PRESS RELEASE PURSUANT TO ART. 114, PARAGRAPH 5 LAW DECREE 58/1998
INFORMATION AT THE REQUEST OF THE ITALIAN SECURITIES AND EXCHANGE COMMSSION, CONSOB

Siena, 23 April 2014 – 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, the following information is provided 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);

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- 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/mln)
Consideration paid (A)	**(525)**
Derecognised items:	
BTP 2031 (item 40 Assets)	(2.346)
Long Term Repo (item 10Liabilities)	2.475
Interest rate swap (item 60 Liabilities)	497
Net impact of derecognised items (B)	**626**
AFS reserve recycled through P&L (C)	(388)
Gross P&L impact (A+B+C)	**(287)**

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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).

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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

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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".

This press release will be available at www.mps.it

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