	Banca MPS	1,401,965,498	17,353	Mixed
21 09 2012	Residential and commercial mortgage loans	Banca MPS	2,473,677,574	9,870	Mixed
15 02 2013	Residential mortgage loans	Banca MPS	1,286,740,404	9,033	Mixed
21 06 2013	Residential mortgage loans	Banca MPS	2,147,692,217	12,771	Mixed
Total			**12,173,341,626**	**90,337**	

As part of the first Programme, the Parent Company completed a total of fifteen issuances, twelve of which had not yet matured or been repaid early for a total of EUR 8,020 mln. In 2013 three issuances were issued and repurchased for a total of EUR 1,500 mln. Of the twelve existing issuances, four were intended for the market for a total of EUR 5,520 mln, with the remaining, amounting to EUR 2,500 mln, being repurchased by the Parent Company.

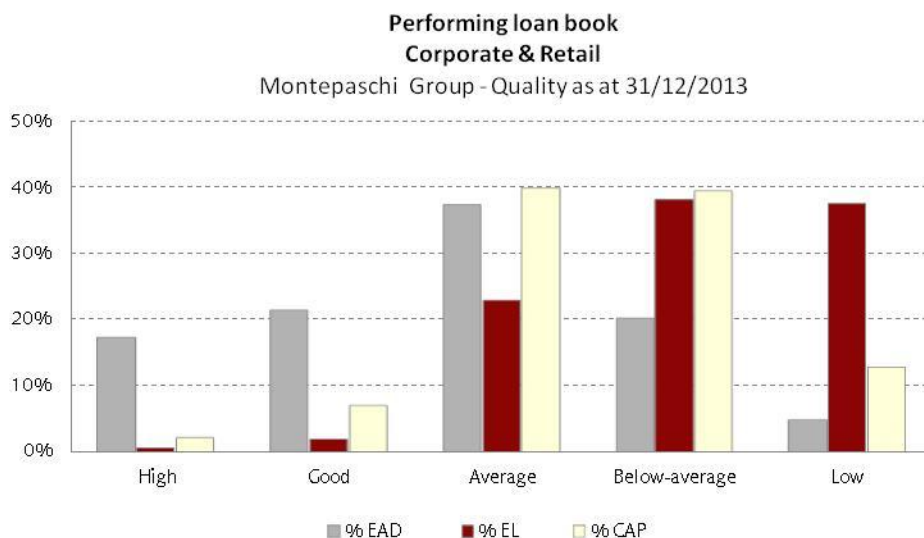
As part of the second Programme, the Parent Company completed thirteen issuances (excluding one which was redeemed), for a total of EUR 8,400 mln, which were not intended for the market but repurchased by the Bank and used as collateral for refinancing transactions in the Eurosystem. In 2013 four issuances were issued and repurchased for a total of EUR 2,100 mln.

D. BANKING GROUP - CREDIT RISK MEASUREMENT MODELS

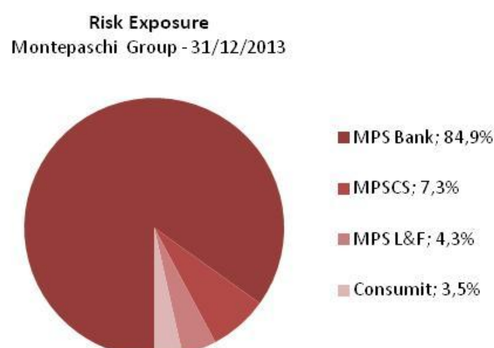
The chart below provides a credit quality breakdown of the Montepaschi Group portfolio as at 31 December 2013 (excluding financial asset positions). The graph below shows that about 48% of risk exposure is towards high and good quality customers. It should be noted that the ranking below also includes exposure to banks, government agencies and non-regulated financial and banking institutions, which are not included in the AIRB approaches. As borrowers, these entities are nevertheless subject to a credit standing assessment using official ratings, if any, or appropriate benchmark values that have been determined internally.



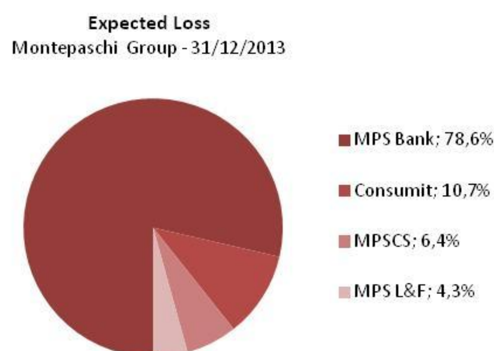
On the other hand, the following chart provides a breakdown of credit quality only for Corporate and Retail portfolios (which are largely validated by regulatory authorities for the use of internal PD and LGD models). As at 31/12/2013, high or good quality exposure accounted for approximately 38% of total exposure.



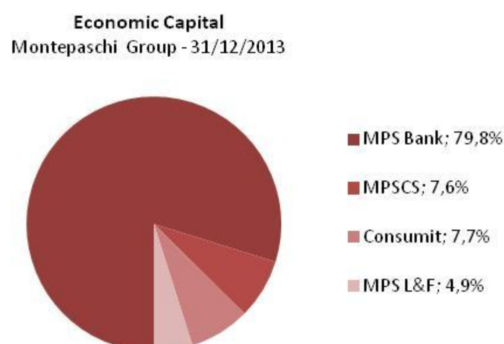
The following chart shows that the retail bank (Parent Company) contributes approximately 84.9% of the total Montepaschi Group's exposure to risk, whereas the companies MPS Capital Services, MPS L&F, and Consum.it account for the remaining 15.1%.



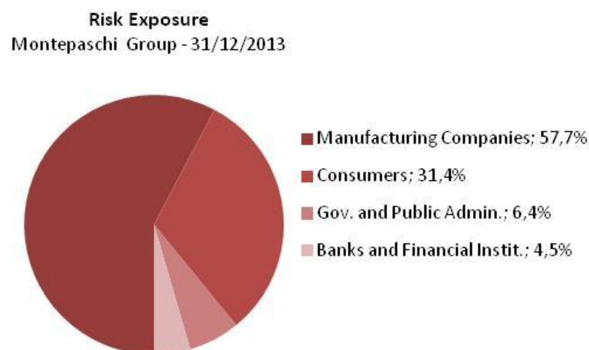
With regard to risk measures, the highest percentage of expected loss is attributable to the Parent Company at 78.6%, followed by Consum.it and MPS Capital Services (10.7% and 6.4% respectively), while the remainder (4.3%) is assigned to cover the risks of MPS Leasing & Factoring.



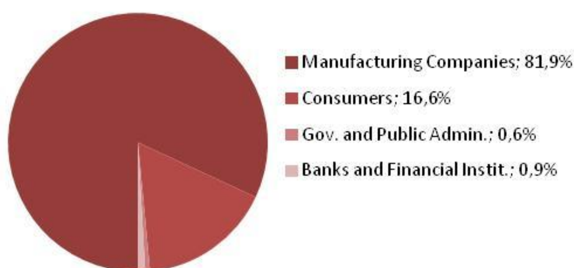
Most of the overall amount of Economic Capital to cover credit risk is absorbed by the Parent Company (about 79.8%), followed by Consum.it and MPS Capital Services (7.7% and 7.6% respectively) with the remaining 4.9% absorbed by MPS Leasing & Factoring.

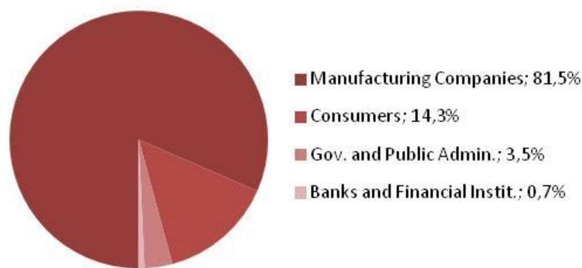


An analysis conducted at the end of 2013 shows that the Group's risk exposure is mainly toward “Manufacturing Companies” (57.7% of total loans disbursed) and “Households” (31.4%). The remaining portion is broken down between "Government and Public Administration" and "Banks and Financial Institutions", respectively at 6.4% and 4.5%.

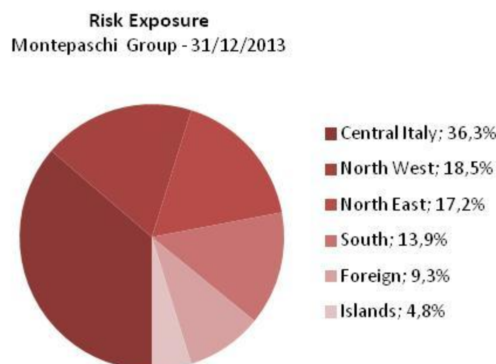


In terms of risk measures, the analysis reveals that Manufacturing Companies account for 81.9% of the Expected Loss and 81.5% of the Economic Capital. The portion for “Households” comes to 16.6% for Expected Loss and 14.3% for Economic Capital respectively.

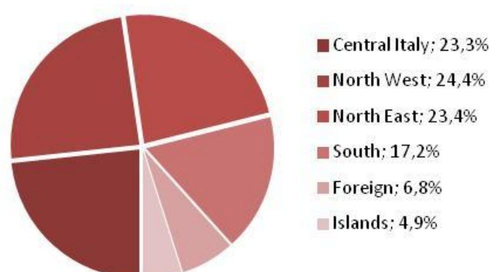




An analysis of the geographical breakdown of Group customers shows that exposure to risk is primarily concentrated in Italy’s Central regions (36.3%), followed by the North West and North East (18.5% and 17.2%), Southern Italy (13.9%), foreign countries (9.3%) and Italy's islands (4.8%).

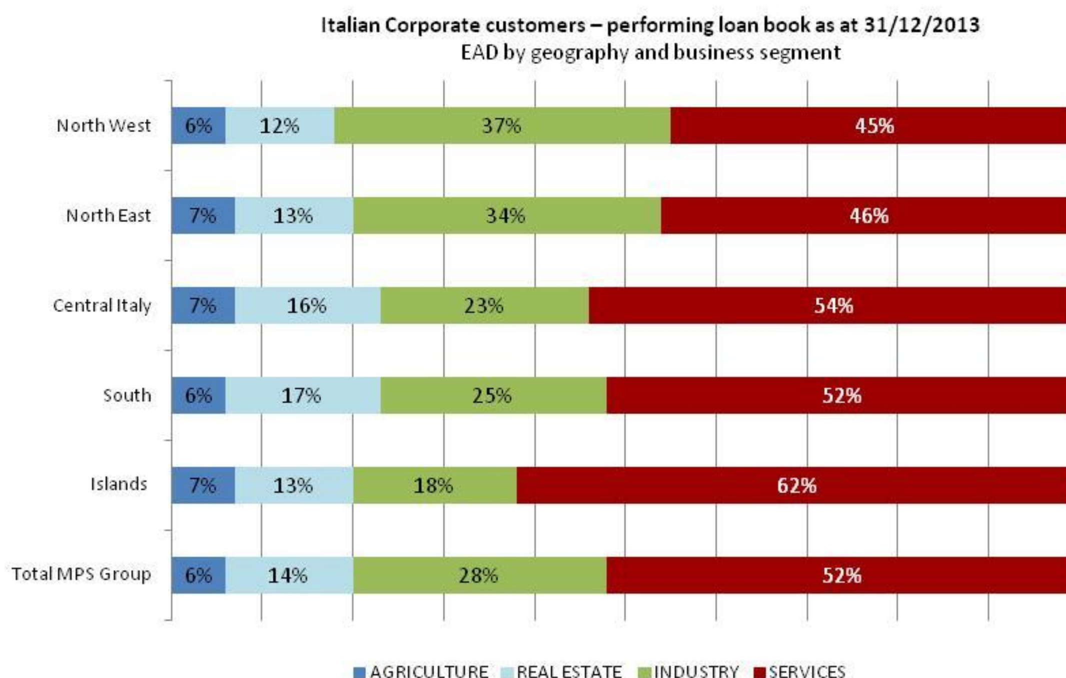


Overall risk measures (expected loss + economic capital) are also higher (23.4%) in North West Italy (24.4%) and North East Italy (23.4%) due to the greater concentration of loans in those areas. These are followed by Central Italy (23.3%), Southern Italy (17.2%), the Islands (6.8%) and Foreign Countries (4.9%).

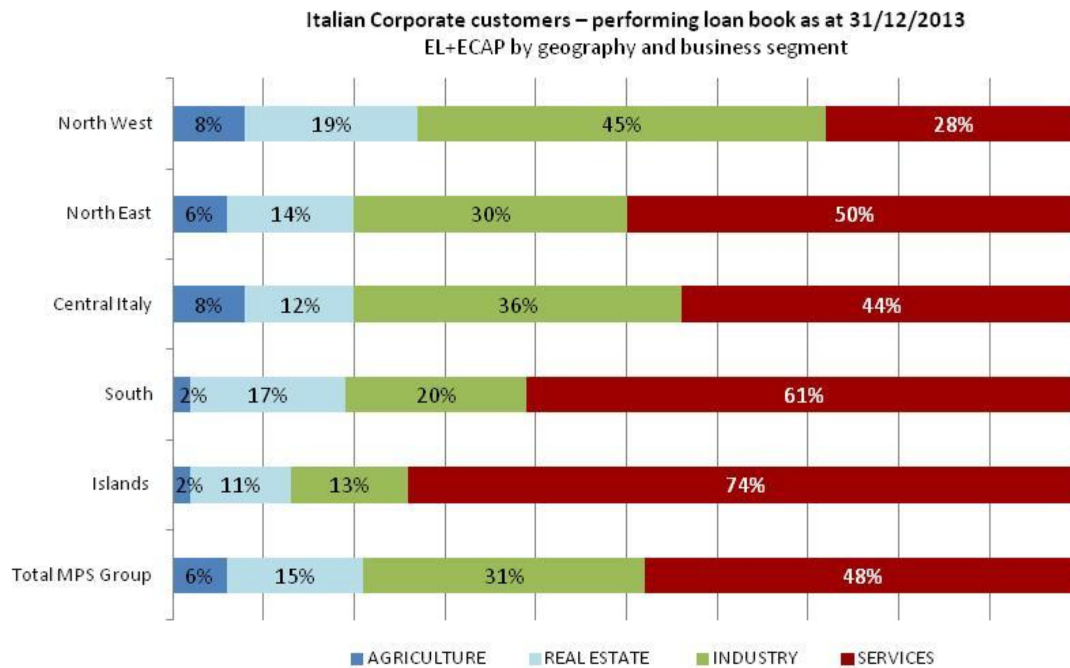


Lastly, the following graphs show a percentage breakdown for Italian corporate customers of Default Exposure and overall risk measures (Expected Loss + Economic Capital) by Geographic Areas and Business Sectors.

The largest share of Default Exposure for businesses in all Geographic Areas is accounted for by the "Services" sector. Out of the Group's total exposure, the share of Services accounts for 52% and is followed by Industry (28%), Building (14%) and Agriculture (6%).



Overall risk measures, defined as the sum of Expected Loss and Economic Capital, are also higher for the Services business sector in all Geographic Areas, with the exception of the North West of Italy where the Industrial sector accounts for the largest share (45%).



The comparison between expected loss and actual loss is performed on an annual basis by the internal control function as part of PD and LGD backtesting procedures.

1.2 Market risk

1.2.1 Interest rate and price risk – regulatory trading book

Market risk management model for the Trading Book

The Montepaschi Group's Regulatory Trading Portfolio (RTP), or Trading Book, is made up of all the Regulatory Trading Books managed by the Parent Company (BMPS) and MPS Capital Services (MPSCS). The market risks relating to the Trading Portfolio of MP Ireland in terms of Value-at-Risk (VaR) were closed in the first half of 2013. The portfolios of the other subsidiaries are also immune to market risk since they only contain their own bonds held to service retail customers. Trading in derivatives, which are brokered on behalf of the same customers, calls for risk to be centralised at, and managed by, MPSCS.

The market risks in the trading book of both the Parent Company and the other Group entities (which are relevant as independent market risk taking centres), are monitored in terms of VaR for operational purposes. The Group's Finance and Liquidity Committee is responsible for directing and coordinating the overall process of managing the Group's proprietary finance thereby ensuring that the management strategies of the various business units are consistent.

The Group's Trading Book is subject to daily monitoring and reporting by the Risk Management Area of the Parent Company on the basis of proprietary systems. VaR for management purposes is calculated separately from the operating units, using the internal risk measurement model implemented by the Risk Management function in keeping with international best practices. However, the Group uses the standardised methodology in the area of market risks solely for reporting purposes.

Operating limits to trading activities, which are established by the Board of Directors of the Parent Company, are expressed by level of delegated authority in terms of VaR, which is diversified by risk factors and portfolios, monthly and annual stop losses and Stress. Furthermore, the trading book's credit risk in addition to being included in VaR computations and in the respective limits for the credit spread risk component, is also subject to specific operating limits for issuer and bond concentration risk which specify maximum notional amounts by type of guarantor and rating class.

VaR is calculated with a 99% confidence interval and a *holding period* of 1 business day. The Group adopts the method of historical simulation with daily full revaluation of all basic positions, out of 500 historical entries of risk factors (lookback period) with daily scrolling. The VaR calculated in this manner takes account of all diversification effects of risk factors, portfolios and types of instruments traded. It is not necessary to assume, a priori, any functional form in the distribution of asset returns, and the correlations of different financial instruments are implicitly captured by the VaR model on the basis of the combined time trend of risk factors.

The management reporting flow on market risks is periodically transmitted to the Risk Committee, the CEO, the Chairman and the Board of Directors of the Parent Company in a Risk Management Report, which keeps Top Management and governing bodies up to date on the overall risk profile of the Group.

The macrocategories of risk factors covered by the Internal Market Risk Model are IR, EQ, FX and CS as described below:

- IR: interest rates on all relevant curves, inflation curves and relative volatilities;
- EQ: share prices, indexes, baskets and relative volatilities;
- FX: exchange rates and relative volatilities;
- CS: credit spread levels.

VaR (or diversified or net VaR) is calculated and broken down daily for internal management purposes, even with respect to other dimensions of analysis:

- organisational/management analysis of portfolios,
- analysis by financial instrument,
- analysis by risk family.

It is then possible to assess VaR along each combination of these dimensions in order to facilitate highly detailed analyses of events characterising the portfolios.

With particular reference to risk factors the following are identified: Interest Rate VaR (IR VaR), Equity VaR (EQ VaR), Forex VaR (FX VaR) and Credit Spread VaR (CS VaR). The algebraic sum of these items gives the so-called Gross VaR (or non-diversified VaR), which, when compared with diversified VaR, makes it possible to quantify the benefit of diversifying risk factors resulting from holding portfolios on *asset class* and *risk factor* allocations which are not perfectly correlated. This information can also be analysed along all the dimensions referenced above.

The model enables the production of diversified VaR metrics for the entire Group in order to get an integrated overview of all the effects of diversification that can be generated among the various banks on account of the specific joint positioning of the various business units.

The Group does not currently use the VaR-based internal model in its calculation of capital requirements on market risk.

Moreover, scenario and stress-test analyses are regularly conducted on various risk factors with different degrees of granularity across the entire tree structure of the Group's portfolios and for all categories of instruments analysed.

Stress tests are used to assess the bank's capacity to absorb large potential losses in extreme market situations, so as to identify the measures necessary to reduce the risk profile and preserve assets.

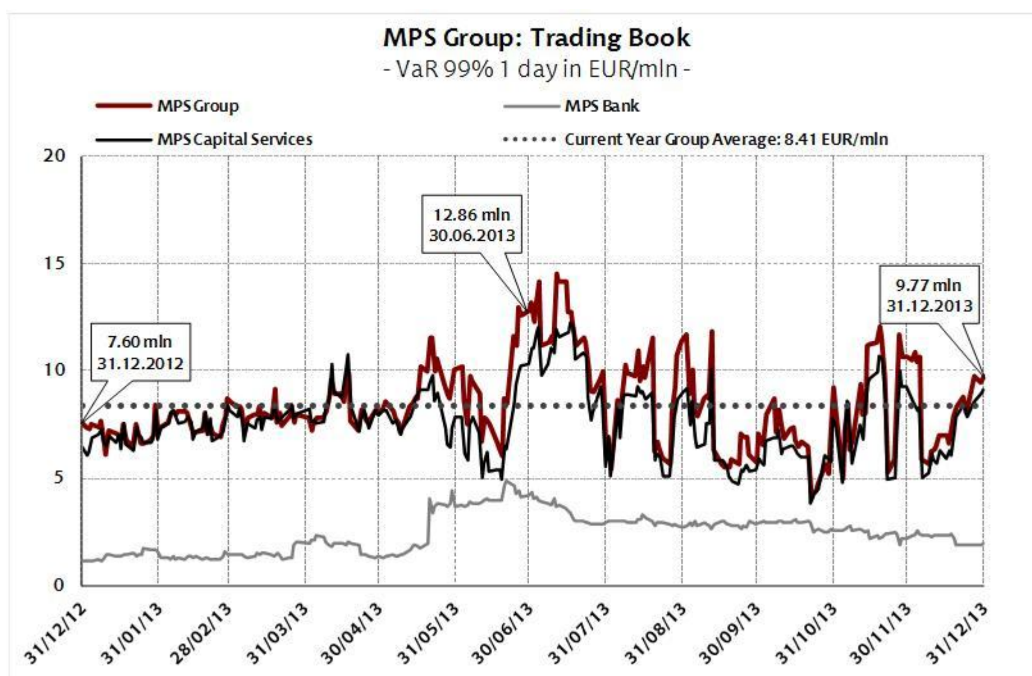
Stress tests are developed on the basis of discretionary and trend-based scenarios. Trend-based scenarios are defined on the basis of previously-registered real situations of market disruption. Such scenarios are identified based on a timeframe in which risk factors were subjected to stress. No particular assumptions are required with regard to the correlation among risk factors since trend-based data for the stress period identified have been measured.

Stress tests based upon discretionary scenarios assume extreme changes occurring to certain market parameters (interest rates, exchange rates, stock indices, credit spreads and volatility) and measure the corresponding impact on the value of portfolios, regardless of their actual occurrence in the past. Simple discretionary scenarios are currently being developed (variation of a single risk factor) as are multiple ones (variation of several risk factors simultaneously). Simple discretionary scenarios are calibrated to independently deal with one category of risk factors at a time, assuming shocks do not spread to the other factors. Multiple discretionary scenarios, on the other hand, aim to assess the impact of global shocks that simultaneously affect all types of risk factors.

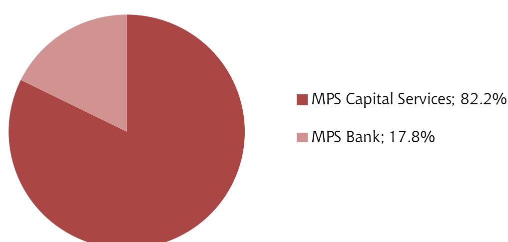
It should be noted that the VaR methodology described above is, for operational purposes, also applied to the portion of the Banking Book consisting of financial instruments that are similar to trading instruments (eg. AFS bonds/Equity instruments).

***

In 2013, market risk in the Group's Regulatory Trading Book showed a significantly volatile trend in VaR as compared to the previous year, standing at EUR 9.77 mln as at 31 December 2013. In absolute terms, VaR was influenced by: the IR segment of the subsidiary MPSCS due to its trading activities, primarily in Long Futures and Interest Rate Future Options; activities by MPSCS relating to the structuring and hedging of policies; changes in market risk factors (credit spreads and interest rates).



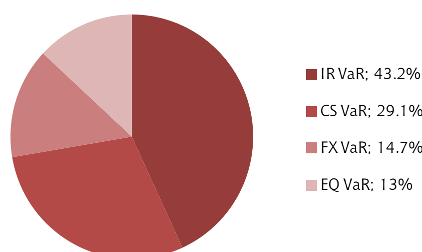
MPS Group: Trading Book
VaR by Bank as at 31/12/2013



MPSCS accounted for 82.2% of overall risk, the Parent Company accounted for 17.8%

A breakdown of VaR by risk factors as at 31 December 2013 shows that approx. 43.2% of the Group’s portfolio was allocated to interest rate risk factors (IR VaR), 29.1% was absorbed by Credit Spread risk factors (CS VaR), 14.7% by foreign exchange risk (FX VaR) and the remaining 13% by equity risk factors (EQ VaR).

MPS Group: Trading Book
VaR by Risk Factor as at 31/12/2013



MPS Group: Trading Book
VaR 99% 1 day in EUR/mln

	VaR	Date
End of Period	9.77	31/12/2013
Min	4.34	23/10/2013
Max	14.56	11/07/2013
Average	8.41	

In the course of 2013, the Group's VaR in the Regulatory Trading Book ranged between a low of EUR 4.34 mln recorded on 23 October 2013 and a high of EUR 14.56 mln on 11 July 2013 with an average value registered of EUR 8.41 mln. The Group's VaR in the Regulatory Trading Book stood at EUR 9.77 mln as at 31 December 2013.

VaR model backtesting

The MPS Group has implemented a backtesting procedure compliant with current regulations governing Market Risk as part of its own risk management system.

Backtesting refers to a series of tests conducted on VaR model results against day-to-day changes in the trading book value, with a view to assessing the model's forecasting capacity as regards the accuracy of risk metrics generated. If the model is suitable in quality terms, by periodically comparing the estimated daily VaR against daily trading losses from the previous day, the result should be that actual losses greater than the VaR occur with a frequency consistent with that defined by the confidence level.

From a regulatory point of view, for banks adopting internal reporting models, the backtesting results affect capital requirements given that the minimum capital a supervised intermediary is expected to hold to cover market risk is proportionate to a multiplier that increases as internal model performance deteriorates in terms of deviations recorded.

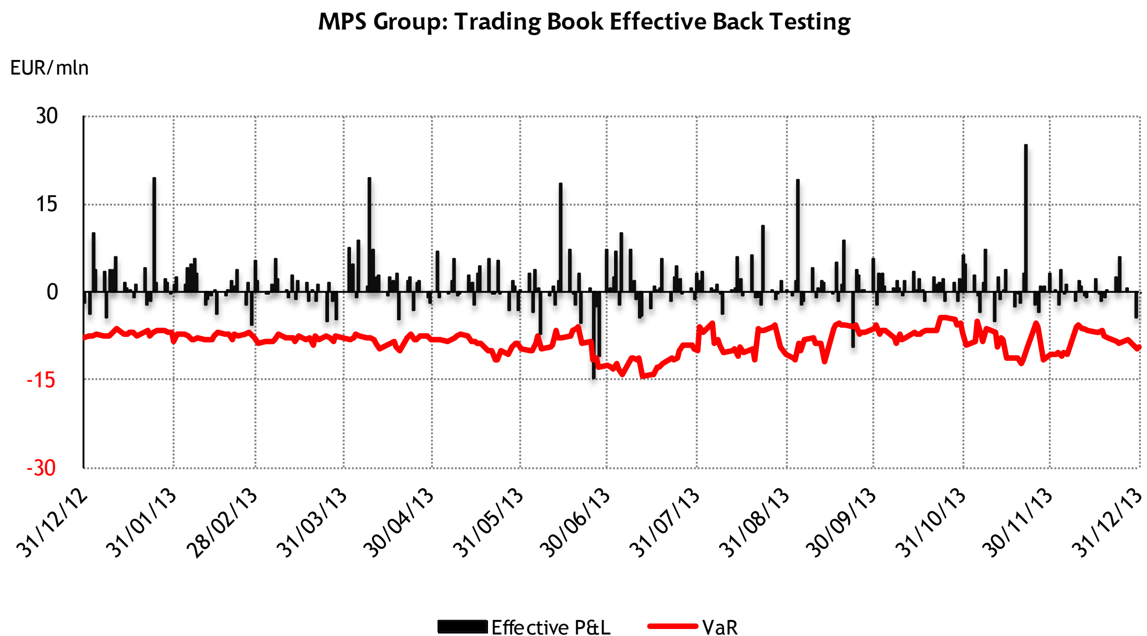
Based on supervisory instructions (Bank of Italy Circular 263/06, as amended), the Risk Management Area considered it appropriate to apply the theoretical and actual backtesting methods and integrate these into the Group's management reporting system.

The first type of test (**theoretical backtesting**) has a stronger statistical significance in reference to measuring the accuracy of the VaR model ("uncontaminated test").

The second type of test (**actual backtesting**) meets the need for verifying the VaR model's forecasting reliability in reference to actual Bank operations (daily trading P&L) less the effect of any interest accrued between trading days t-1 and t on the securities and less the effect of fees and commissions.

These "clean" P&L results (the "actual P&L") are compared with the previous trading day VaR (VaR t-1). If the losses are greater than those forecast by the model an "exception" is recorded.

The chart below shows the Actual Backtesting results of the internal Market Risks model in relation to the MPS Group's Regulatory Trading Book for 2013:



The backtesting shows two exceptions during the year on the Group trading book, details of which are as follows:

- 24 June 2013: a negative day for the market (BTP-Bund spread +13bps) with significant effects on the trading book of the subsidiary MPS Capital Services;
- 20 September 2013: rescheduling of a number of derivatives to lower borrowing costs, with a significant impact on the actual P&L of the subsidiary MPS Capital Services that cannot be measured in the model.

Qualitative Information

A. General

Each bank of the MPS Group which is relevant as a market risk-taking centre contributes to the generation of interest rate risk and price risk in the overall Trading Book.

A.1 Interest rate risk

With reference specifically to the Parent Company, the Finance, Treasury & Capital Management Area (FTCMA) within the CFO division is the Business Area in charge of trading. The Global Markets Division carries out trading activities for MPSCS.

The FTCMA manages a proprietary portfolio which takes trading positions on interest rates and credit. In general, interest rate positions are taken by purchasing or selling bonds, and by creating positions in listed derivatives (futures) and OTCs (IRS, swap options). Trading is carried out exclusively on the Bank's own behalf, with objectives of absolute return, in compliance with the delegated limits of monthly and yearly VaR and Stop Loss.

In particular, the FTCMA operates in the short-term portion of the main interest rate curves, mostly through bonds and listed derivatives.

With regard to credit risk in the trading book, the equity positions are generally managed through the purchase or sale of bonds issued by companies or by creating synthetic positions in derivatives. The activity is oriented to achieving a long or short position on individual issuers, or a long or short exposure on specific commodities. The activity is carried out solely on the Bank's own behalf with objectives of absolute return and in compliance with other specific issuer and concentration risk limits approved by the Board of Directors.

A.2 Price risk

The Business Area in charge of the Parent Company's trading activity with respect to price risk is the FTCMA which manages a proprietary portfolio and takes trading positions on equities, Stock Exchange indexes and commodities. In general, positions on equity securities are taken both through the purchase/sale of equities and through the positions created in listed derivatives (futures) and OTC (options). Trading is carried out exclusively on the Bank's own behalf, with objectives of absolute return, in compliance with the delegated limits of monthly and yearly VaR and Stop Loss. Similarly, the Global Markets Division carries out trading activities for MPSCS.

B. Interest rate and price risk: operational procedures and measurement methods

With regard to the market risk management process concerning the management and methods for measuring interest rate and price risk, see the above paragraph entitled "Market risk management model for the trading book".

Quantitative Information

1. Regulatory trading book: breakdown of balance sheet assets/liabilities and financial derivatives by residual life (repricing date)

This table has not been prepared since an analysis of the regulatory trading book's sensitivity to interest rate risk and price risk is produced based on internal models.

2. Regulatory trading book: breakdown of exposures in equity instruments and stock indices by major countries of the listing market

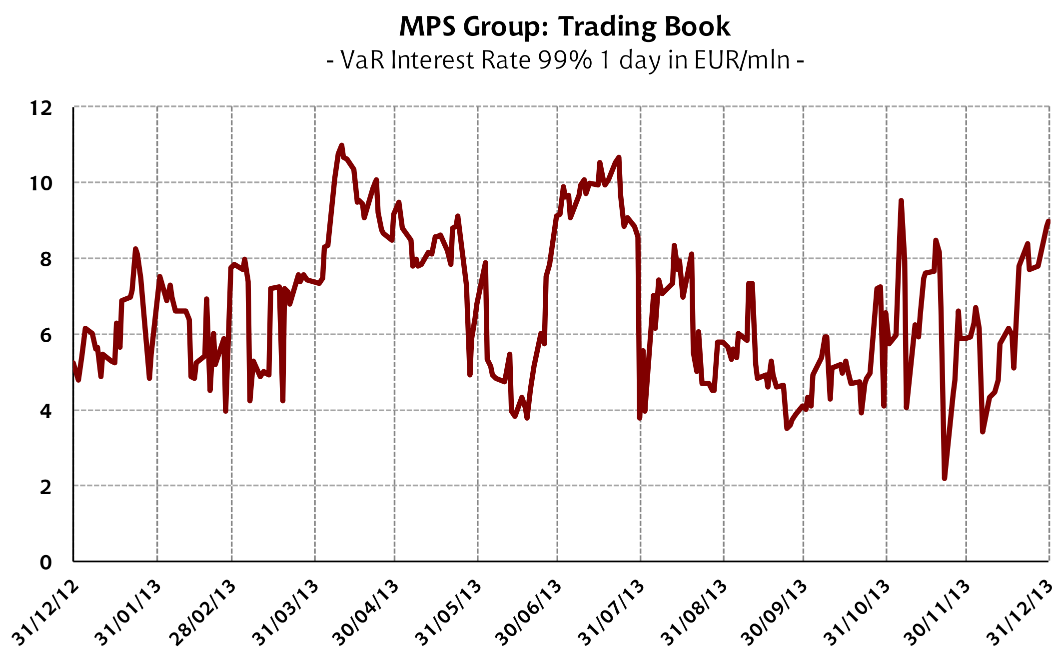
This table has not been prepared since an analysis of the regulatory trading book's sensitivity to interest rate risk and price risk is produced based on internal models.

3. Regulatory trading book: internal models and other methodologies for sensitivity analysis

The rate and price risk of the Trading Book is monitored in terms of VaR and scenario analysis.

3.1 Interest rate risk

Each business unit of the Group operates independently on the basis of the objectives and powers it has been assigned. Positions are managed by special desks provided with specific operational limits. Each desk adopts an integrated risk management approach (covering different types of risks, when allowed) in order to benefit from the natural hedge resulting from simultaneously holding positions on risk factors that are not perfectly correlated. The VaR by risk factor (specifically, Interest Rate VaR) has operational relevance for the purpose of risk management analyses, even though it is the global VaR diversified among risk factors and portfolios that is used by the operating units. Below is information on the Group's diversified Interest Rate VaR.



The trend in Interest Rate VaR in 2013 was influenced by the trading activities of the subsidiary MPSCS, primarily in long futures and interest rate future options, activities by MPSCS relating to the structuring and hedging of policies and changes in market risk factors.

MPS Group: Trading Book
VaR Interest Rate 99% 1 day in EUR/mln

	VaR	Date
End of Period	8.97	31/12/2013
Min	2.19	22/11/2013
Max	11.01	10/04/2013
Average	6.70	

Simulations include four interest rate risk scenarios:

+100 bp parallel shift for all interest rate and inflation curves,

-100 bp parallel shift for all interest rate and inflation curves,

+1% parallel shift for all surfaces of volatility of all interest rate curves.

All positions related to the Trading Book are classified as HFT for accounting purposes, with changes in market value posted directly to profit and loss. Below is the overall effect of the scenario analyses.

MPS Group: Trading Book

EUR/mln

Risk Family	Scenario	Global Effect
Interest Rate	+100bp all Interest Rate Curves	-73.5
Interest Rate	-100bp all Interest Rate Curves	65.96
Interest Rate	+1% all Interest Rate Volatility	0.06

To complete the interest rate risk analysis, details are also provided on the credit spread risk of the Group's Trading Book associated with the volatility of issuers' credit spreads. The VaR by risk factor (specifically, Credit Spread VaR) has operational relevance for the purpose of risk management analyses, even though it is the overall VaR diversified among all risk factors and portfolios that is used by the operating units.

MPS Group: Trading Book
- VaR Credit Spread 99% 1 day in EUR/mln -

The trend in Credit Spread VaR in 2013 was largely influenced by the trading activities of the subsidiary MPSCS in long futures and interest rate future options, activities by MPSCS relating to the structuring and hedging of policies and changes in market risk factors

MPS Group: Trading Book
VaR Credit Spread 99% 1 day in EUR/mln

	VaR	Date
End of Period	6.05	31/12/2013
Min	3.27	06/12/2013
Max	11.19	12/09/2013
Average	6.15	

For the purposes of sensitivity analysis, the simulation scenario is as follows:

+1 bp parallel shift for all credit spreads.

All positions related to the Trading Book are classified as HFT for accounting purposes, with changes in market value posted directly to profit and loss. Below is the overall effect of the scenario analyses.

MPS Group: Trading Book

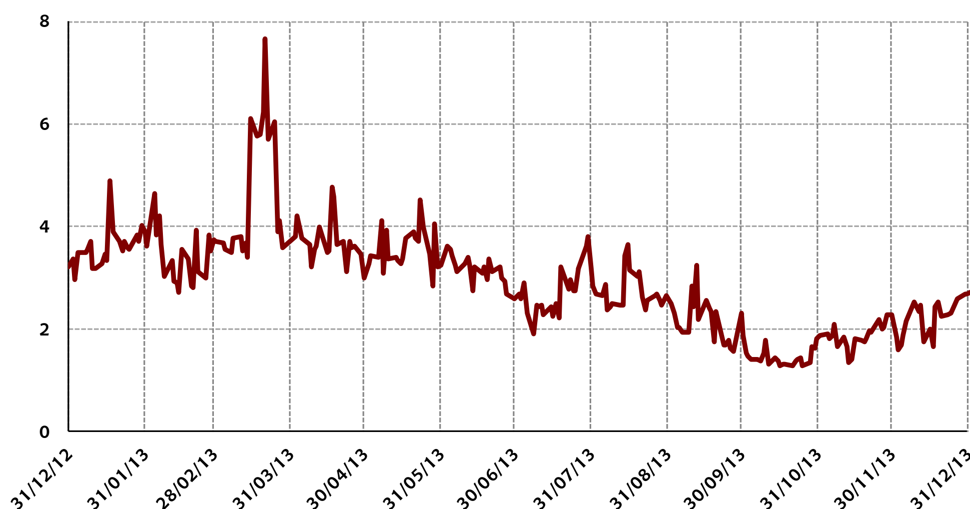
EUR/mln

Risk Family	Scenario	Global Effect
Credit Spread	+1bp all Curves	(0.86)

3.2 Price risk

Each business unit within the Group operates independently on the basis of the objectives and powers it has been assigned. The positions are managed by special desks provided with specific operational limits. Each desk adopts an integrated risk management approach (with scope exceeding price risk, when allowed) in order to benefit from the natural hedge resulting from simultaneously holding positions on risk factors that are not perfectly correlated. The VaR by risk factor (specifically, Equity VaR) has management relevance for the purpose of risk management analyses, even though it is the global VaR diversified among risk factors and portfolios that is used by the operating units. Below is information on the Group's diversified Equity VaR.

MPS Group: Trading Book
- VaR Equity 99% 1 day in EUR/mln -



MPS Group: Trading Book
VaR Equity 99% 1 day in EUR/mln

	VaR	Date
End of Period	2.71	31/12/2013
Min	1.28	21/10/2013
Max	7.67	21/03/2013
Average	2.92	

There are three simulated price scenarios:

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

All positions related to the Trading Book are classified as HFT for accounting purposes, with changes in market value posted directly to profit and loss. Below is the overall effect of the scenario analyses.

MPS Group: Trading Book

EUR/mln

Risk Family	Scenario	Global Effect
Equity	+1% Equity Prices (prices, indices, basket)	0.73
Equity	-1% Equity Prices (prices, indices, basket)	(0.81)
Equity	+1% Equity Volatility	0.10

1.2.2 Interest rate and price risk - banking book

Qualitative Information

A. General aspects, management procedures and measurement methods for interest rate risk and price risk

A.1 Interest rate risk

In accordance with international best practices, the Banking Book refers to all of the commercial operations of the Bank in relation to the transformation of maturities with respect to balance-sheet assets and liabilities, Treasury, foreign branches and hedging derivatives. The definition of the scope of the Banking Book and the ALM centralisation process are set out in a resolution by the Board of Directors of the Parent Company in compliance with the framework described in the regulatory provisions (Bank of Italy Circ. 263). The framework sets the rules for the centralisation of Asset & Liability Management under the Parent Company's Finance, Treasury and Capital Management Area (FTCMA) and the definition and monitoring of operating limits for interest rate risk in the Group's Banking Book. The Banking Book also includes bond receivables held for investment purposes, classified as either AFS or L&R.

The operational and strategic choices for the Banking Book, adopted by the Finance and Liquidity Committee and monitored by the Risk Committee of the Parent Company, are based primarily on exposure to interest rate risk for a variation in the economic value of the assets and liabilities of the Banking Book by applying a parallel shift of 25 bps, 100 bps and 200 bps, the latter in accordance with the requirements set out in the "second pillar" of the Basel Accord.

Risk metrics for the Group's retail banks are calculated by using, among other things, a model for the valuation of demand items or core deposits, whose characteristics of stability and partial insensitivity to interest rate changes are described in the systems with a statistical/predictive model (replicating portfolio),

which takes into consideration an extensive time series of past customer behaviours. In addition, the Montepaschi Group's ALM model includes, within rate risk measurements, a behavioural model which takes into account the aspect of mortgage prepayment (so-called prepayment risk).

The Montepaschi Group is committed to the continual updating of risk measurement methodologies by gradually fine-tuning the estimation models so as to include all major factors that progressively modify the interest rate risk profile of the banking book. The Group adopts an interest rate risk governance and management system which, in accordance with the provisions of the Supervisory Authority, avails itself of:

- a quantitative model, which provides the basis for calculation of risk indicators for the interest rate risk exposure of the Group and Group companies/entities;
- risk monitoring processes, aimed at verifying compliance with the operational limits assigned to the Group overall and to the individual business units;
- risk control and management processes, geared toward bringing about adequate initiatives for optimising the risk profile and activating any necessary corrective actions.

Within the above system, the following responsibilities are centralised in the Parent Company:

- definition of policies for managing the Group's Banking Book and controlling its interest rate risk;
- coordination of Group policies' implementation by the companies included in the scope;
- governance of the Group's short-, medium- and long-term rate risk position, both overall and at individual company level, through centralised operational management.

In its governance function, the Parent Company therefore defines criteria, policies, responsibilities, processes, limits and instruments for rate risk management.

The Group Companies included in the scope of application are responsible for abiding by the rate risk policies and limits defined by the Parent Company and the capital requirements set by the relevant Supervisory Authorities.

Within the model defined, the Finance, Treasury and Capital Management Area of the Parent Company is responsible for the operational management of the Group's overall rate and liquidity risk.

Specifically, within the FTCM Area, the Group Treasury Service manages the short-term rate risk and liquidity risk for the Group. The ALM & Capital Management Service, instead, manages structural rate risk and maturity transformation risk (structural liquidity) for the Group. In addition, the Area carries out hedge monitoring and management activities consistent with accounting policies, involving centralised oversight for definition of the network's internal rates (BMPS and other Group companies) for Euro and foreign currency transactions with maturities beyond the short term.

A.2 Price risk

The price risk in the MPS Group's Banking Book is measured in relation to equity positions mostly held for strategic or institutional/instrumental purposes. For such purposes, the portfolio is primarily made up of equity investments, alternative funds (hedge funds) and AFS securities. Trading in UCITs is carried out exclusively through the direct purchase of the funds/SICAVs, with no use being made of derivative contracts.

The instrument used to measure the price risk of the equity investments portfolio is Value-at-Risk (VaR), which represents the loss that the portfolio in question, valued at Fair Value, could experience in the timeframe of one quarter (holding period), considering a confidence interval of 99%. The VaR model used (unlike the one used for the Trading Book) is a simulation model which uses the Monte Carlo approach, based on series of market yields for listed companies and time series of sector-based indices for unlisted ones.

Moreover, the above-mentioned model makes it possible to measure the marginal risk contribution of each equity investment and to disaggregate the measurement made from the Group's perspective with respect to the investment stakes held by each Legal Entity.

Stress tests are conducted regularly as part of price risk governance strategies for the banking book. Stress tests consist in generating Monte Carlo scenarios in order to assess the Group's ability to absorb potential losses resulting from extreme events.

With reference to the alternative funds component, the internal measurement system uses one of the metrics from the Supervisory approach for the determination of the Economic Capital.

The internal measurement system is independently developed by the Risk Management Area of the Parent Company, which periodically reports on the extent of portfolio risks and their changes over time. The results are regularly brought to the attention of the Parent Company's Risk Committee and governing bodies.

B. Fair value hedging

C. Cash-flow hedging

The Montepaschi Group -and within it therefore Banca MPS- uses IAS compliant hedges for interest rate risk management. The main types of hedging used include:

- Micro Fair Value Hedges: hedging of non-trading assets (loans/mortgage loans), securities and bonds held;
- Macro Fair Value Hedges: hedging of non-trading assets (loans/mortgage loans);
- Micro Cash Flow Hedges: hedging of floating-rate deposits.

In addition to the above, the Montepaschi Group and, and within it therefore Banca MPS, uses the Fair Value Option for some types of business activities. In particular, the Fair Value Option was used for (structured and fixed rate) debt securities having the following characteristics:

- risk of fair value changes has been hedged upon issuance, with the intention of maintaining the hedge for the contractual duration and entire amount of the hedged position;
- normally for issuances in which the Group has committed to buyback at issuance spread.

Quantitative Information

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

This table has not been prepared since an analysis of the banking book's sensitivity to interest-rate risk and price risk is produced based on internal models.

2 Banking book: internal models and other sensitivity analysis methods

2.1 Interest rate risk

The sensitivity of the Montepaschi Group, at the end of 2013, was indicative of exposure to rate hike risk. The amount of economic value at risk in the event of a +100 bp parallel shift of the rate curve came to - EUR 806.63 mln at the end of 2013 (vs. EUR 818.12 mln for a shift of -100bp). However, if benchmarked against the Regulatory Capital, these values are below the level considered as the attention threshold by the Bank of Italy.

The internal measurement system is independently developed by the Risk Management Area of the Parent Company, which periodically reports on the extent of portfolio risks and their changes over time. The results are regularly brought to the attention of the Parent Company's Risk Committee and governing bodies.

2.2 Price risk

The Montepaschi Group's equity investment portfolio includes approximately 219 equity investments in companies outside the Group, ie. companies that are not consolidated either fully or proportionally. Approximately 79% of its value is concentrated in 10 investments while the unit value of the remaining investments is rather limited (approximately 168 equity investments, in fact, are valued at less than EUR 1 mln, accounting for around 2% of the overall portfolio).

The VaR of the Montepaschi Group's equity investment portfolio (99% and a holding period of 1 quarter) amounted at year-end to approximately 23% of the portfolio Fair Value, with risk concentrated in the 5 most significant investments.

Shown below is a scenario analysis which includes all equity investments, hedge funds and other directional positions assumed, based on instructions by the Board of Directors or including those that operationally fall under the Banking Book of the Parent Company's Finance, Treasury and Capital Management Area (e.g. AFS securities) and which are not included in the previously-reported scenario analyses for price risk in the Trading Book.

MPS Group: Banking Book

EUR/mln

Risk Family	Scenario	Global Effect
Equity	+1% Equity Prices (prices, indices, basket)	14.67
Equity	-1% Equity Prices (prices, indices, basket)	(14.67)
Equity	+1% Equity Volatility	0.00

The impact of the equity investments portfolio on the scenario analysis total is approximately 73%.

1.2.3 Foreign exchange risk

Qualitative Information

General information, operational processes and measurement methods of exchange rate risk

Hedging of exchange rate risk

Foreign exchange operations are mainly based on short-term trading, with the systematic balance of the transactions originated by the franchise and the retail banks which automatically feed into the Group's position.

Trading is mainly carried out by the Group Treasury Service of the Finance, Treasury & Capital Management Area of the Parent Company; trading in the FX options segment is carried out by MPSCS, with active management of foreign exchange risk. The foreign branches of the Parent Company maintained modest forex positions exclusively originated by funds available for commercial purposes. The turnover in cash allocated to Group portfolios and OTC derivatives for MPSCS remained stable in terms of risk, with ongoing and careful use of delegated powers. Foreign currency equity investments are typically financed by funds denominated in the same currency, with no assumption of foreign exchange risk.

For a description of stress tests used in the risk governance strategy on exchange rates and the model applied, please refer to the section "Market risk management model for the Trading Book".

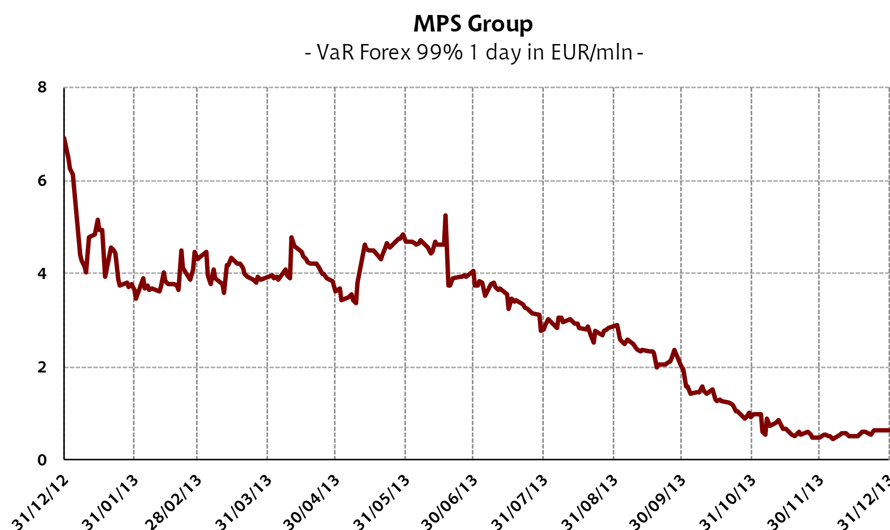
Quantitative Information

Breakdown by currency of assets, liabilities and derivatives

Items	Currencies					
	US dollar	Pound sterling	Yen	Yuan Renminbi	Swiss francs	Other currencies
A. Financial assets	**2,660,843**	**132,975**	**44,583**	**20,004**	**93,198**	**97,984**
A.1 Debt securities	506,897	11,877	-	-	-	23,381
A.2 Equity securities	113,848	1	3,706	-	591	1,149
A.3 Loans to banks	409,252	91,290	3,075	8,686	41,048	18,656
A.4 Loans to customers	1,630,846	29,807	37,802	11,318	51,559	54,798
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**51,979**	**2,673**	**193**	**549**	**3,272**	**2,546**
C. Financial liabilities	**1,130,249**	**133,495**	**3,639**	**7,745**	**10,658**	**22,555**
C.1 Deposits from banks	474,799	24,568	145	6,057	2,239	5,598
C.2 Customer accounts	616,938	30,613	3,494	1,688	6,923	16,957
C.3 Debt securities	38,512	78,314	-	-	1,496	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**1,023,113**	**1,436**	**1,370**	**400**	**1,081**	**2,101**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ Long positions	417,757	65,119	213,815	-	10,404	95,611
+ Short positions	714,145	42,665	369,073	359,550	151,866	178,018
- Other	-	-	-	-	-	-
+ Long positions	1,506,100	242,952	135,184	362,769	30,175	308,485
+ Short positions	2,737,480	241,052	120,948	2,017	106,269	293,271
Total assets	**4,636,679**	**443,719**	**393,775**	**383,322**	**137,049**	**504,626**
Total liabilities	**5,604,987**	**418,648**	**495,030**	**369,712**	**269,874**	**495,945**
Difference (+/-)	**(968,308)**	**25,071**	**(101,255)**	**13,610**	**(132,825)**	**8,681**

Internal models and other sensitivity analysis methods

Exchange risk is monitored in terms of VaR and scenario analysis (for the methodology see the paragraph "Market Risk Management Model for the Trading Book"). Shown below is information relative to the Group's diversified Forex VaR.



MPS Group
VaR Forex 99% 1 day in EUR/mln

	VaR	Date
End of Period	0.62	31/12/2013
Min	0.45	06/12/2013
Max	6.48	02/01/2013
Average	3.03	

The following scenarios were used for foreign exchange rate simulations:

- +1% for all foreign exchange rates with respect to the Euro,
- -1% for all foreign exchange rates with respect to the Euro,
- +1% for all volatility surfaces of all foreign exchange rates.

The impact on total banking income and profit/loss for the year was estimated taking account only of HFT positions, with market value changes posted directly to Profit and Loss. The effect on equity, instead, is estimated with reference to all positions classified as AFS and related Fair Value Hedges (FVH). The total effect is the result of the algebraic sum of the two components. Below is a summary of the scenario analyses.

MPS Group

EUR/mln

Risk Family	Scenario	Impact on net interest and other banking income and net profit	Impact on shareholder s' equity	**Global Effect**
Forex	+1% Exchange rate against EUR	1.34	0.19	**1.53**
Forex	-1% Exchange rate against EUR	(1.40)	(0.19)	**(1.59)**
Forex	+1% Forex Volatility	(0.10)	0.00	**(0.10)**

2.4 Derivatives

A. Financial derivatives

In the following tables, a distinction is drawn between derivatives classified in the regulatory Trading Book and derivatives included in the Banking Book, in accordance with Bank of Italy regulations for Prudential Supervision. This differs from an IAS-based classification for financial statement purposes, which distinguishes between trading derivatives and hedge accounting derivatives.

Regulatory classification is fundamental in order to more accurately discern between instruments intended for trading - and thus for generating absorption of capital for market risk - and those intended for other purposes which fall within the framework of credit risk absorption.

For the Parent Company, derivatives included in the Regulatory Trading Book correspond to those present in the regular balance-sheet trading book, with the exception of derivatives connected to instruments for which the fair value option was adopted, which are intended to hedge against market risks on fair-valued deposits and derivatives separated from or operationally connected to other financial instruments in the Banking Book.

A.1 Regulatory trading book: end of period and average notional amounts

Underlying asset/Type of derivative	Total 31 12 2013		Total 31 12 2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**153,594,545**	**104,045,936**	**198,133,513**	**95,725,496**
a) Options	58,148,082	26,935,082	71,189,706	19,003,751
b) Swaps	95,446,463	76,022,525	125,780,858	75,781,477
c) Forward	-	-	1,162,949	-
d) Futures	-	1,088,329	-	940,268
e) Other	-	-	-	-
2. Equity securities and stock indices	**12,432,887**	**8,735,677**	**14,919,077**	**9,007,676**
a) Options	11,624,795	6,708,083	13,983,013	6,399,267
b) Swaps	808,092	-	936,064	-
c) Forward	-	-	-	-
d) Futures	-	2,027,594	-	2,608,409
e) Other	-	-	-	-
3. Exchange rates and gold	**6,268,169**	**11,752**	**10,146,309**	**-**
a) Options	2,265,451	-	2,295,447	-
b) Swaps	1,091,334	-	1,186,384	-
c) Forward	2,911,384	-	6,664,478	-
d) Futures	-	11,752	-	-
e) Other	-	-	-	-
4. Commodities	207,009	330,142	312,125	547,770
5. Other underlying	**-**	**-**	**-**	**-**
Total	**172,502,610**	**113,123,507**	**223,511,024**	**105,280,942**
Average amounts	**207,319,479**	**129,686,814**	**306,734,513**	**188,826,564**

A.2 Banking book: end of period and average notional amounts

A.2.1 Hedging derivatives

Underlying asset/Type of derivative	Total 31 12 2013		Total 31 12 2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**29,607,033**	**-**	**29,647,549**	**-**
a) Options	1,487,544	-	1,625,000	-
b) Swaps	28,119,489	-	28,022,549	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and stock indices	**-**	**36,678**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	36,678	-	-
e) Other	-	-	-	-
3. Exchange rates and gold	**706,078**	**-**	**808,508**	**-**
a) Options	-	-	-	-
b) Swaps	706,078	-	647,514	-
c) Forward	-	-	160,994	-
d) Futures	-	-	-	-
e) CCS	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying	**-**	**-**	**-**	**-**
Total	**30,313,111**	**36,678**	**30,456,057**	**-**
Average amounts	**29,466,436**	**1,071**	**43,315,467**	**-**

A.2.2 Other derivatives

Underlying asset/Type of derivative	Total 31 12 2013		Total 31 12 2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**2,337,878**	**-**	**3,999,926**	**-**
a) Options	157,000	-	457,000	-
b) Swaps	2,180,878	-	3,542,926	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and stock indices	**552,037**	**-**	**651,193**	**-**
a) Options	546,549	-	561,857	-
b) Swaps	5,488	-	89,336	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Exchange rates and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying	**-**	**-**	**-**	**-**
Total	**2,889,915**	**-**	**4,651,119**	**-**
Average amounts	**19,648,244**	**-**	**28,478,561**	**-**

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

Portfolios/Types of derivatives	Positive Fair Value			
	Total 31 12 2013		Total 31 12 2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**7,269,505**	**679,838**	**8,934,772**	**1,527,691**
a) Options	1,264,062	233,045	1,143,847	184,195
b) Interest rate swaps	5,888,509	446,230	7,684,087	1,343,328
c) Cross currency swaps	33,367	-	31,924	-
d) Equity swaps	24,254	-	36,677	-
e) Forward	33,781	-	14,515	-
d) Futures	-	563	-	168
g) Other	25,532	-	23,722	-
B. Banking book - Hedging	**385,335**	**-**	**536,068**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	336,921	-	493,264	-
c) Cross currency swaps	48,414	-	40,692	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	2,112	-
d) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - Other derivatives	**157,053**	**-**	**295,250**	**-**
a) Options	24,938	-	16,448	-
b) Interest rate swaps	132,115	-	259,771	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	19,031	-
e) Forward	-	-	-	-
d) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**7,811,893**	**679,838**	**9,766,090**	**1,527,691**

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

Portfolios/Types of derivatives	Negative Fair Value			
	Total 31 12 2013		Total 31 12 2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**5,303,663**	**639,329**	**7,552,204**	**1,504,784**
a) Options	1,512,026	181,796	1,417,157	126,855
b) Interest rate swaps	3,707,029	457,363	5,919,338	1,377,329
c) Cross currency swaps	31,321	-	47,158	-
d) Equity swaps	10,826	-	16,214	-
e) Forward	13,952	-	128,344	-
d) Futures	-	170	-	600
g) Other	28,509	-	23,993	-
B. Banking book - Hedging	**2,918,827**	**-**	**5,181,251**	**-**
a) Options	47,872	-	93,923	-
b) Interest rate swaps	2,839,385	-	5,057,076	-
c) Cross currency swaps	31,570	-	28,859	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	1,393	-
d) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - Other derivatives	**193,358**	**-**	**319,343**	**-**
a) Options	18,945	-	9,145	-
b) Interest rate swaps	173,971	-	309,721	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	442	-	477	-
e) Forward	-	-	-	-
d) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**8,415,848**	**639,329**	**13,052,798**	**1,504,784**

A.5 OTC financial derivatives: regulatory trading book - notional amounts, gross positive and negative fair value by counterparties - contracts not subject to netting agreements

31 12 2013

Contracts not subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	396,941	225,042	2,350,298	-	11,228,408	431,562
- positive fair value	-	18,905	23,289	160,628	-	519,989	4,133
- negative fair value	-	631	44	9,849	-	27,687	2,770
- future exposure	-	2,019	1,437	17,006	-	58,108	443
2. Equity securities and stock indices	-	-	-	-	-	-	-
- notional value	61	25	22,361	7,467	317,351	1	-
- positive fair value	71	-	19,061	7,710	-	308	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	6	2	2,144	747	-	-	-
3. Exchange rates and	-	-	-	-	-	-	-
- notional value	16,678	-	856,791	233,307	-	2,662,631	14,210
- positive fair value	-	-	10,421	4,307	-	61,904	265
- negative fair value	304	-	2,144	65	-	39,085	131
- future exposure	170	-	8,079	2,333	-	34,702	119
4. Other underlying	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	456	88,359
- positive fair value	-	-	-	-	-	17,931	7,849
- negative fair value	-	-	-	-	-	20,566	6,485
- future exposure	-	-	-	-	-	46	5,894

A.6 OTC financial derivatives: regulatory trading book - notional amounts, gross positive and negative fair value by counterparties - contracts subject to netting agreements

31 12 2013

Contracts subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	-	114,600,618	20,083,760	4,217,915	-	60,000
- positive fair value	-	-	3,681,505	1,402,796	461,559	-	30,896
- negative fair value	-	-	3,628,064	508,441	93,497	-	-
2. Equity securities and stock indices	-	-	-	-	-	-	-
- notional value	-	-	6,437,690	3,121,350	2,526,580	-	-
- positive fair value	-	-	618,770	148,123	18,035	-	-
- negative fair value	-	-	219,211	357,032	341,251	-	-
3. Exchange rates and gold	-	-	-	-	-	-	-
- notional value	-	-	1,934,309	550,243	-	-	-
- positive fair value	-	-	36,484	12,525	-	-	-
- negative fair value	-	-	23,122	20,364	-	-	-
4. Other underlying	-	-	-	-	-	-	-
- notional value	-	-	83,745	34,449	-	-	-
- positive fair value	-	-	1,260	780	-	-	-
- negative fair value	-	-	2,001	919	-	-	-

A.7 OTC financial derivatives: banking book - notional amounts, gross positive and negative fair value by counterparties - contracts not subject to netting agreements

31 12 2013

Contracts not subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	-	1,483,269	-	-	6,907	-
- positive fair value	-	-	-	-	-	370	-
- negative fair value	-	-	45,010	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	-	-	-	-	-	-
- notional value	-	-	-	-	74,485	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Exchange rates and gold	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4. Other underlying	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.8 OTC financial derivatives: banking book - notional amounts, gross positive and negative fair value by counterparties - contracts subject to netting agreements

31 12 2013

Contracts subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates							
- notional amount	-	-	23,923,239	6,531,496	-	-	-
- positive fair value	-	-	450,933	23,615	-	-	-
- negative fair value	-	-	1,588,547	1,427,671	-	-	-
2) Equity securities and stock indices	-	-	-	-	-	-	-
- notional amount	-	-	477,552	-	-	-	-
- positive fair value	-	-	19,057	-	-	-	-
- negative fair value	-	-	19,387	-	-	-	-
3) Exchange rates and gold	-	-	-	-	-	-	-
- notional amount	-	-	706,078	-	-	-	-
- positive fair value	-	-	48,414	-	-	-	-
- negative fair value	-	-	31,570	-	-	-	-
4) Other amounts	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.9 OTC financial derivatives - residual life: notional amounts

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A. Regulatory trading book	**38,098,467**	**78,088,509**	**56,315,632**	**172,502,608**
A.1 Financial derivatives on debt securities and interest rates	30,375,617	70,362,304	52,856,623	153,594,544
A.2 Financial derivatives on equity securities and stock indices	2,766,614	6,307,264	3,359,009	12,432,887
A.3 Financial derivatives on exchange rates and gold	4,811,253	1,356,915	100,000	6,268,168
A.4 Financial derivatives on other underlying assets	144,983	62,026	-	207,009
B. Banking book	**4,455,940**	**17,116,232**	**11,630,854**	**33,203,026**
B.1 Financial derivatives on debt securities and interest rates	3,749,862	16,564,195	11,630,854	31,944,911
B.2 Financial derivatives on equity securities and stock indices	-	552,037	-	552,037
B.3 Financial derivatives on exchange rates and gold	706,078	-	-	706,078
B.4 Financial derivatives on other underlying assets	-	-	-	-
Total 31 12 2013	**42,554,407**	**95,204,741**	**67,946,486**	**205,705,634**
Total 31 12 2012	**64,214,921**	**120,435,719**	**73,967,559**	**258,618,199**

A.10 OTC financial derivatives: Counterparty risk/Financial risk – internal models

As at today, EPE models are not used for either internal operational or reporting purposes.

A.11 OTC derivatives traded with customers for hedging purposes

The Montepaschi Group's trading in OTC derivatives is exclusively intended to meet customers' hedging needs and is targeted at the Group's corporate customers classified as Retail clients or Professional/Qualified investors under the MiFID directive. Trading involving Public Institutions and Local Institutions is currently on hold, pending completion of the regulatory framework of reference.

In addition to being included in the afore-mentioned categories, target customers must qualify as having the required qualitative and quantitative standing in terms of business carried out, corporate structure, assets and creditworthiness.

As at today, the catalogue of OTC derivative products on offer includes approximately 100 products and strategies.

These products may be broken down into two main classes:

- derivatives for new hedges
- debt-rescheduling hedges.

Each class is in turn subdivided into three sub-classes depending on the type of underlying assets:

- interest rate hedges;
- foreign exchange hedges;
- commodity hedges.

Each sub-class is then broken down into different technical form.

Among these products, the Parent Company's Risk Management function has identified a set of products classifiable as "plain vanilla" because of their basic structure, sensitivity to one risk factor and easy understandability. "Plain vanilla" products have been identified as the only type eligible for inclusion in the offer for Retail customers.

The residual class of Non Plain Vanilla products generally includes mixed, structured strategies showing more or less complex exotic features (e.g. digital payment profiles, barriers, etc.) or resulting from the combination of multiple basic financial components. This class of products is for Professional/Qualified investors.

Group trading in OTC derivatives is regulated according to the following main guidelines:

- trading in derivatives by customers is conditional upon ascertaining and monitoring that they are only used for hedging purposes. Three types of hedging relationships are possible:
    - micro hedges: ie. hedging of individual, well-defined items in the customer's assets and/or liabilities held with the Group or other intermediaries;
    - macro hedges: ie. hedging of a portfolio of assets and/or liabilities, or a part of it, held with the Group or other intermediaries;
    - forward transaction hedges: by way of example, hedging through OTC derivatives in which the underlying is an exchange rate against future settlement of specific business transactions;
- customer trading shall not in any case have a leverage effect on hedged positions;
- trading must occur in compliance with the requirement of appropriateness (to ensure the highest level of customer protection) and adequate financial advice;
- trading under the appropriateness regime is only allowed as a marginal option for participation in tenders, for a subset of Corporate clients with proven high level of financial culture and for Financial Institutions. The execution of transactions qualifying as inappropriate is in any case prevented.

Trading in OTC derivatives involves, first of all, the assumption of market risk by the Group, defined as potential loss that may be incurred on positions held subsequent to unfavourable variations in specific market parameters. The main risk factors this type of trading is subject to include: interest rate, foreign exchange, market index, commodities and related volatility and correlations. At the same time, the Bank also takes on the risk that the counterparty of a derivative-based transaction is in default prior to settlement (counterparty risk).

Trading in derivatives with customers involves the centralisation of the product factory and market risk monitoring in MPSCS, whereas the allocation, management and monitoring of counterparty risk with customers lie with the Group's Retail Banks.

The estimation of counterparty risk on Over the Counter (OTC) derivatives with customers is based on the fair value determination of positions held.

OTC derivatives traded with customers are comprised in level 2 of the Fair Value Hierarchy on the basis of which fair value is calculated through proprietary valuation methods and assessment models fed with parameters available on the market. The models used are discussed among the Operating Units and specialised Risk Management and Quantitative Analysis functions and submitted for validation to the Parent Company's Risk Management function. These models are subject to periodic review so as to guarantee constant alignment between the model approach adopted and prevailing domestic and international best practices. Furthermore, the pricing models for OTC derivatives with customers are consistent with the methodological criteria used by the MPS Group for the valuation of its own positions.

Montepaschi Group customers holding positions in OTC derivatives numbered approximately 7,400 as at 31/12/2013.

The following table reports the fair value of positions in OTC derivatives for the Montepaschi Group, by type of products ("Plain Vanilla" / "Non Plain Vanilla").

OTC derivatives hedging with customers

Montepaschi Group - EUR/mln of 31.12.2013

Product	Net Fair Value	of which Positive Fair Value	of which Negative Fair Value
Plain Vanilla	466.43	482.56	-16.13
Non-plain Vanilla	116.72	123.79	-7.07
Total	**583.15**	**606.35**	**-23.20**

As at 31/12/2013 the net fair value of these products was, on the whole, positive for the Montepaschi Group, standing at approx. EUR 583 mln.

B. Credit derivatives

B1. Credit derivatives: end of period and average notional amounts

Transaction categories	Regulatory trading book		Banking book	
	with one counterparty	with multiple counterparties (basket)	with one counterparty	with multiple counterparties (basket)
1. Purchases of protection				
a) Credit default products	12,359,714	9,673,340	55,500	-
b) Credit spread products	-	-	-	-
c) Total rate of return swap	-	-	-	-
d) Others	-	-	-	-
Total 31 12 2013	12,359,714	9,673,340	55,500	-
Average amounts 31 12 2013	12,429,347	10,612,837	67,023	-
Total 31 12 2012	13,207,428	14,020,634	81,900	-
2. Sales of protection	-	-	-	-
a) Credit default products	12,850,707	9,760,494	-	200,000
b) Credit spread products	-	-	-	-
c) Total rate of return swap	173,423	-	-	-
d) Others	-	-	-	-
Total 31 12 2013	13,024,130	9,760,494	-	200,000
Average amounts 31 12 2013	12,775,921	10,464,644	-	200,000
Total 31 12 2012	13,956,866	13,892,423	484,311	200,000

B2. OTC credit derivatives: gross positive fair value - breakdown by products

Portfolios/Types of derivatives	Positive Fair Value	
	Total 31 12 2013	Total 31 12 2012
A. Regulatory trading book	**1,235,850**	**1,585,601**
a) Credit default products	1,056,235	1,318,819
b) Credit spread products	-	-
c) Total rate of return swap	179,615	266,782
d) Other	-	-
B. Banking book	**65**	**654**
a) Credit default products	65	654
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**1,235,915**	**1,586,255**

B3. OTC credit derivatives: gross negative fair value - breakdown by products

Portfolios/Types of derivatives	Negative Fair Value	
	Total 31 12 2013	Total 31 12 2012
A. Regulatory trading book	**1,265,704**	**1,614,037**
a) Credit default products	1,265,704	1,614,037
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
B. Banking book	**54**	**163,003**
a) Credit default products	54	163,003
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**1,265,758**	**1,777,040**

B.4 OTC credit derivatives: gross (positive and negative) fair value / counterparty risk - contracts not subject to netting agreements

31 12 2013

Contracts not subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading							
1) Purchases of protection							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2) Sales of protection	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
Banking book							
1) Purchases of protection	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2) Sales of protection	-	-	-	-	-	-	-
- notional amount	-	-	-	200,000	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

B.5 OTC credit derivatives: gross (positive and negative) fair value / counterparty risk - contracts subject to netting agreements

31 12 2013

Contracts not subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading							
1) Purchases of protection							
- notional amount	-	-	14.452.587	5.583.595	1.996.872	-	-
- positive fair value	-	-	33.824	428.408	361.270	-	-
- negative fair value	-	-	201.396	41.965	-	-	-
2) Sales of protection	-	-	-	-	-	-	-
- notional amount	-	-	14.070.069	6.012.597	2.701.957	-	-
- positive fair value	-	-	188.628	223.720	-	-	-
- negative fair value	-	-	41.669	548.275	432.399	-	-
Banking book	-	-	-	-	-	-	-
1) Purchases of protection	-	-	-	-	-	-	-
- notional amount	-	-	55.500	-	-	-	-
- positive fair value	-	-	65	-	-	-	-
- negative fair value	-	-	54	-	-	-	-
2) Sales of protection	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

B.6. Credit derivatives - residual life: notional amounts

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A. Regulatory trading book	8,590,224	28,942,262	7,285,191	44,817,677
A.1 Credit derivatives with qualified reference obligation	5,920,610	21,216,128	7,024,055	34,160,793
A.2 Credit derivatives with non-qualified reference obligation	2,669,614	7,726,134	261,136	10,656,884
B. Banking book	255,500	-	-	255,500
B.1 Credit derivatives with qualified reference obligation	20,000	-	-	20,000
B.2 Credit derivatives with non-qualified reference obligation	235,500	-	-	235,500
Total 31 12 2013	**8,845,724**	**28,942,262**	**7,285,191**	**45,073,177**
Total 31 12 2012	**11,328,691**	**35,035,624**	**9,479,247**	**55,843,562**

B.7 Credit derivatives: counterparty risk/financial risk - internal models

As at today, EPE models are not used for either internal operational or reporting purposes.

C. Financial and credit derivatives

C.1 OTC financial and credit derivatives: net fair value and future exposure by counterparty

31 12 2013

	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Financial derivatives, bilateral agreements							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
2) Credit derivatives, bilateral agreements							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3) "Cross product"							
- positive fair value	-	-	1,005,908	834,140	-	-	-
- negative fair value	-	-	1,651,093	1,498,841	26,282	-	-
- future exposure	-	-	1,742,073	677,207	186,678	-	-
- net counterparty risk	-	-	2,043,962	642,641	52,598	-	-

1.3 Liquidity risk

Qualitative Information

As part of the overall revision process of models and processes, the Montepaschi Group has revised the approach for the identification, measurement and management of Liquidity Risk (*Group Liquidity Risk Framework*).

Group Liquidity Risk Framework

The **Group's Liquidity Risk Framework** is intended as the set of tools, methodologies, organisational and governance setups which ensures both compliance with national and international regulations and adequate liquidity risk governance in the short and medium/long term, under business as usual and stress conditions.

Management of the Group's **Operating Liquidity** is intended to ensure the Group is in a position to meet cash payment obligations in the short term. The essential condition for a normal course of business in banking is the maintenance of a sustainable imbalance between cash inflows and outflows in the short term. The benchmark metric in this respect is the difference between net cumulative cashflows and *Counterbalancing Capacity*, i.e. reserve of liquidity in response to stress conditions over a short time horizon.

Management of the Group's **Structural Liquidity** is intended to ensure the structural financial balance by maturity buckets over a time horizon of more than one year, both at Group and individual company level. Maintenance of an adequate dynamic ratio between medium/long term assets and liabilities is aimed at preventing current and prospective short-term funding sources from being under pressure. The benchmark metrics, mitigated by specific internal operating limits set by the BoD, include *gap ratios* which measure both the ratio of total loans over more-than-1-year and more-than-5-year maturity deposits and the ratio of loans to retail/corporate deposits regardless of their maturities.

The liquidity position is monitored under both business-as-usual conditions and under specific and/or system-wide **stress scenarios**. The exercises have the twofold objective of timely reporting the Bank's major vulnerabilities in exposure to liquidity risk and allowing for prudential determination of the required levels of Counterbalancing Capacity (*liquidity buffer*).

The **Contingency Funding Plan**, drafted by the Finance, Treasury & Capital Management Area, is the document which describes the set of tools, policies and processes to be enforced under stress or liquidity crisis conditions.

Liquidity limits

As part of the overall budgeting process and particularly within the scope of Risk Appetite, the Liquidity Risk Framework identifies the tolerance thresholds for liquidity risk, that is to say the maximum risk exposure deemed sustainable in a business-as-usual scenario and under stress conditions. The short/medium and long-term liquidity risk limits derive from the setting of these risk appetite thresholds.

The short-term limit system is organised into three different levels that provide for a timely reporting of proximity to the operating limits, i.e. the maximum liquidity risk appetite set within the annual *Risk Tolerance* process.

In order to immediately identify the emergence of vulnerabilities in the Bank's position, the Group has developed a range of **Early Warnings**, classified as generic or specific depending on whether the individual indicator is designed to detect potential vulnerabilities in the overall economic context of reference or in the Group structure. The triggering of one or more early warning indicators is a first level of alert and contributes to the overall assessment of the Group's short-term level of liquidity position.

Quantitative Information

1. Time breakdown by contractual residual maturity of financial assets and liabilities - currency deomination: EUR

31 12 2013

Account / Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	over 5 years	Unspecified maturity
Balance-sheet assets	28,131,596	2,707,045	2,749,632	4,343,900	7,471,337	9,246,776	11,491,936	42,003,289	63,899,825	4,454,414
A.1 Government securities	101	1,422	15,309	130,805	452,670	754,197	2,576,659	11,566,868	11,703,455	114
A.2 Other debt securities	9,154	1,720	454	40,624	271,047	95,593	127,404	1,670,692	1,874,915	704,796
A.3 Units in UCITS	279,143	-	-	-	-	-	-	-	-	-
A.4 Loans	27,843,198	2,703,903	2,733,869	4,172,471	6,747,620	8,396,986	8,787,873	28,765,729	50,321,455	3,749,504
- Banks	3,430,502	282,077	20,731	63,211	279,711	494,876	205,104	75,633	208,834	3,721,429
- Customers	24,412,696	2,421,826	2,713,138	4,109,260	6,467,909	7,902,110	8,582,769	28,690,096	50,112,621	28,075
Balance-sheet liabilities	65,379,403	7,531,647	3,261,497	4,154,468	14,870,405	10,079,873	7,320,216	54,281,023	8,982,678	431,295
B.1 Deposits and current accounts	56,575,383	242,386	215,847	337,639	1,749,150	1,400,028	1,617,067	2,793,647	688,708	-
- Banks	1,911,696	2,800	-	156	25,923	50,695	50,814	271,735	555,048	-
- Customers	54,663,687	239,586	215,847	337,483	1,723,227	1,349,333	1,566,253	2,521,912	133,660	-
B.2 Debt securities	4,432,086	455,951	51,238	451,715	4,811,178	4,911,819	5,355,407	19,706,881	1,807,746	429,774
B.3 Other liabilities	4,371,934	6,833,310	2,994,412	3,365,114	8,310,077	3,768,026	347,742	31,780,495	6,486,224	1,521
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	2,945	1,913,521	425,761	173,533	2,645,004	1,777,423	764,248	2,180,477	1,781,182	387,121
- short positions	1,501	2,403,122	226,218	131,160	1,066,197	662,005	825,639	2,645,445	2,169,724	383,877
C.2 Financial derivatives without exchange of princip	-	-	-	-	-	-	-	-	-	-
- long positions	6,462,661	319	663	493	99,112	57,654	99,232	-	2,967	-
- short positions	4,402,894	587	838	454	215,081	70,510	272,727	369	-	-
C.3 Deposits and borrowings to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	134	-	-	-	-	-
- short positions	-	-	-	-	134	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	812,577	242,311	11,883	31,113	123,844	88,346	163,819	463,120	1,628,528	1,189,287
- short positions	3,475,432	36,418	7,674	7,238	34,531	4,249	-	-	-	552,632
C.5 Financial guarantees given	15,487	639	352	10,974	9,205	10,607	18,531	44,601	64,989	30
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	3,900	346,350	412,000	130,100	1,035,086	17,500	-
- short positions	-	-	50,000	-	324,300	340,610	102,000	781,509	139,495	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	1,116,047	-	-	-	-	-	-	-	-	-
- short positions	1,124,307	-	-	-	-	-	-	-	-	-

1. Time breakdown by contractual residual maturity of financial assets and liabilities - currency deomination: US DOLLAR

31 12 2013

Account / Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	over 5 years	Unspecified maturity
Balance-sheet assets	541,657	132,983	69,042	175,919	336,595	180,264	123,868	481,749	599,514	6,145
A.1 Government securities	-	-	30	-	3	761	9	24	15,006	76
A.2 Other debt securities	-	-	734	-	3,349	280	970	2,847	489,860	6,069
A.3 Units in UCITS	108,613	-	-	-	-	-	-	-	-	-
A.4 Loans	433,044	132,983	68,278	175,919	333,243	179,223	122,889	478,878	94,648	-
- Banks	128,780	17,960	8,434	68,927	37,840	18,050	25,533	3,371	-	-
- Customers	304,264	115,023	59,844	106,992	295,403	161,173	97,356	475,507	94,648	-
Balance-sheet liabilities	692,692	60,855	38,089	125,871	211,468	10,880	21,319	32,088	1,549	3,471
B.1 Deposits and current accounts	637,194	60,647	38,089	77,126	8,351	3,943	11,038	196	1,549	-
- Banks	51,022	54,383	36,509	75,264	-	-	-	-	-	-
- Customers	586,172	6,264	1,580	1,862	8,351	3,943	11,038	196	1,549	-
B.2 Debt securities	-	208	-	-	106	4,816	10,281	28,287	-	-
B.3 Other liabilities	55,498	-	-	48,745	203,011	2,121	-	3,605	-	3,471
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	763	246,037	203,031	154,807	719,298	192,004	249,878	244,188	10,641	57,071
- short positions	2,320	890,141	246,386	147,450	979,687	379,019	269,692	227,813	9,260	59,967
C.2 Financial derivatives without exchange of princip	-	-	-	-	-	-	-	-	-	-
- long positions	359,052	-	-	-	-	124	6	-	-	-
- short positions	284,375	-	-	-	111	-	-	-	-	-
C.3 Deposits and borrowings to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	330	146	-	-	-	-
- short positions	-	-	-	-	330	146	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	145,453	-	2,486	6,496	48,136	30,947	59,653	1,106	-	20,520
- short positions	259,657	-	-	3,598	27,283	4,518	-	-	-	2,361
C.5 Financial guarantees given	310	-	-	-	-	2,178	5,137	2,465	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	110,000	30,000	125,000	523,365	39,000	-
- short positions	-	-	-	-	115,000	-	-	528,200	30,000	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	80,910	-	-	-	-	-	-	-	-	-
- short positions	83,687	-	-	-	-	-	-	-	-	-

1. Time breakdown by contractual residual maturity of financial assets and liabilities - currency deomination: Pound sterlin

31 12 2013

Account / Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	over 5 years	Unspecified maturity
Balance-sheet assets	43,956	51,839	440	349	2,396	782	1,577	20,941	11,319	18
A.1 Government securities	-	-	-	-	1	-	2	28	6	-
A.2 Other debt securities	-	-	-	-	-	138	532	545	10,429	18
A.3 Units in UCITS	-	-	-	-	-	-	-	-	-	-
A.4 Loans	43,956	51,839	440	349	2,395	644	1,043	20,368	884	-
- Banks	40,090	51,103	-	-	-	-	-	-	-	-
- Customers	3,866	736	440	349	2,395	644	1,043	20,368	884	-
Balance-sheet liabilities	31,095	20,515	540	268	50	5,201	8,487	72,328	47	-
B.1 Deposits and current accounts	30,976	20,515	540	268	50	61	4,328	-	47	-
- Banks	4,177	20,391	-	-	-	-	-	-	-	-
- Customers	26,799	124	540	268	50	61	4,328	-	47	-
B.2 Debt securities	-	-	-	-	-	5,140	4,159	72,328	-	-
B.3 Other liabilities	119	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	1,966	14,924	5,833	79,918	24,586	146,908	34,689	-	-
- short positions	-	31,136	173,923	53	29,764	11,995	1,634	15,587	-	-
C.2 Financial derivatives without exchange of princip	-	-	-	-	-	-	-	-	-	-
- long positions	900	-	-	-	-	-	-	-	-	-
- short positions	454	-	-	-	-	-	-	-	-	-
C.3 Deposits and borrowings to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	696	6	251	9,440	-	30	-	-
- short positions	983	-	-	-	-	9,440	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

1. Time breakdown by contractual residual maturity of financial assets and liabilities - currency deomination: YEN

31 12 2013

Account / Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	over 5 years	Unspecified maturity
Balance-sheet assets	19,440	790	2,919	3,806	7,812	4,107	2,202	-	-	-
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 Units in UCITS	-	-	-	-	-	-	-	-	-	-
A.4 Loans	19,440	790	2,919	3,806	7,812	4,107	2,202	-	-	-
- Banks	2,523	-	-	-	694	-	-	-	-	-
- Customers	16,917	790	2,919	3,806	7,118	4,107	2,202	-	-	-
Balance-sheet liabilities	3,777	-	-	-	-	-	-	2	-	-
B.1 Deposits and current accounts	3,175	-	-	-	-	-	-	-	-	-
- Banks	145	-	-	-	-	-	-	-	-	-
- Customers	3,030	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	602	-	-	-	-	-	-	2	-	-
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	83,276	-	32,287	87,113	1,729	79,191	151,130	-	-
- short positions	268	36,002	623	70,786	22,342	38,095	86,967	119,413	-	-
C.2 Financial derivatives without exchange of princip	-	-	-	-	-	-	-	-	-	-
- long positions	3,706	-	-	-	-	-	-	-	-	-
- short positions	6,023	-	-	-	-	-	-	-	-	-
C.3 Deposits and borrowings to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	139	252	-	-	-
- short positions	391	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

1. Time breakdown by contractual residual maturity of financial assets and liabilities - currency deomination: Others

31 12 2013

Account / Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	over 5 years	Unspecified maturity
Balance-sheet assets	33,397	37,278	8,489	7,664	39,842	25,936	11,688	44,278	1,335	-
A.1 Government securities	-	-	4,676	-	18,703	-	-	8	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 Units in UCITS	661	-	-	-	-	-	-	-	-	-
A.4 Loans	32,736	37,278	3,813	7,664	21,139	25,936	11,688	44,270	1,335	-
- Banks	22,413	36,657	774	-	3,568	3,568	-	-	-	-
- Customers	10,323	621	3,039	7,664	17,571	22,368	11,688	44,270	1,335	-
Balance-sheet liabilities	30,416	2,013	100	4,240	1,768	130	7,628	-	-	-
B.1 Deposits and current accounts	30,416	2,013	100	428	1,768	107	6,126	-	-	-
- Banks	5,798	2,013	-	69	69	-	5,947	-	-	-
- Customers	24,618	-	100	359	1,699	107	179	-	-	-
B.2 Debt securities	-	-	-	3,812	-	23	1,502	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	95,922	3,331	87,909	144,424	34,113	220,525	424,820	2,202	12
- short positions	-	137,291	8,393	68,559	295,310	15,329	50,121	49,617	2,202	-
C.2 Financial derivatives without exchange of princip	-	-	-	-	-	-	-	-	-	-
- long positions	44,574	-	-	-	-	-	-	-	-	-
- short positions	53,885	-	-	-	-	-	-	-	-	-
C.3 Deposits and borrowings to be received	-	-	-	-	-	-	-	-	-	-
- long positions	818	-	-	-	-	-	-	-	-	-
- short positions	-	818	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	24,937	36,657	217	1,416	41,863	3,846	4,397	-	614	17
- short positions	74,296	-	-	-	39,649	-	-	-	-	17
C.5 Financial guarantees given	15	-	-	-	14	-	326	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Self-securitisations

The securitisation transactions whereby the Group underwrites securities issued by vehicle companies (self-securitisations) were not shown in the tables of Part E of the Consolidated Notes to the Financial Statements, section C "Asset securitisation and disposal transactions", pursuant to the provisions of Circ. 262 of the Bank of Italy.

Self-securitisations of performing assets are transactions aimed at improving liquidity risk management by optimising the amount of assets readily available to cover available liquidity requirements.

Although the Group's direct and full underwriting of the notes issued by the vehicle did not make it possible to obtain direct liquidity from the market, it still provided the Group with securities that could be used for ECB refinancing and repo transactions on the market, thereby improving the Group's safety margin against liquidity risk.

These sale transactions had no economic impact on the financial statements: loans continue to be reported under Item 70 “Loans to customers” on the assets side, while underwritten notes are not reported.

This category includes the self-securitisations entered into in:

- December 2007 (Siena Mortgages 07-5) (mortgage loans)
- March 2008 (Siena Mortgages 07-5 2nd tranche) (mortgage loans)
- February and June 2009 (Siena Mortgages 09-6 and Siena Mortgages 09-6 2nd tranche) (real-estate backed loans)
- November 2011 Siena Sme 11 – 1 (loans to small and medium enterprises)
- December 2011 (Siena Lease 11 – 1) (leasing contracts)

In 2013, the Consum.it self-securitisation was redeemed, with economic effect as of 26 July 2013. The securitisation involved receivables arising from loans, granted also in the form of personal loans, originated by the subsidiary Consum.it SpA and sold by them to the Vehicle “Consum.it Securitisation Srl” on 21 June 2010.

Siena Mortgages 07-5, 1st and 2nd tranche

On 21 December 2007, through the purchase of securities issued by the vehicle, the Parent Company finalised a securitisation of performing loans consisting in a portfolio of 57,968 residential mortgages for a total of EUR 5,162 mln, of which a balance of EUR 2,217.5 mln (34,864 mortgage loans) outstanding as at 31.12.2013.

In order to fund the acquisition, the Vehicle issued Residential mortgage-backed floating-rate securities (RMBS) in the following tranches:

- Class A notes (rating A2/AA+), for an amount of EUR 4,765.9 mln, of which EUR 2,927.8 mln redeemed;
- Class B notes (rating Baa3/A), for an amount of EUR 157.4 mln;
- Class C notes (rating B2/BBB-), for an amount of EUR 239 mln;

A cash reserve was also set up for an amount of EUR 123.9 mln, corresponding to the issuance of class D junior notes, which was posted to the assets side under Item 70 "Loans to customers" in the consolidated financial statements. The transaction reached the *Protection Ratio* (ratio between total Class B and C notes and total Class A,B and C notes) which allowed for the gradual reduction of the cash reserve up to EUR 12.39.

The first tranche was followed by Parent Company's sale, on 31 March 2008, of an additional pool of performing loans consisting in 41,888 residential mortgages for a total of € 3,461 mln and a residual life of about 20 years as part of a securitisation aimed at diversifying and enhancing available funding and capital management instruments. In geographic terms, 46% of the mortgages are concentrated in central Italy, while northern and southern Italy each make up 27% of the total.

As at 31.12.2013, 22,576 loans were outstanding for a balance of EUR 1,569.9 mln.

In order to fund the acquisition of loans, the Vehicle (the existing Siena Mortgages 07-5 S.p.a., already used for the securitisation of performing residential mortgages which was completed in December 2007) issued Residential mortgage backed Floating Rate Securities (RMBS), in the following tranches:

- Class A notes (rating A2/AA+), for an amount of EUR 3,129.4 mln, of which EUR 1,836.0 mln redeemed;
- Class B notes (rating Baa2/A), for an amount of EUR 108.3 mln;
- Class C notes (rating NR/BBB), for an amount of EUR 178.3 mln;

A cash reserve was set up for an amount of EUR 82 mln, corresponding to the issuance of class D junior notes, which was posted to the assets side under item 70 "Loans to customers", of which a partial repayment of EUR 10.7 mln was registered as at the balance sheet date.

Siena Mortgages 09-6, 1st and 2nd tranche

In order to increase available eligible assets, in 2009 the Parent Company completed two securitisation transactions through the special-purpose vehicle Siena Mortgages 09-6 S.r.l

The first tranche was finalised on 20 February 2009 through the sale of a portfolio of performing mortgages in real estate and building by the Parent Company for a total of EUR 4.436 mln, of which a balance of EUR 2,708 mln (34,357 mortgage loans) outstanding as at today.

In order to fund the acquisition, the Vehicle issued Residential mortgage-backed floating-rate securities (RMBS) in the following tranches:

- Class A1 notes (rating A2 / AA+), for an amount of EUR 3,851.3 mln, of which EUR 1,733.2 mln redeemed;
- Class B notes (rating NR/A), for an amount of EUR 403.7 mln;
- Class C notes (rating NR/BBB-), for an amount of EUR 181.4 mln;
- Class D notes (NR), for an amount of EUR 106.7 mln;

The first tranche was followed by an additional securitisation, Siena Mortgages 09-6 S.r.l. 2nd tranche, on 26 June 2009, for an amount of EUR 4,101 mln, of which EUR 2,040.7 (26,337 mortgage loans) outstanding as at 31.12.2013

The portfolio consisted of 44,148 performing mortgages of the Parent Company (including positions from the former branches of Banca Agricola Mantovana S.p.A., Banca Antonveneta S.p.A. and Banca Toscana S.p.A., which have now been merged), again in the real estate and building areas, with all instalments regularly paid as at the date of valuation of the portfolio sold (broken down as follows: 14,755 mixed-rate, 13,791 floating rate and 15,602 fixed rate loans).

To fund the acquisition, the special purpose vehicle (Siena Mortgages 09 – 6 S.r.l.) issued residential mortgage-backed floating-rate securities (RMBS) in the following classes:

- Class A1 notes (rating A2 / A+), for an amount of EUR 3,466 mln, of which EUR 2,086.9 mln redeemed;
- Class B notes (rating Ba3/A-), for an amount of EUR 447.1 mln;
- Class C notes (rating Caa1/NR), for an amount of EUR 188.6 mln;
- Class D notes (NR), for an amount of EUR 103.5 mln;

As at 31 December 2013, the reserves of Siena 09 6 1 tranches 1 and 2 stood at 70.41% and 31.04% of the target level respectively.

Siena Sme 11 – 1

On 22 November 2011, MPS Capital Services finalised the disposal of a portfolio of 3,494 real estate mortgages granted to Italian small- and medium-sized businesses, with all instalments regularly paid as at the date of valuation (1 November 2011) for an amount, equal to the remaining debt balance, of approx. EUR 3,000 mln. The vehicle, Siena Sme 11 – 1 S.r.l., was used as the transferee of the transaction underlying assets.

90% of the vehicle company is held by Stichting Trek, a Foundation governed by Dutch law, while the remainder is held by Banca Monte dei Paschi di Siena. This structure makes it possible to ensure the vehicle's independence.

On 30 November 2011, Siena SME 11-1 financed purchasing of the portfolio by issuing Residential Mortgages Backed Floating Rate Securities in the following classes:

- Class A1 notes (rated Aaa by Moody's/ AAA by DBRS), for an amount of EUR 1,244.2 mln;
- Class B Mezzanine (rated A3 by Moody's / A (low) by DBRS), for an amount of EUR 394.5 mln;
- Class C Mezzanine (rated Caa1 by Moody's / NR by DBRS), for an amount of EUR 1,395.9 mln;
- Class D Junior (rated NR by Moody's/ NR by DBRS), for an amount of EUR 95.7 mln;

The remaining debt balance amounts to EUR 2,452.6 mln.

Siena Lease 11 – 1

On 5 December 2011, MPS Leasing & Factoring finalised the disposal of a portfolio of 20,585 real-estate, vehicle and equipment leasing contracts entered into by natural persons residing in Italy and acting for purposes related to the usual course of business or companies having their registered office in Italy. If applicable, assets leased under these contracts were classified by the BMPS Group as at 31 October 2011 (date of valuation) as 'performing' and with all instalments regularly paid. The contracts were disposed of for an amount of approx. EUR 2,300.0 mln, equal to the remaining debt balance. The vehicle, Siena Lease 11 – 1 S.r.l., was used as the transferee of the transaction underlying assets. 90% of the vehicle company is held by Stichting StarckTrek, a Foundation governed by Dutch law, while the remainder is held by Banca Monte dei Paschi di Siena. This structure makes it possible to ensure the vehicle's independence.

On 21 December 2011, Siena LEASE 11-1 financed the acquisition by issuing Residential Mortgages Backed Floating Rate Securities in the following classes:

- Class A1 Senior notes (rated AAA by DBRS / Aaa by Moody's), for an amount of EUR 916.6 mln;
- Class A2 Senior notes (rated AAA by DBRS / Aaa by Moody's), for an amount of EUR 170.8 mln;
- Class B Mezzanine notes (not rated, NR), for an amount of EUR 1,276.2 mln;
- Class C Junior notes (not rated, NR), for an amount of EUR 36.3 mln;

The remaining debt balance amounts to EUR 1,551.8 mln.

Disclosure of asset encumbrance: on-balance-sheet

Asset type	Encumbered		Unencumbered		Total as at 31 12 2013
	Book value	Fair value	Book value	Fair value	
1. Cash and other liquid assets	-	X	877,273	X	877,273
2. Debt securities	29,913,166	29,730,126	3,174,723	3,095,563	33,087,889
3. Equity instruments	76,584	76,584	1,558,527	1,558,460	1,635,111
4. Loans	50,195,101	X	91,453,943	X	141,649,044
5. Other financial assets	-	X	10,229,695	X	10,229,695
6. Non-financial assets	1,431,469	X	10,491,491	X	11,922,960
Total 31 12 2013	**81,616,320**	**29,806,710**	**117,785,652**	**4,654,023**	**199,401,972**

Disclosure of asset encumbrance: off-balance-sheet

Asset type	Encumbered	Unencumbered	Total as at 31 12 2013
1.Financial assets	53,887,419	12,193,789	66,081,208
- Securities	53,887,419	12,193,789	66,081,208
- Other	-	-	-
2. Non-financial assets	-	-	-
Total 31 12 2013	53,887,419	12,193,789	66,081,208

Encumbered assets conventionally include approximately EUR 33.9 bn deposited on the Pooling account with the European Central Bank, as collateral for refinancing transactions.

1.4. Operational risk

Qualitative Information

Operational risk: general information, operational procedures and measurement methods

General information and Framework structure

By an administrative ruling dated 12/06/2008, the Bank of Italy authorised the Montepaschi Group to use internal models for the determination of capital requirements for credit and operational risks.

The adoption of the advanced model (AMA) calls for banks to:

1. adopt an internal organisation which defines the roles of the corporate bodies and functions involved in the operational risk management process;
2. establish a control function for data gathering and storing, capital requirement calculation, risk profile assessment and reporting;
3. perform ongoing checks on the quality of the management system and its compliance with regulatory provisions;
4. delegate the internal auditing body to perform periodic audits on the Operational Risk management system;
5. ensure over time that the system is actually made use of in the usual course of business (use test).

For this purpose, the Montepaschi Group has adopted an integrated system for operational risk management, i.e. an internal framework built around a governance model that involves all companies included in the AMA model scope of application. The approach defines the standards, methods and instruments that make it possible to measure risk exposure and the effects of mitigation by business area.

The advanced approach is designed to integrate all major qualitative and quantitative (LDA-Scenario mixed model) information sources (information or data).

The quantitative Loss Distribution Approach component is based on the collection, analysis and statistical modelling of internal and external time series of loss data (the latter supplied by the Italian Database of Operational Losses, DIPO).

The qualitative component focuses on the evaluation of the risk profile of each unit and is based on the identification of relevant scenarios. In this framework, companies included in the AMA scope area are involved in the: identification of the processes and risks to be assessed; assessment of risks by process managers in charge; identification of possible mitigation plans; discussion of priorities and technical-economic feasibility of mitigating actions during scenario-sharing sessions with Head Office functions.

Next is a phase for monitoring progress on the implementation of actions scheduled and compliance with objectives and deadlines.

The Framework identifies Group Operational Risk Management (ORM) as the operational risk control function (within the Parent Company's Risk Management).

The Parent Company's ORM calculates the capital required to hedge operational risks by the use of different components of the model (internal data, external data, contextual and control factors, qualitative analyses), supports decision-making by Top Management from the standpoint of creating value by containment, mitigation and transfer of the risks detected, and as it does for other companies included in the scope, it gathers internal loss data and identifies the risks to be evaluated in qualitative analyses.

The Advanced Measurement Approach (AMA) is applied to all domestic financial and banking entities, while the foundation model is used for remaining components and foreign companies. As at 31/12/2013, internal model coverage in terms of total banking income exceeded 95%.

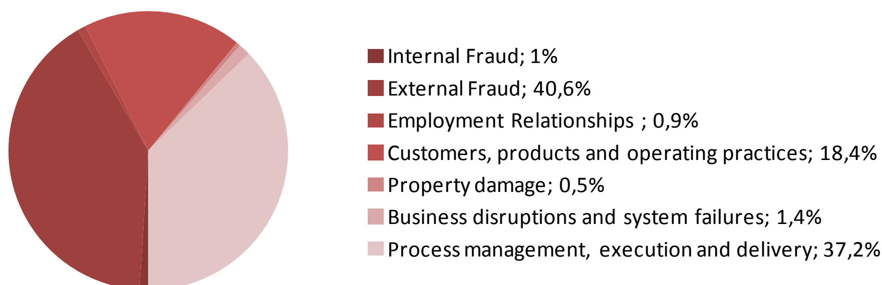
ORM has also set up a reporting system which ensures timely information on operational risks for the Top Management, which transposes the strategic principles of the management system into specific operating policies. Reports are regularly submitted to the Risk Committee and governing bodies.

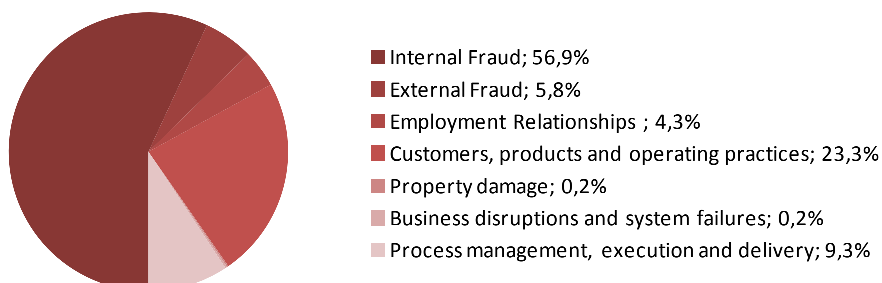
Over time, the adoption of the AMA model has ensured better-informed management of operational risk, guaranteeing a material progressive reduction of the Group's operational risk.

Quantitative Information

The percentage breakdown of events and operational losses recognised in 2013 is reported below, divided into various risk classes.

- Internal Fraud: losses owing to unauthorised activity, fraud, embezzlement or violation of laws, regulations or business directives that involve at least one internal member of the bank;
- External Fraud: losses due to fraud, embezzlement or violation of laws by subjects external to the Group;
- Employment Relationships and Occupational Safety: Losses arising from actions in breach of employment, occupational health and safety laws and agreements, payment of compensation for personal injury or episodes of discrimination or failure to apply equal treatment;
- Customers, products and operating practices: losses arising from non-fulfillment of professional obligations with customers or from the nature and characteristics of the product or service provided;
- Property damage: losses arising from external events, including natural disasters, acts of terrorism and vandalism;
- Business disruptions and system failures**:** losses due to business disruption or system failures and disruptions;
- Process management, execution and delivery: losses arising from operational and process management shortfalls, as well from transactions with business counterparties, vendors and suppliers.



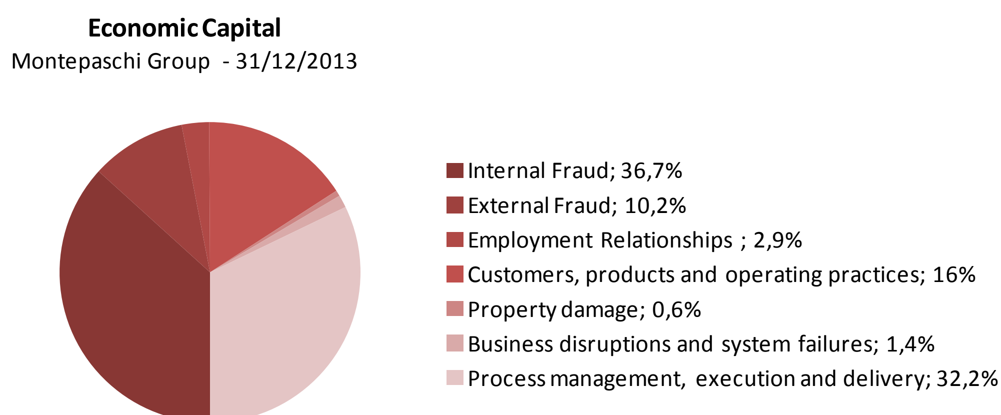


Overall loss as at 31 December 2013 was affected by the restatement of the 2012 accounts, which particularly impacted the category "Internal Fraud". Exclusive of these events, loss remains stable as compared to the same period in 2012, as does the number of operational risk events.

Excluding the internal fraud events cited above, the types of event with the greatest impact on the income statement remain attributable to non-fulfillment of professional obligations with customers" (under "Customers, products and operating practices, which accounts for 50% of the entire amount of losses) and operational and process management shortfalls (under "Process management, execution and delivery, which accounts for 20% of total).

With regard to the non-fulfillment of professional obligation with customers, risk events are mainly associated with claims (legal actions, complaints) due to the application of compound interest, the placement of bonds issued by companies/Countries later in default (Argentina, Parmalat, etc.) and the sale of financial plans (For You and My Way). It follows that a large part of the operational risk events in this class have a prior date of occurrence (before 2005), but still have accounting effects on current financial periods.

The following graph reports the breakdown of the AMA-share of the Economic Capital by class of risk.



Economic Capital as at 31/12/2013 registered a decrease as compared to the previous quarter owing to methodological changes introduced to AMA models.

The breakdown of losses recognised in the period obviously differs from the breakdown of the economic capital in that the latter is calculated using a 5-year time series and the incidence of the unexpected loss component prevails.

At a distance of 5 years from the recognition of internal models for operational risk in calculations for regulatory purposes, AMA methods have been developed in order to achieve market best practices and include in calculations the techniques to reduce requirements, such as deduction in expected losses and diversification among risk classes.

In January 2014, the Montepaschi Group was authorised by the Bank of Italy to employ such techniques on operational risk as of 31/12/2013.

Main types of legal action

The cases brought against the Monte Paschi Group for the most part can be grouped into sub-categories, characterised individually by a common denominator represented by alleged critical elements of products, operations, services or relationships for which or in which the companies played the role of disbursement or placement entities.

The main sub-categories refer to claims regarding compound interest, the placement of bonds issued by Countries or Companies which later defaulted, the placement of financial plans and the management of loan positions.

These subcategories account for the largest share of total loss from legal actions. In dealing with these cases, the Group continues to pursue dispute settlement solutions.

Major pending cases

Civil lawsuit brought before the Court of Milan

The action, taken by the Extraordinary Administrators of a company against the former directors, auditors and (direct and indirect) shareholders of the same company (including Banca MPS), seeks the assessment of liabilities for damages, not yet quantified, allegedly caused by the appearing parties to the company. The action is grounded on intricate and complex corporate matters which saw the involvement of the company from 1999 to 2009 and which, as far as the Bank and other appearing parties are concerned, pivot around the company's demerger in 2003. The case is still in the initial phase.

Lawsuit brought by the Extraordinary Administration of plaintiff company before the Court of Rome

The civil lawsuit was initiated by the Extraordinary Administration of plaintiff company against the directors and auditors of said company (a financially sound business) and against the independent auditing firm and other banks in pool agreements. The plaintiff seeks to obtain compensation for alleged damages arising from restructuring deals and syndicated lending agreements. The case is still in the initial phase.

Civil lawsuit brought before the Court of Salerno

This case, where BMPS is sued together with other credit institutions and companies, seeks the assessment of alleged damage suffered by the plaintiff, as a result of an alleged unlawful report filed with the Italian Central Credit Register. The case is currently under preliminary investigation.

Civil lawsuit brought before the Court of Brescia.

The lawsuit concerns a claim for compensation for alleged damages brought before the Court by the Trustee in Bankruptcy due to banking transactions completed as part of the capital increase of the company which then failed. The case is currently under preliminary investigation.

Arbitration proceeding brought before the Arbitration Chamber in Milan

The case is an arbitration proceeding involving a claim for damages due to alleged documentary irregularities or shortcomings in relation to loans originated and sold by a Bank merged with the plaintiff company. The jurisdiction of the Arbitration Chamber stems from a clause in the disposal agreements. The arbitration is currently in progress.

Appeal lodged with the Regional Administrative Court of Lazio

The appeal was lodged against the Bank with the Regional Administrative Court of Lazio by associations of consumers and users seeking annullment of deeds relating to the procedure for the issuance of New Financial Instruments for the Bank. The Regional Administrative Court of Lazio and the Italian State Council rejected all petitions for precautionary measures submitted by the parties. In its closed session on 3 April 2013, the Regional Administrative Court adjourned the hearing indefinitely.

Civil lawsuit brought before the Court of Palmi

This case, where BMPS is sued together with other credit institutions, seeks the assessment of alleged damage suffered by the plaintiff, as a result of purported usury-like interest. The case is under preliminary investigation.

Risks from tax disputes

The Bank and the main Group companies are involved in several tax-related proceedings. In addition, investigations are under way that have not yet resulted in findings or claims.

The claim for approximately EUR 100 million in taxes and penalties is particularly significant, relating to the Bank's disposal in 2006 of an equity investment, for which the State Tax Authority challenged the applicability of the "pex" (participation exemption) regime to the capital gain realised from the disposal in question, the State Tax Authority claiming that this was executed in 2005 (during the validity period of a transitional regime in which pex did not give automatic right of exemption), rather than in 2006. Supported by the opinion of its consultants, the Bank considers that based on the official tax audit report served on 31 May 2012 and the notice of assessment served on 4 November 2013, the risk of the Bank losing is unlikely.

With reference to other Group companies, note the investigation performed under court order by the Guardia di Finanza into a real estate transaction performed by MPS Immobiliare in 2011 and consisting in contributing a property complex located in Rome to a closed-end real estate fund and the subsequent disposal of units held in that same fund. In relation to that transaction, on 16 September 2013 the Guardia di Finanza served an official tax audit report challenging MPS Immobiliare's ability to use the tax regime applied to the contribution in question and subsequent failure to pay VAT of around EUR 27 million and indirect taxes of approximately EUR 4 million. According to MPS Immobiliare, supported by the opinion of its consultants, the risk of losing the case associated with these findings is unlikely.

Note that MPS Immobiliare is currently subject to an investigation for which at present no formal tax audit report or claim has been served. On instructions from the Siena Public Prosecutor, on 25 June 2013 the Guardia di Finanza launched an investigation into MPS Immobiliare operations which, in addition to the aforementioned transaction transferring a property complex to a closed-end real estate fund, also included the "Chianti Classico" transaction.

Again in reference to the "Chianti Classico" transaction, note that the Italian Revenue Agency has an audit in progress of Perimetro Gestione Proprietà Immobiliari S.C.p.A., the beneficiary of the business unit transferred by MPS Immobiliare during the transaction and recently included in its scope of consolidation, with regard to VAT and direct taxes.

Considering the significance of the Chianti Classico transaction, it cannot be excluded that the outcome of the investigation against MPS Immobiliare and the tax audit of Consorzio Perimetro could result in claims, possibly of a high amount, which will be assessed accordingly.

Financial risks of investment services

Foreword

The following section on financial risks of investment services was written as part of "Section 4 - Operational Risk" in line with the compulsory framework for preparation of the Notes to the Financial Statements, even though this subject presents specific characteristics and involves organisational levels of authority that are not directly traceable to operational risk management.

Wealth risk management process and methods

The term "investment services" refers to operations with customers in the area of placement services; order execution, receipt and transmission; proprietary trading; portfolio management; investment advice.

The risks associated with investment services are directly or indirectly reflective of the risks incurred by customers. Therefore, the control of these risks is particularly aimed at achieving the twofold objective of protecting customers and preventing any potential repercussions on the Group in terms of operational and reputational risk.

The organisational responsibility for overseeing Group-wide measurement, monitoring and control activities relative to the financial risks inherent in investment products is an integral part of the scope of responsibility of Group integrated Risk Management. This is to ensure centralised governance of the direct and indirect risks which the Group incurs during the course of its operations. Within the Risk Management Area of Banca MPS' Risk Division, this task is allocated group-wide to the Wealth Risk Management service.

"Wealth risk management" focuses on the overall set of operational and management processes as well as measurement and monitoring tools/methods used to ensure overall consistency between customers' risk profiles and the risk of investment products and portfolios offered to -or in any case held by- customers.

The strategic choice of Banca MPS is to combine the placement of financial products with advisory so as to ensure the highest level of protection for the investor and, at the same time, enhance the role played by relationship managers. Again, with a view to protecting customers, the obligation to verify appropriateness has also been extended to the Group's bond-trading activities on the secondary market.

All investment products (both Group and third-party), included in the catalogue of products offered to Group customers are subject, within a codified product management/development and distribution process, to a specific quantitative risk assessment, including, market, credit and liquidity risk factors. The same risk assessment has also been extended to financial instruments purchased directly by customers and managed in portfolios under custody.

Mapping the risk of investment products is carried out on the basis of macro market, credit and liquidity risk factors/complexity and consequently pegged to specific risk classes. Identified with explanatory keys, the risk classes are made available to customers in information brochures regarding securities placed and which therefore represent one of the guiding criteria on the basis of which the verifications of appropriateness and suitability are made.

The regulatory framework for investment services and verifications of appropriateness is provided for by European MiFID regulations and Consob Regulation no. 16190/2007, in addition to Consob Communication no. 9019104/2009 ("Level 3 - Illiquid financial products") and subsequent inter-association guidelines on illiquid financial products issued in 2009. Finally, the regulatory framework includes the ESMA guidelines on suitability requirements issued in June 2012 and subsequent Consob communication no. 12084516/2012.

The activities described cover the entire distribution scope of the branch network of Banca MPS and the Financial Advisory network (in addition to MPS Capital Services for the role it plays in the supply-chain process).

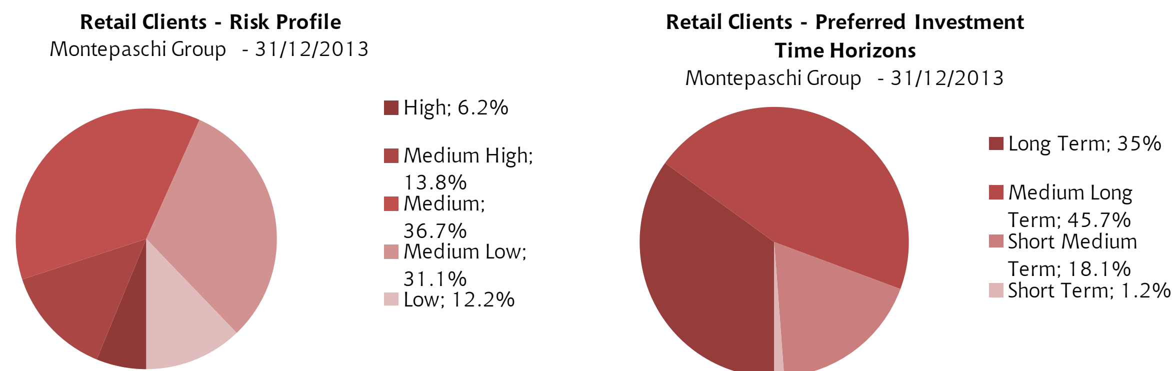
A special focus is given by the Bank to the monitoring and prevention of potential reputational risks arising - particularly in a context of financial crisis such as the one experienced in recent years - from investment services as a result of increased market volatility, which in turn leads to potential fast-changing product risks, potential financial losses incurred and changing customer approaches to financial investments.

For increased protection of customer investments, the Wealth Risk Management function monitors the list of highest-risk issuers/entities (a.k.a. Money Laundering List or MLR) with the objective of identifying companies undergoing a temporary critical phase, associated primarily with specific macroeconomic, corporate and/or sector-related situations or a lack of sufficient market information. Inclusion in the MLR list makes the financial instruments issued by these issuers/entities inappropriate and impossible to be offered on an advisory basis.

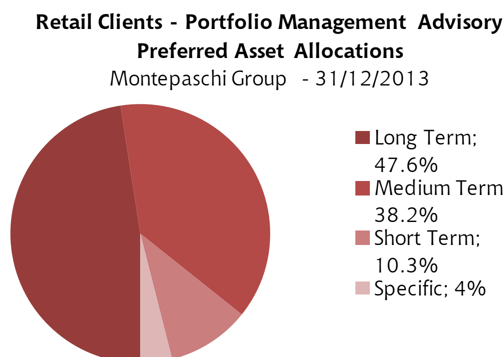
Advisory services on offer, customer risk profile and risk of investment products/portfolios

Two types of advisory service are offered by Banca MPS: basic 'transactional advisory' is aimed at verifying the suitability of individual investment transactions. Advanced advisory is instead aimed at verifying the suitability of the overall set of transactions, advising on them based on their impact on a suggested investment portfolio of the customer so as to obtain optimum asset allocation and maximised prospective returns over a certain time horizon, given the customer's risk profile.

The results of questionnaires filled out by Group customers confirm a very conservative approach to financial investments. Group customers in the "Consumers" macro-segment, namely retail customers representing almost the entire customer base of the Group, have long shown a substantially risk-averting investment propensity. At the end of December 2013, 43% of these MIFID-profiled customers continued to be concentrated in largely conservative (minimum and limited investment) profiles, primarily over medium and long time horizons.



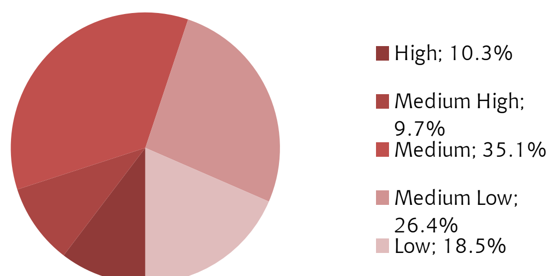
At the end of 2013, the portfolios held by Consumer/Retail customers on the basis of formalised advanced advisory proposals to obtain optimum asset allocation, were mainly distributed into the recommended medium-to-long term Asset Allocation (AA) macro-classes, with a minimum percentage of assets allocated over specific time horizons. This testifies to the interest of customers who turn to this type of advisory service for stable and long-lasting investments.



As for risk mapping on investment products, 2013 was on the whole positive following the difficulties encountered at the height of the financial crisis, particularly in 2010-2012. In the course of the year, despite the persistently volatile situation, conditions on the international and Euro area financial markets improved and, on the whole, remained pointed towards an upturn in financial investments by customers. Particularly in the latter part of the year, there was a steady decrease in the level of risk premiums on sovereign debt, especially in the EU peripheral countries which were at the epicentre of the 2010-12 financial crisis in Europe. Likewise, tensions on the Euro eased and, on the whole, systemic risk perception decreased after having affected the markets at the height of the sovereign debt crisis. Market tension indicators, therefore, receded significantly which, for Italy, contemplated a progressive reduction in Government bond yields and in the BTP-Bund spread which fell back to 200 at year-end. Consequently, investor interest in the government bonds of these Peripheral countries and the returns they offered began to grow again.

Credit risk, although stabilising in terms of incidence during the year, was confirmed to be the most significant component in determining risk as a whole, particularly in the area of financial and corporate bonds. This situation had obvious repercussions on the risk of products held by customers, with risk level fluctuations registered in investment products that are particularly sensitive to volatility in the main risk factors.

In line with the market trends and consequent impacts on macro risk factors, particularly issuer risk, taken into account for investment product mapping purposes, products included in the Group's catalogue and held by "Consumer/Retail" customers showed, at the end of 2013, a risk profile distribution concentrated on average on medium-high risk classes with respect to the end of 2012.



Customers have regularly been informed of changes in the risk of financial instruments held, so as to ensure timely informational transparency and facilitate possible decisions aimed at rebalancing the risk profile of their investments.

Part F – Information on consolidated shareholders' equity

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Section 1 - Consolidated shareholders' equity

A. Qualitative Information

Capital Management involves all the policies and choices necessary to define the amount of capital and the optimum combination between different alternative equity instruments, so as to ensure that the amount of capital and the correlated ratios are consistent with the risk profile assumed and compliant with regulatory requirements. From this standpoint, group-wide capital management has become increasingly more fundamental and strategic, in consideration of the fact that the quality and sizing of capital resources of Group companies are defined within the Group's more general objectives.

The Group is subject to the capital adequacy requirements set out by the Basel Committee in accordance with the rules defined by the Bank of Italy ("New prudential supervisory instructions for banks," 13th update of Circular 263 of 27 December 2006 and "Instructions for preparing reports on regulatory capital and prudential ratios", 15th update of Circular No. 155/91). In Circular no. 263, the Bank of Italy underlines that supervisory instructions are primarily for consolidated reports; based on such rules, the ratio between regulatory capital and risk weighted assets must be at least 8% on a consolidated level. Compliance with the requirement on a consolidated basis is verified every three months by the Bank of Italy.

Along with observance of mandatory minimum capital ratios ("Pillar One"), regulations require the use of internal methodologies intended for determining the Group's current and future capital adequacy ("Pillar Two"), which thus takes on a more comprehensive connotation aimed at the overall verification of capital needs and sources actually available, in line with the Parent Company's strategy and growth objectives.

B. Quantitative information

For details on Group equity, see Section 15 - Liabilities in the Notes to the Financial Statements.

B.1 Consolidated shareholders' equity: breakdown by business areas

31 12 2013

Net equity items	Banking group	Insurance companies	Other companies	Consolidation cancellations and adjustments	Total
Shareholders' equity	7,485,698	330,317	269,451	(599,768)	7,485,698
Share premium	5,159	-	161,593	(161,593)	5,159
Reserves	1,187,766	255,877	16,251	(272,127)	1,187,767
Equity instruments	3,002	-	-	-	3,002
Treasury shares (-)	(24,532)	-	-	-	(24,532)
Valuation reserves	(1,054,690)	72,234	24,837	(97,072)	(1,054,691)
- Financial assets available for sale	(863,115)	-	-	-	(863,115)
- Tangible assets	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-
- Cash flow hedges	(199,229)	-	20,569	(20,569)	(199,229)
- Exchange difference	(4,402)	-	-	-	(4,402)
- Non-current assets held for sale	28,786	-	-	-	28,786
- Actuarial gains (losses) on defined benefit plans	(95,283)	-	(9)	9	(95,283)
- Share of valuation reserves of equity investments valued at equity	66,026	68,348	(2,333)	(66,016)	66,025
- Special revaluation laws	12,527	3,886	6,610	(10,496)	12,527
Profit (loss) for the year - Group and minority interests	(1,438,923)	94,021	(10,055)	(83,966)	(1,438,923)
Net equity	**6,163,480**	**752,449**	**462,077**	**(1,214,526)**	**6,163,480**

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

Asset / Amount	Banking Group		Insurance companies		Other companies		Consolidation cancellations and adjustments		TOTAL	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	210,800	(1,043,198)	111,195	-	-	(218)	(111,195)	218	210,800	(1,043,198)
2. Equity instruments	74,391	(27,572)	803	(27,369)	-	(104)	(803)	27,473	74,391	(27,572)
3. Units in UCITS	16,863	(26,418)	101	(16,381)	-	(47)	(101)	16,428	16,863	(26,418)
4. Loans	-	-	-	-	-	-	-	-	-	-
Total 31 12 2013	**302,054**	**(1,097,188)**	**112,099**	**(43,750)**	**-**	**(369)**	**(112,099)**	**44,119**	**302,054**	**(1,097,188)**
Total 31 12 2012	**645,466**	**(2,640,358)**	**90,610**	**(46,837)**	**132**	**(825)**	**(90,742)**	**47,663**	**645,466**	**(2,640,357)**

With reference to net valuation reserves for the available-for-sale portfolio, the table makes a distinction between capital gains and capital losses for debt securities, equities and units in UCITS.

The breakdown of reserves by class of financial instrument is particularly relevant for quantification of regulatory capital filters. All the amounts indicated are after tax, if applicable.

A more detailed list is included in Table B.4 below. In compliance with provisions issued for prudential purposes, the capital gain on the equity investment in Banca d'Italia is not included in the regulatory capital.

B.3 Valuation reserves for financial assets available for sale: annual changes

31 12 2013

	Debt securities	Equity securities	Units in UCITS	Loans
1. Opening balance	**(2,461,593)**	**459,395**	**7,307**	**-**
2. Increases	**1,665,454**	**68,638**	**16,893**	**-**
2.1 Increases in fair value	1,384,304	30,592	5,907	-
2.2 Reversal to profit and loss of negative reserves	281,150	38,046	10,986	-
- due to impairment	1,698	38,010	10,986	-
- following disposal	279,452	36	-	-
2.3 Other changes	-	-	-	-
3. Decreases	**36,259**	**481,214**	**33,755**	**-**
3.1 Decreases in fair value	12,159	42,243	24,392	-
3.2 impairment provisions	-	-	-	-
3.3 Reversal to profit and loss of positive reserves: following disposal	16,587	410,011	9,363	-
3.4 Other changes	7,513	28,960	-	-
4. Closing balance	**(832,398)**	**46,819**	**(9,555)**	**-**

The amounts indicated in this table are after tax, if applicable.

In line 2.1 “Decreases in fair value”, the amount of EUR 1,384.3 mln indicated in the column “Debt securities” is largely made up of increases in fair value, recognised at equity, of Italian government securities. Since the Bank opted for symmetrical treatment under the measures regarding "Prudential filters for regulatory capital" set forth by the Bank of Italy on 18 May 2010, the impact of positive and negative reserves accrued for these debt securities as of 1 January 2010 (EUR 1,010.4 mln) has been sterilised for regulatory capital purposes.

Line 2.2 “Reversal to profit and loss of negative reserves ”, sub-item “due to impairment”, shows the after-tax amount of impairment losses entered, before tax, in the income statement under Item 130 b) “Impairment losses on available-for-sale financial assets”.

Table B.4 below reports movements in the equity securities column with evidence of changes in the valuation reserve for major equity investments held.

B.3a Valuation reserves for financial assets available for sale: annual changes in equity securities

Asset/Amount	01 01 2013	Increases			Reductions				31 12 2013
		Due to impairment	following disposal	Other	Fair value increases	following disposal	Fair value reductions	Other	
Banca d'Italia	402,989	-	-	-	-	(402,989)	-	-	-
Bassilichi	2,573	-	-	-	-	-	-	-	2,573
Istituto per il Credito Sportivo	49,860	-	-	-	-	-	-	-	49,860
S.S.B. S.p.a.	7,517	-	-	-	21,269	-	-	(28,786)	-
United Bank for Africa plc	4,952	-	-	-	-	(4,952)	-	-	-
Other group interests	(10,355)	35,899	13	-	3,831	(532)	(40,262)	(174)	(11,580)
Other non-strategic interests	1,860	2,105	23	-	5,492	(1,538)	(1,975)	-	5,967
Equity securities third parties	(1)	6	-	-	-	-	(6)	-	(1)
Totale	**459,395**	**38,010**	**36**	**0**	**30,592**	**(410,011)**	**(42,243)**	**(28,960)**	**46,819**

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

	Internal pension plans	External pension plans	Provision for staff severance pay	31 12 2013
Opening balance	**(1,781)**	**744**	**(59,295)**	**(60,332)**
Remeasurement of net defined benefit liability (asset):	**(22,226)**	**(6,559)**	**(4,013)**	**(32,798)**
Return on plan assets excluding interest	(396)	(48)	x	(444)
Actuarial gains (losses) arising from changes in demographic assumptions	(2,413)	(3,977)	-	(6,390)
Actuarial gains (losses) arising from changes in financial assumptions	(20,455)	(38,946)	(4,013)	(63,414)
Changes in effect of limiting net defined benefit asset to asset ceiling	1,038	36,412	x	37,450
Gains (losses) on settlements	-	-	-	-
Others	(587)	(1,060)	(496)	(2,143)
Closing balance	**(24,594)**	**(6,875)**	**(63,804)**	**(95,273)**

Section 2 - Regulatory capital and ratios

2.1 The regulatory framework - scope of application

Regulatory capital is determined based on supervisory instructions issued by the Bank of Italy ("New Regulations for the Prudential Supervision of Banks", update no. 13 of Circular no. 263 of 27 December 2006 and "Instructions for preparing reports on regulatory capital and prudential ratios", 15th update of Circular No. 155/91).

"New Regulations for the Prudential Supervision of Banks" allow banks and banking groups -upon prior authorisation by the Bank of Italy- to determine capital requirements by adopting internal measurement models.

In June 2008, the Montepaschi Group was authorised to use advanced internal rating-based (AIRB) approaches for the determination of capital requirements for credit risk in relation to retail and corporate portfolios and Advanced Measurement Approaches (AMA) for operational risks.

2.2 Regulatory capital

A. Qualitative Information

The regulatory capital differs from net accounting equity as determined on the basis of IAS/IFRS international accounting principles, since Supervisory regulations are aimed at safeguarding capital quality and reducing potential volatility induced by the application of the IAS/IFRS principles.

The items that make up regulatory capital must therefore be fully available to the Group, so they may be used without limitation to hedge risks and corporate losses. These components need to be stable and their amount is cleared of any tax charges.

Regulatory capital is made up of core capital and supplementary capital. Both core (Tier 1) and supplementary (Tier 2) capital are determined by the algebraic sum of their positive and negative items, upon prior consideration of the so-called "prudential filters". This expression is understood as all those positive and negative items adjusting regulatory capital, introduced by supervisory authorities with the express purpose of reducing potential capital volatility. The deductible items, determined as will be explained below, must be deducted from core and supplementary capital (50% from Tier 1 and 50% from Tier 2).

The following table illustrates the constituents of Tier 1 and Tier 2, with a focus on the Group's most relevant aspects.

With regard to Tier 1, its positive items include paid up capital, share premium, profit and capital reserves, innovative and non-innovative capital instruments and profit for the period; added to these items are the positive prudential filters represented by the issuance of the New Financial Instruments. These instruments were issued by Banca Monte dei Paschi di Siena S.p.A. on 28 February 2013 pursuant to article 23-sexies of Law Decree no. 95 of 6 July 2012, converted, with amendments, into Law no.135 of 7 August 2012, as subsequently amended. In particular, the Ministry of Economy and Finance subscribed to the New Financial Instruments issued by the Bank for a total of EUR 4,071 mln, of which EUR 1,900 mln allocated to full repayment of the Tremonti Bonds already issued by the Bank in 2009, and EUR 171 mln, due on 1 July 2013, for advance payment of interest accrued on Tremonti Bonds up to 31 December 2012, in consideration of the Bank's negative results as at 31 December 2012. From a Capital Adequacy standpoint, although included in the Liabilities for the purpose of the Financial Statements, the NFIs qualify as Core Tier 1, by reason of their subordination pari passu with ordinary shares, in the event of both voluntary liquidation or bankruptcy proceedings and under going concern assumptions.

The characteristics of the New Financial Instruments include:

- BMPS may not distribute any dividends until approval of the Plan by the European Commission;
- the NFIs are financial instruments which may be converted into ordinary shares by the issuer and are characterised by subordination pari passu with ordinary shares, in the event of both voluntary liquidation or bankruptcy proceedings and under going concern assumptions. In particular, on a going-concern basis, the NFIs absorb losses that reduce the capital ratio to below 8% in the same proportion with respect to the share capital and reserves, by reducing the nominal value;
- the NFIs are perpetual instruments and BMPS has the right to redeem them subject to the prior authorisation by the Bank of Italy; the Prospectus specifically lays down that repayment will occur at the greater of the following values:
  - an increasing percentage of the nominal value over time (100% by 30 June 2015, then increased by 5% every two years up to a maximum of 160%);
  - the product of shares underlying the NFIs and the price paid in the event of a takeover bid on BMPS after the subscription date;
  - the product of shares underling the NFIs and the price received by the MPS Foundation in the event that over 10% of its shareholding is sold over a period of 12 months.
- the NFIs have no rights under art. 2351 of the Civil Code and are convertible into shares upon the request of the issuer (art. 23-decies para.1); in particular, the Prospectus provides that in the event of conversion, the MEF is to be assigned a number of shares equal to the ratio between the nominal value of the NFIs and the Theoretic Ex Rights Price (TERP) discounted by 30%; the TERP is positively related to the market value of BMPS shares;
- interest on NFIs is paid in cash up to the amount of net profit for the year gross of the same interest, tax effect and net of provisions for statutory reserves;
- any interest in excess of this threshold is paid through the issue of new shares at market value or, for 2013 interest, through the issue of additional NFIs for the equivalent nominal value;
- with regard to interest payment on NFIs, the Prospectus provides that:
  - interest on NFIs is calculated on a pro rata basis by applying a fixed rate of 9% to the nominal value for the first year (2013) with a subsequent step up of half a point every 2 years until the 15% cap is reached;
  - subject to the exceptions provided for in 2013 and 2014, interest that is not covered by net profit (loss) for the year is to be paid through the allocation of a number of shares equal to the number of shares in issue multiplied by the ratio between interest due and market capitalisation of the Bank (average of 10 days prior to the date of the BoD which approved the financial statements) net of the same interest;
  - in the event of loss for the year, no dividends shall be paid out under any circumstances.

The issuance of the NFIs is consequential to the shortfall revealed by the exercise conducted by the EBA on the capital requirements of Europe's major banks in the second half of 2011. The exercise revealed the Montepaschi Group's need for temporary and provisional capital strengthening in the amount of EUR 3,267 mln aimed at achieving a 9% (EBA) Core Tier 1 by the end of June 2012. In determining this target value, the exercise also included the lower valuation -as at 30 September 2011 - of exposures to sovereign issuers so as to take account of market concerns over sovereign debt risk.

Consequently, the Montepaschi Group developed a plan of actions aimed at strengthening capital, which led to determining an overall shortfall of EUR 2,000 mln, net of Tremonti bonds. Identified actions, aimed at further strengthening the Group's capital, lie at the basis of the Restructuring Plan approved by the BoD on 7 October 2013 and by the European Commission on 27 November 2013.

The negative items in Tier 1, on the other hand, include treasury shares in the portfolio, intangible assets (including goodwill), any losses posted in previous periods and in the current one, and the net negative balance of the reserves for AFS assets. As far as regulatory capital treatment of AFS reserves is concerned, 'early offset' of balances applies, calculated net of tax where applicable, from reserves for debt securities on the one hand and reserves for equity securities and units in UCITS on the other. Each of the two net balances calculated as above is in fact fully deducted, if negative, from Tier 1, whereas it is 50% included, if positive, in Tier 2. This 'asymmetric' treatment was the only approach applicable by Italian banks to AFS reserves until 2009. In 2010, the Bank of Italy with the "Prudential

filters for regulatory capital" set forth on 18 May 2010, introduced - in exclusive respect of debt securities issued by EU central governments- the possibility to opt for the alternative approach (so-called 'symmetrical' treatment) provided for by CEBS in its guidelines which includes full neutralisation of AFS reserves for regulatory capital purposes. The possibility for Italian banks to opt for the symmetrical approach has entailed the 'sterilisation' of the impact of negative and positive AFS reserves built up as of 2010 for debt securities issued by EU central governments. The Montepaschi Group opted for 'symmetrical' treatment.

With regard to negative items in Tier 1, it is noted that on 7 May 2013 the Bank of Italy communicated the adoption of specific provisions against Banca Monte dei Paschi di Siena under articles 53 and 67 of Legislative Decree no. 385/93 for regulatory treatment of the transaction known as Fresh 2008. In particular, the Bank was requested to exclude from Tier 1 the share of Fresh notes falling under the indemnity issued by the Bank. The negative impact on core capital as at 31 December 2013 amounted to EUR 76 mln.

Moreover, as of 2013, actuarial gains/losses arising from the measurement of liabilities connected with Employee benefits (staff severance pay, defined-benefit pension funds, etc.) are recognised, net of tax effect, in core capital and largely 'sterilised' by a prudential filter with opposite sign, determined by taking account of the "corridor method" adopted until 31 December 2012. With the introduction of the CRR/CRD IV package, this filter will gradually be phased out in the next 5 years, thus leading to full recognition of the effects of valuation reserves in core capital. Prudential treatment follows the amendments to IAS 19 and, therefore, elimination of the corridor method.

It should be noted that the negative prudential filters for Tier 1 include the net accrued capital gain (write-down of liabilities), after tax, relative to hybrid capital instruments and subordinated debt issued by the Group, classified among financial liabilities valued at fair value and accounted for in Tier 2.

Furthermore, in May 2013, the Bank of Italy gave clarifications about prudential treatment of deferred tax assets connected with multiple tax alignments on the same goodwill. Law Decree no. 225 of 29 December 2010, converted into Law no. 10 of 26 February 2011, introduced special tax treatment for Deferred Tax Assets – DTA concerning write-downs of loans, goodwill and other intangible assets. With regard to DTAs, the Bank of Italy has pointed out that recognition in regulatory capital of benefits connected with tax realignment subsequent to initial realignment of the same goodwill, only applies when related DTAs are converted into current taxes. For this purpose, the share of DTAs calculated on the same goodwill will have to be deducted from core capital, net of the substitute tax paid, only for the part referring to DTAs subsequent to the initial one. With reference to DTAs recognised up to the financial year ending 31 December 2012, sterilisation of the positive effects on Core Tier 1 is allowed to be spread over a period of 5 years, recognising, every year, 1/5 of the DTA amount as at 31 December 2012 under the negative elements of Core Tier 1, net of the amount reversed to profit and loss or converted to tax credit every year.

The overall Tier 1 capital is made up of the difference between the algebraic sum of the positive and negative items and the items to be deducted. Deductibles include:

- equity investments and other items (innovative capital instruments, hybrid equity instruments and subordinated debt) issued by banks and financial corporations not fully or proportionately consolidated, which are deducted 50% from Tier 1 and 50% from Tier 2.
- the difference between expected loss and net impairment losses, as measured for the regulatory portfolio by banks authorised to the use of internal models for the determination of capital requirements in view of credit risks; in particular, if expected loss exceeds impairment losses, the difference is deducted 50% from Tier 1 and 50% from Tier 2; if the expected loss is lower than net impairment losses, the difference is included in Tier 2 within the limit of 0.6% of credit risk weighted assets;
- the equity investments held in insurance companies and subordinated debt issued by such companies, which are deducted 50% from Tier 1 and 50% from Tier 2.

As far as supplementary (Tier 2) capital is concerned, the positive items it is made up of include valuation reserves, hybrid capital instruments, subordinated debt and the positive net balance of reserves for AFS assets. Negative items include the negative prudential filter proportionately at 50% of the positive balance of the AFS reserves included among the positive items of supplementary capital; in fact, these reserves are included up to 50% in supplementary capital.

The overall supplementary capital is made up of the difference between the algebraic sum of the positive and negative items and the items to be deducted, determined according to the criteria described above.

In particular, the following is noted:

- profits and losses not realised on cash flow hedges, recognised in a dedicated equity reserve, are not included in regulatory capital;
- as for fair-value-option liabilities of natural hedges, both capital gains and capital losses recorded in profit and loss and not realised, are fully relevant except for the component arising from changes in creditworthiness;
- shareholding in the Bank of Italy is deducted 50% from Tier 1 and 50 % from Tier 2.

1. Tier 1

The following table reports the main characteristics of instruments included in Tier 1 comprising, in particular, the innovative equity instruments issued by the Parent Company.

31.12.2013

Features of subordinated instruments	Interest rate	Step up	Issue Date	Maturity Date	Early redemption as of	Currency	Original amount in currency units	Contribution to regulatory capital (EUR/000)
F.R.E.S.H. (Floating Rate Equity-Linked Subordinated Hybrid)	Euribor 3m + 88 bps.	NO	30/12/2003	N.A.	(a)	EUR	700,000,000	28,622
Capital Preferred Securities I^ tranche	Euribor 3m +6,3%	YES	21/12/2000	N.A.	(b)	EUR	80,000,000	54,115
Capital Preferred Securities II^ tranche	Euribor 3m 6,3%	YES	27/06/2001	N.A.	(b)	EUR	220,000,000	106,012
Preferred Capital I LLC	Euribor 3m+ 6,3%	YES	07/02/2001	07/02/31	(c)	EUR	350,000,000	241,025
New Financial Instruments/ex "Tremonti Bond"	9%	YES		N.A.	(d)	EUR	4,071,000,000	4,071,000
Total Preference share and capital instruments (Tier I)								**4,500,774**

a. The innovative capital instruments F.R.E.S.H. (Floating Rate Equity-linked Subordinated Hybrid notes) issued by the vehicle "MPS Preferred Capital II LLC", for an original nominal value of € 700 mln, are perpetual instruments and as such contain no redemption or step-up clauses but are convertible into shares. In September of each year from 2004 through 2009 and however, at any time effective as of 1 September 2010, the instruments are convertible upon the investor's initiative. In addition, an automatic conversion clause is provided for in the event that, after the seventh year from date of issue, the reference price of the ordinary shares should exceed a set amount. For the portion still outstanding, it is noted that the return is non-cumulative, with an option for it not to be paid if, during the previous year, the Bank did not register any distributable profits and/or did not pay any dividends to its shareholders. Any unpaid consideration shall be considered as forfeited. The rights of the note holders are guaranteed on a subordinated basis. In the event of liquidation of the Parent Company, the rights of the investors will be subordinated to all of the Parent Company's creditors who are not equally subordinated, including holders of securities coming under Tier 2 capital and will override the rights of Parent Company's shareholders. In virtue of these characteristics, these instruments are eligible for inclusion in core Tier1. Within the overall structure, a limited liability company and a business Trust were set up, which have respectively issued convertible preferred and convertible trust securities. The Parent Company underwrote an on-lending contract in the form of a subordinated deposit agreement. The conditions of the on-lending agreement are substantially the same as the conditions of the convertible preferred securities. For these securities, the issuer exercised the option not to proceed with payment of interest accrued on the coupon payment dates scheduled, as of 30 September 2013.

b. Capital Preferred Securities, Antonveneta Capital Trust I and Antonveneta Capital Trust II are non-redeemable securities. For these securities, the issuer exercised the option not to proceed with payment of interest accrued on the coupon dates scheduled, as of 21 September 2013 and 27 September 2013 respectively.

c. Preferred Capital Shares I LLC are non-redeemable. For these securities, the issuer exercised the option not to proceed with payment of interest accrued on the coupon dates scheduled, as of 7 February 2013.

d. The New Financial Instruments/ex Tremonti Bonds were issued by Banca Monte dei Paschi di Siena S.p.A. on 28 February 2013 pursuant to article 23-sexies of Law Decree no. 95 of 6 July 2012, converted, with amendments, into Law no.135 of 7 August 2012, as subsequently amended. The NFIs are financial instruments which may be converted into ordinary shares by the issuer and are characterised by their subordination pari passu with ordinary shares, in the event of both voluntary liquidation or bankruptcy proceedings and under going concern assumption. In particular, on a going-concern basis, the NFIs absorb losses that reduce the capital ratio to below 8% in the same proportion with respect to the share capital and reserves, by reducing the nominal value. For further information, please see above.

2. Tier 2

The following tables report the main contractual features of instruments included in the calculation of Tier 2, with a special focus on hybrid capital instruments and subordinated liabilities.

Features of subordinated instruments	interest rate	step up	Issue Date	Maturity Date	Early redemption as of	Currency	Original amount in currency units	Contribution to regulatory capital (EUR/000)
Subordinate bond loan	4,875% FIXED	NO	31 05 2006	31 05 2016	N.A.	EUR	750,000,000	589,733
Subordinate bond loan	5,750% FIXED	NO	31 05 2006	30 09 2016	N.A.	GBP	200,000,000	88,808
Subordinate bond loan	Euribor 6m+2,50%	NO	15 05 2008	15 05 2018	N.A.	EUR	2,160,558,000	1,965,427
Total hybrid instruments (Upper Tier II)								**2,643,968**
Subordinate bond loan	CMS Convexity Notes	NO	07 07 2000	07 07 2015	N.A.	EUR	30,000,000	12,000
Subordinate bond loan	CMS Volatility Notes	NO	20 07 2000	20 07 2015	N.A.	EUR	25,000,000	10,000
Subordinate bond loan	5,6% fixed	NO	09 09 2010	09 09 2020	N.A.	EUR	500,000,000	377,996
Subordinate bond loan	Euribor 3m+0,40 % until 30/11/2012, then Euribor 3m+1%	YES	30 11 2005	30 11 2017	30 11 2012	EUR	500,000,000	364,794
Subordinate bond loan	Euribor 3m+0,40% unitl 15/01/13, then Euribor 3m+1%	YES	20 12 2005	15 01 2018	15 01 2013	EUR	150,000,000	102,890
Subordinate bond loan	7,44% fixed	NO	30 06 2008	30 12 2016	N.A.	EUR	250,000,000	149,192
Subordinate bond loan	6,4% unitl 31/10/2013, then Euribor 3m +3%	YES	31 10 2008	31 10 2018	31 10 2013	EUR	100,000,000	90,189
Subordinate bond loan	7% fixed	NO	04 03 2009	04 03 2019	N.A.	EUR	500,000,000	500,000
Subordinate bond loan	5% fixed	NO	21 04 2010	21 04 2020	N.A.	EUR	500,000,000	368,650
Subordinate loan ABN AMRO	Euribor 3m+2,8%	NO	10 10 2006	10 10 2016	10 10 2011	EUR	400,000,000	240,000
Total hybrid instruments (Upper Tier II)								**2,215,711**
Total								**4,859,679**

3. Tier 3

At the end of 2013, there were no instruments eligible for inclusion in Tier 3.

B. Quantitative information

	31 12 2013	31 12 2012*
A. Tier I before prudential filters	**6,394,605**	**7,851,697**
B. Tier I prudential filters	3,701,575	1,764,883
B1 - Positive IAS/IFRS prudential filters	4,159,014	1,900,000
B2 - Negative IAS/IFRS prudential filters	(457,439)	(135,117)
C. Tier I capital gross of items to be deducted (A+B)	**10,096,180**	**9,616,580**
D. Items to be deducted from Tier I	(1,123,076)	(775,210)
E. Total TIER 1 (C - D)	**8,973,104**	**8,841,370**
F. Tier II before prudential filters	**5,050,664**	**5,322,111**
G. Tier II prudential filters	(62,028)	(100,875)
G1. - Positive IAS/IFRS prudential filters	-	-
G1. - Negative IAS/IFRS prudential filters	(62,028)	(100,875)
H. Tier 2 gross of items to be deducted (F + G)	**4,988,636**	**5,221,237**
I. Items to be deducted from Tier II	(1,123,076)	(775,210)
L. Total TIER 2 (H - I)	**3,865,560**	**4,446,027**
M. Items to be deducted from Tier I and Tier II	-	(563,560)
N. Capital for regulatory purposes (E+L - M)	**12,838,664**	**12,723,837**
O. Tier III capital (TIER 3)	-	-
P. Regulatory capital inclusive of TIER III (N+O)	**12,838,664**	**12,723,837**

** Comparative data as at 31 December 2012 reported in this document differ from data published in the Financial Statements as at 31 December 2012 because the Bank was requested by the Supervisory Authority on 7 May 2013 to implement a retrospective change to Tier 1, which reduced it by EUR 76 mln.*

In 2013, Tier 1 increased by approx. EUR 131.7 mln, totalling EUR 8.973.1 mln, compared to EUR 8,841.4 mln at the end of 2012. The increase is the net effect of various components including the positive impact from the issuance of New Financial Instruments which, net of Tremonti Bond repayment, generated an increase of EUR 2,171 mln and the negative impact from the EUR 1.438,9 mln loss for the year and the lower value of equity investments, particularly the insurance ones purchased prior to 20.07.2006. It should be noted that the amount of EUR 457.4 mln, registered as at 31.12.2013 in item "B.2 – Negative IAS/IFRS Prudential filters", includes the "sterilisation" of the positive net P&L result, totalling EUR 165.0 mln, following derecognition of the pre-existing shareholding in the Bank of Italy.

In 2013, Tier 2 decreased by EUR 580.6 mln, totalling EUR 3,865.6. mln, compared to EUR 4,446.0 mln at the end of 2012. The reduction is primarily due to the amortisation of subordinated debt and to the lower value of equity investments, particularly the insurance ones purchased prior to 20.7.2006.

As at 31 December 2013, there were no instruments eligible for inclusion in Tier 3.

2.3 Capital adequacy

A. Qualitative Information

Qualitative information regarding the Group's capital adequacy assessment process is included in Section 1 of this Part F.

B. Quantitative information

Categories/Amounts	Non-Weighted 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 (*)	**202,062,264**	**218,616,186**	**63,688,445**	**72,545,621**
1. Standardized Approach	80,330,782	90,860,801	28,800,683	32,186,038
2. 2 Internal rating-based (IRB) approach	120,915,264	127,372,474	33,224,337	39,075,008
2.1.Foundation	-	-	-	-
2.2 Advanced	120,915,264	127,372,474	33,224,337	39,075,008
3. Securitisations	816,218	382,911	1,663,425	1,284,575
B. REGULATORY CAPITAL REQUIREMENTS	-	-	-	-
B.1 Credit and counterparty risk	-	-	**5,095,076**	**5,803,650**
B.2 Market risk	-	-	**518,912**	**483,831**
1. Standardized Approach	-	-	518,912	483,831
2. Internal models	-	-	-	-
3. Concentration risk	-	-	-	-
B.3 Operational Risk	-	-	**659,407**	**667,791**
1. Foundation	-	-	29,343	31,404
2. Standardized Approach	-	-	-	-
3. Advanced	-	-	630,064	636,387
B.4 Other prudential requirements	-	-	-	-
B.5 Other calculation elements	-	-	**486,537**	**470,968**
of which impaired	-	-	486,537	470,968
of which intra-group adjustments	-	-	-	-
B.6 Total prudential requirements (3)	-	-	**6,759,932**	**7,426,240**
C. RISK ASSETS AND CAPITAL RATIOS	-	-	-	-
C.1 Risk-weighted assets	-	-	84,499,150	92,828,000
C.2 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)			10.62%	9.52%
C.3 Capital for regulatory purposes including Tier III / risk-weighted assets (Total capital ratio)			15.19%	13.71%

** Comparative data as at 31 December 2012 reported in this document differ from data published in the Financial Statements as at 31 December 2012 because the Bank was requested by the Supervisory Authority on 7 May 2013 to implement a retrospective change to Tier 1, which reduced it by EUR 76 mln.*

Total risk-weighted assets as at 31 December 2013 amounted to EUR 84,499 mln. The amount reflects an approximate 9 percentage point contraction in risk-weighted assets with respect to the end of the previous year. The contraction in RWAs is the result of multiple efficiency drivers in the risk weighting of MPS Group exposures.

At the end of 2013, the Tier 1 capital ratio was 10.62%, while the total capital ratio was 15.19% (as explained in the footnotes to the previous table, the impact from changes to the equity investment in the Bank of Italy has been completely sterilised).

The prudential supervisory provisions for banks and banking groups became operational as of 1 January 2014, with the aim of aligning national regulations with the changes introduced to the international regulatory framework, particularly the European Union's new regulatory and institutional framework for banking supervision, and to take account of the needs which arose during the year regarding the supervision of banks and other intermediaries.

The new regulatory framework aims to improve the ability of banks to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance and strengthen the bank's transparency and disclosures, while taking into account developments from the financial crisis. The reforms have two types of focus: microprudential, involving regulation at individual bank level; macroprudential, addressing systemic risk which can build up across the banking sector as well as the procyclical amplification of these risks over time.

In doing so, the Basel Committee has maintained a three pillars-based approach which was at the basis of the previous capital accord known as "Basel 2", but has integrated and strengthened it to increase the quantity and quality of banks' capital base and introduce counter-cyclical supervisory tools as well as new standards for liquidity risk management and financial deleveraging.

More specifically, Pillar 1 has been strengthened through a more harmonised definition of capital as well as higher capital requirements. In the face of strengthened capital requirements to more accurately reflect the actual risk of certain activities (eg. securitisations and trading book), there is a new definition of Tier 1 capital which primarily focuses on common equity as well as the requirement for additional capital conservation and counter-cyclical buffers for systemically important financial institutions.

In addition to the system of capital requirements aimed at covering credit, counterparty, market and operational risk, there is now a plan to introduce leverage caps (including off-balance sheet exposures) as a backstop to capital requirements based on risk and to reduce excessive leverage across the system.

"Basel 3" also includes new liquidity risk monitoring requirements and tools which focus on short-term liquidity resilience (Liquidity Coverage Ratio - LCR) and longer term structural balance (Net Stable Funding Ratio - NSFR) as well as providing standards for liquidity risk management and monitoring at both individual and system-wide level.

Pillar 2 requires banks to adopt a strategy and process for controlling current and future capital adequacy, assigning the supervisory authorities with the task of verifying the reliability and consistency of results and of implementing the appropriate corrective measures, where necessary. Growing importance is attached to the corporate governance structure and internal control systems of banks as a determining factor for the stability of individual institutions and the financial system as a whole. To this end, the following have been strengthened; regulatory requirements concerning the role, qualification and composition of governing bodies; awareness by these bodies and top management regarding organisational structure and risks for the bank and banking group; corporate control functions, with a particular focus on the independence of those in positions of responsibility, the recognition of risk in off-balance sheet assets and securitisations, asset valuation and stress testing; remuneration and incentive systems.

Pillar 3 – regarding the obligation of public disclosure on capital adequacy, risk exposures and general characteristics of management and control systems, with a view to promoting market discipline – was revised to also include transparency requirements concerning securitisation exposures and further information on the composition of regulatory capital and the methods adopted by the bank to calculate capital ratios.

It should also be noted that in November 2013, in advance of transition to the single supervisory mechanism, the European Central Bank initiated a Comprehensive Assessment. The exercise will involve 130 European institutions, including the Monte dei Paschi di Siena Group. The Comprehensive Assessment comprises three pillars:

- A supervisory Risk Assessment: consisting in the qualitative and quantitative analysis of the bank's intrinsic risk profile, its position in relation to its peers and its vulnerability to a number of exogenous factors;
- An asset Quality Review: consisting in a broad assessment of balance sheet and off-balance sheet exposures for all asset classes, conducted with reference to harmonised definitions, including those for non-performing exposures and forebearance.
- A stress test: designed to provide a forward-looking view of banks' shock-absorption capacity under stress.

The results of the Comprehensive Assessment will be made available by November 2014 and, where necessary, will be followed by corrective measures, which may include recapitalisation, asset reduction, etc.

With reference to disclosure requirements for global systemically important banks(G-SIBs) it should be noted that the 12 indicators used in the assessment methodology are available on the Bank's website at http://rp.gruppo.mps.it/hpgo/res.aspx?id=rp.AAA006HWN

The data will be published no later than 30 April 2014 according to Bank of Italy guidelines

Part G – Business combinations

Section 1 – Business combinations during the period

1.1. Business combinations

1.1.1 Transactions included in the scope of application of the international accounting standard IFRS 3 "Business combinations"

On 11 December 2013, the MPS Group acquired control of 'Perimetro Gestione Proprietà Immobiliari' and 'Casaforte'. The acquisition of control was completed by way of a two-step purchase of 100% of Equity Instruments issued by Perimetro and Class Z notes issued by Casaforte. The date of acquisition of control was, for practical reasons and as required by IFRS 3, was determined at the nearest month-end, ie. 30 November 2013. Furthermore, on 30 December 2013, the Director appointed by Banca MPS and elected by the special meeting of Equity Instrument holders joined the Board of Directors of Perimetro.

The transactions are part of the activities planned for the restructuring of the 'Chianti Classico' trade, outlined in the Parent Company's Restructuring Plan and approved by the Board of Directors on 7 October 2013 and subsequently by the European Commission on 27 November 2013.

The Chianti transaction was put in place by the MPS Group in 2009-2010 with the aim to create value from part of its real estate used in the business, reorganise and rationalise production and industrial processes related to properties used in the business and, at the same time, strengthen its capital structure while maintaining the properties for use as bank branches through 24-year lease contracts with the purchaser.

The Chianti transaction involved the following:

- transfer to Consorzio Perimetro of the Group's real estate business, consisting in the:
    - real estate portfolio comprising 683 properties used in the banking business;
    - mortgage loan;
    - lease agreements of the properties at market value.

The subsequent securitisation of the mortgage loan existing between the Parent Company and the Consorzio to the securitisation company, Casaforte.

Restructuring of the Chianti transaction, or consolidation of property assets and of the securitisation, will result in short and long-term economic and operational benefits at consolidated level. More specifically, the Restructuring will:

- improve profitability;
- allow for the recovery, over time, of property rights on real estate owned by Perimetro, with additional related economic and operational benefits.

Restructuring under the described terms does not affect the conditions and rights provided for holders of Casaforte Asset Backed Securities at the time of issuance.

The table below contains the accounting impacts from the acquisition of control of Perimetro and Casaforte as at 30 November 2013. Given the transaction's characteristics, the impacts of the two entities, Perimetro and Casaforte, are jointly represented net of respective intercompany balances. It should be noted that consolidation of Casaforte concerned both the vehicle and the segregated assets.

Item		**30 11 2013**
Cash		-
Instruments issued		-
Contingent consideration		-
Consideration transfered		-
Assets arising from contingencies		-
Fair Value of investments in Perimetro/Casaforte prior to control		49,946
Total value of investment		**49,946**
		-
Non controlling interest		**5,090**
		-
Value of recognised assets and liabilities		-
Cash and cash equivalents		1
Trading derivatives (assets)		10,998
Hedging derivatives (assets)		190,924
Loans to banks		407,273
Loans to customers		-
Property, plant and equipment		1,404,886
Intangible assets		-
Other assets		1,856
Customer deposits		-
Securities issued (Class A, B, Z ABSs and Equity Insturments)	-	1,689,277
Hedging derivatives (liabilities)	-	188,695
Net deferred tax liabilities	-	116,969
Other liabilities	-	31,228
Net liabilities	**-**	**10,231**
		-
Goodwill		-

The cost of the transaction is posted at zero since control was obtained through the acquisition of Equity Instruments/Class Z notes which, for IAS/IFRS purposes, represent liabilities and not equity interests. The Equity Instruments were issued by Perimetro pursuant to art. 2346 cc paragraph 6 and the Class Z notes represent the residual tranche of asset backed securities issued by Casaforte. According to regulations, the Equity Instruments may only circulate in combination with the corresponding Class Z notes. For the purchase of these Equity Instruments/Class Z notes, a total consideration of EUR 69.9 mln was paid and is included under liabilities (debt securities issued).

The Bank did not incur any costs associated with the acquisition of control.

Furthermore, the transaction does not involve contingent consideration nor assets arising from any contingencies.

Pre-existing equity investments, amounting to 7.9% of A shares and 100% of B shares, have been designated at fair value. The valuation also took account of the features of the remuneration of A and B shares provided for by Perimetro's Articles of Association. The valuation revealed substantial alignment with the nominal value and therefore the fair value measurement of the portion of A and B shares already present in the portfolio of MPS Group entities did not result in the recognition of any economic effects.

The non-controlling interest, corresponding to 92.1% of A shares, has been designated at fair value which, for the reasons described above, is equal to the nominal value, EUR 5.1 mln.

No contingent liabilities have been recognised.

Real estate assets have been recognised at fair value (Market Approach) on the basis of a specific appraisal issued by an external independent expert. The valuation also involved reassessment of the Estimated Rental Value (ERV) of the property unit; this latest assessment revealed a market rental value which was lower than the contractual rent for 2013. This resulted in two sets of economic impacts:

- derecognition of prepayments (accounted for pro rata to take account of the differences between financial and operating leases pursuant to IAS 17) posted by the companies of the MPS Group entities for a total of EUR 128.5 mln; in fact, the estimated rental value recalculated at the end of 2013 excluded the possibility of recognising a corresponding deferred income in Perimetro;
- the recognition of a further loss of EUR 95.1 mln.

Since the MPS Group is lessee of Perimetro's real estate, under the Master Lease Agreement, reconsolidation of real estate assets, from a strictly accounting standpoint, entails the settlement of a pre-existing contractual relationship pursuant to IFRS 3. In these cases the off-market amount, subject to specific conditions, is to be excluded from the business combination and recognised as a separate P&L item.

These P&L impacts, the derecognition of prepayments and loss from the settlement of the pre-existing contractual relationship are posted under item 220 “Other Operating Expenses” of the income statement.

In the separate financial statements of Perimetro/Casaforte, derivative assets represent operational hedges (interest rate hedges on Casaforte's current accounts) or hedging derivatives of the variability in lease payments linked to the inflation component (Perimetro).

Derivative liabilites refer to cash flow hedges on class A notes issued by Casaforte. In this case, the hedge is recognised in both the separate financial statements and the consolidated financial statements of MPS.

Net deferred tax liabilities mainly relate to the the temporary differences between the book value and tax value of the properties.

The consolidation of Perimetro/Casaforte did not result in the recognition of goodwill.

The contribution to the consolidated loss by Perimetro/Casaforte for 2013 amounts to approx. EUR 2.1 mln.

However, the estimated impact of the entire transaction on the consolidated loss for 2013 should take into account both the relevant intercompany relationships and other economic items linked to the transaction. Indeed, since reconsolidation lifted the obligation requiring the MPS Group to hold no more than 10% of total Casaforte Class A notes issued - an obligation imposed by the supervisory authorities in order to include the capital gain realised in 2010 in regulatory capital - the Bank exercised its right of withdrawal and therefore, in the future, will no longer bear the costs for guarantees received. Overall, it is estimated that the restructuring of the Chianti Classico transaction will result in improved profitability, with a positive economic impact in terms of net profit for approximately EUR 40 mln in the first post-restructuring year, gradually increasing over time. This improvement is primarily due to the replacement of administrative expenses on rents with the depreciation of real estate, net of tax effects and lower commissions for guarantees received.

1.1.2 Transactions within the Group (business combinations of entities under common control)

In addition to the business combinations regulated by IFRS 3 and summarised in the section above, there were a number of extraordinary intragroup transactions having no impact on the consolidated financial statements; these transactions, which do not fall within the scope of IFRS 3, involved the transfer of business units or legal entities among the companies belonging to the Montepachi Group or business combinations of entities under common control. In view of the reorganisation purposes of the transactions and pursuant to the Group's related accounting policy, the transactions have been accounted for at the book value in the separate financial statements of the entities concerned, without the recognition of any economic impacts.

The main intragroup transaction completed during the year included the:

- merger by absorption of Banca Antonveneta S.p.a. into Banca Monte dei Paschi di Siena S.p.a.;
- merger by absorption of MPS Gestione Crediti Banca S.p.a into Banca Monte dei Paschi di Siena S.p.a.;
- disposal of the business unit of administrative and back office activities by the Montepaschi Group's Consorzio Operativo to Banca Monte dei Paschi di Siena S.p.a.. The business unit, appropriately integrated and revised, was sold to third parties with effect from 1 January 2014; as at 31 December 2013 it is classified under asset groups held for disposal.

Section 2 – Business combinations completed after the period

Following the closure of the 2013 financial year, no business combinations pursuant to IFRS 3 have been entered into.

Section 3 – Retrospective adjustments

No retrospective adjustments are reported.

Part H – Related-party transactions

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1 Compensation of key management personnel

items/Amounts	Total 31 12 2013	Total 31 12 2012
Short-term benefits	8,439	9,323
Post-retirement benefits	-	-
Other long-term benefits	-	-
Termination benefits	4,540	830
Share-based payments	-	-
Other compensation	-	280
Total compensation paid to key management personnel	**12,979**	**10,433**

Considering instructions provided by accounting standard IAS 24 and in light of the current organisational structure, the Group has opted for the disclosure scope to include not only Directors, Statutory Auditors, the General Manager and Deputy General Managers, but also other Key Management Personnel.

For detailed information regarding remuneration policies, pursuant to art. 123 ter of the Consolidated Law on Financial Intermediation, please refer to the documents "Report on Corporate Governance and Ownership Structure and – Remuneration Report" which contains data reported in the past financial statements, including:

- a detailed breakdown of compensation paid to the Governing and Control bodies, General Management and, in aggregate form, to Key Management Personnel, as well as stock option plans reserved for members of the Governing and Control bodies, the General Management and Key Management Personnel;
- details and developments regarding stock option plans for Key Management Personnel;
- the shares of the Parent Company and its subsidiaries held by members of the Governing and Control bodies, General Management, Key Management Personnel and other related parties.

2. Related-party transactions

"Regulations containing provisions relating to transactions with related parties" (the **Regulations**) was adopted by Consob with Resolution no. 17221 of 12 March 2010 and later amended by Resolution no. 17389 of 23 June 2010.

This regulatory framework combines into a new and comprehensive set of Regulations all principles regarding prompt and periodic disclosure obligations; it implements articles 114 and 154-ter of the Consolidated Law on Financial Intemediation e, supersedes the rules previously set out by Consob's Issuer Regulations and implements the provisions under Article 2391-bis of the Civil Code.

In its meeting of 10 November 2010, the Parent Company's Board of Directors established a Committee of Independent Directors which, as of 18 July 2013, has been renamed "Committee on Related-Party Transactions"; as at today, the Committee is composed of all independent directors pursuant to the principles and criteria of the Corporate Governance Code of listed companies (latest version: December 2011), which the Parent Company adhered to by its resolution of 20 December 2012, and the Consolidated Law on Financial Intermediation.

On 25 November 2010, the Board of Directors of the Parent Company resolved to approve "Group Directive on related-party transactions", which sets out the model for related-party transactions establishing roles and responsibilities of internal relevant functions and related implementing processes. The Directive was subsequently updated and renamed "Group Directive on BMPS Related Parties and Group Associated Parties", with reference to "Associated Parties" as governed by the Bank of Italy in its 9th update of Circular no. 263/2006. The update was in implementation of art. 53 of the Consolidated Law on Banking and in compliance with resolution no. 277 of the Interministerial Committee for Credit and Savings (ICRC) of 29 July 2008, to govern regulations concerning risk assets and conflicts of interest in relation to the Associated Parties of the Group. The regulatory framework of the Bank of Italy (which applies to: banks authorised to operate in Italy, on an individual bases; and banking groups, on a consolidated basis) entered into force on 31 December 2012 and regards both compliance with prudential individual or consolidated limits and the application of deliberative procedures for risk assets and conflicts of interest in relation to Associated Parties.

In this regard, by resolution of the Board of Directors of the Parent Company of 26 June 2012 and in compliance with regulatory provisions, approval was given to the "Deliberative Procedures governing transactions with Associated Parties" and, at the same time, the decision was made to review the "Procedures governing transactions with Related Parties"; both translate the contents of the Directive into practice and illustrate the organisational choices and solutions identified by the MPS Group for alignment with existing regulations.

The Procedures were published on the Parent Company's website and are therefore available in full-text version at the following links:

http://www.mps.it/Investor+Relations/Corporate+Governance/Procedura+in+materia+di+operazioni+con+parti+correlate.htm

http://www.mps.it/Investor+Relations/Corporate+Governance/Procedure+in+materia+di+operazioni+con+soggetti+collegati.htm

In compliance with the Bank of Italy's supervisory provisions, the Boards of Directors of Italian subsidiaries of the Montepaschi Group approved their decision-making procedures; the Parent Company also provided foreign banks and non-banking entities of the Group with instructions and guidance for their implementation, which was carried out by 31 December 2012.

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In the course of 2013, the Montepaschi Group did not conduct any related-party transactions which by nature, consideration, mode or time of implementation might have had effects on the safeguarding of corporate assets or the completeness and accuracy of information, including accounting information, relating to the Parent Company and to the Montepaschi Group and that may therefore have involved obligations of market disclosure pursuant to Consob Regulation no. 17221/2010.

Information is provided below regarding certain related-party transactions effected by the Monte dei Paschi di Siena banking group between 01.01 and 31.12.2013, which deserve specific mention.

Most of the following transactions were approved by the Board of Directors of the Parent Company or of other Group companies and were conducted on the basis of assessments of mutual economic advantage.

January 2013

- On 24.01.2013, the Board of Directors of the Parent Company resolved to approve the request received from SANSEDONI SIENA SPA for a 12-month suspension of payment of principal (for a total amount of EUR 12 mln; BMPS's share of total: EUR 6.305 mln) in relation to two outstanding mortgage loan agreements for an overall amount of EUR 120 mln and consequent extension of their final maturity from 28.05.2020 to 28.05.2021; the request was made by the Company in accordance with the Agreement "New measures for credit to SMEs", signed by the Italian Banking Association on 28 February 2012. The transaction in question falls within the scope of application of Consob regulation no. 17221/2010, insofar as the company is subject to the significant influence of the Parent Company; the transaction qualifies as an ordinary transaction of minor relevance.
- On 24.01.2013, the Board of Directors of the Parent Company resolved to approve the request for a 12-month suspension of payment of principal on a construction mortgage loan (with funds advanced during construction) for an original amount of EUR 40 mln (outstanding debt: EUR 32.8 mln), and consequent extension of final maturity from 23.12.2013 to 23.12.2014 in favour of SVILUPPO ED INTERVENTI IMMOBILIARI SRL; the request was made by the Company in accordance with the Agreement "New measures for credit to SMEs", signed by the Italian Banking Association on 28 February 2012. The transaction in question falls within the scope of application of Consob regulation no. 17221/2010, insofar as the company is controlled by Sansedoni Siena Spa, which is in turn subject to the significant influence of BMPS; the transaction qualifies as an ordinary transaction of minor relevance.

March 2013

- On 28.03.2013, the Board of Directors of the Parent Company approved the ordinary renewal, with a reduction in outstanding amounts, of INTERMONTE SIM SPA's facilities totalling EUR 207 mln; the transaction in question falls within the scope of application of regulations on Related-Party Transactions insofar as the company is subject to the significant influence of BMPS.

April 2013

- On 17.04.2013, the Parent Company granted renewal of credit lines for an amount of EUR 21mln to MARINELLA SPA, a company subject to significant influence by reason of a 25% shareholding;
- By resolution of 17.04.2013, the Board of Directors of the Parent Company granted NEWCOLLE SRL the extension of existing loans for a total amount of EUR 10.4 mln under the same terms, together with a one-year extension of credit facilities for a total exposure of EUR 29.8 mln; the company is a related party insofar as it is 49% owned directly by the Bank;
- On occasion of the same meeting on 17.04.2013, the Board of Directors of the Parent Company approved the renewal and increase of SANSEDONI SIENA S.p.A.'s credit facilities for a total of

EUR 43 mln; as previously stated, the company qualifies as a related party since it is subject to BMPS's significant influence.

June 2013

- On 26.06.2013, the Parent Company granted renewal of credit lines for an amount of EUR 5.646 mln to INTERPORTO TOSCANO A. VESPUCCI S.p.A., a company subject to the significant influence of Mps Capital Services Banca per le Imprese Spa.

July 2013

- As part of the ordinary review of credit facilities on 04.07.2013, approval was given to the extension and increase from EUR 5 to 14 mln of the credit line, usable for the issue of sureties, granted to FABRICA IMMOBILIARE SGR SPA, with concurrent revocation of previously granted credit facilities. Such transactions falls within the scope of application of regulations on Related-Party Transactions insofar as the company is subject to the significant influence of BMPS which holds a 49.99% direct stake in the company.
- As part of the ordinary review of credit facilities on 18.07.2013, approval was given to the extension of credit on current account for a total amount of EUR 10.3 mln in favour of the Monte dei Paschi di Siena Foundation. The transaction in question falls within the scope of application of regulations on Related-Party Transactions insofar as the Monte dei Paschi di Siena Foundation has a 34.17% shareholding in BMPS.
- On 30.07.2013, approval was given to the derogation from the terms of a pooled lending agreement in favour of ASSET MANAGEMENT HOLDING SPA whose requests were accepted to enable the Company to complete an acquisition. Such transaction falls within the scope of application of regulations on Related-Party Transactions insofar as the Company is subject to the significant influence of BMPS which holds a 21.63% direct stake in the company.

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Pursuant to art. 14, paragraph 2 of CONSOB regulation no. 17221/2010 and art. 8.5 of the "Procedure for Related Party Transactions" adopted by the Parent Company, it is noted that the following transactions with subsidiaries were approved in 2013:

On 28.02.2013 the following was approved:

- renewal and decrease of credit lines for an amount of EUR 396 mln in favour of Banca Monte Paschi Belgio SA, 100% owned by BMPS;
- renewal and increase of credit lines for an amount of EUR 5,012 mln in favour of MPS Leasing & Factoring Spa.

On 17.04.2013, Banca Antonveneta Spa, 100% owned by Banca Monte dei Paschi di Siena S.p.A., was granted extension and increase of an ordinary loan to EUR 11.023 mln, as well as extension of another credit facility for an amount of EUR 0.76 mln and a new unsecured loan amounting to EUR 9.21 mln, for a total of EUR 20.309 mln.

In this connection, it is noted that the deed of merger by absorption of Banca Antonveneta S.p.A. by and into Banca Monte dei Paschi di Siena S.p.A. was signed on 23 April 2013 with effect as of 1 January 2013 for legal and accounting/tax purposes.

On 04.06.2013 the Consorzio Operativo Gruppo Montepaschi, 99.82% owned by BMPS, was granted same-term renewal of a EUR 500 mln credit line.

On 25.07.2013, approval was given to the renewal and increase of existing credit lines to CONSUM.IT SPA, 100% owned by BMPS, for a total amount of EUR 8,150 mln.

On 11.09.2013 approval was given to the renewal and increase of existing credit facilities to MPS CAPITAL SERVICES SPA, 99.92% owned by BMPS, for a total amount of EUR 16,670 mln.

On 26.10.2013 BMPS authorised the purchase of an interest in INTERPORTO TOSCANO A. VESPUCCI SPA - a company subject to the significant influence of Mps Capital Services Banca per le Imprese Spa, a subsidiary of BMPS . The transaction allowed for the subscription of 9,485 unsubscribed shares relating to the capital increase approved by the shareholders' meeting of INTERPORTO TOSCANO A. VESPUCCI SPA. The consideration for subscription of these shares was settled by way of a payable due to the Parent Company by INTERPORTO TOSCANO A. VESPUCCI SPA for the amount of EUR 4,898,623 mln.

On 19.12.2013 Mps Capital Services Banca per le Imprese Spa, a subsidiary of BMPS, was granted a credit facility of EUR 50 mln, to be used for the issue of sureties on behalf of BMPS.

The detailed list of Group companies and investees subject to significant influence as at 31 December 2013 is provided in Section 10, Part B of the Notes to the Consolidated Financial Statements.

The following tables summarise the Group's relationships with its Associates and other related parties as at 31 December 2013, as well as the economic effects of operations during the year. In calculating the shares of total, it is noted that:

- financial assets had the total of items 10 to 80 on the Assets side of the Balance Sheet (balance-sheet financial assets) as their denominator;
- in the case of financial liabilities, the denominator consisted in the total of items 10 to 60 on the Liabilities side of the Balance Sheet (balance-sheet financial liabilities);
- for other assets and liabilities, the denominator reflected the items "Other assets" and "Other Liabilities" in the Balance Sheet;
- for interest income and interest expense, the denominator reflected the Group's total interest income and expense
- for fees and commissions, other revenues and other expenses, the denominator is represented by the Group's profit (loss) for the year, before tax.

2.a Associates

31 12 2013

Items/Amounts	Amounts	% on Consolidated
Total financial assets	754,758	0.41%
Total other assets	3,111	0.13%
Total financial liabilities	462,945	0.25%
Total other liabilities	16,395	0.44%
Guaranties issued	59,260	-
Guaranties received	784,543	-

2.b Transactions involving Key Management Personnel and other related parties

31 12 2013

items/Amounts	Executives with strategic responsibility	Other related parties	% on consolidated
Total financial assets	2,563	38,905	0.02%
Total financial liabilities	1,921	129,472	0.07%
Total functioning costs	12,979	-	
Guarantees issued	-	8,577	
Guarantees received	5,690	36,898	

Part I – Share-based payments

A. Qualitative Information

1. Description of share-based payment agreements

The remuneration and incentive policies adopted by the Group – as approved by the Parent Company's Shareholders meeting in April 2011 – provide that the variable component of compensation for all employees whose professional activity has or may have considerable impact on the company's risk profiles (a.k.a. "key employees") should meet the prescribed requirements in terms of maximum potential value as a percentage of fixed compensation (Gross Annual Salary), disbursement timing (at least 50% of the bonus should be paid after three years), disbursement methods (at least 50% of both the up-front and the deferred portions should be awarded in Bank shares).

In 2013, no incentive system was put in place by the Parent Company for these employees; no disbursements (either cash or equity) were made in 2013 in relation to 2012 and there are no variable remuneration components to be paid in financial instruments in 2014.

Part L – Segment reporting

This section of the Notes to the Financial Statements is prepared in accordance with the IAS/IFRS international accounting principles, with particular reference to IFRS8 “Operating Segments”.

The aforementioned accounting standard, applied as of 1 January 2009 to replace IAS14 “Segment reporting” and the adoption of which has no effect on the valuation of balance sheet items, requires reports to be drafted in relation to operating segments on the basis of the internal reporting actually used by management to take decisions on the allocation of resources to various segments and to conduct performance analyses.

Montepaschi Group operations by business segment

The Montepaschi Group operates in the following **areas of business**:

- ***Retail and commercial banking***: includes lending activities, traditional banking services, the offering of banking and insurance products through the strategic partnership with AXA, financial advisory services, wealth management and investment products through its associate, AM Holding;
- ***Leasing and Factoring***: includes the offering of leasing and factoring packages for businesses, artisans and professionals;
- **Consumer credit**: special purpose loans, personal loans, *option* and *revolving* credit cards;
- **Corporate finance**: mid- and long-term lending, *corporate finance*, *capital markets* and structured finance;
- ***Investment banking***: *trading* and *global market*s;
- ***Foreign banking***: products and services in support of market expansion and investments of Italian companies abroad.

Operations in the business areas are conducted by the following **operating units** of the Group:

- **distribution network**, comprising the branches and specialised centres of Banca Monte dei Paschi di Siena;
- **product factories**, i.e. Group banks and companies expressly dedicated to developing specialised financial instruments to offer on the market, particularly including: Consum.it (consumer credit company), MPS Capital Services (specialised in corporate finance, capital markets and structured finance), MPS Leasing&Factoring (specialised in leasing and factoring services for businesses);
- **foreign network**, geographically present in all major financial and economic centres as well as in emerging countries with the highest rates of growth and/or key relations with Italy. It includes the foreign units of Banca Monte dei Paschi di Siena (4 operational branches, 10 representative offices) and 2 banks under foreign law (MP Belgium: 8 branches; MPS Banque: 17 branches).

The Group also includes **service operations** dedicated to the management of IT and telecommunications (Consorzio Operativo di Gruppo), and value creation from the Group's real estate assets (MPS Immobiliare).

For the purpose of **identifying the Operating Segments** provided for by IFRS 8, the Montepaschi Group has adopted the business approach. Profit & loss/balance sheet data is then aggregated based on criteria including business area and operating unit of reference, relevance and strategic importance of operations involved, cluster of clients served. These aggregation criteria, into which reporting for the highest decision-making levels is organised, enabled the identification of two operating segments as at 31 December 2013: the **Retail&Corporate Banking Division**, subdivided into the Retail banking and Corporate banking areas, and the **Corporate Center**. More specifically:

- **Retail&Corporate Banking Division / “Retail banking” area**: includes the P&L/balance sheet results of the Family, Affluent, Small Business, Private client clusters of Banca Monte dei Paschi di Siena; results of trust and consumer credit services provided respectively by MPS Fiduciaria and Consum.it; results of the financial advisory business.

- **Retail&Corporate Banking Division / "Corporate banking" area**: includes the P&L/balance sheet results of the Corporate, Institutional and Public Administration customers of Banca Monte dei Paschi di Siena; results of the corporate finance business of MPS Capital Services and the business of MPS Leasing & Factoring. The results of Banca Monte dei Paschi di Siena's foreign branches are also included in this Operating Segment.
- **Corporate Center:** Besides cancellations of intragroup entries, this Operating Segment incorporates the results of the following business centres:
  - banks under foreign law (MP Banque and MPS Belgio);
  - service operations supporting the Group's business, dedicated in particular to the management and development of IT systems (Consorzio Operativo di Gruppo) and value creation from the Group's real estate assets (MPS Immobiliare);
  - companies consolidated at equity and held for sale;
  - operating units, including by way of example proprietary finance, ALM, Treasury and Capital Management which, individually, fall below the disclosure requirements for primary reporting.

In 2001 the Montepaschi Group introduced and gradually implemented Value Based operational management instruments, with the objective of monitoring profitability by business areas and units. The Value Based Management system adopted by the Group proved appropriate to manage the criteria for the identification of business segments and the review of segment reporting principles set out by existing regulations, as well as to meet regulatory requirements for the reconciliation of internal management reporting with data used for external reporting.

Income statement criteria by operating segment

The net operating income by operating segments was constructed based on the following criteria:

- **Net interest income**: in relation to the business centres of Banca Monte dei Paschi di Siena, it is calculated by way of contribution on the basis of internal transfer rates broken down by products and maturities. With reference to non-divisionalised entities, net interest income is the difference between "interest income and similar revenues" and "interest expense and similar charges".
- **Net fee and commission income** is determined by direct allocation of commissions to the operating segments.
- **Net impairment losses/reversals on loans**, are allocated to the operating segments which originated them.
- **Operating expenses** include the Administrative Expenses (after recovery of expenses) and net value adjustments to tangible and intangible assets. The operating expenses of non-divisionalised entities (mono-segments) are directly allocated to their corresponding Operating Segments while, for Banca Monte dei Paschi di Siena, they are allocated to their respective Segments of reference by using a "*cost allocation*" model. With regard to Other administrative expenses and Net value adjustments to tangible and intangible assets, the model allocates external and intragroup cost components to the business centres either directly or by means of specific drivers, starting from a set of previously identified and priced services. With reference, however, to "Personnel costs", the model allocates costs to Business Centres on the basis of the unique functional position of the resources, or, if this is not possible, in relation to specific criteria relating to the operations performed.

Balance-sheet criteria by business segment

Balance-sheet aggregates were defined by using the internal reporting system as a starting point in order to identify the accounts directly attributable to the segments. Such accounts are related to the income/expenses allocated to each segment. In particular:

- **Interest-bearing loans to customers** are the assets used for the operations of a business segment, which are directly attributable to the segment itself;
- **Deposits from customers and debt securities issued** are the liabilities arising from the operations of an operating segment, which are directly attributable to the segment itself.

Transactions between operating segments

Each segment's income and results include transfers between operating segments. These transfers are reported in accordance with the best practices accepted by the market (i.e. the fair value method or cost method increased by a proper margin) both with respect to commercial and financial transactions. The income of each operating segment is determined before intragroup balances and intragroup transactions are eliminated during the process of consolidation. If intragroup transactions are made between entities belonging to the same operating segment, the respective balances are eliminated within such segment. In line with the internal reporting system used by the Montepaschi Group, balances of intragroup transactions are not shown separately.

Basis of preparation

In accordance with the recommendations of IFRS 8, for the purpose of consistent disclosure of information, account was taken of the Group's organisational structure as at 31 December 2013. Group P&L and balance-sheet results as at 31 December 2013 are therefore presented below on the basis of the above-described operating segments:

SEGMENT REPORTING	Retail & Corporate Banking division			Corporate Center	Total MPS Group
Primary segment	Retail banking	Corporate banking	Total		
(million of Euro)	31/12/13	31/12/13	31/12/13	31/12/13	31/12/13
PROFIT AND LOSS AGGREGATES					
Income from banking and insurance	3,940.2	1,787.9	5,728.0	(1,770.6)	3,957.4
Net impairment losses (reversals) on loans and financial assets	(981.8)	(1,808.3)	(2,790.1)	(33.2)	(2,823.3)
Operating expenses	(2,134.2)	(611.3)	(2,745.5)	(66.0)	(2,811.5)
Net operating income	824.1	(631.7)	192.4	(1,869.9)	(1,677.4)
BALANCE SHEET AGGREGATES					
Interest-bearing loans to customers	55,169	56,921	112,090	10,249	122,338
Deposits from customers and debt securities issued	68,693	33,368	102,061	27,903	129,963

Prior period balances are reflective of changes in compliance with IAS 8 ("Accounting policies, changes in accounting estimates and errors") and IAS 19 ("Employee Benefits") and take into account the accounting reclassification of P&L items relating to the transfer of the administrative/accounting and ancillary services business unit to the company 'Fruendo Srl'.

Moreover, since the beginning of 2013 the rules for calculating the internal cost of funding (internal transfer rates) were updated in accordance with the most recent national regulatory guidance and international guidelines.

SEGMENT REPORTING	Retail & Corporate Banking division			Corporate Center	Total MPS Group
Primary segment (million of Euro)	Retail banking	Corporate banking	Total		
PROFIT AND LOSS AGGREGATES	**31/12/12**	**31/12/12**	**31/12/12**	**31/12/12**	**31/12/12**
Income from banking and insurance	3,321.4	2,081.4	5,402.7	(407.8)	4,994.9
Net impairment losses (reversals) on loans and financial assets	(907.7)	(1,901.3)	(2,809.0)	(85.2)	(2,894.2)
Operating expenses	(2,455.2)	(663.8)	(3,119.0)	(100.2)	(3,219.2)
Net operating income	(41.5)	(483.8)	(525.2)	(593.2)	(1,118.5)
BALANCE SHEET AGGREGATES	**31/12/12**	**31/12/12**	**31/12/12**	**31/12/12**	**31/12/12**
Interest-bearing loans to customers	60,042	63,837	123,879	10,837	134,717
Deposits from customers and debt securities issued	78,427	36,077	114,503	21,167	135,670

For a like-for-like comparison of operations between 2013 and 2012, see section "*Segment reporting*" in the Consolidated Report on Operations as at 31 December 2013.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999, AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned, Alessandro Profumo, as Chairman of the Board of Directors, and Arturo Betunio, as Financial Reporting Officer, of Banca Monte dei Paschi di Siena S.p.A., having regard to Article 154-*bis*, paragraphs 3 and 4 of Legislative Decree No. 58 of 24 February 1998, do hereby certify the:

   - appropriateness with respect to the company's profile, and
   - effective application of administrative and accounting procedures used in the preparation of the consolidated financial statements for fiscal year 2013.

2. In this respect, the following major aspects have emerged:
   - in relation to the commitments assumed under the Restructuring Plan approved by the European Commission on 27 November 2013, activities regarding reorganisation and redefinition of the Group structure have been, or are in the process of being, implemented and include a thorough review of information systems and administrative and accounting procedures;
   - a plan of actions regarding the Group's entire Internal Controls System is in progress. The plan is based on the "Self Assessment report" requested following the introduction of the 15th update to the Bank of Italy Circular 263/2006. Moreover, measures are currently being implemented to improve processes and related controls with a view to increasing the level of reliability of administrative and accounting procedures.

The assessments conducted and results obtained were affected by the aspects outlined above.

3. It is also certified that:

   3.1 the consolidated financial statements:

   - were prepared in accordance with the international accounting standards recognised by the European Union pursuant to European Parliament and Council Regulation No. 1606/2002/EC of 19 July 2002;
   - are consistent with the underlying documentary evidence and accounting records;
   - give a true and fair representation of the balance sheet, profit and loss and cash flows of the issuer and of the companies included within the scope of consolidation.

   3.2 the Report on Operations includes a reliable analysis of the trends and results of operations as well as of the position of the issuer and of all entities included within the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

Siena, 11 March 2014

Il Presidente
Alessandro Profumo

Arturo Betunio

INDIPENDENT AUDITOR'S REPORT

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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders
of Banca Monte dei Paschi di Siena S.p.A.

1. We have audited the consolidated financial statements of Banca Monte dei Paschi di Siena S.p.A. and its subsidiaries, (the "Montepaschi Group") as of December 31, 2013 and for the year then ended, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and the regulations implementing article 9 of Legislative Decree n. 38/2005 is the responsibility of Banca Monte dei Paschi di Siena S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards recommended by Consob (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   For comparative purposes, the consolidated financial statements include the corresponding figures of the prior year. As described in the specific section of the explanatory notes "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", the Directors have restated certain comparative figures related to the prior year and to the balance sheet as of January 1, 2012, with respect to the figures previously included in the consolidated financial statements at December 31, 2012 audited by us and upon which we issued our auditors' report on April 5, 2013. We have examined the criteria applied to restate the corresponding figures and the related information presented in the above-mentioned section for the purpose of expressing our opinion on the consolidated financial statements as of December 31, 2013 and for the year then ended.

3. In our opinion, the consolidated financial statements of the Montepaschi Group at December 31, 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the regulations implementing article 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Montepaschi Group as of December 31, 2013 and for the year then ended.

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4. As described in the report on operations and the explanatory notes, on November 28, 2013 the Board of Directors approved the Business Plan for the period 2013-2017. The Business Plan carries out the strategic and operational guidelines contained in the Restructuring Plan, prepared under the context of the issue of the New Financial Instruments and approved by the European Commission on November 27, 2013. On December 28, 2013 the Extraordinary Shareholders' Meeting approved the proposal for a share capital increase in cash for a maximum amount of EUR 3 billion, to be executed no earlier than May 12, 2014 and no later than March 31, 2015. The purpose of the capital increase established by the Business Plan is to strengthen the capital base and redeem the New Financial Instruments. Based on the expected evolution of the Montepaschi Group following the implementation of the Business Plan and on the assessment carried out on the current and prospective capital adequacy of the Group, the Directors do not foresee any element which could cast doubt on the ability of the entity to continue as a going concern.

5. The Directors of Banca Monte dei Paschi di Siena S.p.A. are responsible for the preparation, in accordance with the applicable laws and regulations, of the Report on Operations and the Report on Corporate Governance and Ownership Structure published in the section "*Investors & Research - Investor Relations - Corporate Governance - Corporate Governance Report*" of Banca Monte dei Paschi di Siena S.p.A.'s website. Our responsibility is to express an opinion on the consistency of the Report on Operations and of the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and Ownership Structure with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by Consob. In our opinion, the Report on Operations and the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) in the Report on Corporate Governance and Ownership Structure, are consistent with the consolidated financial statements of the Montepaschi Group at December 31, 2013.

Milan, April 2, 2014

Reconta Ernst & Young S.p.A.
Signed by: Massimiliano Bonfiglio, Partner

This report has been translated into the English language solely for the convenience of international readers

ANNEXES

Pro-forma statements for the accounting treatment of major long-term structured repos as synthetic derivatives

Foreword

Below are the pro-forma balance sheet, income statement and statement of comprehensive income (the "Pro-forma statements") for the years ending 31 December 2012 and 2013, which report the estimated effects had the Parent Company classified the "long-term structured repos" described in Part A – Accounting Policies" of the notes to the financial statements (the "Transactions") as synthetic derivatives.

The pro-forma statements have been prepared on the basis of the consolidated annual reports for the years ending 31 December 2012 and 2013, by applying estimated pro-forma adjustments to the representation of transactions, should they qualify as synthetic derivatives, as required by the Bank of Italy/Consob/Ivass document no. 6 of 8 March 2013 - Bank of Italy/Consob/Ivass Coordination forum on the application of IAS/IFRS - Accounting treatment of "long-term structured repos" (the "Document").

The Document provides that, in the case of transactions for significant amounts, preparers of financial statements should carefully consider the need for an adequate description, including the preparation of pro-forma statements, of the effects on financial statements that would arise from a re-classification of transactions as synthetic derivatives, after tax, as compared with previous year accounts.

The following statements summarise the balance sheet and profit and loss impacts which would result from a potential recognition of the two long-term *repos* "Alexandria" and "Santorini" as *credit default swap*s.

For a description of the Transactions' recognition and measurement criteria used in the preparation of financial statements for the years ending 31 December 2012 and 2013, see details of "Part A – Accounting Policies" in the Notes to the financial statements.

The pro-forma statements are presented using the balance-sheet, income statement and statement of comprehensive income applied for the years ending 31 December 2012 and 2013.

Pro-forma figures were determined by making appropriate pro-forma adjustments to the historical values in the 2012 and 2013 accounts in order to retroactively reflect the effects of recognising the Transactions as synthetic derivatives, as well as the estimated balance-sheet and profit and loss impacts arising therefrom.

Reported in the pro-forma statements below are:

- in the first column ("31 12 2012*" and "31 12 2013"): balance sheet as at 31 December 2012 and 2013, income statement and statement of comprehensive income for 2012 and 2013;
- in the second column ("pro-forma impact of LTR classified as CDS"): pro-forma adjustments estimated to be made to the accounts, had the Parent Company classified the Transactions as synthetic derivatives;
- in the third and last column ("31 12 2012* pro-forma" and "31 12 2013 pro-forma"): estimated pro-forma balance sheet as at 31 December 2012 and 2013, pro-forma income statement and statement of comprehensive income for 2012 and 2013.

In light of the above, for an accurate interpretation of the information underlying the pro-forma figures, the following aspects should be considered:

- the accounting representations are based on assumptions; therefore, pro-forma figures are not necessarily coinciding with those that would have ensued, had the Transactions (and related profit & loss and balance sheet effects) in fact been entered into as at the dates considered for preparation of the pro-forma accounts;
- pro-forma data was prepared in such a way as to only represent an estimate of the identifiable and objectively measurable effects of the Transactions.

In the pro-forma accounting treatment as a synthetic derivative, the purchase of securities and its financing through a long term repo agreement are represented as a Credit Default Swap (sale of protection on the risk of the Italian government, i.e. issuer of the bonds).

In the event of issuer default, the Bank would incur a loss equal to the difference between the amounts to be returned to the *repo* counterparty and the value of the*defaulted* securities to be delivered to the Parent Company by the counterparty. Against this risk, the Bank earns a variable premium consisting in the difference between the coupons of bonds held and the interest rate paid on the *repo* entered into to finance the transaction.

For the purpose of the pro-forma accounting, the Transactions were thus assessed in a similar way to Credit Default Swaps, using the same market parameters.

In particular, accounting treatment as a synthetic derivative determines the following pro-forma adjustments and reclassifications:

- balance sheet:
  - recognition of the CDS at Fair Value under "Financial liabilities held for trading" instead of:
    - securities classified as "Financial assets available for sale" and corresponding valuation reserves, gross of the hedge accounting component;
    - "Deposits from banks" and "Deposits from customers" which represent the liabilities associated with the long term repos;
  - reclassification of Interest rate swaps from "hedging derivatives" to "Financial liabilities held for trading";
  - ensuing tax effects.

- income statement:
  - elimination from "Interest income and similar revenues" and "Interest expense and similar charges" respectively of: interest income from government bonds classified as "Assets available for sale" and interest expense from long term repos classified as"Deposits from banks" and "Deposits from customers", both posted by using the effective interest rate method;
  - elimination from "Interest income and similar revenues" and "Interest expense and similar charges" of amounts accrued on interest rate hedging swaps;
  - elimination from "Net profit (loss) from hedging" of: fair value changes attributable to the interest rate risk of hedged government bonds, accounted for as against the valuation reserve of assets available for sale; and fair value changes in the interest rate swaps, net of any accrued income;
  - recognition under "Net profit (loss) from trading" of: cash flows (coupons and floating spreads) paid on long term repos and fair value changes in IRSs and CDSs;
  - ensuing tax effects;

- statement of comprehensive income:
  - recognition of changes in "Financial assets available for sale" following adjustment to valuation reserves.

In brief, an estimate of transactions treated as synthetic derivatives produces significantly different impacts on the income statement by reason of changes in the *fair value* of Credit Default Swaps and reclassification of Interest Rate Swaps to trading. By contrast, the impact on profit and loss is mitigated by the elimination of negative AFS reserves produced by 'open balances' accounting, as described in the statement of comprehensive income.

It should be noted that the pro-forma statements highlight the P&L/balance sheet impact which would have been shown in the financial statements following settlement of the Santorini transaction with Deutsche Bank in December 2013, if the transaction had been recognised as a synthetic derivative.

Pro-forma consolidated balance sheet

	Assets	31 12 2012*	Pro-forma adjustment of LTR classified as CDS	31 12 2012* pro-forma	31 12 2013	Pro-forma adjustment of LTR classified as CDS	31 12 2013 pro-forma
10	Cash and cash equivalents	2,432,880	-	2,432,880	877,274	-	877,274
20	Financial assets held for trading	23,514,204	-	23,514,204	19,937,317	-	19,937,317
30	Financial assets designated at fair value	-	-	-	-	-	-
40	Financial assets available for sale	25,648,741	(5,370,455)	20,278,286	23,680,249	(3,240,841)	20,439,408
50	Financial assets held to maturity	-	-	-	-	-	-
60	Loans to banks	11,224,989	-	11,224,989	9,913,984	-	9,913,984
70	Loans to customers	142,015,161	-	142,015,161	131,218,395	-	131,218,395
80	Hedging derivatives	551,093	-	551,093	397,934	-	397,934
90	Change in value of macro-hedged financial assets (+/-)	119,157	-	119,157	159,889	-	159,889
100	Equity investments	1,040,102	-	1,040,102	988,841	-	988,841
120	Property, plant and equipment	1,334,479	-	1,334,479	2,761,702	-	2,761,702
130	Intangible assets	1,191,502	-	1,191,502	1,162,056	-	1,162,056
	of which: goodwill	*2,216,339*	-	*2,216,339*	*669,692*	-	*669,692*
140	Tax assets	6,126,580	(30,615)	6,095,965	5,517,128	(101,859)	5,415,269
	a) current		-	-	1,347,406	-	1,347,406
	b) deferred		-	-	4,169,722	-	4,169,722
	under Law 214/2011		-	-	3,113,718	-	3,113,718
150	Non-current assets and groups of assets held for sale and discontinued operations	12,461	-	12,461	80,108	-	80,108
160	Other assets	3,674,725	-	3,674,725	2,411,029	-	2,411,029
	Total Assets	**218,886,073**	**(5,401,070)**	**213,485,004**	**199,105,906**	**(3,342,700)**	**195,763,206**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

	Liabilities and Shareholders' Equity	31 12 2012*	Pro-forma adjustment of LTR classified as CDS	31 12 2012* pro-forma	31 12 2013	Pro-forma adjustment of LTR classified as CDS	31 12 2013 pro-forma
10	Deposits from banks	43,398,956	(2,489,709)	40,909,247	37,278,667	-	37,278,667
20	Deposits from customers	81,302,685	(3,378,623)	77,924,062	85,346,340	(3,366,636)	81,979,704
30	Debt securities issued	39,939,624	-	39,939,624	36,628,753	-	36,628,753
40	Financial liabilities held for trading	21,516,900	2,382,552	23,899,452	17,037,873	896,530	17,934,403
50	Financial liabilities designated at fair value	14,427,858	-	14,427,858	7,988,199	-	7,988,199
60	Hedging derivatives	5,574,798	(1,767,052)	3,807,746	3,324,711	(750,530)	2,574,181
80	Tax liabilities	163,229	(44,038)	119,191	180,448	(85,450)	94,998
90	Liabilities associated with non-current assets held for sale and discontinued operations	-			17,821		
100	Other liabilities	4,473,432	-	4,473,432	3,750,932	-	3,750,932
110	Provision for employee severance pay	317,352	-	317,352	261,371	-	261,371
120	Provisions for risks and charges:	1,448,563	-	1,448,563	1,127,312	-	1,127,312
140	Valuation reserves	(2,284,793)	1,197,031	(1,087,762)	(1,055,910)	411,116	(644,794)
160	Equity instruments carried at equity	3,002	-	3,002	3,002	-	3,002
170	Reserves	4,054,772	(1,556,955)	2,497,817	1,187,240	(1,301,231)	(113,991)
180	Share premium	255,100	-	255,100	-	-	-
190	Share capital	7,484,508	-	7,484,508	7,484,508	-	7,484,508
200	Treasury shares (-)	(24,532)	-	(24,532)	(24,532)	-	(24,532)
210	Non-controlling interests (+/-)	2,856	-	2,856	8,214	-	8,214
220	Profit (loss) (+/-)	(3,168,237)	255,724	(2,912,513)	(1,439,043)	853,501	(585,542)
	Total Liabilities and Shareholders' Equity	**218,886,073**	**(5,401,070)**	**213,485,003**	**199,105,906**	**(3,342,700)**	**195,745,385**

*With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.

Pro-forma consolidated income statement

	Items	31 12 2012*	Pro-forma adjustment of LTR classified as CDS	31 12 2012* pro-forma	31 12 2013	Pro-forma adjustment of LTR classified as CDS	31 12 2013 pro-forma
10	Interest income and similar revenues	6,711,013	(255,101)	6,455,912	5,987,364	(267,557)	5,719,807
20	Interest expense and similar charges	(3,926,388)	242,103	(3,684,285)	(3,865,818)	222,160	(3,643,658)
30	**Net interest income**	**2,784,625**	**(12,998)**	**2,771,627**	**2,121,546**	**(45,397)**	**2,076,149**
40	Fee and commission income	2,051,568	-	2,051,568	2,119,572	-	2,119,572
50	Fee and commission expense	(418,750)	-	(418,750)	(462,015)	-	(462,015)
60	**Net fee and commission income**	**1,632,818**	**-**	**1,632,818**	**1,657,557**	**-**	**1,657,557**
70	Dividends and similar income	62,858	-	62,858	17,302	-	17,302
80	Net profit (loss) from trading	59,315	393,295	452,610	70,713	1,028,688	1,099,401
90	Net profit (loss) from hedging	3,054	892	3,946	7,238	(849)	6,389
100	Gains/losses on disposal/repurchase	200,357	-	200,357	(83,894)	288,594	204,700
110	Net profit (loss) from financial assets and liabilities designated at fair value	117,336	-	117,336	10,144	-	10,144
120	**Net interest and other banking income**	**4,860,363**	**381,189**	**5,241,552**	**3,800,606**	**1,271,036**	**5,071,642**
130	Net impairment losses(reversals) on	(2,880,069)	-	(2,880,069)	(2,823,293)	-	(2,823,293)
140	**Net income from banking activities**	**1,980,294**	**381,189**	**2,361,483**	**977,313**	**1,271,036**	**2,248,349**
180	Administrative expenses:	(3,590,464)	-	(3,590,464)	(2,976,706)	-	(2,976,706)
190	Net provisions for risks and charges	(284,924)	-	(284,924)	(29,942)	-	(29,942)
200	Net adjustments to (recoveries on) property, plant and	(75,916)	-	(75,916)	(81,834)	-	(81,834)
210	Net adjustments to (recoveries on) intangible assets	(319,698)	-	(319,698)	(100,849)	-	(100,849)
220	Other operating expenses/income	221,578	-	221,578	82,519	-	82,519
230	**Operating expenses**	**(4,049,424)**	**-**	**(4,049,424)**	**(3,106,812)**	**-**	**(3,106,812)**
240	Gains (losses) on investments	(799)	-	(799)	68,511	-	68,511
260	Impairment on goodwill	(1,528,000)	-	(1,528,000)	-	-	-
270	Gains (losses) on disposal of investments	7,265	-	7,265	1,412	-	1,412
280	**Profit (loss) before tax from continuing operations**	**(3,590,664)**	**381,189**	**(3,209,475)**	**(2,059,576)**	**1,271,036**	**(788,540)**
290	Tax expense (recovery) on income from continuing	442,546	(125,465)	317,081	671,877	(417,535)	254,342
300	**Profit (loss) after tax from continuing operations**	**(3,148,118)**	**255,724**	**(2,892,394)**	**(1,387,699)**	**853,501**	**(534,198)**
310	Profit (loss) after tax from groups of assets held for sale and discontinued operations	(41,703)	-	(41,703)	(51,224)	-	(51,224)
320	**Profit (loss)**	**(3,189,821)**	**255,724**	**(2,934,097)**	**(1,438,923)**	**853,501**	**(585,422)**
330	Profit (loss) for the period attributable to non-controlling inte	(21,584)	-	(21,584)	120	-	120
340	**Parent company's net profit (loss)**	**(3,168,237)**	**255,724**	**(2,912,513)**	**(1,439,043)**	**853,501**	**(585,542)**

*With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details..

Pro-forma consolidated statement of comprehensive income

	Items	31 12 2012*	Pro-forma adjustment of LTR classified as CDS	31 12 2012* pro-forma	31 12 2013	Pro-forma adjustment of LTR classified as CDS	31 12 2013 pro-forma
10	**Profit (loss)**	**(3,189,821)**	**255,724**	**(2,934,097)**	**(1,438,923)**	**853,501**	**(585,422)**
	Other comprehensive income after tax not recycled to profit and loss	**(8,236)**	**-**	**(8,236)**	**(34,934)**	**-**	**(34,934)**
40	Actuarial gains (losses) on defined benefit plans	(8,236)	-	(8,236)	(34,943)	-	(34,943)
60	Share of valuation reserves of equity-accounted investments	-	-	-	9	-	9
	Other comprehensive income after tax recycled to profit and loss	**1,531,705**	**(391,329)**	**1,140,376**	**1,309,188**	**(785,915)**	**523,273**
80	Exchange differences	(1,007)	-	(1,007)	(2,081)	-	(2,081)
90	Cash flow hedges	(41,956)	-	(41,956)	80,976	-	80,976
100	Financial assets available for sale	1,527,250	(391,329)	1,135,921	1,174,855	(785,915)	388,940
110	Non current assets held for sale	-	-	-	28,786	-	28,786
120	Share of valuation reserves of equity-accounted investments	47,418	-	47,418	26,652	-	26,652
130	**Total other comprehensive income after tax**	**1,523,469**	**(391,329)**	**1,132,140**	**1,274,254**	**(785,915)**	**488,339**
140	**Total comprehensive income (Item 10+130)**	**(1,666,352)**	**(135,605)**	**(1,801,957)**	**(164,669)**	**67,586**	**(97,083)**
150	Consolidated comprehensive income attributable to non-controlling interests	(107,709)	-	(107,709)	114	-	114
160	**Consolidated comprehensive income attributable to Parent Company**	**(1,558,643)**	**(135,605)**	**(1,694,248)**	**(164,783)**	**67,586**	**(97,197)**

*With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.

Disclosure of audit firm fees

With the aim of making reporting on the Parent Company's relations with its own Auditors more transparent, CONSOB, with its resolutions No. 15915 of 3 May 2007 and No. 15960 of 30 May 2007, implemented the delegation of authority contained in art.160 of the Consolidated Law on Financial Intermediation (Incompatibility), introducing Part III, Section VI, of the Issuers' Regulation, Part I-bis (Incompatibility) which contains articles from 149-bis to 149-duodecies.

With this amendment, CONSOB chose to include this disclosure in the documents accompanying the financial statements with a mandatory requirement to disclose payments received for auditing and other services supplied by the Auditors or by entities forming part of their network.

The table below shows all payments made to the Auditors and to others forming part of its network, broken down by type of service.

Disclosure of fees for the independent Audit firm and other entities of its network (pursuant to art. 149 duodecies of CONSOB resolution no. 15915 of 3 May 2007)

Type of services	Service provider	Total
Auditing	Reconta Ernst & Young Spa	2,483
Other attest services	Reconta Ernst & Young Spa	330
Other attest services	Ernst & Young Tax Consultants	4
Other services	Ernst & Young Financial Business Advisory S.p.a.	1,002
	Total	**3,819**

Amounts are net of V.A.T. and ancillary expenses.

PENSION FUNDS – Defined-benefit pension funds without plan assets

Supplementary Pension Fund for personnel of former Tax Collection Agencies

Accounting statement as at 31/12/2013	
Opening balances as at 01/01/2013	**20,521,098**
Increases	6,972,537
- provisions for the year	5,851,340
- Other variations	1,121,197
Decreases	1,939,301
- Benefit paid	1,939,301
Others	-
Closing balances as at 31/12/2013	**25,554,334**

Supplementary Pension Fund for personnel of former Banca Operaia di Bologna

Accounting statement as at 31/12/2013	
Opening balances as at 01/01/2013	**7,091,809**
Increases	880,669
- provisions for the year	872,193
- Other increases	8,476
Decreases	821,123
- Benefit paid	493,320
- other decreases	327,803
Closing balances as at 31/12/2013	**7,151,355**

Supplementary Pension Fund for personnel of former Banca di Credito Popolare e Cooperativo of Reggio Emilia

Accounting statement as at 31/12/2013	
Opening balances as at 01/01/2013	**595,560**
Increases	168,736
- provisions for the year	168,736
- Other increases	-
Decreases	57,703
- Benefit paid	40,908
- other decreases	16,795
Closing balances as at 31/12/2013	**706,593**

Supplementary Pension Fund for personnel of former Banca Popolare Veneta

Accounting statement as at 31/12/2013	
Opening balances as at 01/01/2013	**1,169,644**
Increases	432,830
- provisions for the year	346,114
- Other increases	86,716
Decreases	206,274
- Benefit paid	206,274
Others	-
Closing balances as at 31/12/2013	**1,396,200**

Supplementary Pension Fund for personnel of former MPS Capital Services Banca per l'imprese S.p.A.

Accounting statement as at 31/12/2013	
Opening balances as at 01/01/2013	**5,531,851**
Increases	821,369
- provisions for the year	220,626
- others	600,743
Decreases	557,681
- Benefit paid	557,681
Others	-
Closing balances as at 31/12/2013	**5,795,539**

PENSION FUNDS – defined benefit and defined contribution pension funds with plan assets

Supplementary Pension Fund for personnel of former BNA – Defined benefit section

BALANCE SHEET

	Assets	31 12 2013	31 12 2012	Changes
10	**Direct investments**	**27,776,977**	**27,853,582**	**(76,605)**
	a) Deposits	408,185	217,275	190,910
	b) Receivables from repo transactions	-	-	-
	c) Securities issued by Governments and other international institutions	-	-	-
	d) Listed debt securities	27,135,848	27,303,666	(167,818)
	e) Listed equity securities	-	-	-
	f) Unlisted debt securities	-	-	-
	g) Unlisted equity securities	-	-	-
	h) Units of UCITS	-	-	-
	i) Options purchased	-	-	-
	l) Accrued income and prepayments	232,944	332,641	(99,697)
	m) Profit guarantees released to pension fund	-	-	-
	n) Other assets from financial activities	-	-	-
	o) Accrued income not yet received	-	-	-
20	**Managed investments**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Assets from administrative activities**	-	-	-
50	**Tax receivables**	-	-	-
	TOTAL ASSETS	**27,776,977**	**27,853,582**	**(76,605)**
	Liabilities	**31 12 2013**	**31 12 2012**	**Changes**
10	**Liabilities from social security**	-	-	-
20	**Liabilities from financial activities**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Liabilities from administrative activities**	-	-	-
50	**Tax payables**	**174,471**	**312,203**	**(137,732)**
	a) tax payables for current period	-	(2,619)	2,619
	b) tax credit for prior period	174,471	314,822	(140,351)
	TOTAL LIABILITIES	**174,471**	**312,203**	**(137,732)**
100	**Net assets available for payment of benefits**	**27,602,506**	**27,541,379**	**61,127**
	Net assets available for payment of benefits in previous year	27,541,379	26,372,865	1,168,514
	Changes in net assets available for payment of benefits	**61,127**	**1,168,514**	**(1,107,387)**

INCOME STATEMENT

		31 12 2013	31 12 2012	Changes
10	**Balance of social security management**	**(1,350,499)**	**(1,378,647)**	**28,148**
	a) Contributions for benefits	-	-	-
	b) Advances	-	-	-
	c) Transfers and redemptions	-	-	-
	d) Transfers to annuities	-	-	-
	e) Payments in capital	-	-	-
	f) Premiums for additional benefits	-	-	-
	g) Payments in annuities	(1,350,499)	(1,378,647)	28,148
	h) Other payments	-	-	-
20	**Profit (loss) from direct financial activities**	**1,586,097**	**2,862,021**	**(1,275,924)**
	a) Interest and profit on bonds and government securities	1,202,054	1,252,875	(50,821)
	b) Interest on cash equivalents	2,175	1,910	265
	c) Profits and losses from financial transactions	381,868	1,607,236	(1,225,368)
	d) Interest (expense) from repo transactions	-	-	-
	e) Pension fund profit guarantee difference	-	-	-
	d) Contingent assets	-	-	-
	g) Forfeitures charged to the participants	-	-	-
	h) Kickbacks from UCITS	-	-	-
	i) Commission expense	-	-	-
30	**Profit (loss) from indirect financial activities**	-	-	-
40	**Operating expenses**	**-**	**-**	**-**
	a) Management companies	-	-	-
	b) Custodian bank	-	-	-
	c) insurance policy	-	-	-
	d) 'State supervision' contribution	-	-	-
50	**Financial and insurance income (loss) (20 +30 + 40)**	**1,586,097**	**2,862,021**	**(1,275,924)**
60	**Balance from administrative activities**	**-**	**-**	**-**
	a) General and administrative expenses	-	-	-
70	**Changes in net assets available for payment of benefits before substitute tax (10+50+60)**	**235,598**	**1,483,374**	**(1,247,776)**
80	**Substitute tax**	**(174,471)**	**(314,822)**	**140,351**
	Changes in net assets available for payment of benefits (70+80)	**61,127**	**1,168,552**	**-**

Supplementary Pension Fund for personnel of former Banca Toscana - Defined benefit section

BALANCE SHEET

	Assets	31 12 2013	31 12 2012	Changes
10	**Direct investments**	**115,602,885**	**97,825,800**	**17,777,085**
	a) Deposits	102,355,940	83,747,586	18,608,354
	b) Receivables from repo transactions	-	-	-
	c) Securities issued by Governments and other international institutions	-	-	-
	d) Listed debt securities	12,972,605	13,804,623	(832,018)
	e) Listed equity securities	-	-	-
	f) Unlisted debt securities	-	-	-
	g) Unlisted equity securities	-	-	-
	h) Units of UCITS	-	-	-
	i) Options purchased	-	-	-
	l) Accrued income and prepayments	274,340	273,591	749
	m) Profit guarantees released to pension fund	-	-	-
	n) Other assets from financial activities	-	-	-
	o) Accrued income not yet received	-	-	-
20	**Managed investments**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Assets from administrative activities**	-	-	-
50	**Tax receivables**	-	-	-
	TOTAL ASSETS	**115,602,885**	**97,825,800**	**17,777,085**
	Liabilities	**31 12 2013**	**31 12 2012**	**Changes**
10	**Liabilities from social security**	-	-	-
20	**Liabilities from financial activities**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Liabilities from administrative activities**	-	-	-
50	**Tax payables**	-	-	-
	TOTAL LIABILITIES	-	-	-
100	**Net assets available for payment of benefits**	**115,602,885**	**97,825,800**	**17,777,085**
	Net assets available for payment of benefits in previous year	97,825,800	102,577,622	(4,751,822)
	Changes in net assets available for payment of benefits	**17,777,085**	**(4,751,822)**	**22,528,907**

INCOME STATEMENT

		31 12 2013	31 12 2012	Changes
10	**Balance of social security management**	**14,590,195**	**(10,890,284)**	**25,480,479**
	a) Contributions for benefits	25,066,425	-	25,066,425
	b) Advances	-	-	-
	c) Transfers and redemptions	-	-	-
	d) Transfers to annuities	-	-	-
	e) Payments in capital	-	-	-
	f) Premiums for additional benefits	-	-	-
	g) Payments in annuities	(10,476,230)	(10,890,284)	414,054
	h) Other payments	-	-	-
20	**Profit (loss) from direct financial activities**	**3,187,687**	**6,138,845**	**(2,951,158)**
	a) Dividends and interest	4,013,794	4,226,420	(212,626)
	b) Profits and losses from financial transactions	(826,107)	1,912,425	(2,738,532)
	c) Fees and commissions on stock lending	-	-	-
	d) Profits and losses rom repo transactions	-	-	-
	e) Pension fund profit guarantee difference	-	-	-
	d) Contingent assets	-	-	-
	g) Forfeitures charged to the participants	-	-	-
	h) Kickbacks from UCITS	-	-	-
	i) Commission expense	-	-	-
30	**Profit (loss) from indirect financial activities**	-	-	-
40	**Operating expenses**	**(797)**	**(383)**	**(414)**
	a) Management companies	-	-	-
	b) Custodian bank	-	-	-
	c) insurance policy	-	-	-
	d) 'State supervision' contribution	(797)	(383)	(414)
50	**Financial and insurance income (loss) (20 +30 + 40)**	**3,186,890**	**6,138,462**	**(2,951,572)**
60	**Balance from administrative activities**	**-**	**-**	**-**
	a) General and administrative expenses	-	-	-
70	**Changes in net assets available for payment of benefits before substitute tax (10+50+60)**	**17,777,085**	**(4,751,822)**	**22,528,907**
80	**Substitute tax**	-	**-**	-
	Changes in net assets available for payment of benefits (70+80)	**17,777,085**	**(4,751,822)**	**22,528,907**

ADDITIONAL INFORMATION PURSUANT TO ARTICLE 114 PARAGRAPH 5 OF LEGISLATIVE DECREE 58/1998

The following information is provided at the request of the Italian Securities and Exchange Commission, Consob, of 18 April 2014, pursuant to article 114 paragraph 5 of Legislative Decree 58/1998, to substantiate the content of the Draft Consolidated Financial Statements as at 31 December 2013, published on 3 April 2014.

1.a "Santorini/Deutsche Bank" transaction: indication of the counterparties directly or indirectly involved in the acquisition of Italian government bonds (hereinafter BTPs).

The counterparties who directly or indirectly worked with Banca Monte dei Paschi di Siena (BMPS) on the acquisition of bonds subject to Total Return Swap (TRS) agreements with Deutsche Bank (DB), as part of the "Santorini" transaction, are Abaxbank and BGC International.

1.b "Santorini/Deutsche Bank" transaction: general description of terms and P&L/balance sheet impact of settlement agreement referred to in the press release of 19/12/2013.

On 19 December 2013, notice was given to the market of a settlement agreement - entered into on the same day - between BMPS and DB, which set forth the conditions for early termination of the contracts contained in the structured transaction, "Santorini".

As part of the termination, the claim for compensation brought by BMPS against DB before the Court of Florence in March 2013 in relation to the same transaction, was resolved by way of a settlement agreement. Against termination of the transaction, BMPS settled the claims for compensation filed as part of the legal action cited above, to an extent limited to DB's share of liability in the deal, without prejudice to - and under reservation of all rights in connection with - the corporate liability action brought against the former General Manager. The settlement agreement is also without prejudice to any other claims brought by BMPS against parties jointly liable for the "Santorini" transaction. In particular, based on calculations made by BMPS using its own assessment parameters, early termination *per se* would have entailed a total cost of EUR 746 mln (equal to the mark-to-market value of the overall position consisting in BTPs, Long Term Repo and Interest Rate Swap). As a result of the settlement agreement, the actual cost borne by BMPS was lowered to EUR 525 mln. Consequently, BMPS has estimated the resulting economic benefit (lower cost) at EUR 221 mln.

More specifically, the agreement led to the early termination of the TRS, represented in the accounts as Long Term Repos (LTRs), and Interest Rate Swap (IRS) transactions, relieving both parties of all rights and obligations arising therefrom. In particular:

- the termination of LTRs eliminated:
  - BMPS's right to receive from DB cash flows paid by the Issuer on a nominal amount of EUR 2 bn of BTPs (sold by BMPS to DB at the date the contract was entered into);
  - BMPS's obligation to pay a variable rate of interest plus spread and reimburse the repo facility by DB at maturity, equal to the market value of the BTPs at the date of the TRS agreement (EUR 2,195 mln);
- the termination of IRS, outstanding for a notional amount of EUR 1.7 bn at the date of the settlement agreement, eliminated:
  - BMPS's obligation to pay DB a fixed rate of 6% on a nominal amount of EUR 1.7 bn;
  - BMPS's right to receive from DB a variable rate of interest plus spread on the same notional amount.

The loss of these rights and obligations resulting from early termination of the agreements had the following balance sheet impacts:

- derecognition from Assets of BTPs booked in the AFS portfolio - since the early closure of LTRs meant that conditions were no longer in place for their inclusion in the balance sheet (for BMPS, BTPs were assets sold and not derecognised in view of the continued risk and rewards via the LTRs) - for an amount of EUR 2,346, equal to the fair value at the date of the settlement agreement;
- recycling of the negative AFS reserve on BTPs to Profit and Loss due to the derecognition of bonds, for an amount of EUR 388 mln determined at the date of early termination of the transaction;
- derecognition of liabilities towards DB, consisting in BMPS's obligation to repay the funded amount of EUR 2,475 mln to DB, corresponding to the amortised cost of the funded amount at the date of the settlement agreement;
- derecognition from Liabilities of the IRS fair value at the date of the settlement agreement, for the amount of EUR 497 mln.

The algebraic sum of the impacts resulting from the consideration paid to DB as a result of early termination (agreed at EUR 525 mln), derecognition of the balance sheet items described above (resulting in a decrease of EUR 626 mln in net liabilities) and recycling of the negative AFS reserve of EUR 388 mln to Profit and Loss, led to an overall negative economic impact before tax of EUR 287 mln, as summarised in the table below:

	Impact (Euro/mil)
Consideration paid (A)	**(525)**
Derecognised items:	
BTP 2031 (item 40 Assets)	(2,346)
Long Term Repo (item 10 Liabilities)	2,475
Interest rate swap (Item 60 Liabilities)	497
Nect impact of derecognised items (B)	**626**
AFS reserve recycled through P&L ©	(388)
Gorss P&L impact (A+B+C)	**(287)**

2. Integration of detailed analyses conducted in relation to the indicators referred to in paragraph IG B.6 of IAS 39 with assessments of requirements set out in paragraphs IG C.6 of IAS 39 and AG39 of IAS 32 (refer to paragraph "IAS 39 Financial Instruments - accounting for term-structured repo transactions" in the document "IFRIC Update – March 2014")

With regard to the Alexandria/Nomura and Santorini/Deutsche Bank transactions, it should be noted that the IFRS Interpretations Committee (IFRS IC) met on 25 March 2014 to address, among other things, the issue of Entity A's accounting treatment of three transactions (accounting of each transaction separately or as an aggregate, treating them as a single derivative), in which:

a) Entity A purchases a bond from Entity B;

b) Entity A enters into an interest rate swap contract with Entity B. Entity A pays a fixed rate of interest equal to the fixed coupon rate of the purchased bond in Transaction a) and receives a variable rate of interest;

c) Entity A enters into a repurchase agreement with Entity B, in which Entity A sells the same bond in Transaction a) on the same day it purchased the bond and agrees to buy back the bond at the maturity date of the bond.

The conclusions reached by the IFRS IC are summarised in the paragraph "IAS 39 Financial Instruments: "IAS 39 Financial Instruments - accounting for term-structured repo transactions" in the document "IFRIC Update – March 2014") In brief, the IFRS IC decided not to add this issue to its agenda since, in the light of the existing IFRS requirements, neither an interpretation nor an amendment to existing standards was necessary.

In taking this decision, the IFRS IC noted that in order to determine whether Entity A should account for the three transactions separately or treat them as a single transaction, reference should be made to paragraphs B.6 and C.6 of Guidance on Implementing IAS 39 and paragraph AG 39 of IAS 32.

Furthermore, with a specific regard to paragraph B.6 of Guidance on Implementing, the IFRS IC noted that:

- the indicators in paragraph IG B.6 of IAS 39 on whether the separate transactions may be aggregated and accounted for as a single transaction, may help to determine the substance of the transaction, but that the presence or absence of any specific single indicator alone may not be conclusive;
- application of the guidance contained in paragraph IG B.6, therefore, requires the specific judgment of the party concerned.

In relation to these clarifications regarding the application of paragraph B.6, it should be noted "Part A – Accounting Principles" of the Consolidated Notes to the Financial Statements contains a description of the detailed analyses carried out to verify whether, for the purpose of compliance with the principle of priority of substance over form, the indicators under IAS 39 Implementation Guidance para. 6 are in place for the substance of the transaction to essentially meet the definition of a derivative contract and, particularly, of a credit default swap The above analyses were also conducted in accordance with the guidelines provided by the Regulatory Authorities in Document No. 6 by Bank of Italy/Consob/IVASS of 8 March 2013 – Accounting treatment of "long-term structured repos".

In the light of these analyses, the Board of Directors confirmed the separate accounting of the single contractual components ("open balances" accounting representation).

The conclusions reached reflect an assessment of all contractual agreements, having a particular regard to underlying intentions, cash flows and associated risks while also considering the legal aspects and material reverberations of the transactions.

On the basis of other clarifications contained in the IFRS IC document cited above, the accounting treatment of the Alexandria/Nomura and Santorini/Deutsche Bank transactions (the latter closed by way of a settlement agreement in December 2013, *see* point 1.b) was also analysed in relation to paragraph C.6 of Guidance on Implementing IAS 39 and paragraph AG 39 of IAS 32.

Paragraph C6 of Guidance on Implementing IAS 39 is included in the section relating to embedded derivatives. It responds to the issue regarding the accounting treatment of a debt instrument purchased by Entity A which, at the same time, enters into a pay-variable, received-fixed interest rate swap with another Entity, different from one which issued the debt instrument . The issue concerns the possibility for Entity A to treat the interest rate swap as an embedded derivative of the instrument purchased; in this way, the combination of the two instruments would be recognised in the balance sheet as a single fixed-rate instrument since, pursuant to paragraph AG 30 a) of IAS 39, interest rate swaps must not be classified separately from the host contract. The IASB responded to the issue in the negative, providing two general standards in its reply:

a) Embedded derivatives are terms and conditions that are included in non-derivative host contracts.

b) It is generally inappropriate to treat two or more separate financial instruments as a single combined instrument ("synthetic instrument" accounting) for the purpose of applying IAS 39.

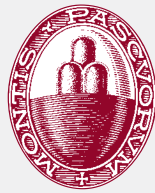
In support of separate accounting, it is also noted that each of the financial instruments has its own terms and conditions and each may be transferred or settled separately.

That being stated, having assessed all contractual agreements and all relationships between certain clauses contained therein, having taken into account that each of the financial instruments that constitute the Alexandria/Nomura and Santorini/Deutsche Bank transactions have their own terms and conditions and may be transferred and settled separately, paragraph C.6 of Guidance on Implementing IAS 39 is deemed suitable in supporting the further "open balances" accounting representation adopted by the Bank.

Paragraph AG 39 of IAS 32, part of the Application Guidance of IAS 32 regarding the offsetting of financial assets and liabilities in the balance sheet, also includes general standards to further support the Bank's separate accounting treatment of the single transactions.

Specifically, in relation to the offsetting of financial assets and liabilities in the balance sheet, the paragraph in question does not provide for any special treatment for synthetic instruments, defined as groups of separate financial instruments acquired and held to emulate the characteristics of another instrument. When one financial instrument in a "synthetic instrument" is an asset and another is a liability – each with its own terms and conditions and each which may be transferred or settled separately and exposed to different risk – the asset or liability cannot be offset in the statement of financial position unless they meet the criteria for offsetting in paragraph 42 of IAS 32 (criteria which, in a nutshell, result in the systematic offsetting of cash flows generated by the instruments in question during their life). As noted above, the financial instruments constituting the Alexandria/Nomura and Santorini/Deutsche Bank transactions have their own terms and conditions and may be transferred or settled separately. It should also be considered that the assets and liabilities recognised in the balance sheet with reference to these instruments have different counterparties/issuers. Finally, in addition to the contractual provisions generally applicable among counterparties on the basis of framework agreements governing these instruments, the Bank and the counterparties have not signed any further netting/offsetting agreements.

In conclusion, the "open balances" accounting representation adopted by BMPS is also supported by the analysis carried out in relation to paragraph C.6 of the Guidance on Implementing IAS 39 and paragraph AG 39 of IAS 32, cited in the document "IFRIC Update – From the IFRS Interpretations Committee - March 2014".



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