Pillar 3 Disclosure

as at
31 December 2012

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Public Disclosure
Pillar 3

31 December 2012

Banca Monte dei Paschi di Siena SpA
Company Head Offices in Siena, Piazza Salimbeni 3,
Siena Companies' Register no. and tax code 00884060526
Member of the Italian Interbank Deposit Protection Fund. Bank Register no. 5274
Monte dei Paschi di Siena Banking Group, Registered with the Banking Groups register

Table of contents

Introduction

The existing prudential supervisory framework, commonly referred to as "Basel 2", was developed by the Basel Committee and transposed into European Union Directives 2006/48 and 2006/49. The Basel 2 framework is based on three mutually underpinning concepts (so called "Pillars").

More specifically, Pillar 3 was designed on the notion that Market Discipline can be harnessed to reinforce capital regulation and therefore promote stability and soundness in banks and financial systems.

The purpose of Pillar 3 therefore is to complement the operation of minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2) by developing a set of disclosure recommendations and requirements which will allow market participants to assess key, fully comprehensive and reliable information on capital adequacy, risk exposures and risk identification assessment and management processes.

In Italy, Pillar 3 disclosure is pursuant to Title IV, Chapter 1 of Bank of Italy Circular no. 263 of 27.12.2006 ("New Regulations for the Prudential Supervision of Banks", hereafter "the Circular").

Under the Circular, banks that are authorised to use internal methodologies in their assessment of capital requirements for credit or operational risk – as is the case with the Montepaschi Group – are required to publish a report at least on a quarterly basis, setting out the specific criteria and methodologies adopted.

The information provided is both qualitative and quantitative and is presented under four synoptic tables as defined in Annex A, Title IV, Chapter 1 of the aforementioned Circular. The Pillar 3 disclosure is structured in such a way as to provide as full a picture as possible of the risks taken, the characteristics of the management and control systems used and the capital adequacy of the Montepaschi Group.

The disclosure is prepared at consolidated level by the Parent Company.

In accordance with Bank of Italy's Circular Letter 263, calling upon banks to avoid publishing tables without information if not applicable, Table 11 on internal models for Market Risk is not published since it is non-applicable to the Montepaschi Group at present. Unless otherwise indicated, all the amounts in this report are stated in TEUR (thousands of Euro).

In order to facilitate reading and better clarify certain terminology and abbreviations used in the text, a Glossary can be found at the end of the current document. The Montepaschi Group regularly publishes its Pillar 3 disclosure on its website at:

www.mps.it/Investor+Relations

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

Following thorough analysis, the Parent Company has ascertained the presence of errors in the accounting treatment of the structured transactions named “Alexandria”, “Santorini”, “Nota Italia” and of personnel costs.

The errors identified were deemed material and measurable. For this reason, as required by IAS 8, a retrospective restatement was carried out, as shown in the following tables.

Table. 1.1 - Breakdown of regulatory capital

	dec-11	Adjustment	dec-11 Adjustment
Total Tier 1 positive items	20,051,774	-803,524	19,248,250
Total Tier 1 negative items	-7,730,746	-9,065	-7,739,811
Total items to be deducted	-672,291	-	-672,291
Tier 1 capital (Tier 1)	**11,648,737**	**-812,589**	**10,836,147**
Total Tier 2 positive items	6,046,703	11,709	6,058,411
Total Tier 2 negative items	-17,312	-9,065	-23,167
Total items to be deducted	-672,291	-	-672,291
Tier 2 capital (Tier 2)	**5,357,100**	**5,854**	**5,362,954**
Items to be deducted from Tier 1 and Tier 2 capital	-502,416	-	-502,416
Regulatory Capital	**16,503,420**	**-806,735**	**15,696,685**
Tier 3 capital (Tier 3)	**-**		**-**
Regulatory Capital inclusive of Tier 3	**16,503,420**	**-806,735**	**15,696,685**

Table 1.2 - Capital requirements and capital ratios

Risk assets- Exposures	dec-11	Adjustment	dec-11 Adjustment
Credit Risk			
Standardised approach	108,547,819	24,693	108,572,512
Advanced Internal Rating Based approach	122,974,178		122,974,178
Total	**231,521,997**	**24,693**	**231,546,690**

Capital Requirements	dec-11	Adjustment	dec-11 Adjustment
Credit Risk			
Standardised approach	3,394,628	395	3,395,023
Advanced Internal Rating Based approach	3,743,963		3,743,963
Total	**7,138,591**	**395**	**7,138,986**
Market Risk			
Standardised approach	547,243		547,243
Internal models approach	-		-
Concentration risk	-		-
Total	**547,243**	**-**	**547,243**
Operational Risk			
Foundation approach	46,081		46,081
Standardised approach	-		-
Advanced Measurement Approach	649,710		649,710
Total	**695,791**	**-**	**695,791**
Adjustment to capital requirements for intra-group transactions	-	-	-
Regulatory Capital Floor	33,497	-	33,497
Aggregate Capital Requirements	**8,415,122**	**395**	**8,415,517**
Risk-weighted assets	**105,189,030**	**4,939**	**105,193,969**
Tier 1 Ratio	**11.1%**	**-0.8%**	**10.3%**
Total Capital Ratio	**15.7%**	**-0.8%**	**14.9%**

Given the events which characterised the Group's financial portfolios in 2012, as announced in the press release of 6 February 2013, a number of in-house analyses involving the Risk Management Division with support from the CFO Division were launched to determine the possible presence of an operational risk component to be considered as part of the Advanced Measurement Approach (AMA model).

Data as at 31.12.2011 in Tables 3/4/5/6 of this Disclosure refers to restated values.

Table 1 - General disclosure requirement

Qualitative disclosure

1.1 The Montepaschi Group's Risk Management process

The Montepaschi Group attaches the utmost importance to the process of identifying, monitoring, measuring and controlling risk. The risk management process within the Group was further strengthened over the last few years. This was primarily made possible by the gradual extension of the advanced management and reporting models to the various entities of the Montepaschi Group. Furthermore, following the international financial crisis which gave rise to a further impetus for improving the efficiency of risk management and control systems worldwide, the Montepaschi Group also developed its risk management methods, models and processes.

The fundamental principles of the Montepaschi Group's Risk Management process are based on a clear-cut distinction of the roles and responsibilities of the different functions at first, second and third-levels of control.

The Board of Directors of the Parent Company is responsible for defining strategic guidelines and risk management policies at least on a yearly basis and setting the overall level of risk appetite for the Group also quantitatively in terms of Economic Capital.

The Board of Statutory Auditors and the Internal Control Committee are responsible for evaluating the level of efficiency and adequacy of the Internal Control Systems with particular regard to risk control.

Top Management is responsible for ensuring compliance with risk policies and procedures.

The Risk Committee of the Parent Company establishes Risk Management policies and ensures overall compliance with the limits defined for the various operating levels. The Risk Committee is also responsible for assessing initiatives for capital allocation and submitting them to the Board of Directors in addition to assessing risk profile and (Regulatory and economic) capital consumption as well as trends in risk-return indicators at Group level and for each company of the Group.

The Finance and Liquidity Committee of the Parent Company has the task of setting the principles and providing strategic guidance for Proprietary Finance. Furthermore, it deliberates and submits proposals concerning the interest rate and liquidity risk exposure of the Banking Book and defines Capital Management actions required.

The Internal Audit Area operates through an independent and objective activity of assurance and advice aimed, on the one hand, at controlling - also through on-site inspections - regular operations and risk trends and, on the other, at assessing the functional efficiency of the Internal Control Systems in order to improve the effectiveness and efficiency of the organisation.

Within the framework of the Bank's overall organisational and governance restructuring, the Risk Management division was established in 2012, directly reporting to the Chief Executive Officer. In the new organisational setup, the Risk Management Area is allocated to the Risk Management Division. In alignment with regulatory provisions and international best practices, this setup is aimed at guaranteeing greater autonomy and forcefulness to risk management actions and to the effectiveness of the entire risk management and control process.

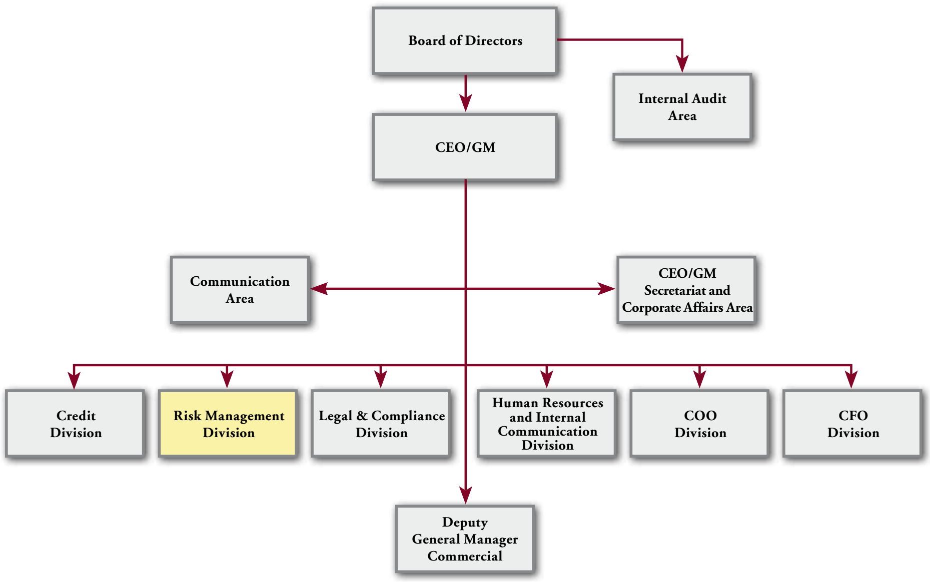
The Risk Management division is responsible for ensuring the functioning of the credit management system, assessing capital adequacy and defining risk appetite. The Risk Management division also has the task of setting out strategic guidelines for the loan book and ensuring risk reporting to the Group's top management and corporate bodies. In particular, within the Risk Management division, the Risk Management Area defines integrated analysis methodologies needed to measure overall risks incurred so as to guarantee they are accurately measured and constantly monitored. It also quantifies the Economic Capital as well as the minimum amount of capital to be held to cover all existing risks. The Area produces control reports and ensures compliance with the operational limits set by the Board of Directors on the basis of internally-developed models.

The Risk Management Area is also responsible for overseeing the MIFID compliance criteria applicable to investment products and portfolios offered to customers, as well as the criteria for measuring and monitoring the risk and performance of investment services/products held by customers.

The Parent Company's Compliance function is the organizational unit responsible for the centralised monitoring of regulatory compliance and related risks. In 2012, the activity was entrusted to the Compliance and Legal division, which merged the pre-existing Compliance Area and Legal Area into one division to maximise the synergies between the two organizational structures. The division, in particular, fulfils the compliance obligations laid down by the Bank of Italy, i.e. identifying, monitoring and assessing the risks of legislative non-compliance by reporting to the Top Management about any non-conformities and improvement actions undertaken or promoting information and training activities for the employees. The division also oversees the enforcement of legislative obligations concerning anti-money laundering and countering the financing of terrorism. Outer Business Control Units (BCUs), which are internal to the Group subsidiaries or the main business areas of the Parent Company , carry out conformity checks on transactions and are the first level of organisational supervision of operations within the more general system of Internal Controls.

The BCUs of the Parent Company's Finance area were included in the Risk Management Area in 2012.

Parent Company: organizational structure



The main types of risk incurred by the Montepaschi Group in its day-to-day operations can schematically be presented as follows:

- credit risk (inclusive of concentration risk),
- counterparty risk,
- issuer risk,
- Trading Book market risk (interest rate, price and foreign exchange) ;
- Banking Book market risk (Asset & Liability Management -ALM),
- liquidity risk,
- equity investments risk,
- UCITs risk (alternative funds),
- operational risk,
- business risk,
- real-estate risk,
- reputational risk.

Risk relating to investment products/services for the Group's customers are also monitored with a view to protecting the customer and preventing any potential reputational impact.

In accordance with the principles contained in the New Accord on Capital Adequacy (Basel 2) in relation to First Pillar risks, in the first half of 2008, the Montepaschi Group completed its work on the internal models for credit and operational risks. Pursuant to Circular Letter 263/2006 of the Bank of Italy, on 12 June 2008 the Montepaschi Group was officially authorised under regulation no. 647555 to use the advanced models for the measurement and management of credit risk (AIRB - Advanced Internal Rating Based) and operational risk (AMA – Advanced Measurement Approach) as of the first consolidated report at 30-06-2008.

Subsequently, work continued on the completion and extension of these models to those entities which were not included in the initial scope of validation.

In particular, in the course of 2012 the Group was authorised to extend the AIRB model for Credit Risk to MPS Leasing & Factoring as of 30.06.2012.

Furthermore, activities continued with a view to improving the internal methodologies for market and counterparty risk management.

At the same time, progress was made in the area of Second Pillar compliance. In 2012, methodological fine-tuning continued, as did initiatives aimed at coordinating the optimisation and governance of all processes required for the self-assessment of the Group's Internal Capital Adequacy, as part of the Internal Capital Adequacy Assessment Process (ICAAP). As per regulations, a comprehensive ICAAP Report was prepared and submitted to the Supervisory Authority in April.

With regard to the Third Pillar, the Montepaschi Group, as a class 1 bank under Supervisory classifications, fulfilled the obligation of quarterly disclosure as instructed in Supervisory regulations. The disclosure is regularly published on the Montepaschi Group's website and constantly updated in compliance with the existing regulatory obligations.,

Methodological approaches and practical applications continued to be analysed, as required by the new international Regulatory framework ("Basel 3"), with a particular focus on the management of liquidity, counterparty and market risk and the related adjustment of reporting databases.

Finally, in accordance with Consob resolution no. 17297 of 28 April 2010, half-yearly reports on risk management activities concerning the provision of investment services were drawn up and submitted to the Supervisory Authority, following approval by the Internal Control Committee and the Board of Directors.

1.2 Organisation of the Risk Management Area

The **Risk Management Division** has the task of ensuring the overall functioning of the risk management system, assessing capital adequacy and defining the Group's risk appetite

It also defines strategic guidelines for the loan book and ensures reporting flows to the Group's Top Management and corporate bodies. The Risk Management division comprises the following units:

- Risk Management Division support staff,
- Credit Policies and Quality Control support staff,
- Advanced Systems Validation support staff,
- Risk Management Area.

Autonomy and independence are ensured by relational and functional mechanisms with the Corporate bodies having strategic supervision, management and control functions, in particular through the appointment/revocation of -and determination of compensation for- the Parent Company's Head of Risk Management.

The **Risk Management Division support staff** works as a secretariat for the Risk Management Division, coordinates and prepares Group Risk Disclosures for the governing bodies, prepares the Pillar 3 Disclosure to the Public and participates in the overall Risk Appetite definition process for the Group.

The **Credit Policies and Quality Control support staff** sets out the strategic guidelines for the loan book and steers the Group's credit activities, particularly for credit quality planning and monitoring.

By validating the internal assessment models, the **Advanced Systems Validation support staff** makes constantly sure that results from the advanced risk measurement systems are reliable and maintained in line with regulatory requirements.

The Parent Company's **Risk Management Area** (ARM) oversees and monitors the Montepaschi Group's overall risk profile in accordance with the "Bank of Italy – Consob regulations" on the organisation of intermediaries and in compliance with the prudential supervisory regulations of the Bank of Italy. The Risk Management Area develops and implements the system for measurement, management and control of proprietary and customer-related risks, making sure that mitigation measures are adequate and complied with.

Additionally, the Area oversees the development of internal and regulatory risk measurement models with a view to determining the economic working capital and regulatory capital requirements, based on the existing regulatory options. The Area is organised into the following units:

- 'Credit Risk, ALM, Liquidity and Risk Integration' Service;
- 'Market Risks and Financial Controls' Service;
- 'Operational and Other Risks' Service;
- Wealth Risk Management Service.

Credit Risk, ALM, Liquidity Management and Risk Integration has the task of:

- defining, developing and updating models (PD, LGD, EAD, Maturity and haircuts) for the measurement of credit risk, by monitoring the internal model in compliance with qualitative and quantitative requirements provided for by the Supervisory Authorities;
- monitoring credit VaR measurements for each individual business unit and at Group level
- quantifying the effects of expected and unexpected loss on credit risk and therefore on absorbed economic capital of the Group portfolio and of the individual business units and proposing corrective actions, considering the effects of mitigation actions;
- determining the internal capital measure used to calculate risk-adjusted performance measures;
- defining, developing and updating models for the measurement of risks inherent in the interest rate and liquidity risk profile of Group banks (Banking Book ALM);
- measuring interest rate and liquidity risk exposures, verifying compliance with operational threshold limits and leveraging appropriate initiatives aimed at an overall optimisation, partly with the support of scenario analyses;
- quantifying the scenario analyses and stress tests for credit, ALM and liquidity risks;
- developing and maintaining the methodologies used for identifying and mapping the Group's significant and non-significant risks , both by individual business units and legal entities, for the purpose of risk integration and support to the ICAAP process;
- measuring risks for the Group and individual business units;
- defining, developing and updating the risk integration models used to quantify the overall Economic Capital;
- developing and implementing, from an operational point of view, Pillar 2 stress and scenario testing methodologies, supporting and coordinating forecast scenario methodologies for the ICAAP process ;
- measuring the overall economic capital allocated to -and absorbed by- individual legal entities, business units and the Group (current, prospective and under stress conditions);
- reconciling economic and regulatory capital requirements for the pertinent individual risks;
- assessing the risk components of products during the design phase of new product development;
- assessing the appropriateness of risk-adjusted industrial pricing, singling out the main risk components of products for the Company.

Market Risks and Financial Controls has the task of:

- defining, developing and updating the methodologies underlying the various internal management models inherent in the Group's market and counterparty risk profile, in coordination with the business control units (BCUs) of the individual business units for the appropriate methodologies to be shared;

- monitoring and validating the production of market and counterparty risk measurements for each business unit, Group company and for the Group as a whole;
- defining the structure of operating limits for market and counterparty risk in compliance with the Group's risk measurement system and for the purpose of financial instruments holding, by verifying the methodological alignment of their overall structure with the Group's risk objectives;
- monitoring the limits established by the Board of Directors of the Parent Company in relation to market and counterparty risk at all delegated levels and verifying the application of corrective actions taken due to any overdrafts or other vulnerable factors that emerge when monitoring risk;
- defining risk assessment and measurement methods for new financial instruments (product approval process);
- defining, determining and validating the methodologies chosen for aspects relating to the fair value of financial instruments traded by the Group: valuation models, usage criteria and hierarchy of pricing sources, rules, variables and methodologies feeding into market parameters, criteria and rules for fair value hierarchy classification;
- controlling and validating the designation at fair value of financial instruments contained in the trading book and in the financial assets of the banking book;
- controlling and validating the market parameters used to assess and measure the risk of financial instruments held by the Group;
- validating P&L data at mark-to-market on the basis of fair value control activities carried out directly and first-level control activities carried out by the BUCs of the individual business units;
- defining, developing and updating the internal Trading Book market risk model for regulatory purposes and the internal model for counterparty risk in compliance with qualitative and quantitative requirements set out by the Supervisory Authorities;
- quantifying market risk scenario analyses and stress tests for operational and regulatory purposes.
- Carry out financial checks over the activities of business units.

Operational and Other Risks has the task of:

- defining, developing and updating operational risk measurement models, with the internal model being monitored against the qualitative and quantitative requirements set out by the Supervisory Authorities;
- coordinating the data collection process for operational losses, the risk assessment process as well as the process used to identify the more critical operational areas on the basis of scenario analyses;
- monitoring the measurements of internal

capital in relation to operational risks for each business unit and for the Group in its entirety (Operational VaR);
- quantifying the effects of the Group's operational-risk mitigating actions on absorbed economic capital;
- defining, implementing, managing and updating the mathematical/statistical algorithms underlying the various measurement models and quantifying the scenario analyses and stress tests on operational risks;
- carrying out the process for the validation and preparation of the final report for the Operational Risk internal model, to be submitted to the Risk Committee for approval;
- identifying reputational risks inherent in the overall range of Group activities
- developing models to monitor 'other' Second Pillar measureble 'risks' .
- Developing statistical-mathematical risk models partly in support of other organisational units.

Wealth Risk Management has the task of:
- defining metrics to assess and monitor the risk/performance of investment products, portfolios and services offered to customers;
- defining and developing methodologies and models to assess risk and performance of investment products, portfolios and services, making sure they are measured and monitored over time;
- defining and developing methodologies for verifying the appropriateness / adequacy of investment products, portfolios and services, so as to ensure consistency between the customer's risk profile and the risk profile of the financial instruments;
- assigning a risk class to products on offer by the Group in addition to other parameters which are relevant for adequacy checks;
- ensuring that all products invested in on the customer's initiative be assigned a risk class and measured against any other parameters required for adequacy checks;
- periodically compiling and updating the list of highest-risk companies/issuers (a.k.a. "MLR list"), whose financial instruments are deemed ineligible and inappropriate to be offered on an advisory basis;
- defining and monitoring the risk/performance framework of operational limits applied to products, portfolios, wealth management lines, customer segments, etc.
- performing checks to monitor customer operations (operating limits, concentration, "gaps", etc.);
- monitoring changes in the risk class of investment products/services for the purpose of disclosure to customers;
- performing checks and monitoring activities on operations by customers of the Financial Advisory Network;
- preparing the relative management and operating reports.

The Risk Management Area of the Parent Company as at 31.12.2011 has an overall headcount of 87 resources. Human resources have an average age of 40 and an average seniority in the banking sector of approximately 12 years.

Resources show to have taken professional paths also outside the risk management area with significant experience gained in Group credit, finance, planning and sales functions. In terms of academic background, there is a prevalence of degrees in Economics/Banking/Business subjects (60%), followed by degrees in Mathematics/Statistics (15%), Engineering (6%), Physics and IT (5%), qualifications, diplomas or degrees in other subjects (15%). Approximately 37% of resources hold a post-degree qualification (Masters or PhD) or an international professional certification (e.g. FRM certification issued by GARP).

1.3 Credit risk

The Budgeting, Planning, Capital and Risk Management processes of the Montepaschi Group are based on the "Risk Adjusted Performance Management" (RAPM) logic. In the development of these management processes, the definition of adequate credit policies – under the responsibility of the Parent Company's Credit Management Area – plays a relevant role which finds its operational expression in the implementation of the strategies (i.e. credit portfolio quality objectives), to be applied to the credit processes.

The Montepaschi Group's strategies in risk management mainly aim at limiting the economic impact of default on the loan book, exploiting, in particular, the full potential of the internal rating models and loss given default estimates.

Strategies are defined on a yearly basis, except as otherwise provided under exceptional circumstances due to external conditions, and are identified for two main areas:

- loan disbursement strategies (definition of quality targets for access to credit);
- credit monitoring strategies (definition of minimum quality targets for maintenance of the loan disbursed).

The definition of customer acceptance policies, based on the analysis of the customer's prospective solvency, plays a major role in loan disbursement strategies. Only after having identified the customer with the required creditworthiness are other credit risk mitigation factors (guarantees) taken into account. Information on client quality and transaction risk is essential in identifying the decision-making body for loan granting.

The follow-up strategies are based on systems used on a daily/monthly basis to detect changes in the customer's risk profile.

The identification of events likely to affect credit risk triggers a set of obligations for the distribution network, who is assigned the key task of keeping communication channels with the customer open and obtaining all useful information needed to verify the changes in the credit risk profile. If changes are confirmed, the client account manager is supported by personnel specialised in credit quality management and legal matters to define the credit risk management procedures required.

The quantitative identification of credit risk is mainly applied, at operational level, to the measurement of the risk-adjusted return of each individual operating unit. This process is carried out with operational control instruments. The credit risk identification and quantification instruments allow the Montepaschi Group to define hedging policies mainly consisting in defining "risk-adjusted pricing" which includes risk coverage and planned 'return on capital'.

Risk mitigation policies are defined as part of the Credit Risk Mitigation (CRM) process, whereby the legal, operational and organisational conditions necessary to use collateral guarantees for credit risk-mitigation purposes are identified and met. Three sets of guarantees complying with mitigation requirements are defined in the process: Personal securities, Financial collaterals and Mortgage collaterals. Other types of credit protection guarantees do not mitigate credit risk. With specific regard to collaterals, a system has been developed to monitor the value of the collateralised asset, based on the measurement of market value (daily for securities and annual for real estate).

Within the credit-granting process, the Montepaschi Group has adopted a risk-adjusted system for borrower identification, which is sensitive to the customer's rating and to the presence of collaterals. Should the value of the collateralised asset be subject to market or foreign exchange rate risk, a "safety margin" is used, i.e a percentage of the end-of-period value of the collateral pledged, which is a function of the volatility of the collateralised asset. The only portion of the loan covered by the value of the assets net of the differential is considered as guaranteed during the approval phase. In the monitoring stages, an adjustment is required on guarantees for which the market value results as being lower than the authorised value net of the safety margin; notification of this step is channelled into the implementation process of the credit monitoring strategies. For further insight into Risk Mitigation Techniques, see Table 8 below.

Credit risk management policies and disbursement processes are governed by specific Group directives.

In terms of Credit risk measurement models, credit risk is analysed using the Credit Portfolio model, which was developed internally by the Risk Management Area of 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 over a time horizon of one year and a confidence interval calibrated to the official target rating of the

Montepaschi Group.

There are numerous inputs: Probability of Default (PD), Loss Given Default (LGD) rates, number and types of guarantees supporting the credit facility, internal operational Exposure at Default (EAD) and a correlation matrix. The latter component, which is based on internal estimates (and which is periodically finetuned in order to introduce more advanced measurement methods), makes it possible to quantify, for individual positions, the diversification/concentration components among the positions contained in the portfolio. The economic capital calculation approach is based on Credit-VaR measurement systems and uses methods consistent with the best practices in the industry. The portfolio model's output provides detailed measures for individual positions as well as the absorbed working capital component and indicates the impact of diversification in the portfolio. The model reveals the change in credit risk over time based on various combinations of the variables under analysis, by legal entity, customer type, geographic area, economic sector, rating class and continental area.

Other information derived from the Credit Portfolio Model concerns "what-if" analyses produced for certain discriminating variables such as the Probability of default, LGD rates, changes in the value of collaterals and in margins available on the lines of credit in order to quantify the levels of Expected Loss and Economic Capital if the underlying (hypothetical or historical) assumptions prove to be true.

In accordance with the provisions of the Second Pillar of Basel 2, the Montepaschi Group is committed to the continuing development of methodologies and models in order to assess the impact on the loan book of stress conditions produced using sensitivity analyses with respect to individual risk factors or through scenario analyses.

For further information, especially regarding the internal AIRB model, please refer to Table 7.

1.4 Operational risk

The Montepaschi Group has adopted a management system for operational risk, with the aim of guaranteeing effective risk prevention and mitigation measures. The risk management system consists in a structured process which identifies, assesses and monitors operational risks. This process is defined in the Group's Operational Risk Governance and Control Directive.

The operational risk management system adopted by the Group is divided into the following macro-processes:

- identification;
- measurement;
- monitoring;
- management and control;
- maintenance;
- internal validation;
- review.

Each process is clearly documented and is subject to the responsibility of a specific corporate function.

The organisational units of the various Group subsidiaries are also involved in the processes.

Corporate policies and procedures assign the task of operational risk control to the Risk Management Area. As previously illustrated, the Operational Risk and Other risks Service has been set up within this Area and is responsible for:

- defining, developing and updating operational risk management and measurement systems;
- coordinating data collection and storage systems;
- the reporting system;
- assessing the operational risk profile and measuring the relative capital adequacy requirements at both individual and consolidated levels.

The management and measurement model designed and implemented by the Montepaschi Group incorporates the following four components:

- internal data on operational loss;
- external data on operational loss;
- factors regarding the operating context and the internal controls system;
- scenario analyses.

Classification of this data adopts the event and business line model established by the Basel Accord and adds further classifications such as process, organisational unit, geographical area etc. The bank has defined a Loss Data Collection (LDC) process aimed at collecting and storing operational risk data: this includes both information relating to the four components strictly provided for by the measurement system and other information considered significant for operating purposes.

The Loss Data Collection process has been designed to ensure that data is complete, reliable and up-to-date and, therefore, that the management and measurement system using it is effective. The single operational risk management application and the related database are also subject to business continuity and disaster recovery plans.

As far as the external data on operational loss is concerned, the Montepaschi Group has opted for a strongly prudential approach. External data derives from the Italian Operational Losses Database (Italian: DIPO) consortium to which the Montepaschi Group has belonged since its founding in 2003. In addition to the complete utilisation of external loss data, the DIPO is also used for methodological purposes and for resolving any doubts in interpretation.

The analysis of contextual and control factors identifies the operational vulnerabilities to which the bank is exposed. In order to provide greater granularity of analysis, which is carried out with the individual process owners through annual self assessments of operational risk control, the identification of vulnerabilities is a prospective evaluation aimed at highlighting the difficulties inherent in day-to-day operations.

Lastly, the Montepaschi Group carries out scenario analyses for its Top Management on a yearly basis: the forward-looking analyses are aimed at measuring - in terms of capital - exposure to individual vulnerabilities with a view to capturing developments in the business and organisational framework.

To ensure the correct application of this methodology and its compliance with current regulations, the operational risk internal validation process has been allocated to the Risk Management Area. The quality of operational risk management and measurement systems is assessed on an ongoing basis as is their compliance with regulatory provisions, company needs and trends in the market of reference. Within this framework, it is also particularly important not only to verify the reliability of the methodology used in calculating capital adequacy, but also to ascertain the actual use of this system in decision-making processes as well as in the daily operational risk management systems.

Furthermore, the Risk Management Area is in charge of producing reports on the operational risk measurement and control system, both for internal units and Supervisory Authorities. Each macro-process in which the system is structured produces its own report within a wider reporting framework. By defining a grid of contents, recipients and frequency of updates, the objective of this activity is to ensure timely horizontal and vertical communication of information on operational risks among the different corporate units concerned.

Corporate regulations allocate the activity of internal auditing to the Internal Audit Area. This consists in periodic checks on the overall functioning of the Montepaschi Group's operational risk management and control systems, so as to achieve an independent, comprehensive adequacy assessment in terms of efficiency and effectiveness. Once a year, the Internal Audit Area compiles a report updating the various company entities on the auditing activities carried out, specifically highlighting vulnerabilities identified, corrective measures proposed and related findings.

For further information on Operational Risk, please see Table 12.

1.5 Market Risk in the Trading Book

The Montepaschi Group's Regulatory Trading Portfolio (RTP), or Trading Book, is made up of all the Trading Books managed by the Parent Bank (BMPS), MPS Capital Services (MPSCS) and, to a smaller extent, the Irish subsidiary Monte Paschi Ireland. The portfolios of the other retail subsidiaries are 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, also calls for risk to be centralised at, and managed by, MPSCS. Subsidiary Biverbanca is no longer included in scope, as it was sold in December 2012.

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 Value-at-Risk (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.

Market risk assumption, management and monitoring are governed group-wide by a specific resolution approved by the Board of Directors.

The Montepaschi Group 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 operating purposes is calculated independently from the trading units, using the internal model of risk measurement implemented by the Risk Management function in keeping with international best practices. The Group uses the standardised methodology in the area of market risk solely for reporting purposes.

Operating limits to trading activities, which are set by the Board of Directors of the Parent Company, are expressed by level of VaR delegated authority, which is diversified by risk factors and portfolios, and in terms of monthly and annual Stop Loss. The limits are monitored on a daily basis.

In addition to being included in VaR computations and in respective limits for the credit spread risk component, Trading Book credit risk is also subject to specific operating limits of issuer and bond concentration risk, which specify the maximum notional amounts by type of guarantor and rating class on all investments in debt securities (bonds and credit derivatives).

VaR is calculated with a 99% confidence interval and a holding period of 1 business day. The Group adopts the historical simulation method with daily full revaluation of all basic positions (including optional derivatives), 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 daily management reporting flow on market risks is periodically transmitted to the Risk Committee, the Chief Executive Officer, the Chairman and the Board of Directors of the Parent Company as part of the Risk Management Report, which keeps Top Management and other governing bodies up to date on the overall risk profile of the Montepaschi Group.

The macro-categories of risk factors covered by the Internal Market Risk Model are as follows:

- interest rates on all relevant curves, inflation curves and relative volatilities;
- share prices, indexes, baskets and relative volatilities;
- exchange rates and relative volatilities;
- credit spread levels.

VaR (or diversified or net VaR) is calculated and broken down daily for internal operational purposes, including with respect to other dimensions of analysis:

- analysis of organisation/management 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 affecting the portfolios.

With particular reference to risk factors the following are identified: Interest Rate VaR, Equity VaR, Forex VaR and Credit Spread VaR. The algebraic sum of these items gives the 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 with 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 Montepaschi 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.

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 real situations of market disruption previously recorded. Such scenarios are identified based on a timeframe in which risk factors were subjected to stress. No particular scenarios are required with regard to the correlation among risk factors since trend-based

data for the period identified is used.
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 the shocks do not spread to the other factors. Multiple discretionary scenarios, on the other hand, aim to assess the impact of several shocks that simultaneously affect all types of risk factors.

1.6 Counterparty risk

Counterparty risk is linked to potential losses due to the default of counterparties in financial transactions prior to settlement and is associated with financial instruments which have a positive value at the time of counterparty's default. The financial instruments which point to this kind of risk:

- generate an exposure that is equal to their positive fair value;
- have a market value which evolves over time depending on underlying market variables;
- generate an exchange of payments or an exchange of financial instruments or goods against payment.

The prudential treatment of Counterparty Risk is applied to the following types of financial instruments:

- credit and financial derivative instruments traded Over The Counter (OTC derivatives);
- Securities Financing Transactions (SFTs), such as: repos and reverse repos on securities or commodities, securities or commodities lending or borrowing transactions and borrowing on margin;
- Long Settlement Transactions (LSTs), such as: forward transactions in which a counterparty commits to delivering (receiving) a security, commodity or foreign currency against receipt (delivery) of cash payment, other financial instruments or

goods with settlement upon a pre-established contractual date, later than the one determined by market practice for these types of transaction.

The scope of measurement for Counterparty Risk includes all banks and subsidiaries belonging to the Group and refers to positions held in the Banking Book and the Trading Book.

As referred to in the Supervisory Regulations, when measuring exposure to Counterparty Risk, the Montepaschi Group adopts the regulatory current value method to determine the Exposure at Default (EAD) for OTC and LST transactions and the comprehensive approach to calculate EAD for SFT transactions.

For further quantitative details on Counterparty Risk, please refer to Table 9.

1.7 Interest Rate risk in the Banking Book

In accordance with international best practices, the Banking Book refers to all of the commercial operations of the Parent Bank in relation to the transformation of maturities of balance-sheet assets and liabilities, Treasury, foreign branches, and hedging derivatives of reference. The scope of the Banking Book (in line with that for the regulatory book) and the ALM centralisation process are defined in a resolution by the Board of Directors of the Parent Bank which sets rules for centralised Asset & Liability Management and operating limits for the interest rate risk of the Group Banking Book.

The Banking Book also includes active bonds held for investment purposes, classified as either AFS or L&R. The same ALM rate risk metrics of measurement used for other commercial accounts were also applied to this aggregate.

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 Bank, are based first on exposure to interest rate risk by a variation in the economic value of the Banking Book assets and liabilities that is calculated by applying a parallel shift of 25bp, 100bp and 200bp, the latter in accordance with the requirements set out in the Second Pillar of the Basel Accord.

The Group adopts a 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 the

ongoing verification of 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.

For further details on the methodologies developed in relation to the interest rate risk in the Banking Book (Banking Book ALM) and related quantitative findings, please refer to Table 14.

1.8 Liquidity Risk

The Montepaschi Group structurally addresses Liquidity Risk with a formal LR management policy which also complies with the Basel 2, Pillar 2 requirements.

The Group adopts a liquidity risk governance and management system which, in accordance with the provisions of the Supervisory Authority, pursues the following objectives:

- ensure the solvency of the Group and all its subsididaries, both in ‘business as usual’ and in crisis conditions;
- optimise the cost of funding in relation to current and future market conditions;
- adopt and maintain risk mitigation instruments.

Within the above system, the following responsibilities are centralised in the Parent Bank:

- definition of policies for Group liquidity management and liquidity risk control;
- coordination of Group policies’ implementation by the companies included in the scope;
- governance of the Group’s short-, mid- and long-term liquidity position, both overall and at individual company level, through centralised operational management;
- governance of Group liquidity risk, both short- and long-term, ultimately guaranteeing the solvency of all subsidiaries.

In its steering function, the Parent Bank therefore defines criteria, policies, responsibilities, processes, limits and instruments for managing liquidity risk, both in business as usual and in liquidity stress and/or crisis conditions, formalising the Group’s Liquidity Risk Framework.

The Group Companies included in the scope of application, to the extent that they exhibit a liquidity risk deemed significant, are responsible for abiding by the liquidity policies and limits defined by the Parent

Bank and the capital requirements set by the relevant Supervisory Authorities.

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 the net cumulative cashflow and the 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 the ratio of both 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 and 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. 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. 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/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 and 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 Group liquidity.

1.9 Equity investment portfolio risk

The instrument used to measure the price risk of the Montepaschi Group's equity investments portfolio is Value-at-Risk (VaR). Unlike the model used for the Trading Book, however, this is a simulation model based on the Monte Carlo approach.
To estimate price volatility, the time series of market yields for listed companies and the time series of sector-based indices for unlisted ones are used. The VaR of the equity investment portfolio is determined with a confidence interval of 99% and a holding period of 1 quarter, in line with the mid-long term holding periods of positions.
Moreover, the above-described model, developed and maintained by the Risk Management Area of the Parent Company, 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 equity investments held by each Legal Entity.
Risk analysis results for this risk segment are regularly chanelled into the risk reporting flow generated by the Risk Management division and submitted to the Parent Company's Risk Committee and Top Management

1.10 Business risk

Business Risk is a particular realm within Strategic Risk.
The Montepaschi Group measures Business Risk using an internally-developed model, whose results are included in the calculation of the Group's Overall Internal Capital.
The main risk factors are identified in:

- revenue volatility (particularly decreases); the item 'Net income from banking activities' is used as a proxy;
- cost volatility (particularly increases); the item 'Operating Expenses' is used as a proxy.

The algebraic sum of these two items is the Operating Income; this indicator is illustrative of the Group's earning capacity.
On the basis of these considerations, it is possible to define Business Risk as the

volatility of the Operating Income, with a particular focus on the non-perfect correlation between net income and expenses. Indeed, the Economic Capital used to mitigate Business Risk is calculated as the capital required to cover the maximum mismatch between Net Income from banking activities and Operating expenses, assuming a sudden reduction in Net Income and an unexpected upturn in Expenses.
Internal Capital to face Business Risk is calculated on the basis of the Group's Operating Income (namely an indicator for the Bank's profitability) using an Earnings at Risk (EaR) parametric approach.
The time series of this indicator is provided monthly by the Operational Planning Area on the basis of data from the Consolidated Financial Statements.
The Economic Capital is quantified by the Risk Management Area of the Parent Company.

1.11 Real estate risk

Real estate risk is defined as the risk of incurring potential losses from unexpected changes in the value of the real estate portfolio as a result of the real estate market performance in general. The Risk Management Area believed it appropriate to adopt internal approaches for the quantification of Economic Capital for this particular type of risk. For operating purposes, the Montepaschi Group quantifies Real estate risk using a VaR type parametric approach, assuming normal distribution for the logarithmic returns of the Real estate portfolio, which can be broken down into the following stages:

- acquisition of data concerning the real estate portfolio and values of real estate indices;
- analytical correlation of each property with a suitable real estate benchmark index based upon the type of real estate, its use and its location;
- definition of annual logarithmic returns of all indices;
- calculation of the Economic Capital of the Real estate portfolio.

The Economic Capital is quantified by the Risk Management Area of the Parent Company.

1.12 Risks inherent in investment products/services and management of reputational risk associated with investment services

The Montepaschi Group's organisational structure includes a specific unit dedicated to wealth risk management.

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, 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.

Within the Parent Bank, the organisational responsibility for overseeing group-wide measurement, monitoring and control activities relative to the financial risks inherent in investment products/services is an integral part of the scope of responsibility of Group integrated Risk Management. This is to ensure an efficient centralised governance of the direct and indirect risks which the Group incurs during the course of its operations. Within the Risk Management Area of the bank's Risk Management 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 on the one hand, and the risk inherent in investment services/products offered to -or in any case held by- customers on the other.

All investment products (both Group and third-party), included in the catalogue of products offered to Group customers are subject, within a codified development/distribution supply-chain management process, to a specific multivariate quali-quantitative risk assessment, including market, credit and liquidity/complexity risk factors. A consistent quantitative evaluation is also made for financial instruments purchased directly by customers and managed in portfolios under custody.

Risk assessments are pegged to specific risk classes identified with explanatory keys, which are available to customers in information brochures regarding securities placed and which therefore represent one of the guiding criteria for verifications of appropriateness and compliance provided for by European MiFID regulations, Consob Regulation no. 16190 and Inter-association guidelines governing illiquid financial products of 2009.

Group customers are also regularly informed over time about changes in the risk of the financial instruments they hold, so as to ensure the necessary informational transparency and facilitate possible decisions aimed at rebalancing the risk profile of investments held.

The activities described cover the entire scope of the Montepaschi Group's retail banks (Banca MPS, Banca Antonveneta and Biverbanca in 2012), in addition to MPS Capital Services for the role it plays in the supply-chain process.

The Wealth Risk Management function also monitors the list of highest-risk issuers/ entities (so called 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 by 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.

Reputational risk is identified in general terms as the possibility that one or more given events may negatively alter the consideration or image and therefore the reputation which a party has within the economic or social system in which it operates, primarily with those who hold some form of interest in it. Reputation therefore becomes particularly relevant in the case of banks, for which a relationship of trust is an integral part of the end products and services provided to their customers. Evidently, reputation and risks related thereto, are objectively difficult to estimate in quantitative terms.

In the area of development and distribution of investment products and services to customers, special focus must be placed on the category of events which is associated with business scenarios that are innovative or typically geared to offering customers new investment opportunities while keeping with their risk profiles, through both proprietary and captive products, as well as through access to third-party products in an open architecture environment.

Factors such as misselling and mispricing, possbile risk inadequacy over time between portfolios or single products and the socio-behavioural profiles of customers, the absolute and relative financial risk borne by the customer, the absolute and relative investment performance with respect to return expectations, the complexity of -or imperfect contracts for- investment products and services are generally some of the causes which potentially lie at the origin of reputational risks that call for monitoring and management.

The financial crisis under way has added further factors of potential impact to: increased market volatility, potential fast-changing product risks, potential financial losses incurred. Identification and monitoring of these factors are reflected in the WRM reporting for the Top Management.

The organisational decision to centralise within the Parent Company's Risk Management Function the overall control and governance of both operational and reputational risks, together with risks inherent in investment services/products, is therefore aimed at encouraging awareness and promoting an integrated management of the processes which may potentially generate reputational risks, in their wider sense, for the Group.

1.13 Internal models of First and Second Pillar risk measurement – key features

The charts below illustrate the treatment of risks under Pillar 1 and 2 as defined by Supervisory Regulations.

The salient features for each type of risk factor are summarised below.

Pillar 1 risks

Type of risk	Current management
Credit	• Montecarlo simulation-based internal Credit VaR Model inclusive of intra-risk correlation • Measurement of Expected Loss and Economic Capital. • Credit Risk Mitigation (CRM) techniques
Market (Trading Book) And ounterparty)	• Internal management model for Generic and Specific risks based on historical simulation with analytical full revaluation. • Internal management model for specific risks with Credit Spread VaR • Counterparty Risk: Current Value method
Operational	• Internal AMA model • Mitigation and insurance allocation of risk.

Pillar 2 risks

Type of risk	Current management
Concentration	• Credit VaR internal model already includes concentration risk in the calculation of Economic Capital
	• Control and follow-up through internal calculation policies, determination of concentration and entropy indices
Market ***(ALM Banking Book)***	• Internal Model based on the Economic Value approach, to determine the impact of interest rate variation on the bank's economic value (assets/liabilities)
	• Use of maturity gap to determine the impact. Shift of 25 bp, 100 bp and 200 bp
	• On demand items and prepayment have been modelled and are included in periodically submitted risk measures the model (prepayment rate model in particular).
Equity Investments	• VaR Model based on direct observation or on comparable items. Montecarlo simulation-based approach and equity VaR calculation
Liquidity	• Cash flows mismatching model, counterbalancing capacity determination; setting of operational (short term) and structural (medium/long term) limits, Stress Test
	• Mitigation and control on the basis of liquidity regulatory requirements policy
	• Development of Contingency Plan
Business	• Model based on internal estimates
Real Estate	• Parametric VaR approach
Reputation	• Control based on specific organizational policies

1.14 An analysis of the Montepaschi Group's Economic Capital and the Risk Integration Model

The Overall Economic Capital is intended as the minimum amount of capital resources required to cover economic losses resulting from unforeseen events generated by the simultaneous exposure to different types of risk.

In order to quantify Economic Capital all types of risk come into play with the exception of liquidity and reputational risk which, instead, are mitigated through organisational policies and processes.

The Risk Management Area of the Parent Company periodically quantifies the Economic Capital for each type of risk, mainly on the basis of internally-developed models for each risk factor. The methodologies are largely developed with a Value-at-Risk (VaR) approach and are thus aimed at determining the maximum loss the Group may incur with a specific holding period and within a pre-set confidence interval.

For certain risk factors and specific portfolio categories (Credit Risk and Operational Risk in particular), the models were officially validated by the Supervisory Authorities for regulatory purposes. The outputs from the models developed internally for the different risk factors (validated and operational) constitute the main tool for the day-to-day control and monitoring of the risk exposures generated in these areas and for the control of operating limits and delegated powers in accordance with the guidelines given and approved by the Parent Company. The Economic Capital by risk factor, therefore, results from the corresponding operating metrics of risk quantification. VaR measurements by risk factor maintain their own "individual" validity in accordance with current regulations and international best practices and are determined with generally differentiated holding periods and confidence intervals.

The total of these macro risk-factors, which directly impact the Group's equity, is subject to regular measurement by the Parent Company's Risk Management Area.

Instead, the Parent Company's Operational Planning & Control Area is responsible for reporting risk-adjusted performance results and determining the specific value creation in a risk-adjusted logic using metrics of measurement consistent with both the income and absorbed economic capital components. Moreover, it reformulates the risk measures received from the Risk Management Area for the Group's individual legal entities and business units. The allocation of capital, in terms of balance, forecasts and periodical monitoring, is also determined –on the basis of measurements from the Risk Management Area- by Planning in conjunction with the corporate bodies of each legal entity, with specific reports prepared according to the individual business lines of the banks included in the scope of consolidation. The reports are submitted to the Parent Company's Risk Committee for approval.

The Overall Economic Capital is calculated by the Risk Management Area of the Parent Company through the application of a suitable method of integration and results from the combined measurement of each risk factor listed. The measurements are standardised both in terms of time horizon (yearly holding period) and selected confidence interval (99.93%) - in line with the Montepaschi Group's target rating – and are subject to intra-risk and inter-risk diversification processes.

The methodologies at the basis of integration are founded upon the principle that the overall internal capital needed to cover the Group's exposure to all risks, does not simply involve adding up the individual risks (building block approach). This principle lies in the imperfect correlation among the risk factors. The joint impact of all risk factors is usually less severe for the reason that, because they are not perfectly correlated, benefits may emerge from diversification.

The initial risk integration methodologies used by the Montepaschi Group were based upon the 'variance-covariance' approach.

As of 2009, the an integration methodology continued to be fine-tuned based on a multivariate "Student t-copula" approach has been adopted. Against a simpler and less expensive implementation in terms of IT software and calculation times, the variance-covariance model is penalised by extremely strong underlying methodological assumptions (all marginal distributions and the joint distribution of losses follow a Normal distribution pattern) and does not correctly capture the tail dependences which are, on the other hand, fundamental to determining Economic Capital with the percentiles normally used for this type of analysis.

Using the actual loss data observed, the "Student t-copula" model is capable of more efficiently modelling the correlation among risk factors, without making assumptions on the marginal distributions and more appropriately capturing the tail dependences (and therefore the extreme episodes of joint losses simultaneously linked to the different risks.). In addition to being more robust, this approach also results as being more prudential.

In order for this model to be implemented, it was necessary to retrieve and reconstruct the time series of risk factor-induced losses and engineer an IT and computational infrastructure capable of producing this kind of data. The final output reveals the Overall Economic Capital or the Overall Internal Capital at Group-level, broken down by the different risk type, Legal Entity and business unit, indicating the impact of inter-risk diversification with respect to the building block approach which, on the other hand, does not entail quantification. The calculation, analysis and reporting frequency with which the Group's Economic Capital is measured currently stands at one month. The table below illustrates the salient features of the individual internal models adopted by risk type, with the final column showing the processing within a logic of risk integration for the purpose of calculating Economic Capital.

Main characteristics of models

Type of risks	Measure	Model	Risk factors	Correlation	Economic Capital Treatment
Performing loans	1 Y 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	3 M VaR, 99%	Montecarlo VaR	Volatility in stock prices and comparable indices	Correlations between Stock prices Correlation between proxy indices	1 Y, 99.93%, t-Student Copula
Market (Banking Book)	1 Y, shift 25bp sensitivity	Maturity Gap	Bucketing on parallel and twist shift nodes of Interest rates		1 Y, 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	1 Y, 99.93%, t-Student Copula
Operational	1 Y 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	1 Y EaR 99%	Parametric EaR	Volatility of costs and revenues	Correlation between costs and revenues	99.93%, t-Student Copula
Real Estate	1 Y 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 the 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.

1.15 Stress Test Analyses

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. Stress testing is commonly described as "the set of quantitative and qualitative techniques with which banks assess their vulnerability to exceptional but plausible events". The objective is thus to evaluate the impact of a "state of the world" that is considered extreme, but which, despite a low probability of occurrence, may generate significant economic consequences for the Group.

Among the events considered plausible for the definition of tension-inducing scenarios, the following are to be taken into consideration:

- 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 and recurrence;
- discretionary scenarios: assumptions are made of shocks due to a combination of risk factors which may emerge in the near future, depending on the foreseeable environmental, social and economic developments.

Under 'exceptional events', low-frequency circumstances are considered, whose occurrence would have an extremely serious impact on the banking Group.

Within this area, 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 test 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 loan book 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.

With regard to Operational Risk, appropriate historical scenarios are defined, which are relevant in terms of both severity and frequency. In this way, it is possible to evaluate the Group's vulnerability to

exceptional events - in the case of severity - and plausible events, in terms of frequency.
As for Market Risk, stress tests consist in the definition of historical scenarios (main crises historically observed in international markets), or discretionary, isolating those components towards which the Group is particularly exposed and, therefore, more vulnerable. These stress events are applied and simulated upon Equity, Credit Spread, Forex and Interest Rate on a daily basis.
In terms of Counterparty, Concentration and Issuer Risk, a stress scenario has been defined that is consistent with the scenario used for Credit Risk. It is noted that a market stress event for EAD is also applied to Counterparty Risk based on a discretional scenario of changes in market drivers.
For Equity Investment, Business and Real Estate risk, on the other hand, sensitivity tests are defined with respect to specific, appropriately identified risk factors, thus determining scenarios of maximisation of historical volatility for the indices of reference.
With regard to Interest Rate Risk in the Banking Book, stress scenarios are defined and differentiated shocks are applied to the individual nodes of the curves for the terms of reference.
The results from the stress tests 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.

1.16 The Risk Disclosure Process

An effective Risk Management Process involves the setting up of a specific Risk Disclosure sub-process, with the intent to properly produce, distribute and communicate risk data to all relevant parties with appropriate timing and methods. This is, first and foremost, an internal management need for every bank, both with regard to awareness of corporate issues and in terms of input needed to make appropriate management choices when it comes to governance.
The importance of formalising an adequate internal process for the communication of relevant data is explicitly required by national legislation (see for ex. Bank of Italy's "Circular Letter no. 263/2006" and "Supervisory Provisions concerning Banks' Organisation and Corporate Governance" and by the main international bodies for the purpose of increasing the awareness of corporate bodies with regard to risk management at banking group level.
With regard to the Risk Disclosure Process, the Montepaschi Group has, over the years, prepared an overall framework of reference, through the following organisational and governance solutions:

- regulations governing the operations of the Parent Company's Risk Committee, with the explicit intention to regulate communication to the BoD of the documents discussed and the major decisions taken;
- regulations envisaging adequate risk reporting to be incorporated, for internal and external purposes, in all major Group directives concerning Risk, Internal Models, Financial Accounting and Public Disclosure.
- Furthermore, in the course of 2009 the BoD of the Parent Company issued a specific resolution, which established that an additional risk information flow be addressed, at least once a month, to the Chairman of the BoD, the Internal Controls Committee and the CEO with a summary of these risk reports being submitted to the BoD at least on a quarterly basis. This reporting flow should be intended as forming part of the Risk Management Division's regular disclosure on risk control. In this way, the intention was to further reinforce the risk communication process towards the Group's senior management.

The Risk Management Division includes the Risk Management Staff, who have the task of supervising, developing and coordinating the Group's Risk Disclosure Model, through the identification of all relevant players, systems, processes and reports. The Model is structured into two levels. At a first level:

- each Service of the Risk Management Area produces and validates its own Risk metrics based on its internal management models and autonomously governed procedures;
- each Service of the Risk Management Area produces its own operating Risk Reporting for internal operating purposes (i.e. validation report, control of operating limits) and for reconciliation with the BUs.

On a second level, the Risk Management Staff: starts from results produced by the Risk Management Area and:

- summarises the Management Risk Reporting for internal and external purposes
- integrates the Management Risk Reporting with "key risk messages" highlighting issues of particular/critical significance, for submission to the Top Management and other Corporate Bodies;
- interfaces with Investor Relations, units under the relevant Manager in charge/CFO, the General Secretariat and Corporate Affairs Area on risk reporting issues

By way of example, some salient features of the *"Parent Company's Risk Committee Disclosure"* process are reported below.

Pursuant to Regulation no. 1 of Banca MPS, the Parent Company's Risk Committee is, inter alia, entrusted with the task of *"[…] preparing the risk management policies to be submitted to the BoD, assessing the Group's risk appetite, in line with the Group's annual and multiannual value creation objectives, verifying and monitoring the overall risk trends and the comprehensive compliance with the limits set at the various levels of operations. In* *particular, [the Risk Committee] reviews the reports prepared by the functions in charge of positions exposed to the different risk factors measured and to the absorption of regulatory and economic capital [...]. It ensures that a comprehensive risk measurement and reporting system is maintained over time, through the production of appropriate management and operational reports".*

Business management for the Committee is taken care of by the Risk Management Area. The Committee's main resolutions and a summary of its findings are later submitted to the BoD by way of a regular communication process.

Within the framework of all information flows directed to the Risk Committee, at least one Group-wide Report is envisaged to be drafted specifically by the Risk Management Division (hereinafter the "Risk Management Report") with the following items being its main focus.

With regard to the operational Economic Capital, analyses are carried out in order to:

- quantify and determine the absorption of the Montepaschi Group's diversified Economic Capital by risk factor and Bank/BU;
- compare against previous months;
- compare against budgeted risk appetite

As far as Credit Risk is concerned, analyses are mainly conducted on the following:

- risks of the performing and defaulting loan portfolio by Legal Entity, Client Segment, Master Scale and Industrial clusters;
- trends in the risks of the performing and defaulting loan portfolio;
- *quality breakdown* of the risks of the performing loan portfolio and composition of the defaulting loan portfolio;
- geographical and sectorial concentration analysis into different areas of economic activity.

With respect to **Assets & Liabilities Management and Liquidity risk**, analysis is mainly conducted on the following:

- impact on the economic value (Sensitivity), by Legal Entity, BU, curve bucket;
- analysis of Liquidity Risk and Stress Testing;
- analysis of on demand accounts;
- monitoring of operating limits.

As for **Trading Book Market Risk**, analyses are mainly focused on:

- trends in the market risk profile of the Group's Trading Book: operational VaR and actual backtesting;
- VaR disaggregation by Legal Entity and Risk Factor, diversified and non diversified VaR;
- main portfolio exposures; analysis of issuer risk; analysis of concentration risk; monitoring of operating limits.

In terms of **Operational Risk,** analyses are mainly conducted on the following:

- data on losses (quantitative information);
- major-impact losses tracked in the quarter and analysis of causes;
- operational VaR analysis on different regulatory event types.

On a quarterly basis, the Risk Management Report is integrated with a specific section on the monitoring of risks associated with investment products/services for customers. In particular, this section illustrates the risk profile of -and products held by- customers, according to the internal classification and service model adopted by the Montepaschi Group. Details of volumes under management or custody are provided, with a special focus on products included in MPS' active offerings. Portfolio advisory insight is also given into recommended optimal asset allocation as well as into the outcomes of portfolio adequacy checks and wealth management monitoring.

As needed, the Risk Management Report is integrated with specific points/issues of attention (i.e. Equity Investment Portfolio Risk Analysis, "ad hoc" simulations, Scenario analyses /Stress tests, etc.).

The report also provides information with regard to progress made by the relevant units on main projects underway, as well as regulatory updates and in-depth reviews of primary topics of interest that, on a case by case basis, result as being of particular importance.

The basic contents of the Report enable the Risk Committee to gain a sufficiently complete – though concise – overview of the Montepaschi Group's main risks, highlighting any possible vulnerabilities in the overall risk profile and its development over time, risk concentration in specific segments or Business Units, tensions in terms of 'erosion' of the operating limits delegated to the BoD, exposures to new markets/risk factors. Analysis of the actual Economic Capital, in particular, makes it possible to assess the actual and prospective absorption at both cumulative level and with regard to each individual risk factor, even with reference to Second Pillar risks which fall within the assessment of Group Capital Adequacy for ICAAP purposes.

Reporting is subject to continuous improvement with a view to making it increasingly more in line with control, operating guidance and corporate governance requirements.

1.17 Governance of the 'Pillar 3 (Third Pillar of Basel 2) – Disclosure to the Public' process

The process of the Third Pillar of Basel 2 ("Pillar3 - Disclosure to the Public") is internally regulated and governed by the Montepaschi Group in Regulation no. 1 of the Parent Company and a specific Group Directive.

The BoD, in its capacity as the Group's **Strategic Supervision Body**:

- defines the Disclosure to the Public process;
- approves the organisational procedures and units identified, as well as Group guidelines on the definition of the table contents;
- approves periodic updates to the Pillar3 Report.

With regard to the Pillar 3 Disclosure production process, the **Managing Body**, represented by the Parent Company's General Management:

- defines the objectives, roles and responsibilities of the Group's units involved in the process;
- submits periodic Pillar3 report updates to the BoD.

The Pillar3 Report production process incorporates the following phases:

- Report definition;
- periodic drafting of the Report;
- data quality and overall consistency checks;
- Report approval and publication.

The Risk Disclosure Staff of the parent Company's Risk Management Area is responsible for the overall supervision and general coordination of the above-described process and for the final drafting of the Report. To this end, it avails itself of support from the following functions: Balance Sheet, Supervisory Reporting, Capital Adequacy Control and all other designated Group functions which contribute to and validate the information falling within their spheres of competence.

In the Montepaschi Group, a statement of responsibility by the Chief Reporting Officer is envisaged for the Pillar3 Report.

With regard to the validation and approval process, the Pillar3 Report as a whole is shared by and between the Risk Management Area, the CFO and the Chief Reporting Officer. It is later forwarded to the CEO and eventually to the BoD for final approval.

Once BoD approval is obtained, the Report is published on the Montepaschi Group's website, as provided for by supervisory regulations.

The coordination function supports Investor Relations on Pillar3 related issues and collaborates in dealing with any feedback from the Market on these issues. The Parent Company's Risk Committee is informed of any irregularities detected in the review phase while drafting the Pillar3 Report.

In accordance with external provisions and with the internal controls system model adopted by the Montepaschi Group, the Internal Audit Area periodically reviews the entire process, with a view to verifying its set-up and making sure that implementation is appropriate and effective and results are correct.

Table 2 - Scope of application

Qualitative information

The disclosure contained in this document (Disclosure to the Public) refers solely to the Monte dei Paschi di Siena "Banking Group" as defined by Supervisory provisions. It is noted no restrictions or other impediments exist that may prevent a prompt transfer of regulatory capital or funds within the Group.

In compliance with supervisory provisions, there being no capital deficiencies at consolidated level, the individual capital requirement for the Group banks is reduced by 25%.

It is further noted that no non-consolidated entities are included

Quantitative information

The following table reports all entities included in the scope of consolidation as at 31.12.2012. in the Montepaschi Group.

Table 2.1 - Scope of consolidation as at 31.12.2012

	Registered office	Sector	Shareholding %	Type of relationship (a)	% voting rights (b)	Treatment in the Balance Sheet	Treatment for Supervisory purposes
AIACE REOCO S.r.l.	Siena	Real estate	100.00	1	100.00	Full	Full
ANTONVENETA CAPITAL LLC I	Delaware	Financial vehicle	100.00	1	100.00	Full	Full
ANTONVENETA CAPITAL LLC II	Delaware	Financial vehicle	100.00	1	100.00	Full	Full
ANTONVENETA CAPITAL TRUST I	Delaware	Financial vehicle	100.00	1	100.00	Full	Full
ANTONVENETA CAPITAL TRUST II	Delaware	Financial vehicle	100.00	1	100.00	Full	Full
BANCA ANTONVENETA S.p.a	Padova	Banking	100.00	1	100.00	Full	Full
BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Siena	Banking				Full	Full
BANCA MONTE PASCHI BELGIO S.A.	Bruxelles	Banking	100.00	1	100.00	Full	Full
CIRENE FINANCE S.r.l	Conegliano	Special purpose vehicle	60.00	1	60.00	Full	Full
CONSORZIO OPERATIVO GRUPPO MPS	Siena	IT and Informationservices	99.91	1	99.91	Full	Full
CONSUM.IT S.p.a	Firenze	Consumer credit	100.00	1	100.00	Full	Full
ENEA REOCO S.r.l.	Siena	Real estate	100.00	1	100.00	Full	Full
G.IMM.ASTOR S.r.l	Lecce	Real estate renting	52.00	1	52.00	Full	Full
IMMOBILIARE VICTOR HUGO S.C.I.	Parigi	Real estate	100.00	1	100.00	Full	Full
INTEGRA S.p.a	Firenze	Consumer credit	50.00	7	50.00	Proportional	Proportional
MAGAZZINI GENERALI FIDUCIARI MANTOVA S.p.a	Mantova	Deposit and custodywarehouses (for third parties)	100.00	1	100.00	Full	Full
MANTEGNA FINANCE S.r.l *(in liquidazione)*	Mantova	Special purpose vehicle	100.00	1	100.00	Full	Full
MONTE PASCHI BANQUE S.A.	Parigi	Banking	100.00	1	100.00	Full	Full
MONTE PASCHI CONSEIL FRANCE SOCIETE PAR ACTIONS SEMPLIFIEE	Parigi	Financial Intermediary	100.00	1	100.00	Full	Full
MONTE PASCHI FIDUCIARIA S.p.a	Siena	Trust company	100.00	1	100.00	Full	Full
MONTE PASCHI INVEST FRANCE SOCIETE PAR ACTIONS SEMPLIFIEE	Parigi	Financial Intermediary	100.00	1	100.00	Full	Full
MONTE PASCHI IRELAND LTD	Dublino	Financial activity	100.00	1	100.00	Full	Full

Table 2.1 – Scope of consolidation as at 31.12.2012 *(continued)*

	Registered office	Sector	Shareholding %	Type of relationship (a)	% voting rights (b)	Treatment in the Balance Sheet	Treatment for Supervisory purposes
MONTEPASCHI LUXEMBOURG S.A.	Bruxelles	Financial vehicle	100,00	1	100,00	Full	Full
MPS CAPITAL SERVICE BANCA PER LE IMPRESE S.p.a	Firenze	Banking	99,92	1	99,92	Full	Full
MPS COVERED BOND S.r.l	Conegliano	Special purpose vehicle	90.00	1	90.00	Full	Full
MPS COVERED BOND S.r.l	Conegliano	Special purpose vehicle	90.00	1	90.00	Full	Full
MPS GESTIONE CREDITI S.p.a.	Siena	Credit recovery management	100.00	1	100.00	Full	Full
MPS IMMOBILIARE S.p.a	Siena	Real estate	100.00	1	100.00	Full	Full
MPS LEASING E FACTORING S.p.a.	Siena	Leasing e factoring	100.00	1	100.00	Full	Full
MPS PREFERRED CAPITAL I LLC	Delaware	Financial vehicle	100.00	1	100.00	Full	Full
MPS PREFERRED CAPITAL II LLC	Delaware	Financial vehicle	100.00	1	100.00	Full	Full
MPS TENIMENTI POGGIO BONELLI e CHIGI SARACINI SOCIETÀ AGRICOLA S.p.a	Siena	Wine industry	100.00	1	100.00	Full	Consolidated at Equity

(a) 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 Decree 87/92
6 unified management under art. 26.2 of Decree 87/92
7 joint control
(b) Actual voting rights in ordinary shareholders' meetings.

Table 3 – Regulatory capital structure

Qualitative disclosure

The regulatory capital and capital ratios are calculated on the basis of capital and P&L results as determined by applying the IAS/IFRS international accounting principles and taking account of the Supervisory instructions issued by the Bank of Italy in the thirteenth update to Circular no. 155/91 "Instructions for preparing reports on regulatory capital and prudential ratios" and in the sixth update to Circular no. 263/06 "New Regulations for the Prudential Supervision of Banks".

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 the potential volatility induced by IAS/IFRS application.

The elements that constitute the regulatory capital need to be readily available to the Group, for them so that they may be used to absorb risks and corporate losses, with no limitation. These components need to be stable and their amount is stripped of any tax charges.

Regulatory capital is made up of basic capital and supplemental capital. Both core capital (Tier 1) and supplementary capital (Tier 2) are determined as the algebraic sum of all of their positive and negative items, subject to prior consideration of the so-called "prudential filters". This expression is understood as all those positive and negative items adjusting regulatory capital, introduced by regulatory authorities with the express purpose of reducing the potential volatility of capital. Deduction of the elements described in Table 3.1.1. must be taken from core and supplementary capital (50% from Tier 1 and 50% from Tier 2 capital).

Tier 1 capital

The main contractual characteristics of the innovative and non-innovative instruments which, together with share capital and reserves, are included in the calculation of Tier 1 capital, are summarised in the following table:

Features of subordinated instruments

Type of instrument	Interest rate	Step Up	Issue date	Maturity	Prepayment starting from	Curr.	Original amount in currency units	Contribution regulatory capital (euro/ thousands)
F.R.E.S.H. (Floating Rate Exchangeable Subordinated Hybrid)	Euribor 3m + 88 bps	NO	30/12/2003	N.A.	(a)	EUR	700,000	28,622
Capital Preferred Securities I^ tranche	Euribor 3m + 6,3%	YES	21/12/2000	N.A.	(b)	EUR	80,000	54,048
Capital Preferred Securities II^ tranche	Euribor 3m + 6,3%	YES	27/06/2001	N.A.	(b)	EUR	220,000	106,503
Preferred Capital I LLC	Euribor 3m + 6,3%	YES	07/02/2001	07/02/2031	(c)	EUR	350,000	241,133
"Tremonti bond"	9%	YES	30/12/2009	N.A.	(d)	EUR	1,900,000	1,900,000
Total Preference share and capital instruments (Tier I)								**2,330,306**

*(a) **F.R.E.S.H.** (Floating Rate Equity-linked Subordinated Hybrid) instruments, issued by vehicle "MPS Preferred Capital II LLC" for a nominal value of EUR 700 mln, are perpetual innovative instruments with no repayment or step-up clauses, which 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 investor request. In addition, an automatic conversion clause is provided for in the event that, after the seventh year from the issue date, 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 Parent Company 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 Bank, the rights of the investors will be subordinated to all of the Parent Bank's creditors who are not equally subordinated, including holders of securities coming under Tier 2 capital and will override the rights of Parent Bank'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 Bank underwrote an on-lending contract as a contract of subordinated deposit. The conditions of the on-lending agreement are substantially the same as the conditions of the convertible preferred securities.

*(b) **Securities are non-redeemable.** A total and partial repayment option of the notes is exclusively provided for in favour of the issuer, exercisable respectively after 21/03/2011 and 27/09/2011. In July 2012, the two instruments were exchanged for fixed rate senior notes at a price of 62.00 as part of the above offer, for a nominal amount of EUR 25.1 and 111.7 mln respectively.*

*(c) **Preference shares,** (CPS), amounting to a nominal value of EUR 350 mln, are non-redeemable securities. In July 2012, the instrument was exchanged for fixed rate senior notes at a price of 62.00, for a nominal amount of EUR 107.4 mln.*

*(d) **Tremonti Bonds** are "Convertible financial instruments" issued by the Parent Bank pursuant to Art. 12 of Legislative Decree No. 185 of 28 November 2008, converted, with amendments, by Law No. 2 of 28 January 2009 ("Legislative Decree No. 185") on 30 December 2009 and subscribed by the Ministry of Economy and Finance (MEF). The interest recognised in 2012 was 9% of the nominal value, owing to ‚the issue of New Financial Instruments (NFIs) in February 2013.*

Tier 2 capital

The following sections set out in tabular form the main contractual characteristics of the hybrid capital instruments and subordinated liabilities that contribute to supplementary capital.

Features of subordinated instruments

Type of instrument	Interest rate	Step Up	Issue date	Maturity	Prepayment starting from	Curr.	Original amount in currency units	Contribution regulatory capital (euro/ thousands)
Subordinated bond loan	4,875% fixed	NO	31/05/06	31/05/2016	(*)	EUR	750,000	589,370
Subordinated bond loan	5,750% fixed	NO	31/05/06	30/09/2016	(*)	GBP	200,000	88,770
Subordinated bond loan	Euribor 6m+ 2,50%	NO	15/05/08	15/05/2018	(*)	EUR	2,160,558	1,980,955
Total Hybrid Instrument (Upper Tier II)								**2,659,095**
Subordinated bond loan	CMS Convexity Notes	NO	07/07/00	07/07/2015	(*)	EUR	30,000	18,000
Subordinated bond loan	CMS Volatility Notes	NO	20/07/00	20/07/2015	(*)	EUR	25,000	15,000
Subordinated bond loan	5,6 % fixed	NO	09/09/10	09/09/2020	(*)	EUR	500,000	378,650
Subordinated bond loan	Euribor 3m+0,40 % until 30/11/2012, then Euribor 3m+1%	YES	30/11/05	30/11/2017	30/11/2012	EUR	500,000	367,098
Subordinated bond loan	Euribor 3m+0,40 % until 15/01/2013, then Euribor 3m+1%	YES	20/12/05	15/01/2018	15/01/2013	EUR	150,000	103,694
Subordinated bond loan	7,44% fixed	NO	30/06/08	30/12/2016	(*)	EUR	250,000	177,045
Subordinated bond loan	6,4% until 31/10/2013, then Euribor 3m + 3%	YES	31/10/08	31/10/2018	31/10/2013	EUR	100,000	123,009
Subordinated bond loan	7% fixed	NO	04/03/09	04/03/2019	(*)	EUR	500,000	500,000
Subordinated bond loan	5% fixed	NO	21/04/10	21/04/2020	(*)	EUR	500,000	368,700
Bond loan	Adjustable	NO	30/09/03	30/09/2013	30/09/2008	EUR	7,000	1,400
Subordinated debt	Euribor 3m + 2,8%	NO	10/10/06	10/10/2016	10/10/2011	EUR	400,000	320,000
Total Calculable Subordinates (Lower Tier II)								**2,372,596**
Total Hybrid Instruments e Calculable Subordinates in Tier II								**5,031,691**

(*) No pre-payment clauses are provide for

At the end of 2012, there were no instruments eligible for inclusion in Tier 3.

Quantitative disclosure

Table 3.1 – Breakdown of regulatory capital

	dec-12	dec-11 (*)
Total Tier 1 positive items	14,162,029	19,248,250
Total Tier 1 negative items	-4,469,451	-7,739,811
Total items to be deducted	-775,210	-672,291
Tier 1 capital (Tier 1)	**8,917,368**	**10,836,147**
Total Tier 2 positive items	5,324,651	6,058,411
Total Tier 2 negative items	-103,414	-23,167
Total items to be deducted	-775,210	-672,291
Tier 2 capital (Tier 2)	**4,446,027**	**5,362,954**
Items to be deducted from Tier 1 and Tier 2 capital	-563,560	-502,416
Regulatory Capital	**12,799,835**	**15,696,685**
Tier 3 capital (Tier 3)	**-**	**-**
Regulatory Capital inclusive of Tier 3	**12,799,835**	**15,696,685**

(*) With respect to accounts published in the Pillar 3 Disclosure as at 31.12.2011, values as at 31.12.2011 are reflective of changes described in the paragraph "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)".

In 2012 Regulatory Capital (inclusive of Tier 3) decreased by approximately EUR 2,896.8 mln (-18.5%), down to EUR 12,799.8 mln from EUR 15,696.7 mln at the end of 2011.
The decrease in Regulatory Capital can be traced back to a decrease in Tier 1 and Tier 2, respectively by EUR 1,918.78 mln and 916.93 mln, as well as to a slight increase in items deductible from Tier 1 and Tier 2 by approximately EUR 61.1 mln.
The decrease in Tier 1 is largely attributable to the loss for the year for the portion in excess of the impairment charge on goodwill and other intangible assets. The reduction in Tier 2 is instead largely due to the buyback of own liabilities as well as to the amortisation required by supervisory regulations.
In 2012, there were no instruments qualifying as Tier 3 capital.
Under the measures set forth by the Bank of Italy on 18 May 2010 regarding prudential filters for regulatory capital, the Group opted for the symmetrical treatment of revaluation reserves relating to debt securities issued by Central Governments of EU countries held in the "Available for Sale" portfolio. Consequently, for these securities, the impact of changes in AFS reserves upon regulatory capital as of 1 January 2010, amounting to approximately Euro 2,692.6 mln, has been

completely sterilised.

The regulatory capital quantified at 31 December 2012 also takes into account the items introduced by banks which apply internal models for the determination of capital requirements in view of credit and operational risks. Among such corrections we must mention the adjustments to be made directly to capital due to the differences resulting between overall impairment losses on loans and the respective expected losses quantified according to the criteria of internal models. For the Montepaschi Group, since expected losses exceed net loan loss provisions in "Exposures to corporates", the difference was deducted by 50% from Tier 1 capital and 50% from Tier 2 capital. Conversely, since net loan loss provisions exceed expected losses in the portfolio of "Exposures to natural persons", the difference in absolute terms was included among the positive items of supplementary capital within the limits of 0.6% of RWAs. Details are shown in table 3.1.1. The following table illustrates the constituents of Tier 1 and Tier 2, with a focus on the Group's most relevant aspects.

As explained in the introduction, data as at 31 December 2011 reported in the following tables has been subject to retrospective correction and is thus slightly different from that published in the Pillar 3 Disclosure document as at 31 December 2011. Please refer to the paragraph "Restatement of prior period accounts" for further details.

Table 3.1.1 – Breakdown of Tier 1 and Tier 2 Capital

	dec-12	dec-11 (*)
Share capital	7,485,338	6,769,881
Share premium	255,311	4,131,276
Reserves	4,091,074	5,783,156
Innovative capital instruments and non-innovative capital instruments with final expire	401,684	622,676
Non innovative capital instruments	28,622	28,622
Capital instruments subject to transition requirements (Grandfathering)	-	12,639
Profit for the period	-	-
Prudential filters: decreases in Tier 1 capital	1,900,000	1,900,000
Total Tier 1 positive items	**14,162,029**	**19,248,250**
Treasury shares	-24,532	-26,461
Goodwill	-728,255	-2,312,795
Other intangible assets	-465,628	-676,688
Loss for the period	-3,191,919	-4,697,804
Other negative items	-	-
Prudential filters: decreases in Tier 1 capital	-59,117	-26,063
Total Tier 1 negative items	**-4,469,451**	**-7,739,811**
Shareholdings in credit and financial institutions with a share of ≥ 20% of the equity of the investee	-98,035	-92,687
Shareholdings in credit and financial institutions with a share of > 10% but <20% of the equity of the investee	-25,099	-31,248
Shareholdings in credit and financial institutions with a share of ≤ 10% of the equity of the investee	-	-
Shareholdings in insurance companies	-39,294	-39,990
Surplus of expected losses in respect of related write-downs	-612,782	-508,366
Total items to be deducted	**-775,210**	**-672,291**
Total Tier 1 capital	**8,917,368**	**10,836,147**

(*)With respect to accounts published in the Pillar 3 Disclosure to the Public as at 31.12.2011, values as at 31.12.2011 are reflective of changes described in the paragraph "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)".

Table 3.1.1 – Breakdown of Tier 1 and Tier 2 Capital *(continued)*

	dec-12	dec-11 (*)
Valuation reserve	270.195	112.697
Innovative capital instruments and non-innovative capital instruments with final expire not eligible for inclusion in Tier 1 capital	-	-
Non-innovative capital instruments not eligible for inclusion in Tier 1 capital	-	-
Hybrid capital instruments	2.659.096	3.008.209
Subordinated liabilities	2.372.596	2.937.506
Other positive items	22.765	-
Total Tier 2 positive items	**5.324.651**	**6.058.411**
Other negative items	-2.540	-1.314
Prudential filters: deductions from Tier 2 capital	-100.874	-21.853
Total Tier 2 negative items	**-103.414**	**-23.167**
Shareholdings in credit and financial institutions with a share of ≥ 20% of the equity of the investee	-98.035	-92.687
Shareholdings in credit and financial institutions with a share of > 10% but <20% of the equity of the investee	-25.099	-31.248
Shareholdings in insurance companies	-39.294	-39.990
Surplus of expected losses in respect of overall write-downs value adjustments	-612.782	-508.366
Total items to be deducted	**-775.210**	**-672.291**
Total Tier 2 capital	**4.446.027**	**5.362.954**
Items to be deducted from Tier 1 and Tier 2 capital	-563.560	-502.416
Regulatory Capital	12.799.835	15.696.685
Tier 3 Capital	-	-
Regulatory Capital inclusive of Tier 3	**12.799.835**	**15.696.685**

(*) With respect to accounts published in the Pillar 3 Disclosure as at 31.12.2011, values as at 31.12.2011 are reflective of changes described in the paragraph "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)".

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 (loss) for the period; added to these items are the positive prudential filters represented by the issuance of "Tremonti bonds". In fact, the Group has participated in the initiative brought about by the Ministry of Economy and Finance, aimed at ensuring an adequate flow of financing to the economy and an adequate level of capitalisation to the banking system. Pursuant to Art. 12 of Legislative Decree No. 185 of 28 November 2008, transposed, as amended, into Law no. 2 of 28 January 2009 ("Legislative Decree No. 185"), on 30 December 2009 the Group issued "Convertible financial instruments" ("Tremonti bonds") subscribed by the Minister of Economy and Finance (MEF).

The **negative items** in the Tier 1 capital, on the other hand, include: treasury shares in the portfolio, intangible assets (including goodwill), any losses posted in previous years and in the current period, and the net negative balance of the reserves for assets available for sale. With a specific regard to the treatment of AFS reserves under regulatory capital, this includes the prior offsetting of reserve balances - calculated net of tax if any - for debt securities on the one hand and equity securities on the other. Each of the two net balances determined in this way is, if negative, entirely deducted from Tier 1 while, if positive, is computed 50% in Tier 2. This treatment, defined as an asymmetric approach, was the only one applicable to AFS reserves by Italian banks until the end of 2009. In 2010, under the measures "Regulatory capital - prudential filters" of 18 May 2010, the Bank of Italy offered the possibility of opting for symmetrical treatment on debt securities issued by Central Governments of EU countries, as per CEBS guidelines which provide for the full neutralisation of AFS reserves for the purposes of regulatory capital. The decision by Italian banks to opt for the symmetric approach, therefore, involves sterilisation of the impacts from positive and negative AFS reserves - formed as of 2010 - on regulatory capital relating to debt securities issued by the Central Governments of EU countries. The Montepaschi Group opted for the symmetric approach.

Among the negative prudential filters noted in the Tier 1 capital, the following are worth mentioning:

- the net accrued capital gain (write-down of liabilities), net of tax effects, relative to hybrid capitalisation instruments and subordinated debt issued by the Group, classified among financial liabilities valued at fair value and computed in Tier 2.

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, the criteria for the determination of which are indicated below:

- equity investments and other items (innovative capital instruments, hybrid capitalisation instruments and subordinate debt) issued by banks and financial firms not fully or proportionately consolidated are deducted 50% from core capital and 50% from supplementary capital. The regulations previously in force provided instead for deducting that aggregate from the sum of core and supplementary capital;
- the use of internal models for the determination of capital requirements in against credit risks entails identifying in the regulatory capital the difference between expected losses and net impairment losses; if the expected losses exceed the impairment losses, the difference is deducted 50% from the Tier 1 capital and 50% from the supplementary capital; if the expected losses are lower than the net impairment losses, the difference is computed in the supplementary capital within the limit of 0.6% of credit risk weighted assets;
- the equity investments held in insurance companies and the subordinate debt issued by such companies are deducted 50% from Tier 1 and 50% from Tier 2 when they have been acquired after 20/07/2006; if they were acquired prior to that date, on the other hand, they continue to be deducted from the sum of the core and supplementary capital until 31/12/2012.

As far as supplementary capital is concerned, the positive items comprising it include valuation reserves, hybrid capitalisation instruments, subordinated debt and the positive net balance of reserves for assets available for sale.

The negative items include the negative prudential filter proportionately at 50% of the positive balance of the AFS reserve computed among the positive items of the supplementary capital; in fact, these reserves are computed 50% in the 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.

As far as prudential filters are concerned, it is also worth mentioning the following:

- for hedging transactions, the profits and losses not realised on cash flow hedges, recognised in the appropriate reserve under shareholders' equity, are not computed in the regulatory capital
- as to fair value option liabilities of natural hedge both unrealised capital gains and capital losses recorded in the profit and loss account are fully relevant except for the component due to changes in its creditworthiness;

- the equity investment in the Bank of Italy is not considered for purposes of quantifying capital and therefore the respective capital gain deriving from valuation at fair value is not computed in the reserves for instruments available for sale.

Table 4 – Capital adequacy

Qualitative information

The capital management activity involves all the policies and choices necessary to define the size of capital and the optimum combination between different alternate capitalization instruments, so as to ensure that the amount of capital and related ratios are consistent with the risk profile assumed observe regulatory requirements. From this standpoint, Group-wide capital management has become increasingly more fundamental and strategic, taking into account that the quality and sizing of capital resources of the individual companies belonging to the Group are defined as part of the more general objectives of the Group itself.

The Group is subject to the capital adequacy requirements established by the Basel Committee according to the rules defined by the Bank of Italy ("New prudential supervisory instructions for banks," 11th update of Circular 263 of 27 December 2006 and "Instructions for preparing reports on regulatory capital and prudential ratios", 14th update of Circular No. 155/91).

Based on such rules, the ratio between 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. At the individual level, for banks belonging to a banking group, it is provided that the requirements in terms of credit, market, counterparty and operational risk are reduced by 25%, subject to meeting the afore-mentioned overall capital requirement of 8% on a consolidated basis.

Along with the observance of mandatory minimum capital ratios ("pillar one"), regulations require the use of internal methodologies aimed at determining current and future capital adequacy ("pillar two"). In fact, the existence of "pillar two", along with the mandatory minimum ratios, expands the concept of capital adequacy, which takes on a more global connotation aimed at the overall verification of capital needs and sources actually available, consistent with the strategic and development objectives of the Group itself.

For the purpose of ensuring continual and effective oversight of all aspects of capital adequacy, the Group recently introduced a Capital Adequacy Function, which plays a direct and coordinating role in monitoring the Group's capital adequacy. The function aims to:

- continuously coordinate the different activities carried out by other functions which directly or indirectly generate different impacts on current and future capitalisation levels;
- monitor capital level on an ongoing basis;
- implement effective capital management processes.

All of this occurs in accordance with formalised rules of governance, in line with regulations provided for by the Bank of Italy and consistent with the Group's strategic and operational development. In fact, the Group has defined an independent internal process for evaluating its current and future capital adequacy, based on methodologies applied to prepare the different information contained in the consolidated ICAAP (Internal Capital Adequacy Assessment Process) report; these methodologies are aimed at both the determination of overall internal capital against a wider number of risks as compared to those in "pillar one", as well as the identification of overall capital, using Available Financial Resources (AFR) logics.

In this context, considering the transversal and pervasive nature that this process takes on both with reference to the functions of the Parent Bank and the individual legal entities, the Board of Directors of the Parent Bank approved a specific internal directive on ICAAP and additional guidelines for the self-assessment of risk management processes deemed material and significant; the resulting output of this process contributes to the final evaluation of capital adequacy.

The CFO is responsible for the ICAAP process, while the Capital Adequacy function coordinates the different functions involved and materially prepares the content of the report. Since ICAAP also requires an evaluation of future capital adequacy, the Group has implemented a structured capital simulation process, whereby it estimates future capital requirements and the associated regulatory capital ratios, the overall internal capital and the future AFRs. In addition, the outputs produced are redetermined subjecting the input variables to stress conditions, based on a hypothetical recessive scenario and prepared by the competent functions. Through this scenario, the overall impact on capital ratios is determined and the sustainability of the correlated contingency plans is evaluated.

In addition to the above-described processes, a further method of monitoring capital adequacy is the activity of capital targeting – both regulatory and operational – which the Group has adopted, together with the Capital Planning activity, for several years now; These activities are at the basis of the Risk Appetite and Capital Allocation processes.

The Capital Planning activity is geared towards identifying the dynamics of capital and regulatory ratios, in line with current and future developments of the Group's activities and in consideration of market and regulatory potential changes.

The Capital Allocation activity, on the other hand, allows for making allocation of the internal capital to the Group's different business areas and territorial divisions, to which risk-adjusted income components are also allocated; All this is aimed at determining the creation of value and performance of each business unit, which allows for guiding value creation objectives by implementing risk-return remixing procedures among the different risk-taking entities or portfolios. The Capital Adequacy function carries out a systematic analysis of Added Value on individual customers, aimed - through active management by the commercial network of inefficient capital positions - at reducing the operational absorption of internal capital, curbing the associated capital requirements and, in general, maximising the yield on portfolio assets.

Periodic activity of monitoring the regulatory ratios (“pillar one”) and the operational capital ratios (“pillar two”), together with space and time analyses of individual events that have an impact on the types of risk measured, allow for prompt intervention either through appropriate activities for redirecting the underlying operating assets or through actions on capital aggregates. All this is aimed at observance of the adequacy indices set in the Business Plan and in the annual Risk Appetite.

Furthermore, a multi-period Capital Planning framework allows for evaluating the extent to which the Group’s growth targets have been achieved, while the development of scenario or what-if analyses on capital adequacy levels, together with monitoring progress made on the achievement of capitalisation objectives, allows for an ex-ante understanding of specific operational policies and one-off operations.

In terms of action plans, observance of capital adequacy is sought through several levers, including of course those centred on the composition and level of capital (capital increases, convertible bonds, subordinate bonds, etc.), policies for optimisation and mitigation of all types of risks, such as, for example, those based on managing loans in according to the implied risk reflected by the type of counterparty or product, and, lastly, on policies for generating financing internally and related payout policies.

Quantitative information

Effective as of 2008, the Group has been calculating prudential ratios in accordance with the principles contained in the New Accord on Capital Adequacy known as Basel II; additionally, following authorization from Supervisory Authorities, the Montepaschi Group has been using internal advanced ratings-based (AIRB) models since 30 June 2008 for the calculation of capital requirements for credit and operational risks, in relation to the regulatory “Retail exposures” and “exposures to businesses” portfolio. The scope of application of the AIRB method as at today includes the Parent Company Banca MPS, MPS Capital Services Banca per le Imprese, Banca Antonveneta and MPS Leasing & Factoring. Capital requirements against credit risk for the remaining portfolios and entities of the Group are calculated according to the standardized approach. Capital requirements in relation to market risk are instead calculated for all Group entities by adopting the standardized approach. Capital ratios for Operational Risk are calculated according to the AMA – Advanced Measurement Approach for an extent equal to 95.8% of the Banking Group’s scope, as estimated on the basis of consolidated income from banking activities as at 31.12.2012. The standardized approach is used for the remaining part of the scope.

The consolidated requirement is conceived of as a sum of the individual requirements of the individual entities of the Banking Group, net of the requirements for Floor calculation.

The application of internal models is in fact allowed on condition that it is in compliance with a number of qualitative and quantitative limits set forth in the Supervisory regulations. In particular, limits are established (so-called “floors”), whereby any savings on capital obtained with internal models are subject to maximums to be parameterised with respect to the requirements calculated on the basis of previous regulations (Basel I). Such limitations are expected to be eliminated in the future, taking into account the continuous fine-tuning and consolidation of the internal models adopted. In addition to the Total Capital Ratio, expressed as a ratio between regulatory capital and risk weighted assets which, pursuant to Basel 2 regulations, must be at least equal to 8% on a consolidated level, the Group ascertains its capital soundness also by mans of its Tier 1 Ratio expressed as a ratio between Core Capital and risk-weighted assets. The following table reports the Group’s capital requirements as at 31 December 2012 and 31 December 2011, calculated as indicated above, broken down by type of risk/methodology and related capital ratios.

As explained in the introduction, data as at 31 December 2011 reported in the following tables has been subject to retrospective correction and is thus slightly different from that published in the Disclosure document as at 31 December 2011. Please refer to the paragraph "Restatement of prior period accounts" for further details.

Table 4.1- Capital requirements and capital ratios

	dec-12	dec-11 (*)
Credit Risk		
Standardised approach	2,677,649	3,395,023
Advanced Internal Rating Based approach	3,126,001	3,743,963
Total	**5,803,650**	**7,138,986**
Market Risk		
Standardised approach	483,831	547,243
Internal models approach	-	-
Concentration risk	-	-
Total	**483,831**	**547,243**
Operational Risk		
Foundation approach	31,404	46,081
Standardised approach	-	-
Advanced Measurement Approach	636,387	649,710
Total	**667,791**	**695,791**
Adjustment to capital requirements for intra-group transactions	-	-
Regulatory Capital Floor	470,968	33,497
Aggregate Capital Requirements	**7,426,240**	**8,415,517**
Risk-weighted assets	**92,828,000**	**105,193,969**
Tier 1 Ratio	**9.6%**	**10.3%**
Total Capital Ratio	**13.8%**	**14.9%**

It should be noted that the capital ratios reported herein do not take account of the New Financial Instruments.
(*)With respect to accounts published in the Disclosure to the Public as at 31.12.2011, values as at 31.12.2011are reflective of changes described in the paragraph "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)".

Total risk-weighted assets as of 31 December 2012 amounted to € 92,828 mln, reflecting an 11.8 percentage point contraction compared to the end of the previous financial year (see table 4.1). The reduction summarises the effect of multiple efficiencyboosting drivers in the risk weighting of the Montepaschi Group's exposures. The main ones include:

- disposal of Biverbanca;
- extension of the advanced model to the subsidiary, MPS Leasing & Factoring;
- dynamics in the allocation of risk assets towards less risky and/or more collateralised assets;
- increased focus on actual portfolio risks when it comes to the risk parameters used for regulatory measurement in advanced models;
- lending models that increasingly factor in stricter regulatory obligations when setting traditional objectives.

The "floor", or level below which risk-weighted assets cannot fall, is currently calibrated at 85%, as against previous 90%, for risk-weighted assets calculated on the basis of prior regulatory provisions in Basel 1. The total of risk-weighted assets includes the assets of the company "Consorzio Perimetro Gestione Proprietà Immobiliari" in line with the actions taken for calculation of regulatory capital.

At the end of 2012, the Tier 1 capital ratio was 9.6 %, while the Total capital ratio was 13.8%. The exercise conducted by the EBA on the capital requirements of Europe's major banks in the second half of 2011 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 generated a further increase of around EUR 1,935 mln in the first half of 2012:

- capital management actions: +EUR 1,071 mln from allocation to equity of the share premium reserve associated with Fresh 2008 (ca EUR 750 mln), conversion of savings shares (ca. EUR 13 mln), conversion of remaining Fresh 2003 shares (ca. EUR 308 mln);
- effects from optimisation of portfolios as at 31.12.2011 and other fine-tuning actions, +EUR 864 mln ("EBA Capital Equivalent ") obtained through:
  - reduction by EUR 6.9 bln in RWAs (developments in parameters of PD, LGD and EAD on AIRB exposures already accounted for as at December 2011, regulatory fine tuning, loan book remix);
  - reduction in the Expected Loss Delta vs. loan book provisions by approx. EUR 240 mln (only 50% impact on Tier 1).

Capital strengthening was partly offset by the negative EBA Capital Equivalent value of approx. EUR 657 mln registered by ordinary movements in capital in the 4Q 2011-1Q 2012 period (a value largely attributable to operating losses recognised at the end of

2011 and increased capital absorption for various types of risk, including credit risk in particular).

On 3 October 2012, the EBA announced that the residual capital shortfall as at 30 June 2012 amounted to EUR 1,728 mln. In agreement with the Italian Supervisory Authority and Ministry of Economy and Finance, Banca MPS has identified, as a measure to plug the shortfall, recourse to "State-aid measures" (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 27.06.2012), i.e. government-backed financial instruments subscribed by the Ministry of Economy and Finance (MEF) and included in Core Tier 1 capital.

In order to determine the number of financial instruments to be issued, consideration was given to the additional EUR 550 mln in capital benefits arising from the disposal of Biverbanca and the buyback of subordinated notes (accounted for after 30 June 2012), and to the additional shortfall arising from the negative capital impact of certain structured transactions entered into in prior years, which led to the restatement of the financial statements.

On 28 November 2012, the Board of Directors of Banca MPS thus approved the issuance of EUR 3.9 bn in government-backed financial instruments; of these, EUR 1.9 bn was allotted to the full repayment of Tremonti Bonds (financial instruments pursuant to art. 12 of Legislative Decree no.185 of 29/11/2008, converted by Law no. 2 of 28/01/2009) and the remaining amount to cover the capital shortfall from the EBA exercise.

On 28 February 2013, the issuance of New Financial Instruments (hereinafter NFIs) was completed, as provided for by articles 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 New Financial Instruments issued by the Bank for a total of EUR 4,071 mln, of which EUR 1,900 mln allocated to the full repayment of 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 operating loss posted.

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 their 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 conversion 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 underlying 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 will 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 period, 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 only, 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 the 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 the Bank's market capitalisation (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 details of capital requirements broken down by type of risk and regulatory portfolio are reported in the following tables.

Table 4.2 - Capital requirements for Credit Risk

Standardised approach	dec-12	dec-11 (*)
Exposures to central governments and central banks	15,603	5,780
Exposures to regional governments and local authorities	50,018	47,717
Exposures to non-commercial and public sector entities	65,364	56,405
Exposures to multilateral development banks	-	2
Exposures to international organisations	-	-
Exposures to supervised institutions	403,802	422,438
Exposures to corporates	845,730	1,233,447
Retail exposures	400,601	512,286
Exposures secured by real estate property	104,056	211,384
Past due exposures	141,566	218,033
High-risk exposures	57,158	107,187
Exposures in the form of covered bonds	12,196	5,255
Short term exposures to corporates	-	-
Exposures to Undertakings for Collective Investments in Transferable Securities (UCITS)	139,564	103,466
Other exposures	339,225	398,995
Securitisation exposures	102,766	72,628
Total Standardised Approach	**2,677,649**	**3,395,023**
Advanced Internal Ratings-Based approach		
Corporate exposures	2,230,408	2,589,265
Retail exposures	895,592	1,153,627
↳ *Secured by real estate property*	*461,768*	*591,486*
↳ *Qualifying revolving retail exposures*	*385*	*489*
↳ *Other exposures*	*433,440*	*561,652*
Other assets	-	1,072
Total Advanced Internal Ratings-Based approach	**3,126,001**	**3,743,963**
Total Credit Risk	**5,803,650**	**7,138,986**

The capital requirement for Counterparty Risk amounts to 234,415 EUR/thousand, and is calculated based not only on the Trading Book but also on the Banking Book.. This requirement is reported for each individual regulatory portfolio under the Standardised and Advanced IRB approach.

(*)With respect to accounts published in the Disclosure to the Public as at 31.12.2011, values as at 31.12.2011are reflective of changes described in the paragraph "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)".

Table 4.3 - Capital requirements for Market Risk

Standardised approach	dec-12	dec-11
General market risk	242,192	287,188
Specific risk*	139,120	171,935
Position risk of Undertakings for Collective Investments in Transferable Securities (UCITS)	52,965	17,719
Options	5,505	15,182
Foreign exchange risk	13,489	55,219
Commodities risk	30,558	-
Total Standardised Approach	**483,831**	**547,243**
Internal models		
Total Internal models	**-**	**-**
Concentration risk	**-**	**-**
Total Market Risk	**483,831**	**547,243**

(*) Capital requirements under Specific Risk for positions with securitisations included in the Regulatory Trading Book amounted to EUR 21,242 (in thousands of Euro) for 2012.

Table 4.4 – Capital requirements for Operational Risk

Breakdown of Operational Risk by:	dec-12	dec-11
Foundation approach	31,404	46,081
Standardised approach	-	-
Advanced approach	636,387	649,710
Total Operational Risk	**667,791**	**695,791**

Table 5 - Credit Risk: General disclosures for all banks

Qualitative information

For classification of impaired loans into the various categories of risk (non-performing, watchlist, restructured and past due exposures), the Montepaschi Group refers to the regulations issued by the Bank of Italy, as supplemented with internal provisions which set out automatic criteria and rules for the transfer of receivables from and to different risk categories.

In line with supervisory definitions, impaired loans are intended to include the following:

- loans past due;
- restructured loans or loans being restructured;
- watchlist loans;
- non-performing loans

The definition of watchlist loans, following the amendment introduced by the Bank of Italy in the course of 2008, was broadened to include loans that are more than 270 days overdue.

Loans are autonomously classified by the relevant units, except for loans more than 90 days past due and watchlist loans more than 270 days past due, which are measured using automated procedures. With regard to other defaulted loan categories, the Montepaschi Group has drawn up an accurate process of classification and determination of value adjustments to be applied based on the expertise of relationship managers and support provided by dedicated units specialised in the management of impaired loans. When classifying loans as watchlist or non-performing, the relationship manager defines, on the basis of evidence available, an estimated measurement of failed recovery, broken down into exposure related to the actual loan and exposure related to interest and other expenses.

Subsequently, the head office units specialised in the management of impaired loans periodically review these loan positions and the relative estimated failed recoveries, inserting changes, if any, in estimated losses. These estimates are the calculation basis for the analytical valuation and subsequent determination of the balance sheet value adjustments.

Regarding the provisions made with respect to collaterals issued and obligations undertaken with third parties, if these are classified as defaulted, the same methodology is followed as the one described above.

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 a profit or loss corresponding to the difference between the book value of the old loan and the fair value of assets received.

Methodology for determining value adjustments

For the purpose of determining adjustments to the book-value of loans (customer loans, loans to banks, unsecured loans), an analytical and collective valuation is carried out considering the various levels of impairment as indicated below.

An **analytical assessment** is made of:

- non-performing loans;
- watchlist loans;
- restructured loans.

Conversely, the following are subject to **col-**

lective assessment:

- past due loans and/or overdrafts;
- exposures subject to country risk;
- performing loans.

At each balance-sheet date, the financial assets not classified as held-for-trading or designated 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 impairment losses must be posted to the financial statements 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 to recent 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

For loans subject to analytical assessment, (classified as non-performing, watchlist or restructured as defined by the Bank of Italy), 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.
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 value adjustments are booked to the profit and loss statement under item "130 - Net impairment losses (reversals)".

The analytical assessment 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 appraisal 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 Enterprise retail
- Small and Medium Enterprise 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 impair-

ment loss will be reversed. The amount of the reversal is booked to the profit and loss statement under Item 130 “Net impairment losses/reversals”. 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 profit and loss statement.

Quantitative disclosure

A breakdown of financial assets by portfolio and 5.1.2 below.

and credit quality is reported in Tables 5.1.1

Table 5.1.1 - Summary of financial assets by portfolio

Portfolio	Total		Period average	
	dec-12	dec-11 (*)	dec-12	dec-11 (*)
1. Financial assets held for trading	23,139,057	31,592,026	27,781,035	31,592,288
2. Financial assets available-for- sale	24,278,015	20,728,635	21,823,658	20,943,821
3. Financial assets held-to-maturity	-	2	1	3
4. Loans and advances to banks	11,224,989	20,695,447	16,349,985	13,732,893
5. Loans and advances to customers	142,015,161	146,609,097	144,361,699	153,373,530
6. Financial assets designated at air value	-	38,231	12,744	39,090
7. Financial assets held for sale	-	-	1,046,222	17,290
8. Hedging derivatives	551,093	363,351	460,551	313,587
Total	**201,208,315**	**220,026,789**		

Values reported in the tables above reflect those used in the Financial Statements and refer to positions in both the Banking Book and Regulatory Trading Book. Data reflects the logic of the Financial Statements and is therefore reported net of permitted accounting offsets, but does not take account of any credit risk mitigation actions.

The current table refers to Table A.1.1. of part E in the Consolidated Notes to the Financial Statements (Section A "Credit Quality").

(*) With respect to accounts published in the Pillar 3 Disclosure Report as at 31.12.2011, values as at 31.12.2011are reflective of changes described in the paragraph "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)".

Table 5.1.2 – Breakdown of financial assets by portfolio and credit quality

Portfolio/Quality	NPLs	Watchlist loans	Restructured loans	Past-due	Other assets	Total
1. Financial assets held for trading	3,294	42,632	16,758	16,552	23,059,822	23,139,057
2. Financial assets available for sale	1,009	2,550	6,296	-	24,268,161	24,278,015
3. Financial assets held to maturity	-	-	-	-	-	-
4. Loans and advances to banks	1,703	2,527	-	-	11,220,759	11,224,989
5. Loans and advances to customers	7,298,571	5,962,916	1,398,655	2,736,596	124,618,422	142,015,161
6. Financial assets designated at fair value	-	-	-	-	-	-
7. Financial assets held for sale	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	551,093	551,093
Total 31/12/2012	**7,304,576**	**6,010,625**	**1,421,709**	**2,753,148**	**183,718,257**	**201,208,315**
Total 31/12/2011*	**6,455,452**	**4,485,080**	**1,464,974**	**1,149,487**	**206,471,796**	**220,026,789**

The current table refers to Table A.1.1 of Part E in the Consolidated Notes to the Financial Statements (Section A "Credit Quality")

(*)With respect to accounts published in the Pillar 3 Disclosure Report as at 31.12.2011, values as at 31.12.2011are reflective of changes described in the paragraph "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)"

Table 5.2 – On and off-balance sheet exposures to customers: geographical breakdown

ITALY	dec-12			dec-11		
	Exposure		Adjustments	Exposure		Adjustments
	Gross	Net		Gross	Net	
A. Balance-sheet exposures						
A.1 Non-performing loans	17,118,545	7,226,510	9,892,035	14,332,717	6,398,604	7,934,113
A.2 Watchlist loans	7,618,874	5,950,120	1,668,754	5,609,372	4,384,545	1,224,827
A.3 Restructured loans	1,637,954	1,404,951	233,003	1,578,954	1,435,471	143,483
A.4 Past due	2,899,266	2,717,980	181,286	1,202,362	1,124,144	78,218
A.5 Other exposures	146,836,069	146,138,414	697,654	157,412,422	156,647,679	764,743
Total A	**176,110,707**	**163,437,975**	**12,672,733**	**180,135,827**	**169,990,443**	**10,145,384**
B. Off-balance-sheet exposures						
B.1 Non-performing loans	94,498	68,174	26,324	99,035	75,816	23,219
B.2 watchlist credits	129,071	113,767	15,304	107,533	104,465	3,068
B.3 Other impaired assets	169,131	154,349	14,782	99,928	85,305	14,623
B.4 Other exposures	22,272,857	22,220,749	52,107	21,458,146	21,427,277	30,869
Total B	**22,665,557**	**22,557,040**	**108,517**	**21,764,642**	**21,692,863**	**71,779**
Total (A+B)	**198,776,264**	**185,995,015**	**12,781,249**	**201,900,469**	**191,683,306**	**10,217,163**

The table provides a geographical breakdown of balance-sheet and off-balance-sheet exposures to customers. Values reported in the table reflect those used in the Financial Statements (see Tab. B.2 in Part E of the Consolidated Notes) and refer to positions in both the Banking Book and Regulatory Trading Book.

Table 5.2 – On and off-balance sheet exposures to customers: geographical breakdown *(continued)*

OTHER EUROPEAN COUNTRIES	dec-12			dec-11 (*)		
	Exposure		Adjustments	Exposure		Adjustments
	Gross	Net		Gross	Net	
A. Balance-sheet exposures						
A.1 Non-performing loans	176,191	68,331	107,860	130,634	43,100	87,534
A.2 Watchlist loans	14,478	10,736	3,742	116,150	71,994	44,156
A.3 Restructured loans	-	-	-	9,937	9,362	575
A.4 Past due	13,511	8,454	5,058	10,661	10,108	553
A.5 Other exposures	10,448,013	10,434,453	13,560	7,787,921	7,780,566	7,355
Total A	**10,652,194**	**10,521,974**	**130,220**	**8,055,303**	**7,915,130**	**140,173**
B. Off-balance-sheet exposures						
B.1 Non-performing loans	257	-	257	-	-	-
B.2 watchlist credits	700	700	-	700	700	-
B.3 Other impaired assets	338	338	-	415	415	-
B.4 Other exposures	15,283,204	15,282,422	783	23,656,907	23,656,199	708
Total B	**15,284,499**	**15,283,460**	**1,039**	**23,658,022**	**23,657,314**	**708**
Total (A+B)	**25,936,693**	**25,805,434**	**131,259**	**31,713,325**	**31,572,444**	**140,881**

The table provides a geographical breakdown of balance-sheet and off-balance-sheet exposures to customers. Values reported in the table reflect those used in the Financial Statements (see Tab. B.2 in Part E of the Consolidated Notes) and refer to positions in both the Banking Book and Regulatory Trading Book.
(*)With respect to accounts published in the Pillar 3 Disclosure Report as at 31.12.2011, values as at 31.12.2011are reflective of changes described in the paragraph "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)".

Table 5.2 – On and off-balance sheet exposures to customers: geographical breakdown *(continued)*

USA	dec-12			dec-11		
	Exposure		Adjustments	Exposure		Adjustments
	Gross	Net		Gross	Net	
A. Balance-sheet exposures						
A.1 Non-performing loans	30,210	6,126	24,084	40,459	8,500	31,959
A.2 Watchlist loans	1,284	1,150	134	1,249	1,128	121
A.3 Restructured loans	-	-	-	-	-	-
A.4 Past due	26	25	1	30	28	2
A.5 Other exposures	416,034	413,912	2,122	554,192	552,125	2,067
Total A	**447,553**	**421,212**	**26,341**	**595,930**	**561,781**	**34,149**
B. Off-balance-sheet exposures						
B.1 Non-performing loans	365	292	73	471	377	94
B.2 watchlist credits	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Other exposures	1,861,263	1,861,183	80	2,204,987	2,204,366	621
Total B	**1,861,627**	**1,861,474**	**153**	**2,205,458**	**2,204,743**	**715**
Total (A+B)	**2,309,181**	**2,282,687**	**26,494**	**2,801,388**	**2,766,524**	**34,864**

The table provides a geographical breakdown of balance-sheet and off-balance-sheet exposures to customers. Values reported in the table reflect those used in the Financial Statements (see Tab. B.2 in Part E of the Consolidated Notes) and refer to positions in both the Banking Book and Regulatory Trading Book.

Table 5.2 – On and off-balance sheet exposures to customers: geographical breakdown *(continued)*

ASIA	dec-12			dec-11		
	Exposure		Adjustments	Exposure		Adjustments
	Gross	Net		Gross	Net	
A. Balance-sheet exposures						
A.1 Non-performing loans	3,503	85	3,418	3,505	80	3,425
A.2 Watchlist loans	1,931	762	1,169	1,858	1,289	569
A.3 Restructured loans	-	-	-	-	-	-
A.4 Past due	10,893	10,130	762	10,701	10,166	535
A.5 Other exposures	245,999	244,765	1,233	207,151	206,036	1,115
Total A	**262,326**	**255,743**	**6,583**	**223,215**	**217,571**	**5,644**
B. Off-balance-sheet exposures						
B.1 Non-performing loans	-	-	-	-	-	-
B.2 watchlist credits	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	26	24	2
B.4 Other exposures	160,426	160,375	51	195,284	195,239	45
Total B	**160,426**	**160,375**	**51**	**195,310**	**195,263**	**47**
Total (A+B)	**422,752**	**416,118**	**6,635**	**418,525**	**412,834**	**5,691**

The table provides a geographical breakdown of balance-sheet and off-balance-sheet exposures to customers. Values reported in the table reflect those used in the Financial Statements (see Tab. B.2 in Part E of the Consolidated Notes) and refer to positions in both the Banking Book and Regulatory Trading Book.

Table 5.2 – On and off-balance sheet exposures to customers: geographical breakdown *(continued)*

REST OF THE WORLD	dec-12			dec-11		
	Exposure		Adjustments	Exposure		Adjustments
	Gross	Net		Gross	Net	
A. Balance-sheet exposures						
A.1 Non-performing loans	1,711	246	1,465	1,618	237	1,381
A.2 Watchlist loans	248	148	100	215	126	89
A.3 Restructured loans	-	-	-	-	-	-
A.4 Past due	8	8	-	9	9	-
A.5 Other exposures	150,492	149,964	529	137,963	137,604	359
Total A	**152,460**	**150,366**	**2,094**	**139,805**	**137,976**	**1,829**
B. Off-balance-sheet exposures						
B.1 Non-performing loans	-	-	-	-	-	-
B.2 watchlist credits	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Other exposures	190,071	189,845	225	268,021	267,997	24
Total B	**190,071**	**189,845**	**225**	**268,021**	**267,997**	**24**
Total (A+B)	**342,530**	**340,211**	**2,319**	**407,826**	**405,973**	**1,853**

The table provides a geographical breakdown of balance-sheet and off-balance-sheet exposures to customers. Values reported in the table reflect those used in the Financial Statements (see Tab. B.2 in Part E of the Consolidated Notes) and refer to positions in both the Banking Book and Regulatory Trading Book.

Table 5.3 - On and off-balance-sheet exposures to banks: geographical breakdown

ITALY	dec-12			dec-11		
	Exposure		Adjustments	Exposure		Adjustments
	Gross	Net		Gross	Net	
A. Balance-sheet exposures						
A.1 Non-performing loans	-	-	-	6,000	-	6,000
A.2 Watchlist loans	2,115	2,115	-	2,122	2,122	-
A.3 Restructured loans	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-
A.5 Other exposures	6,642,496	6,628,084	14,411	18,572,212	18,560,048	12,164
Total A	**6,644,611**	**6,630,199**	**14,411**	**18,580,334**	**18,562,170**	**18,164**
B. Off-balance-sheet exposures						
B.1 Non-performing loans	-	-	-	-	-	-
B.2 watchlist credits	-	-	-	576	576	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Other exposures	1,103,898	1,103,835	63	3,752,112	3,752,053	59
Total B	**1,103,898**	**1,103,835**	**63**	**3,752,688**	**3,752,629**	**59**
Total (A+B)	**7,748,508**	**7,734,034**	**14,474**	**22,333,022**	**22,314,799**	**18,223**

The table provides a geographical breakdown of balance-sheet and off-balance-sheet exposures to banks. Values reported in the table reflect those used in the Financial Statements (see Tab. B.3 in Part E of the consolidated Notes) and refer to positions in both the Banking Book and Regulatory Trading Book.

Table 5.3 - On and off-balance-sheet exposures to banks: geographical breakdown *(continued)*

OTHER EUROPEAN COUNTRIES	dec-12			dec-11		
	Exposure		Adjustments	Exposure		Adjustments
	Gross	Net		Gross	Net	
A. Balance-sheet exposures						
A.1 Non-performing loans	5,373	568	4,804	5,405	536	4,869
A.2 Watchlist loans	17,145	2,962	14,182	14,603	1,388	13,215
A.3 Restructured loans	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-
A.5 Other exposures	5,826,797	5,823,612	3,186	5,276,620	5,274,100	2,520
Total A	**5,849,315**	**5,827,143**	**22,172**	**5,296,628**	**5,276,024**	**20,604**
B. Off-balance-sheet exposures						
B.1 Non-performing loans	-	-	-	-	-	-
B.2 watchlist credits	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Other exposures	5,781,930	5,780,509	1,420	9,599,140	9,598,813	327
Total B	**5,781,930**	**5,780,509**	**1,420**	**9,599,140**	**9,598,813**	**327**
Total (A+B)	**11,631,244**	**11,607,652**	**23,592**	**14,895,768**	**14,874,837**	**20,931**

The table provides a geographical breakdown of balance-sheet and off-balance-sheet exposures to banks. Values reported in the table reflect those used in the Financial Statements (see Tab. B.3 in Part E of the consolidated Notes) and refer to positions in both the Banking Book and Regulatory Trading Book.

Table 5.3 - On and off-balance-sheet exposures to banks: geographical breakdown *(continued)*

USA	dec-12			dec-11		
	Exposure		Adjustments	Exposure		Adjustments
	Gross	Net		Gross	Net	
A. Balance-sheet exposures						
A.1 Non-performing loans	21,647	1,158	20,490	21,733	1,503	20,230
A.2 Watchlist loans	-	-	-	-	-	-
A.3 Restructured loans	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-
A.5 Other exposures	929,497	929,275	222	352,456	352,392	64
Total A	**951,144**	**930,432**	**20,711**	**374,189**	**353,895**	**20,294**
B. Off-balance-sheet exposures						
B.1 Non-performing loans	-	-	-	-	-	-
B.2 watchlist credits	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Other exposures	663,641	663,628	13	741,759	741,752	7
Total B	**663,641**	**663,628**	**13**	**741,759**	**741,752**	**7**
Total (A+B)	**1,614,785**	**1,594,061**	**20,724**	**1,115,948**	**1,095,647**	**20,301**

The table provides a geographical breakdown of balance-sheet and off-balance-sheet exposures to banks. Values reported in the table reflect those used in the Financial Statements (see Tab. B.3 in Part E of the consolidated Notes) and refer to positions in both the Banking Book and Regulatory Trading Book.

Table 5.3 - On and off-balance-sheet exposures to banks: geographical breakdown *(continued)*

ASIA	dec-12			dec-11		
	Exposure		Adjustments	Exposure		Adjustments
	Gross	Net		Gross	Net	
A. Balance-sheet exposures						
A.1 Non-performing loans	-	-	-	-	-	-
A.2 Watchlist loans	-	-	-	-	-	-
A.3 Restructured loans	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-
A.5 Other exposures	116,154	115,990	164	183,928	183,795	133
Total A	**116,154**	**115,990**	**164**	**183,928**	**183,795**	**133**
B. Off-balance-sheet exposures						
B.1 Non-performing loans	-	-	-	-	-	-
B.2 watchlist credits	2,235	2,078	156	2,235	2,079	156
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Other exposures	119,315	119,124	191	127,673	127,581	92
Total B	**121,550**	**121,203**	**347**	**129,908**	**129,660**	**248**
Total (A+B)	**237,704**	**237,193**	**511**	**313,836**	**313,455**	**381**

The table provides a geographical breakdown of balance-sheet and off-balance-sheet exposures to banks. Values reported in the table reflect those used in the Financial Statements (see Tab. B.3 in Part E of the consolidated Notes) and refer to positions in both the Banking Book and Regulatory Trading Book.

Table 5.3 - On and off-balance-sheet exposures to banks: geographical breakdown *(continued)*

REST OF THE WORLD	dec-12			dec-11		
	Exposure		Adjustments	Exposure		Adjustments
	Gross	Net		Gross	Net	
A. Balance-sheet exposures						
A.1 Non-performing loans	235	89	147	234	95	139
A.2 Watchlist loans	-	-	-	-	-	-
A.3 Restructured loans	-	-	-	-	-	-
A.4 Past due	-	-	-	-	-	-
A.5 Other exposures	28,726	28,639	87	38,886	38,850	36
Total A	**28,961**	**28,728**	**233**	**39,120**	**38,945**	**175**
B. Off-balance-sheet exposures						
B.1 Non-performing loans	-	-	-	-	-	-
B.2 watchlist credits	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Other exposures	103,984	103,833	150	146,590	146,534	56
Total B	**103,984**	**103,833**	**150**	**146,590**	**146,534**	**56**
Total (A+B)	**132,945**	**132,561**	**384**	**185,710**	**185,479**	**231**

The table provides a geographical breakdown of balance-sheet and off-balance-sheet exposures to banks. Values reported in the table reflect those used in the Financial Statements (see Tab. B.3 in Part E of the consolidated Notes) and refer to positions in both the Banking Book and Regulatory Trading Book

Table 5.4 - On- and off-balance sheet exposures to customers: breakdown by sector

Governement and central Banks	dec-12				dec-11			
	Exposure		Adjustments		Exposure		Adjustments	
	Gross	Net	Specific	portfolio	Gross	Net	Specific	portfolio
A. Balance-sheet exposures								
A.1 Non-performing loans	32	-	32	x	31	-	31	x
A.2 Watchlist loans	-	-	-	x	20,141	2,960	17,181	x
A.3 Restructured loans	-	-	-	x	-	-	-	x
A.4 Past due	47	45	2	x	652	495	157	x
A.5 Other exposures	30,703,956	30,702,911	x	1,044	26,575,509	26,575,035	x	474
Total A	**30,704,035**	**30,702,956**	**35**	**1,044**	**26,596,333**	**26,578,490**	**17,369**	**474**
B. Off-balance-sheet exposures								
B.1 Non-performing loans	-	-	-	x	-	-	-	x
B.2 watchlist credits	-	-	-	x	-	-	-	x
B.3 Other impaired assets	-	-	-	x	-	-	-	x
B.4 Other exposures	11,856,298	11,856,294	x	4	10,420,160	10,420,160	x	-
Total B	**11,856,298**	**11,856,294**	**-**	**4**	**10,420,160**	**10,420,160**	**-**	**-**
Total (A+B)	**42,560,333**	**42,559,250**	**35**	**1,048**	**37,016,493**	**36,998,650**	**17,369**	**474**

X : value not attributable

The table provides a breakdown by sector of balance-sheet and off-balance-sheet exposures to customers. Values reported in the table reflect those used in the Financial Statements (see Tab. B.1 in Part E of the consolidated Notes) and refer to positions in both the Banking Book and Regulatory Trading Book.

Table 5.4 - On- and off-balance sheet exposures to customers: breakdown by sector *(continued)*

Other public entities	dec-12				dec-11			
	Exposure		Adjustments		Exposure		Adjustments	
	Gross	Net	Specific	portfolio	Gross	Net	Specific	portfolio
A. Balance-sheet exposures								
A.1 Non-performing loans	1,721	789	932	x	698	451	247	x
A.2 Watchlist loans	-	-	-	x	1,068	810	258	x
A.3 Restructured loans	-	-	-	x	-	-	-	x
A.4 Past due	5	4	-	x	-	-	-	x
A.5 Other exposures	3,256,719	3,253,636	x	3,083	3,261,065	3,259,346	x	1,719
Total A	**3,258,444**	**3,254,429**	**932**	**3,083**	**3,262,831**	**3,260,607**	**505**	**1,719**
B. Off-balance-sheet exposures								
B.1 Non-performing loans	-	-	-	x	-	-	-	x
B.2 watchlist credits	-	-	-	x	-	-	-	x
B.3 Other impaired assets		-	-	x		-	-	x
B.4 Other exposures	394,880	394,825	x	55	596,625	596,619	x	6
Total B	**394,880**	**394,825**	-	**55**	**596,625**	**596,619**	-	**6**
Total (A+B)	**3,653,324**	**3,649,254**	**932**	**3,138**	**3,859,456**	**3,857,226**	**505**	**1,725**

X : value not attributable

The table provides a breakdown by sector of balance-sheet and off-balance-sheet exposures to customers. Values reported in the table reflect those used in the Financial Statements (see Tab. B.1 in Part E of the consolidated Notes) and refer to positions in both the Banking Book and Regulatory Trading Book.

Table 5.4 - On- and off-balance sheet exposures to customers: breakdown by sector (continued)

Financial companies	dec-12				dec-11 (*)			
	Exposure		Adjustments		Exposure		Adjustments	
	Gross	Net	Specific	portfolio	Gross	Net	Specific	portfolio
A. Balance-sheet exposures								
A.1 Non-performing loans	136,399	26,301	110,098	x	137,840	27,692	110,148	x
A.2 Watchlist loans	183,539	99,396	84,143	x	149,815	78,615	71,200	x
A.3 Restructured loans	-	-	-	x	47,392	36,319	11,073	x
A.4 Past due	60,884	58,321	2,563	x	3,080	2,923	157	x
A.5 Other exposures	12,857,524	12,837,022	x	20,502	13,533,766	13,517,940	x	15,826
Total A	**13,238,347**	**13,021,040**	**196,805**	**20,502**	**13,871,893**	**13,663,489**	**192,578**	**15,826**
B. Off-balance-sheet exposures								
B.1 Non-performing loans	-	-	-	x	8	6	2	x
B.2 watchlist credits	2,461	957	1,504	x	2,877	1,777	1,100	x
B.3 Other impaired assets	-	-	-	x	7,926	7,926	-	x
B.4 Other exposures	4,466,844	4,465,616	x	1,229	7,086,750	7,085,680	x	1,070
Total B	**4,469,305**	**4,466,572**	**1,504**	**1,229**	**7,097,561**	**7,095,389**	**1,102**	**1,070**
Total (A+B)	**17,707,652**	**17,487,612**	**198,309**	**21,731**	**20,969,454**	**20,758,878**	**193,680**	**16,896**

X : value not attributable

The table provides a breakdown by sector of balance-sheet and off-balance-sheet exposures to customers. Values reported in the table reflect those used in the Financial Statements (see Tab. B.1 in Part E of the consolidated Notes) and refer to positions in both the Banking Book and Regulatory Trading Book.
(*)With respect to accounts published in the Pillar III Disclosure Report as at 31.12.2011, values as at 31.12.2011are reflective of changes described in the paragraph "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors).

Table 5.4 - On- and off-balance sheet exposures to customers: breakdown by sector *(continued)*

Insurance companies	dec-12				dec-11			
	Exposure		Adjustments		Exposure		Adjustments	
	Gross	Net	Specific	portfolio	Gross	Net	Specific	portfolio
A. Balance-sheet exposures								
A.1 Non-performing loans	7	3	4	x	108	13	95	x
A.2 Watchlist loans	-	-	-	x	-	-	-	x
A.3 Restructured loans	-	-	-	x	-	-	-	x
A.4 Past due	-	-	-	x	-	-	-	x
A.5 Other exposures	915,934	915,425	x	509	1,072,101	1,071,922	x	179
Total A	**915,941**	**915,428**	**4**	**509**	**1,072,209**	**1,071,935**	**95**	**179**
B. Off-balance-sheet exposures								
B.1 Non-performing loans	-	-	-	x	-	-	-	x
B.2 watchlist credits	-	-	-	x	-	-	-	x
B.3 Other impaired assets	-	-	-	x	-	-	-	x
B.4 Other exposures	1,504,111	1,504,087	x	24	3,166,760	3,166,741	x	19
Total B	**1,504,111**	**1,504,087**	**-**	**24**	**3,166,760**	**3,166,741**	**-**	**19**
Total (A+B)	**2,420,051**	**2,419,514**	**4**	**533**	**4,238,969**	**4,238,676**	**95**	**198**

X : value not attributable

The table provides a breakdown by sector of balance-sheet and off-balance-sheet exposures to customers. Values reported in the table reflect those used in the Financial Statements (see Tab. B.1 in Part E of the consolidated Notes) and refer to positions in both the Banking Book and Regulatory Trading Book.

Table 5.4 - On- and off-balance sheet exposures to customers: breakdown by sector *(continued)*

Non-financial companies	dec-12				dec-11			
	Exposure		Adjustments		Exposure		Adjustments	
	Gross	Net	Specific	portfolio	Gross	Net	Specific	portfolio
A. Balance-sheet exposures								
A.1 Non-performing loans	14,464,197	6,124,400	8,339,797	x	12,023,382	5,365,142	6,658,240	x
A.2 Watchlist loans	6,598,684	5,207,647	1,391,037	x	4,807,390	3,799,915	1,007,475	x
A.3 Restructured loans	1,634,580	1,402,025	232,555	x	1,531,400	1,402,595	128,805	x
A.4 Past due	2,274,505	2,142,345	132,161	x	858,700	809,681	49,019	x
A.5 Other exposures	69,600,985	69,045,631	x	555,354	77,125,465	76,507,873	x	617,592
Total A	**94,572,952**	**83,922,048**	**10,095,550**	**555,354**	**96,346,337**	**87,885,206**	**7,843,539**	**617,592**
B. Off-balance-sheet exposures								
B.1 Non-performing loans	94,794	68,165	26,629	x	98,752	75,466	23,286	x
B.2 watchlist credits	125,022	111,255	13,767	x	102,465	100,658	1,807	x
B.3 Other impaired assets	166,038	151,340	14,698	x	90,826	76,234	14,592	x
B.4 Other exposures	21,109,184	21,060,033	x	49,152	26,059,796	26,028,921	x	30,875
Total B	**21,495,039**	**21,390,793**	**55,094**	**49,152**	**26,351,839**	**26,281,279**	**39,685**	**30,875**
Total (A+B)	**116,067,991**	**105,312,841**	**10,150,644**	**604,506**	**122,698,176**	**114,166,485**	**7,883,224**	**648,467**

X: value not attributable

The table provides a breakdown by sector of balance-sheet and off-balance-sheet exposures to customers. Values reported in the table reflect those used in the Financial Statements (see Tab. B.1 in Part E of the consolidated Notes) and refer to positions in both the Banking Book and Regulatory Trading Book.

Table 5.4 - On- and off-balance sheet exposures to customers: breakdown by sector (continued)

Other	dec-12				dec-11			
	Exposure		Adjustments		Exposure		Adjustments	
	Gross	Net	Specific	portfolio	Gross	Net	Specific	portfolio
A. Balance-sheet exposures								
A.1 Non-performing loans	2,727,804	1,149,804	1,577,999	x	2,346,874	1,057,223	1,289,651	x
A.2 Watchlist loans	854,593	655,873	198,720	x	750,430	576,782	173,648	x
A.3 Restructured loans	3,373	2,926	447	x	10,099	5,919	4,180	x
A.4 Past due	588,263	535,882	52,381	x	361,331	331,356	29,975	x
A.5 Other exposures	40,761,489	40,626,883	x	134,606	44,531,744	44,391,895	x	139,849
Total A	**44,935,522**	**42,971,369**	**1,829,548**	**134,606**	**48,000,478**	**46,363,175**	**1,497,454**	**139,849**
B. Off-balance-sheet exposures								
B.1 Non-performing loans	325	301	24	x	747	721	26	x
B.2 watchlist credits	2,289	2,255	33	x	2,890	2,729	161	x
B.3 Other impaired assets	3,430	3,347	83	x	1,617	1,585	32	x
B.4 Other exposures	436,503	433,720	x	2,783	453,254	452,957	x	297
Total B	**442,547**	**439,623**	**140**	**2,783**	**458,508**	**457,992**	**219**	**297**
Total (A+B)	**45,378,069**	**43,410,992**	**1,829,688**	**137,389**	**48,458,986**	**46,821,167**	**1,497,673**	**140,146**

X : value not attributable

The table provides a breakdown by sector of balance-sheet and off-balance-sheet exposures to customers. Values reported in the table reflect those used in the Financial Statements (see Tab. B.1 in Part E of the consolidated Notes) and refer to positions in both the Banking Book and Regulatory Trading Book.

Table 5.5 – Time breakdown by contractual residual maturity of financial assets

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
Governement securitues	308	982	381,605	155,378	371,331	1,265,028	1,535,117	8,099,517	17,114,914	-
Other debt securities	12,525	13,709	12,527	44,555	215,748	352,693	312,462	2,447,707	22,780,987	668,171
Units in UCITS	728,789	-	-	-	-	-	-	-	-	-
Loans	31,967,779	3,047,356	1,651,383	6,663,647	8,144,432	9,963,269	10,713,862	36,231,643	45,946,016	3,577,053
- to banks	4,571,876	534,687	43,721	376,754	1,231,552	281,123	370,784	207,317	23,224	3,559,529
- to customers	27,395,903	2,512,669	1,607,662	6,286,893	6,912,880	9,682,147	10,343,078	36,024,326	45,922,792	17,524
Balance sheet assets (31/12/2012)	**32,709,401**	**3,062,048**	**2,045,516**	**6,863,580**	**8,731,511**	**11,580,990**	**12,561,441**	**46,778,867**	**85,841,917**	**4,245,224**
Balance sheet assets (31/12/2011)	**36,139,700**	**3,895,759**	**2,859,314**	**6,700,342**	**13,102,478**	**13,541,148**	**12,326,904**	**46,824,480**	**67,534,493**	**5,018,282**
Financial derivatives with exchange of principal	6,884	10,383,768	2,335,828	4,047,523	7,735,652	7,854,390	2,316,345	4,112,067	3,227,417	1,920,485
- Long positions	4,062	4,268,803	1,680,252	1,974,001	3,172,759	4,325,371	1,198,630	2,550,804	866,068	960,294
- Short positions	2,822	6,114,965	655,576	2,073,522	4,562,894	3,529,019	1,117,715	1,561,264	2,361,349	960,191
Financial derivatives without exchange of principal	17,693,294	775	2,633	976	261,718	153,279	408,474	-	3,710	-
- Long positions	9,676,855	220	509	491	73,022	50,686	116,978	-	3,710	-
- Short positions	8,016,439	555	2,124	485	188,696	102,593	291,496	-	-	-
Deposits and borrowings receivable	17,147	3,147	69,030	1,515,844	392,776	120,000	343	-	-	-
- Long positions	17,147	-	27,032	757,922	196,388	60,000	171	-	-	-
- Short positions	-	3,147	41,998	757,922	196,388	60,000	171	-	-	-
Irrevocable commitments to disburse funds	7,195,644	1,647	8,210	27,744	85,811	167,276	286,077	450,292	2,423,094	1,880,053
- Long positions	1,870,982	1,647	8,210	27,744	85,811	167,276	286,077	450,292	2,423,094	1,296,541
- Short positions	5,324,662	-	-	-	-	-	-	-	-	583,512
Financial guarantees issued	12,800	39	696	2,480	23,090	17,022	12,209	29,629	56,159	29
Off-balance sheet transactions (31/12/2012)	**27,547,990**	**10,389,376**	**2,416,396**	**5,594,567**	**8,814,123**	**10,657,773**	**4,466,584**	**9,271,656**	**7,541,156**	**3,800,568**
Off-balance sheet transactions (31/12/2011)	**31,324,688**	**11,840,696**	**3,567,028**	**4,897,651**	**9,519,847**	**5,400,491**	**4,635,114**	**69,885,383**	**20,513,679**	**2,322,835**

The table reports the time breakdown of financial assets by residual contractual life Values reported in the table reflect those used in the Financial Statements and refer to positions in both the Banking Book and Regulatory Trading Book.

Table 5.6 – Balance sheet exposures to banks: changes in overall value adjustments

Source/Categories	NPLs	Watchlist	Restructured	Past due	Total 31/12/2012	Total 31/12/2011
A. Gross exposure, opening balance	**31,239**	**13,214**	**-**	**-**	**44,453**	**71,266**
↳ *of which: financial assets sold and not derecognised*	-	-	-	-	-	-
B. Increases	**391**	**1,022**	**-**	**-**	**1,412**	**1,859**
B.1 Value adjustments	391	1,022	-	-	1,412	1,522
B.2 Transfers from other impaired exposures	-	-	-	-	-	-
B.3 Other increases	-	-	-	-	-	337
C. Reductions	**6,189**	**54**	**-**	**-**	**6,242**	**28,672**
C.1 Writebacks from evaluation	6,189	54	-	-	6,242	402
C.2 Writebacks from recoveries	146	54	-	-	200	11,507
C.3 Write-offs	6,000	-	-	-	6,000	16,763
C.4 Transfers to other impaired exposures	-	-	-	-	-	-
C.5 Other reductions	42	-	-	-	42	-
D. Gross exposure, closing balance	**25,441**	**14,182**	**-**	**-**	**39,623**	**44,453**
↳ *of which: financial assets sold and not derecognised*	-	-	-	-	-	-

The values reported are compiled according to the rules used for table A 1.5 in Part E of the Notes to the Consolidated Financial Statements (Section A "Credit Quality")

Table 5.7 – Balance sheet exposures to customers: changes in overall value adjustments

Source/Categories	NPLs	Watchlist	Restructured	Past due	Total 31/12/2011	Total 31/12/2012
A. Gross exposure, opening balance	**8,058,411**	**1,269,762**	**144,058**	**79,308**	**9,551,539**	**8,195,932**
↳ *of which: financial assets sold and not derecognised*	83	290	-	236	609	80
B. Increases	**2,923,154**	**1,177,622**	**163,965**	**229,981**	**4,494,721**	**2,902,223**
B.1 Value adjustments	2,260,829	1,036,142	138,003	138,492	3,573,466	2,122,252
B.1 bis Losses on disposal	3,208	-	9,521	-	12,729	
B.2 Transfers from other impaired exposures	437,832	70,120	11,206	1,113	520,270	499,619
B.3 Other increases	221,284	71,359	5,236	90,376	388,256	280,352
C. Reductions	**952,703**	**773,483**	**75,020**	**122,181**	**1,923,387**	**1,546,615**
C.1 Writebacks from evaluation	435,600	189,339	25,465	43,794	694,197	596,503
C.2 Writebacks from recoveries	76,153	17,384	3,634	9,851	107,022	110,210
C.2 bis Profit on disposal	1,105	323	-	-	1,428	
C.3 Write-offs	124,696	103,015	13,174	1,922	242,807	255,767
C.4 Transfers to other impaired exposures	237	443,049	13,476	63,509	520,270	499,620
C.5 Other reductions	314,912	20,373	19,272	3,106	357,663	84,515
D. Gross exposure, closing balance	**10,028,862**	**1,673,900**	**233,003**	**187,108**	**12,122,873**	**9,551,540**
↳ *of which: financial assets sold and not derecognised*	1,036	369	-	627	2,032	609

The values reported are compiled according to rules used for table A 1.8 in Part E of the Notes to the consolidated Financial Statements (Section A "Credit Quality").

Table 6 – Credit Risk: Disclosures for portfolios treated under the standardised approach and specialised lending and equity exposures treated under IRB approaches

Qualitative disclosure

The Montepaschi Group uses the following official rating agencies for legal entities not subject to AIRB validation as well as for statutory portfolios, for which the advanced internal rating system to calculate capital absorption on credit risk is not used:

- Standard & Poor's;
- Moody's Investor Service;
- Fitch Ratings,

The Montepaschi Group uses the official ratings on the following portfolios.

When determining capital requirements, it should be noted that if there are two evaluations of the same customer, the more conservative one is adopted. In the case of three evaluations, the intermediate is used.

Portfolios and official ratings

Portfolios	ECA/ECAI	Rating characteristics (a)
Exposures to governments and central banks Exposures to multilateral development banks	✓ Standard & Poor's Moody's Investor Service Fitch Ratings	Solicited/Unsolicited
Exposures to international organisations Exposures to corporates and other entities Exposures to undertakings for collective investment in transferable securities (UCITS)	✓ Standard & Poor's Moody's Investor Service Fitch Ratings	Solicited
Securitization positions with short-term ratings Securitization positions other than those with short term rating	✓ Standard & Poor's Moody's Investor Service Fitch Ratings	NA

(a) • ***solicited rating:*** *a rating assigned for a fee following a request from the entity evaluated. Ratings assigned without such a request shall be treated as equivalent to solicited ratings if the entity had previously obtained a solicited rating from the same ECAI*

• ***unsolicited rating:*** *a rating assigned without a request from the entity evaluated and without payment of a fee.*

Quantitative disclosure

At present the standardised approach is applied to all portfolios and entities of the Group with the exception of the portfolios, Exposures to corporates and Retail exposures, belonging to the following entities:

- *Banca Monte dei Paschi di Siena*
- *MPS Capital Services Banca per le Imprese*
- *Banca Antonveneta*
- *MPS Leasing & Factoring*

for which the advanced IRB model is adopted, details of which are described in table 7 below.

The table below shows the details of the banking Group's exposures subject to credit risk – standardised approach, determined according to the rules of Prudential Supervision and including the effects from risk mitigation techniques (netting agreements, guarantees, etc.). Off-balance-sheet exposures in relation to guarantees and commitments (including undrawn amounts available on credit lines) shown are those subsequent to the application of Credit Conversion Factors (CCF) required by prudential regulations.

Table 6.1 – Credit risk-mitigated exposures under the standardised approach

Standard portfolios	Classes of creditworthiness							Total	Deduction from regulatory capital
	1	2	3	4	5	6	No creditworthiness class applied		
Central governments and central banks	662,980	11,443	32,834,115	187,736	30	-	2,499	33,698,803	-
Regional governments and local authorities	36,882	39,132	2,801,273	56,387	-	806	-	2,934,479	-
Non-commercial and public sector entities	-	-	636,994	-	-	-	351,251	988,244	-
Multi-lateral development banks	201,316	-	-	-	-	-	38	201,354	-
International Organisations	-	-	-	-	-	-	-	-	-
Supervised institutions	13,752,063	290,088	6,730,273	132,099	58,093	128	80,832	21,043,576	-
Corporates	68,396	305,286	832,962	1,074,135	12,964	-	8,502,102	10,795,845	246,268
Retail exposures	-	-	-	-	-	-	6,676,685	6,676,685	-
Exposures secured by real estate property	-	-	-	-	-	-	2,949,207	2,949,207	-
Past due exposures	-	-	-	-	-	-	1,455,820	1,455,820	-
High-risk exposures	-	-	-	-	-	-	506,878	506,878	-
Exposures in the form of covered bonds	30,089	-	298,883	-	-	-	-	328,972	-
Short-term exposures to corporates	-	-	-	-	-	-	-	-	-
Exposures to UCITS	-	-	-	-	-	-	1,744,549	1,744,549	-
Other exposures	-	-	-	-	-	-	7,536,389	7,536,389	642,148
Securitization positions	5,175	3,736	249,453	49,885	1,479	56,443	16,741	382,911	-
Total 31/12/2012	**14,756,900**	**649,683**	**44,383,953**	**1,500,240**	**72,567**	**57,377**	**29,822,990**	**91,243,711**	**888,416**
Total 31/12/2011(*)	**12,219,891**	**53,184,321**	**958,856**	**1,279,061**	**75,762**	**119,948**	**40,734,673**	**108,572,513**	**830,266**

The Table shows the Banking Group's exposures reported by classes of creditworthiness (ECA/ECAI rating) and by regulatory exposure classes and also contains off-balance sheet exposures relating to guarantees and commitments following the application of credit conversion factors (CCF). Class 1 contains positions with the lowest risk weighting ratios which correspond to the best ratings (e.g. Aaa for Moody's, AAA for Fitch and AAA for Standard & Poor's); the higher the creditworthiness class, the higher the risk weighting becomes, with class 6 defining the worse ratings (eg. Caa1 and lower for Moody's, CCC+ and lower for Fitch and CCC+ and lower for Standard & Poor's). The external ratings used in this table reflect the relevant treatment set out for prudential supervision purposes. The last column, "Deductions from regulatory capital", shows exposures not considered for weighting purposes as they are directly deducted from regulatory capital (see Table 3.1.1). These exposures include both exposures that are deducted 50% from Tier 1 and 50% from Tier 2 (net of the expected losses in excess of value adjustments - AIRB models) and those that are deducted from the total of Tier 1 and Tier 2 (cfr. Table 3.1.1).

(*) With respect to accounts published in the Pillar 3 Disclosure Report as at 31.12.2011, values as at 31.12.2011are reflective of changes described in the paragraph "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)".

Table 7 – Credit risk: disclosures for portfolios treated under IRB approaches

Qualitative disclosure

7.1 AIRB Authorisation

With decree no. 647555 of 12 June 2008, the Bank of Italy authorised the Montepaschi Group to use advanced internal rating based (AIRB) systems to calculate the capital requirements for credit and operational risk. In particular, whereas the Montepaschi Group will use the standardised approach ratios for Exposure at Default (EAD), the Group is instead authorised to use:

- internal Probability of Default (PD) estimates, for the portfolio of exposures to corporates and retail exposures;
- internal Loss Given Default (LGD) estimates for the portfolio of exposures to corporates and retail exposures.

For portfolios other than those mentioned above, the standardised approach will be used and applied according to the roll-out plan submitted to the Supervisory Authorities.

As for legal entities, the scope of application of the authorised approaches shall be the following:

- AIRB: Banca Monte dei Paschi di Siena, MPS Capital Services, Banca Antonveneta, MPS Leasing & Factoring;
- the remaining legal entities of the Montepaschi Group will use the standardised approach.

7.2 Internal rating system structure

The Montepaschi Group began using internal rating systems for the measurement of credit risk in 2002. The first Probability of Default (PD) models were developed for the small and medium-sized enterprises (SMEs) and Small Businesses (SB) portfolios which still remain the “core business” of the Group; subsequently, rating models were also estimated for other types of exposure and a Loss Given Default (LGD) estimation model was implemented.

The rating system has thus become, over time, one of the main elements of assessment for all 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 outer level (Credit Management Area, Rating Units and Relationship Managers).

Thanks to the experience accumulated, the Montepaschi Group has decided to further invest in internal rating systems, starting, at the beginning of 2006, with the Basel II Project aimed at improving the existing internal procedures by adjusting them to the new prudential supervisory regulations for Banks which came into force on January 1, 2007 with Legislative Decree no. 297 dated 27 December 2006. This project ended in 2008 with the authorisation from the Bank of Italy to use advanced internal rating systems (AIRB) for PD and LGD with a view to calculating capital requirements for portfolios of "non-financial companies" and "retail exposures" for Banca Monte dei Paschi di Siena and MPS Capital Services.

Over the following years, in line with an internal overall 'advancement plan', the MPS Group continued the process of refinement/revision of its rating models for corporate and retail clients, leading it to obtain authorization by the Supervisory body (with decree of 25/08/2010) to use advanced internal rating based systems for the Group's new entity, "Banca Antonveneta" (acquired in 2008) and for Montepaschi Leasing & Factoring and BiverBanca by ruling of 06.07.2012. The latter was subsequently sold by the Group to Cassa di Risparmio di Asti and as of the end of 2012 is no longer part of the MPS Group.

In 2012, the MPS Group performed a full re-assessment of its Corporate and Retail models with a view to developing the segmentation of Corporate models and aligning all models with the new regulatory definition of default which, as of 1 January 2012, provides for the application of a 90-day limit in place of the prior 180-day limit for the reporting of "non-performing" past due and/or overdue exposures on loans to businesses and retail loans.

For the estimation of PD and LGD models in line with lending and credit collection activities, meetings were held, during the development phase, with the persons in charge of the credit granting and credit collection management processes for a shared selection of variables and consistency of results.

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 by means of intense training.

Estimation of the LGD model was based on internal data relative to capital flows, recoveries and expenses actually incurred on positions transferred to the non-performing portfolio.

Results obtained from model application were then compared with data recorded by MPS Gestione Crediti Banca, a company of the Group dedicated to the management and recovery of non-performing loans.

The introduction of advanced rating systems in the credit process was an important cultural step forward which is now becoming a well-established practice for all business units of the Group.

The main characteristics of the advanced rating systems are as follows:

- for all regulatory portfolios subject to validation, 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; there is one LGD reference definition for retail banks while there are different reference definitions for product companies;
- 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;
- The rating model segmentation is defined in such a way as to make the individual model clusters consistent with business objectives, credit process logics and regulatory portfolios set out in the regulations;
- Loss given default is differentiated by type of loans and an LGD value is assigned at the level of each individual transaction;
- Customer segmentation for LGD estimation and assignment follows the same logics as with the rating models; for clusters to acquire significance, segments were aggregated together under "Retail" for retail exposures and "Corporate" for exposures to non-financial corporates;
- the loss rate is differentiated by geographical area since historical and current recovery rates are different among Northern Italy, Central Italy and Southern Italy and Islands;
- loss on defaulted positions other than non-performing loans is estimated with a Cure Rate approach. With regard to counterparties whose exposures are administratively classified as Watchlist, Restructured and Past Due, the percentage of exposures reverting back to a performing status was calculated and used to adjust LGD estimated from NPL positions;
- Changes in exposure after the first transition to default are included in the Cure Rate estimate;
- 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.

Overall master scale of the MPS Group

PD Class	PD Central
1	0,13%
2	0,46%
3	2,42%
4	16,03%
5	45,00%
6	Default

The Montepaschi Group has adopted one 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 table shows a breakdown by PD band - with related central PDs - identified by the MPS Group in order to allow for a significant differentiation of credit risk.

The rating system development and monitoring activities are functionally assigned to Risk Management. The estimation procedure is carried out according to an internal development protocol to make sure that estimation activities are transparent and visible for the Internal Controls and Auditing departments.

Risk Management periodically carries out monitoring/backtesting analyses on the internal models to verify their performance stability over time.

Should significant vulnerabilities emerge from the analyses, model fine-tuning or 're-estimation' procedures are put in place.

The Montepaschi Group currently has 14 rating models and one LGD model (differentiated by geographical area, type of loan, type of guarantee, guarantee coverage ratio and exposure at default) for the measurement of risk in validated regulatory portfolios.

The internal roll-out plan over the next few years includes extending the models to all Group Business Units and other regulatory portfolios.

7.3 Use of Internal Models

Prior to authorisation from the Bank of Italy enabling the Montepaschi Group to calculate capital absorptions according to the rules set out for the advanced internal rating systems, the Group used the parameters underlying the calculation of Risk Weighted Assets also for other operational and internal management purposes. The basic principle called for the use of Basel 2 input factors –as much in line with operating requirements as possible- even though, for obvious reasons, operational practices naturally diverge from supervisory standards, with some methodological fine-tunings and adjustments required for internal purposes and calculation systems. In particular, "across-the board" parameters used for both "supervisory reporting" and "operational" practices are in relation to the Probabilities of Default (PD) resulting from internal rating systems and the loss rates on the "impaired" portfolio (LGD). The latter provide the basis of calculation for different systems of measurement and monitoring, and specifically for:

- **Measurement of economic capital for credit risk.** Among the inputs used for the credit model and related VaR output to be operational, the same PD and LGD variables are applied as those that are also used for regulatory purposes. It is clear that certain adjustments have been necessary, such as the use of probabilities of default "not subject" to validation for portfolios other than "Corporate" and "Retail", resulting from internal rating systems not yet subject to validation or from main rating agencies, appropriately re-mapped to the internal master scale. With regard to LGD, the Group uses parameters estimated on the basis of portfolios subject to validation according to provisions set out by supervisory authorities, although excluding the economic downturn effect that is contemplated only for regulatory purposes; out-of-validation portfolios use parameters estimated on the basis of medium-long term recovery rates, if any, or LGD rates in line with those set out by internal provisions under the FIRB approach.

Although EAD for supervisory purposes follows the standardised approach as it is pending validation, it is calculated as the sum of drawn amounts plus undrawn balance (Committed Amount – Drawn Amount) multiplied by a Credit Conversion Factor (CCF) which differs by type of exposure and worsens as the default probability assigned increases.

- For **the calculation of risk-adjusted performance and measurement of value creation**, the Group follows the same calculation logic as used in the loan portfolio model both for legal entities subject to validation and for those that are excluded from the scope. Furthermore, whenever new estimates or re-adjustments are made to the internal rating systems subject to validation, adjustment results are incorporated in the VBM procedures which ensure continuous output alignment with the latest updates.

- The parameters which feed the calculation model for the **risk-adjusted pricing process** are the same as those used for the loan portfolio model, even though with some extensions implicit in the pricing model. The pricing model which price-marks different types of loans with different maturities, requires input not only from the annual Probability of Default but also from marginal, forward and multi-period PDs. For these reasons, the Montepaschi Group has developed specific calculation methodologies for these default probabilities, all in compliance with the annual PD resulting from the validated rating systems. Similarly, LGD calculation is based on the same criteria as those used and mentioned above for the Loan Portfolio Model, though not taking account of economic downturns.
- In relation to **credit process monitoring** (loan trend management, systematic surveillance, operating powers,…), the following should be noted:
    - Processes of loan disbursement to customers included in the AIRB scope of application have been completely 're-engineered' with the Electronic Credit Facility Record software. The Montepaschi Group's counterparty rating is the result of a process which evaluates - in a transparent, structured and consistent manner - all the economic-financial, 'behavioural' and qualitative information relative to customers with whom the bank maintains credit risk exposures, based on model definitions, the use of information sources and methodological / operational solutions diversified by homogenous groups of counterparties. The Official Rating thus determined has ordinary validity up to the twelfth following month and shall be reviewed by the end of that month. However, the rating review in the monitoring process may be prompted at an earlier date during the validity period if ongoing, major monthly statistical PD variations – exceeding specific cut-offs - are intercepted. The loan disbursement system is organised into several 'paths', depending on the type of customer and transaction requested, which envisage the possibility of executing the process of assigning a rating to each counterparty and do not allow for any decision-making powers to be exercised in the absence of a valid rating.
    - The current algorithm for automatic detection of positions under Systematic Surveillance is based on the use of new rules which make use of two metrics: a) an "Official" Rating, i.e. the rating

calculated by the internal models on which the stabilisation rules are applied; b) the synthetic anomaly index (it. ISA) in relation to the customer's credit behaviour, calculated in the presence of at least one reported critical event, which increases in grade based on the risk level, as made available in the Operating Credit Management system. The Systematic Surveillance process is fed with data relating to the 'critical portfolio', identified as a result of a combination of the two metrics with a total score being assigned to each position, which is equal to the simple sum of the scores relating to the Official Rating and the Synthetic Anomaly Index of reference. Defaulting and E3-rated positions are automatically classified as "'disengagements'" (it. in disimpegno)".

- The Simplified Renewal process for the electronic credit facility record is based upon the monitoring of ratings over time and a timely revision of the credit facility record when the level of impairment is such that there is an increased perception of risk resulting from either the credit facility being intercepted by the Systematic Surveillance software or serious ISA (Synthetic Anomaly Index) events being reported. This process is applied to all counterparties with credit facilities subject to revision, which have matured or will mature in the month of reference.
- the post-loan disbursement monitoring process is under review with the optimisation of algorithm-based detection of positions at risk, based not only on the rating but also on other risk parameters;
- The principle underlying decision-making powers provides for levels to be assigned on the basis of individual counterparty ratings, exposure amounts, counterparty risk 'intensity' depending on the characteristics of the transactions (type and guarantees) and type of borrower.
- on the basis of these levels, the system for assigning powers identifies a nominal amount for each risk aggregate: power of approval is assigned to the decision-making bodies, making reference to the combination of rating class and type of loan granted according to the principle of delegating the decision-making powers for the worst ratings to the uppermost levels. Exception to this rule is made for the Board of Directors, which has the highest level of decision-making powers, and for the levels of approval assigned to corporate decision-making bodies (the Parent Company's Credit Committee and Executive Committee).

The policies for recognition of credit risk mitigation guarantees are implemented through a dedicated IT process which is applied for reporting purposes and does not overlap with the rules for managing guarantees and collaterals applicable to the loan disbursement process.

The IT application manages all rules for the admissibility of guarantees. The process is based on a first step registry of all guarantees, which outlines the Group operational framework. At a later stage, the data of each individual guarantee is assessed through an analysis of its specific characteristics. In particular, the following general requirements are verified:

- legal certainty;
- enforceability of Guarantee against third parties;
- timely liquidation;
- compliance with organisational requirements;

The importance of the internal ratings for operating purposes made it necessary to set up a rating system control and validation unit within the Montepaschi Group, which is organisationally independent from - and acts as a point of reference and guidance for- the unit established for the systems' development, maintenance and review. This unit meets the "Credit Risk Control Unit" requirements of statutory regulations for validation controls to be fulfilled.

7.3.1 Risk management models

An advanced internal rating system, according to current regulations in force (see Circular no. 263 BI – Title II, Chapter 1 - Section III), should provide for appropriate forms of review and inspection at all levels of control activities.

The AIRB system used by the Montepaschi Group provides for the execution of automatic controls, i.e. controls regulated by specific operational protocols (e.g. hierarchical controls), within the operating units involved in the process of rating assignment. These controls are aimed at making sure that activities preliminary to rating assignment are properly performed (i.e. selection of a model suitable for customer or transaction assessment, identification of economic or legal relations between customers, compliance with internal procedures oriented to obtaining the information necessary for the assignment and updating of the rating).

The Model and Credit Advanced System Validation Staff (responsible for validation controls, hereinafter referred to as "Staff") within the division, shall be responsible for the following levels of review contemplated by the regulations. The Staff steadily evaluates whether the estimates of all important risk components are accurate and produces the annual Internal Rating System (hereinafter IRS) Validation Report of the Montepaschi Group expressing an opinion on the regular operations, prediction power and overall performance of the IRB system adopted. The Risk Committee expresses its opinion on the annual validation of the IRS Validation Report, on the basis of the opinion of the validation unit. The Internal Controls Area (hereinafter ICA) is responsible for the valuation of the functional efficiency of the overall controls on the rating system (reviews).

The methods adopted by the above operating units in relation to the operational procedures of validation and review are briefly illustrated below.

7.3.2 Internal Rating System Validation Process

The responsibility for IRS validation has been allocated to the Risk Committee of the Parent Company. The Risk Committee is supported by the Staff unit in carrying out operational activities that are functional to validation. The Staff unit was established in 2006 with the specific task of reviewing the proper operations of the IRS and checking compliance with the regulatory requirements set out in Circular no. 263 of the Bank of Italy.

The results of these controls are pointed out and reported periodically to the Top Management, the first level units and the ICA. Once a year these results are included in the "Annual Internal Rating System Validation Report" which expresses an overall opinion on the position of the IRS with respect to the supervisory requirements. The Risk Committee validates the IRS on an annual basis, in accordance with such opinion. The validation process, within which the above-mentioned controls are carried out with a view to finally validating the Rating System, consists of the following formal validations:

- validation of the **rating attribution** process: checks compliance of the internal rating assignment process with the minimum organisational requirements of Circular no. 263 of the Bank of Italy, with a specific focus on the analysis of consistency of modifications to the rating models attributable to human action with the guidelines given to the units involved in rating assignment ;
- validation of **models**: checks that the statistical models for the production of the risk parameters used by banks maintain specific performance levels and comply with the minimum organisational and quantitative requirements provided for by the rules; and in particular the following is verified:
  - performance: assessment of the prediction power of the model and therefore its power to separate highly solvent customers from potentially hazardous customers;
  - calibration: check whether the risk preliminarily assigned to each class of rating matches the observed historical risk;
  - stability: assessment of the stability of the assigned ratings over time;
  - stress testing: review of stress testing activities carried out on the models by the model development unit.
- validation of **IT systems**: reviews compliance with the minimum requirements set out by the regulations in relation to the quality of data used by the IRS;
- validation of the **use of the IRS in corpo-**

rate processes: reviews the actual use of the rating system in the business, by identifying the players and processes involved with particular reference to the loan disbursement and renewal processes.

The process of validation involves the preparation of questionnaires for each scope of action identified, with the objective of checking compliance of each aspect of the IRS with regulatory requirements. The detailed positions on each requirement are collated in an overarching opinion of validation through a system of scoring of the replies and weighting of the questions.

The methods chosen meet the requirement of making the process of validation transparent and objective, not only with respect to the Supervisory Authorities but especially to each operating unit which develops the IRS and is informed of any faults in the system, for correction. This ensures easier action on the gaps and consequently a better control of the proper operations of the IRS by the Staff.

7.3.3 Process of internal review of the internal rating system

In line with the existing regulations (see Supervisory Instructions – Title IV, Chapter 11, Section II), the Internal Audit Area of the Montepaschi Group adopts the professional Standards and guidelines of the main domestic and international entities, through an independent and objective activity of assurance and advice aimed at controlling, also through on site inspections, the regular operations and risk trend and assessing the functional efficiency and compliance of the Internal Control Systems in order to improve the effectiveness and efficiency of the organisation.

The introduction of advanced systems of risk measurement and management (in particular, with reference to credit risk, see Circular no. 263 of 27 December 2006 "New regulations for the prudential supervision of banks" – Title II, Chapter 1, Second part, Section III) determined an extension of activities mandated to the Internal Audit unit and related responsibilities. The role assigned to the unit represents a further specialisation of activities traditionally falling within the sphere of competence of the ICA, which can be usefully supported by a well-established systemised approach that has been in use for some time now.

The overall review approach focuses on the objective of providing a coherent assessment of adequacy, in terms of both effectiveness and efficiency, of the control systems of the rating-based process of governance and management of credit risk.

In particular, the responsibilities assigned to the internal audit unit by the above-mentioned Circular, with reference to the review of the advanced models for credit risk assessment and management can be summarised in three following points:

assessment of the overall functional efficiency of the control system of the AIRB approach;

assessment of the functional efficiency and regularity of the internal validation process; review of system compliance with the requirements for regulatory use of risk estimates.

However, the main operating components attributable to the adoption of an internal rating system require that the review of that process be considered as part of a larger analysis and assessment of the whole loan management process. The objective is to ensure the materialisation of important synergies from the point of view of the actual cost of implementation and, above all, the overall and coherent observation of the events analysed which share different audit findings on the rating process stemming from the reviews carried out in the distribution network and Group companies.

The audit controls to be carried out for an assessment of the above-mentioned aspects are guided by efficiency and compliance checks.

As a result of the different kinds of control, the internal audit unit performs its responsibilities which consist in reviewing the validity of the whole IRS and the validation process, as well as compliance of the system with regulatory requirements.

7.4 Description of the Internal Rating Systems

For the calculation of capital absorption against credit risk, the Montepaschi Group uses **internal rating systems** for the following regulatory classes:

- Corporates
- Retail exposures.

7.4.1 Internal Rating Model for Corporates

PD models

In 2012, PD and LGD models were reestimated. The methodological decisions taken were essentially in line with previous models and the developments introduce were continuously compared and contrasted among all relevant functions.

For the re-estimation of PD models, the Montepaschi Group adopted a defaultbased methodology. Among the statistical techniques used in the estimation of models with dichotomous bad/good target variables, a logistic regression was selected, characterized by the optimal trade-off between statistical soundness and interpretability of results.

The “non-financial businesses” portfolio includes all balance-sheet and unsecured exposures to companies with registered offices in Italy and relating to the banks, Monte dei Paschi, Antonveneta, Capital Services and MPs Leasing and Factoring. The Montepaschi Group operates almost entirely in the domestic market and therefore, due to the low significance of foreign operations, it took the decision to exclude all exposures to foreign Corporates from the application of advanced systems.

The data source observation period for the estimation of PD is 7 years for Corporate (2005-2011) and 5 years for Retail (2007-2011), in compliance with Bank of Italy regulatory instructions.

- **Model segmentation**

  Corporate customers were segmented beforehand in order to obtain consistent clusters by risk profile. To this end, a size logic was used (based on the legal form of a company and its turnover) which appears to be consistent from both the statistical and operational point of view. Any information on turnover is obtained from the company balance sheet prepared in accordance with the Fourth EEC Directive in relation to the last available annual report. The segment of Small Businesses (one-man businesses and partnerships) consists of companies which are not subject to the obligation of preparing balance sheets for legal purposes; tax data are not currently used in the segmentation.

- **Definition of Default**

  During the stage of development of the PD models, the following definition of default was used: defaulting counterparties are a sub-group of customers with an exposure (credit line granted or drawn) which, in an ordinary condition in a specific month of the year, show at least one impairment anomaly within the following twelve months. The anomalies contained in the definition of default include non-performing loans, watchlist loans, restructured loans. Past-due positions for a period in excess of 90 days are included as of 2006, the year from which the reporting of such positions became mandatory. Furthermore, the decision was taken to use an internal definition of past due, so called "technical", to identify instances not representative of a state of financial difficulty that is liable to generate an economic loss (option granted to banks by the regulations at issue), in line with client managers' actual business-based expectations of economic loss.

The rules applied, and subjected to review in the course of last year, allowed a sub-set of alerts to be identified, involving vulnerabilities similar to other impairment states (particularly watchlist); the rationale adopted was aimed at integrating defaulting positions with positions which show no temporary anomaly but are characterised by aspects featuring in other states of impairment.

The definition of 'technical past due loans' was used consistently for PD and LGD estimates.

Defaulting positions are identified at MPS Banking Group level.

- **Development stages of the rating models**

  Two main stages of development are envisaged for each rating model: score model estimate and calibration.

- **Score model estimate**

  All information sources available are taken into account for the estimate of each rating model. A modular approach was adopted to maximise the prediction power of each information source, i.e. a (financial, internal trend, industry trend) standard module was estimated for each information source with the following determination of the final model as a combination of all modules.

  The information sources used for corporate models are the following:

  - balance sheet reports,
  - internal trend data,
  - industry data (Central Credit Registers of the Bank of Italy and of trade associations).

As far as the balance sheet is concerned, a set of indicators covering all areas of inquiry contemplated by corporate financial analysis was determined, including: debt coverage, financial structure, liquidity, profitability, productivity, development. With reference to lending trend components, the variables normally used by the account managers for risk valuation were restated: types of use of loan forms, account movements, number of irregularities found. The variables are calculated for each type of loan (callable, self-liquidating, upon maturity etc.) and are determined at the Group level over a time horizon of 12/6/3 months. As per the internal practice, the stage of development follows all procedures contemplated by a statistical inquiry: determination of a development sample (70%) and a test sample (30%), fact-finding analyses and preliminary data treatment, univariate analyses, correlation analyses and short list determination, multivariate analyses, model selection and review of out of sample performances.

- **Calibration**

  Calibration is a process for estimating the function which transforms the score models output into default probability, i.e. the probability that a counterparty is in default within one year.

  The approach used by the MPS Groups was based on two main steps:

  - Estimate of the anchor point. The *anchor point* determines the average PD used by the model;
  - Calculation of the calibration function for adjustment of the scoring model parameters. The calibration function essentially defines how expected PD will vary according to the model score.

  Calibration in fact envisages a new default rate (anchor point) and is therefore inseparable from the need to adjust the parameters of the scoring algorithm so as to enable this latter value to be calculated instead of the estimated value. The default rate of the sample should therefore be adjusted in order to take account of the preset target rate (anchor point).

  To this end, the MPS Group has identified a methodology, substantially based on the use of a ‘calibration’ function, whose final output is an intercept and slope value to be applied to the initial algorithm.

  The anchor point represents the level of risk traditionally associated with the specific segment which the model is calibrated on.

It is calculated on the basis of the long term default rate and qualitative considerations the analyst deems appropriate to introduce.

In particular, for the purpose of being in line with the 'Basel 2 compliant' definition and achieving appropriate prudential metrics, it was decided to reweigh the default rates taking account of the past due (only non-technical) effect, also for the first year (2005) of the time series for Corporate models. The action was not necessary for Retail models since the time series starts as of 2007.

The model anchor point was therefore determined by applying to 2005 the specific weight of the past due loans examined in 2006 (net of the so-called technical past due loans).

The estimated calibration function is used to calculate the point-in-time PD which is subsequently mapped on the Montepaschi Group Master Scale; Each counterparty is assigned a PD level corresponding to its rating class.

LGD models

"New regulations for the prudential supervision of banks", is the long term average of realised losses, weighted by the number of counterparties and not by exposure.

The Group uses a work-out model based on historical evidence of sets of defaulting transactions with similar characteristics. The database used to estimate the parameter includes all balance-sheet and unsecured exposures relating to the banks within the scope of validation, that were classed as "non-performing" from 1995 to 2012, for which either the recovery process has terminated or, if still active, whose balance is zero or seniority exceeds 15 years.

The relevant clusters for the estimates include the geographic area, type of customers, loans, exposures transitioning to a default state, guarantees and their percentage of coverage.

- **Model segmentation**

  The corporate segment includes all counterparties which have been segmented according to the rating model logics and can be defined as large corporates, SMEs, small businesses or small economic players.

- **Definition of Default**

  During the stage of development of the LGD model, the definition of default used was the same as the one for rating models: defaulting counterparties are a sub-group of customers with an exposure (credit line granted or drawn) which, in an ordinary condition in a specific month of the year, show at least one impairment anomaly within the following twelve months.

- **Development stages of the LGD model**

  The LGD estimate includes three main stages: (i) the measurement of the loss rate actually registered in the history of each individual legal entity in relation to the non-performing customers, (ii) the calculation of the LGD downturn, i.e. an indicator which takes account of the adverse phases of the economic cycle; (iii) the calculation of the LGD for all loan statuses other than non-performing loans.

- **Loss Rate for Non-Performing Positions**

  Realised collections minus the costs incurred with respect to defaulting exposures are compared to calculate the LGD rate actually observed on non-performing positions. Considering that reference is made to the registered economic loss, and not only to the accounting loss, all movements are discounted as of the date the loan is classified as non-performing.

  The interest rate used for discounting is the risk free rate plus an appropriate spread which remunerates the opportunity cost of each bank resulting from the non-use of the capital not repaid by the customer.

  As provided for by the regulations, a lower limit of 0% is set since the average LGD cannot be negative.

- **Downturn LGD**

  The relation between collection rates and default rates was analysed to determine the adjustment to be made to the LGD estimates in case of a possible downturn of the economic cycle; once a negative relation between the two series was ascertained, a regression model was clearly formulated between collection rates and macroeconomic variables. Once the collection rates of expansionary and recessive cycles are determined, the downturn LGD is calculated as long-term default-weighted average, suitable for the recessive phases of the economic cycle.

- **Overall LGD**

  The estimated loss rates on defaulting positions other than non-performing loans starts from the estimated cure rate, i.e. the percentage of Watchlist Loans, Restructured Loans, or Past Due Loans reverting to performing loan status.

  All positions included in the rating model calibration population that became defaulted within the analysis period were selected for this purpose.

  A weighted average of the downturn LGD was calculated, using the cure rates multiplied by the probabilities of default as weights, to determine the LGD rates for the different statuses of default . The LGD to be applied to all loan transactions of performing customers was determined by using the calibration clusters of the rating models.

7.4.2. Internal Rating Model for Retail Exposures

PD models

A default-based methodology has also been adopted for “Retail exposures”. The portfolio includes all balance-sheet and unsecured exposures relating to loans granted by the banks, Monte dei Paschi, Antonveneta, MPS Capital Services and MPS Leasing & Factoring to Retail customers (natural persons or joint co-obligations of natural persons). The data source observation period for the estimation of PD is 5 years (2007-20011).

The Montepaschi Group, in view of the operational pricing practice currently applied, prudently decided to assign an observed probability of default rate not lower than an A1 rating to best-credit-standing Retail customers.

- **Model segmentation**

  The Retail portfolio was segmented drawing a distinction between jointly liable individuals and individual natural persons. The criteria were selected on the basis of the risk profile associated to the cluster and internal historical records.

- **Definition of Default**

  The Group used the definition of default adopted for the Corporate models also in relation to the PD models applied to the portfolio of retail exposures.

- **Development stages of the rating models**

  Following are the specific aspects concerning the Retail models, which were developed and calibrated in accordance with the principles adopted for the Corporate models.

  For the Retail segment, the main sets of information for development are those relating to loans granted by the Group (overdraft facilities, mortgages and small loans) and to the personal data available for the Client and connected parties.

LGD models

The LGD model for retail exposures includes the stages contemplated for the corporate model.

The comments on the estimate data base are only in relation to the Retail segment and the cure rate estimate population was the calibration population of rating models .

Quantitative disclosure

The advanced IRB approach is applied to the portfolios of Exposures to corporates and Retail exposures of the following entities:
- *Banca Monte dei Paschi*
- *MPS Capital Services Banca per le Imprese*
- *Banca Antonveneta*
- *MPS Leasing & Factoring*

The following table reports the Group's exposure to credit risk – AIRB, as at 31 December 2012 and 31 December 2011divided by classes of regulatory activities. The exposure values reported are determined according to prudential supervisory requirements and as such are inclusive of value adjustments and do not factor in the effects of risk mitigation techniques which, in the case of exposures subject to an internal models-based approach, are directly included in the risk-weighting factor applied. As for guarantees issued and commitments to disburse funds, the values reported take into account credit conversion factors.

Table 7 – Total AIRB exposures : exposures by portfolio type

	Exposure		RWA	
	dec-12	dec-11 (*)	dec-12	dec-11
Exposures to corporates	**63,720,699**	**58,462,804**	**27,880,111**	**32,365,809**
SMEs	42,434,548	38,730,098	16,927,387	20,561,012
Other companies	21,286,151	19,732,706	10,952,724	11,804,797
Retail exposures	**63,651,775**	**64,444,399**	**11,194,904**	**14,420,335**
Secured by real estate - SMEs	6,425,578	6,689,883	2,519,404	3,379,196
Secured by real estate - Individuals	32,804,189	34,435,449	3,252,697	4,014,373
Qualifying revolving	30,951	32,493	4,809	6,110
Other retail exposure - SMEs	18,630,211	17,647,654	4,799,867	6,218,822
Other retail exposures - Individuals	5,760,846	5,638,919	618,127	801,834
Total	**127,372,474**	**122,907,203**	**39,075,015**	**46,786,144**

(*)Total AIRB exposure reported does not include exposures from the residual portfolio "Other assets" amounting to 66,974.6 (€/thousands).

Following are the quantitative tables for the advanced IRB approach for each regulatory class of activity.
The table below provides the breakdown by PD band - identified by the MPS Group to allow for a significant differentiation of credit risk (see par. 7.2), of Group exposures divided by regulatory portfolios

Table 7.1 – Exposures to corporates - SMEs

PD Class	dec-12			dec-11 (*)
	Exposures to corporates	Retail exposures	Total Exposure AIRB	Total Exposure AIRB
Class 1	3,965,838	11,171,872	15,137,710	15,218,470
Class 2	10,862,811	18,105,472	28,968,284	33,285,767
Class 3	18,566,889	14,895,440	33,462,329	37,225,733
Class 4	10,571,857	7,185,768	17,757,625	13,834,558
Class 5	2,652,385	1,390,620	4,043,005	3,562,972
Class 6	17,100,920	10,902,603	28,003,522	19,779,703
Total	**63,720,699**	**63,651,775**	**127,372,474**	**122,907,203**

(*) For reporting purposes, Unused Margins and respective Credit Equivalents refer to issued guarantees and revocable and irrevocable commitments to disburse funds.

The following table shows a breakdown by PD band with quantitative details for the advanced IRB approach of the Portfolio “Exposures to or guaranteed by businesses” divided by regulatory asset class:

- *SMEs,*
- *Other companies.*

7.1.1 - Exposures to corporates (Other companies)

PD Class	dec-12						dec-11
	Exposure	Unused Amount[(a)]	Credit equivalent	Average Credit Conversion Factor (average CCF)	Average weighted LGD (LGD%)	Average Risk Weighting factor (RW%)	Exposure
Class 1	1,687,028	3,244,404	319,129	9,84%	29,68%	15,73%	2,075,684
Class 2	4,491,135	3,713,586	408,241	10,99%	27,97%	31,23%	5,362,204
Class 3	12,062,110	4,015,972	537,630	13,39%	25,90%	51,31%	13,529,186
Class 4	8,311,082	1,902,364	338,418	17,79%	26,04%	81,07%	6,488,558
Class 5	1,925,757	345,920	52,891	15,29%	25,00%	121,17%	1,730,293
Class 6	13,957,435	771,273	101,846	13,20%	39,62%	-	9,544,173
Total	**42,434,548**	**13,993,520**	**1,758,155**				**38,730,098**

(a) For reporting purposes, Unused Margins and respective Credit Equivalents refer to issued guarantees and revocable and irrevocable commitments to disburse funds.

Tab. 7.1.2 - Exposures to corporates (Other companies)

	dec-12						dec-11
PD Class	Exposure	Unused Amount[a]	Credit equivalent	Average Credit Conversion Factor (average CCF)	Average weighted LGD (LGD%)	Average Risk Weighting factor (RW%)	Exposure
Class 1	2,278,809	6,625,914	848,062	12,80%	34,24%	18,32%	2,711,018
Class 2	6,371,676	8,158,550	1,160,106	14,22%	28,08%	33,62%	7,074,553
Class 3	6,504,779	4,520,038	750,676	16,61%	34,60%	68,65%	6,193,526
Class 4	2,260,775	903,740	183,867	20,35%	33,39%	115,06%	1,211,108
Class 5	726,627	147,866	33,800	22,86%	32,49%	182,47%	577,773
Class 6	3,143,484	545,800	110,524	20,25%	46,15%	-	1,964,728
Total	**21,286,151**	**20,901,908**	**3,087,034**				**19,732,706**

(a) For reporting purposes, Unused Margins and respective Credit Equivalents refer to issued guarantees and revocable and irrevocable commitments to disburse funds.

The following table shows a breakdown by PD band with quantitative details for the advanced IRB approach of the Portfolio "Exposures to or guaranteed by businesses" divided by regulatory asset class:

- *Real-estate backed – SMEs,*
- *Real-estate backed - Natural Persons,*
- *Qualifying revolving,*
- *Other retail exposures - SMEs,*
- *Other retail exposures - Natural Persons.*

Table 7.1.3 – Retail exposures – Secured by real estate - SMEs

	dec-12						dec-11
PD Class	Exposure	Unused Amount[a]	Credit equivalent	Average Credit Conversion Factor (average CCF)	Average weighted LGD (LGD%)	Average Risk Weighting factor (RW%)	Exposure
Class 1	36,945	1,779	890	50,00%	16,04%	4,41%	73,389
Class 2	486,971	35,600	17,692	49,70%	16,09%	10,80%	712,223
Class 3	2,925,684	262,113	125,608	47,92%	16,71%	29,86%	3,448,998
Class 4	1,589,616	164,074	77,521	47,25%	17,24%	69,77%	1,427,192
Class 5	448,017	74,358	36,612	49,24%	18,01%	107,73%	476,352
Class 6	938,344	95,151	37,232	39,13%	19,42%	-	551,729
Total	**6,425,578**	**633,076**	**295,554**				**6,689,883**

(a) For reporting purposes, Unused Margins and respective Credit Equivalents refer to issued guarantees and revocable and irrevocable commitments to disburse funds.

Tab. 7.1.4 – Retail exposures – Secured by real estate - Individuals

	dec-12						dec-11
PD Class	Exposure	Unused Amount[a]	Credit equivalent	Average Credit Conversion Factor (average CCF)	Average weighted LGD (LGD%)	Average Risk Weighting factor (RW%)	Exposure
Class 1	10,247,975	47,912	22,789	47,56%	13,26%	4,08%	9,101,467
Class 2	15,493,171	18,784	5,955	31,70%	12,81%	7,41%	17,523,432
Class 3	4,747,728	14,549	5,238	36,01%	12,66%	17,10%	6,030,037
Class 4	1,114,273	5,524	1,484	26,87%	13,01%	55,13%	969,297
Class 5	338,922	1,915	585	30,56%	12,79%	76,63%	192,678
Class 6	862,121	16,734	1,070	6,39%	14,92%	-	618,539
Total	**32,804,189**	**105,417**	**37,121**				**34,435,449**

(a) For reporting purposes, Unused Margins and respective Credit Equivalents refer to issued guarantees and revocable and irrevocable commitments to disburse funds.

Table 7.1.5 – Retail exposures – Qualifying revolving

	dec-12						dec-11
PD Class	Exposure	Unused Amount[a]	Credit equivalent	Average Credit Conversion Factor (average CCF)	Average weighted LGD (LGD%)	Average Risk Weighting factor (RW%)	Exposure
Class 1	5,782	6,071	-	0,00%	30,93%	2,45%	6,111
Class 2	7,838	1,548	-	0,00%	32,75%	5,51%	8,592
Class 3	13,714	1,779	-	0,00%	30,37%	17,71%	15,010
Class 4	3,009	347	-	0,00%	33,91%	52,45%	2,237
Class 5	221	34	-	0,00%	34,03%	103,43%	297
Class 6	387	147	-	0,00%	40,26%	-	245
Total	**30,951**	**9,926**	**-**				**32,493**

(a) For reporting purposes, Unused Margins and respective Credit Equivalents refer to issued guarantees and revocable and irrevocable commitments to disburse funds.

Tab. 7.1.6 – Other retail exposure – (SMEs)

PD Class	dec-12 Exposure	Unused Amount[(a)]	Credit equivalent	Average Credit Conversion Factor (average CCF)	Average weighted LGD (LGD%)	Average Risk Weighting factor (RW%)	dec-11 Exposure
Class 1	159,733	334,999	19,385	5,79%	27,44%	7,62%	276,394
Class 2	1,133,483	1,225,418	127,308	10,39%	26,61%	16,64%	1,530,199
Class 3	6,185,357	3,106,168	314,667	10,13%	28,06%	34,97%	6,850,120
Class 4	4,056,330	1,044,169	81,941	7,85%	30,13%	50,34%	3,420,590
Class 5	519,951	106,891	10,763	10,07%	28,92%	75,77%	543,633
Class 6	6,575,356	385,337	38,583	10,01%	50,29%	-	5,026,718
Total	**18,630,211**	**6,202,982**	**592,647**				**17,647,654**

(a) For reporting purposes, Unused Margins and respective Credit Equivalents refer to issued guarantees and revocable and irrevocable commitments to disburse funds.

Table 7.1.7 – Other retail exposures - Individuals

PD Class	dec-12 Exposure	Unused Amount[(a)]	Credit equivalent	Average Credit Conversion Factor (average CCF)	Average weighted LGD (LGD%)	Average Risk Weighting factor (RW%)	dec-11 Exposure
Class 1	721,436	748,848	34,002	4,54%	16,66%	5,46%	974,407
Class 2	984,009	372,247	26,922	7,23%	17,73%	10,44%	1,074,565
Class 3	1,022,957	418,840	44,855	10,71%	21,08%	24,34%	1,158,856
Class 4	422,539	73,606	43,199	58,69%	24,37%	43,05%	315,576
Class 5	83,510	9,016	346	3,84%	20,51%	53,99%	41,945
Class 6	2,526,395	21,159	4,126	19,50%	42,10%	-	2,073,570
Total	**5,760,846**	**1,643,717**	**153,450**				**5,638,919**

(a) For reporting purposes, Unused Margins and respective Credit Equivalents refer to issued guarantees and revocable and irrevocable commitments to disburse funds.

A comparison of estimated vs. actual results

As previously pointed out, the Monte dei Paschi Group adopts advanced models to determine capital requirements for 'corporate' and 'retail' portfolios. Internally estimated PD (Probability of Default) and LGD (Loss Given Default) parameters are therefore used for both portfolios.

A comparison of estimated vs. actual losses is made on a yearly basis within the framework of PD and LGD backtesting by internal first- and second level control functions.

As for PD, statistical models are monitored using a structured automated algorithm. Monitoring consists in a determined number of tests aimed at assessing whether the characteristics of the models in the implementation/production environment continue to be similar to those found in the development phase, in terms of representativeness and performance. Within the monitoring process, estimated PDs are compared against observed default rates according to a specific calibration protocol which includes a set of tests designed to verify the alignment between the Probability of Default and Default Rates and, in the event of a negative outcome, may require additional verifications taking account of both a methodological approach of development based on long-term average values and the impact of any underestimated default rates on the variables used to measure credit risk (Expected Loss and Regulatory Capital). Recent backtesting activities carried out on the various PD models of the Group revealed their satisfactory ability to forecast defaults, partially as a result of the re-estimation completed in 2011 which brought about some upgrades and factored in the negative effect of the economic cycle.

As far as the LGD estimate is concerned, which was reviewed in 2011, it is observed that the conservative approach used during the estimation phase (an over 15-year time series; LGD rate floor at 0% for each position; downturn) and inclusion of the latest defaults in the cure rate estimate guarantee a conservative estimate of expected losses.

Table 8 – Risk mitigation techniques

Qualitative disclosure

8.1 Netting policies

With reference to the retail and corporate loan portfolio, the Montepaschi Group does not apply any netting processes to the credit risk exposures with on- or off-balance sheet items with opposite sign. The Montepaschi Group adopts policies reducing the counterparty risk with institutional counterparties, by entering into netting agreements and collateral agreements both in relation to derivatives and repos *(repurchase agreements)*.

8.2 The Management of Collaterals

The Montepaschi Group has fulfilled the obligations set out by the New Regulations for Prudential Supervision for the purpose of recognition of risk mitigation effects produced by any existing collaterals securing the loan.

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. Two main types of guarantees, subject to different regulations, can be identified by volumes of loans granted and number of customers, namely Mortgages and Pledges (Cash and Securities).

With reference to compliance with the main organisation requirements for the mitigation of risk, the Group ensured:

- the presence of an IT system in support of the life cycle phases of the guarantees (acquisition, valuation, management, revaluation and enforcement);
- Regulated policies for the management of guarantees (principles, practices, processes), available to the users;
- the presence of regulated, documented procedures for the management of guarantees (principles, practices, processes), available to the users;
- independence of the customers' insolvency risk (Internal rating) from any existing Collaterals.

For the purpose of limiting residual risks (termination or non-existence of the value of protection), the Montepaschi Group requires that:

- In the case of a mortgage guarantee, the acquisition of the right be flanked by the underwriting of insurance policies (catastrophic events) in relation to the assets covered by the guarantee, and a report prepared by reliable experts;

- In the case of a pledge, the original value should be reinstated (ensuring the continuity of the guarantee through papers amending the original guarantee) in view of the depreciation of goods pledged. In the case of redemption of the pledge, the repayment should be made at the Bank (collection).

The Montepaschi Group identified a set of technical forms (by purpose of the loan/type of customer) providing for the admissibility of mortgage guarantees. Within the IT system, the proposal of financing one of these types of loans triggers a request for detailed information on the characteristics of the real estate subject to guarantee (valuation) which, after loan approval, will make the acquisition steps compulsory.

In the specific case of mortgage loans to retail customers, the loan is disbursed according to specific disbursement processes, characterized by a standardised valuation/inquiry process, which gather all information necessary for the proper management of real estate guarantees.

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 instrument can activate different paths on the basis of the type of guarantee. The management of guarantees starts after loan disbursement approval, the process of which is broken down into different stages:

- acquisition (also 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

A system to monitor the value of the collaterals on the basis of market values is in place. Monitoring of pledge transactions is carried out on a daily basis for listed securities deposited with the bank, while for mortgages, real estate value is currently verified once a year for non-residentials (where real estate is subject to point-in-time appraisals every three years for loans with exposures in excess of three million euro) and once every three years for residentials, using a market indices revaluation.

In this respect, it is appropriate to underline that an assessment is made on the assets pledged as collateral during the mortgage loan approval phase. In the specific case of retail mortgage loans, a dedicated disbursement process subordinates disbursement to the submission of a technical survey on the asset pledged, thus ensuring the fulfilment of obligations and compliance with relevant validity requirements upon acquisition of the guarantee.

If the value of the property pledged as a guarantee is subject to market or foreign exchange risks, the Montepaschi Group uses the concept of guarantee differential, which is understood as a percentage of the value of the guarantee offered, determined as a function of asset value volatility. The only portion of the loan covered by the value of the assets net of the differential is considered as guaranteed during the approval phase. The monitoring phase requires the adjustment of the guarantees with a market value lower than the value approved, net of the differential. This is notified by the Operating Management units, through an automated process of daily credit monitoring which alerts the Network with events which may modify risk perception.

The availability of collaterals does not alter the valuation of the insolvency risk of a customer. However, it has an impact on the approval process since loan disbursements with mitigated risk are subject to different discretionary powers (this difference at Banca MPS is even more marked due to the introduction of authorization levels dedicated only to Land and Building Credit).

8.3. The Collaterals accepted by the Montepaschi Group

The Montepaschi Group accepts different instruments to protect loans which can be summarised in the following categories:

- Pledge of sums deposited with the Bank;
- Pledge of securities and mutual funds deposited with the Bank;
- Mortgages on immovables (real estate);
- Mortgages on movables;
- Pledge of sums deposited with other banks;
- Pledge of securities deposited with other banks ;
- Pledge on other entitlements (insurance policies and Portfolios under Management);
- Pledge on loans;
- Pledge on commodities;
- Other forms of collaterals (Insurance, Guarantee funds)

As at today, the first three categories (accounting for more than 98% of the nominal amount of the collaterals received) are compliant with regulatory/legal/organisational requirements set out by the New Supervisory Regulations for the enforcement of credit risk mitigation standards.

All types that may be received by the Montepaschi Group are entered into a structured collateral management process, under which all sub-steps are operationally shared.

If the measures of monitoring of the collaterals 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.

8.4 Management of Personal collaterals

The Montepaschi Group has fulfilled the obligations set out by the New Regulations for Prudential Supervision for the purpose of recognition of credit risk mitigation effects produced by any personal collaterals securing the loan.[a]

Personal credit protection consists of personal collaterals, personal collaterals issued by third parties and credit derivatives. At Group level, personal collateral - as highlighted in the quantitative disclosure - covers a limited portion of the overall credit exposure. The main type of personal collateral consists of Guarantees (including omnibus guarantees and personal collateral issued by third parties) provided they are issued by the parties listed below:

- Sovereign governments and central banks;
- Public sector and local agencies;
- Multilateral development banks;
- Regulated intermediaries;
- Businesses that have a creditworthiness rating by an ECAI (External Credit Assessment Institution)of not less than 2 on the creditworthiness rating scale;
- Companies and individuals, if this type of customer has a probability of default determined using the same rules as for guaranteed exposures.
- Guarantee institutions (Confidi) provided they are:
    - registered in a special list provided for by art. 107 of the Consolidated Law on Banking, as Regulated financial intermediaries;
    - registered in a section of the list provided by art. 106 of the Consolidated Law on Banking, having at least one of the following conditions:
    - an associated external rating of not less than 2;
    - issue a first demand guarantee backed by a counter-guarantee, on first demand, by Governments or Central Banks.

The activities that the MPS Group puts in place for compliance with the main organisational requirements are attributable to the similar activities envisaged for collateral other than real estate. Specific monitoring is carried out on collateralised positions (with outcomes incorporated in a report) and ensures control over any developments in the guarantor's creditworthiness.

Under current regulations, banks which adopt the "Advanced IRB" model may use the collateral as credit risk mitigation according to two different approaches:

- substitution of the risk weight or PD of the guarantor for that of the underlying obligor;
- substitution of personal LGD for unsecured LGD.

In both cases, mitigation is allowed on condition that the guarantor's PD is better than that of the main underlying obligor and that the requirement for personal guarantee admissibility is met, whereby capital absorption for the beneficiary of the guarantee should not be lower than capital absorption caused to the guarantor..

Based on Group internal regulations on CRM, the MPS Group has introduced two different policies for treatment of the exposures backed by personal guarantees, which fall within the AIRB scope: Policy 1 and Policy 2.

Policy 1 applies to all exposures falling within the AIRB scope, to businesses and consumers, backed by personal collaterals issued by:

- Public Administration and Central Banks,
- Local Institutions,
- Public Sector entities,
- Multilateral development banks,
- International Organisations,
- Regulated intermediaries,
- Businesses that have a creditworthiness rating by an ECAI (External Credit Assessment Institution) of not less than 2 on the creditworthiness rating scale and that are not currently included in the internal models scope (e.g. Insurance Companies and UCITS).

Personal collateral issued by these groups/individuals are treated by transferring the guaranteed exposure from the AIRB portfolio to the portfolio of the guarantor who then adopts standard treatment procedures.

Policy 2 applies to all those exposures falling within the AIRB scope, businesses and consumers, backed by personal collaterals issued by:

- Corporates,
- Consumers.

In this case, collateralised exposures see the application of an internally estimated loss rate for exposures secured by personal collateral (personal LGD), instead of the loss rate estimated for unsecured positions (LGD unsecured).

8.5. The Personal Collaterals accepted by the Montepaschi Group

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 letters,
- 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.

Debt delegation, expromission and assumption of debt are considered valid for the purpose of Credit Risk Mitigation if equivalent to the transfer of credit.

Fifth-of-salary backed loans can be considered as loans secured by personal collateral, if all requirements for this form of credit protection are met in the overall transaction structure.

8.6. Reports on Concentrations

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. Special provisions are in force on mortgage loans for Retail customers with amounts exceeding EUR 3 mln, a threshold beyond which the value of the collateral is kept up-to-date with regular appraisals of the property.

The value of real estate in relation to transactions below the threshold of relevance is updated through the measurement of the average values of the real estate market. Any information on the evaluations is provided, on an annual basis, by specialised industry operators (extraordinary updates may be generated by significant variations in the very short period).

Quantitative Disclosure

Table 8.1 – Exposures secured by guarantees

Regulatory portfolio	Financial collaterals		Personal guarantees		Total	
	dec-12	dec-11	dec-12	dec-11	dec-12	dec-11
Central Governments and Central banks	-	1,632	379,461	7,013	379,461	8,645
Regional governments and local authorities	-	3,500	75,404	46,312	75,404	49,812
Non-commercial and public sector entities	112,390	636,983	-	3,998	112,390	640,981
Multilateral development banks	-	166	38	-	38	166
International organisations	-	-	-	91	-	91
Supervised institutions	16,138,983	25,674,729	166,917	34,819	16,305,900	25,709,548
Exposures to Corporates	812,748	1,094,610	5,000	101,505	817,748	1,196,115
Retail exposures	283,249	1,129,039	-	-	283,249	1,129,039
Exposures secured by real estate	1,616	3,664	-	-	1,616	3,664
Past due exposures	1,256	18,583	-	-	1,256	18,583
High risk exposures	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-
Short-term exposures to corporates	-	-	-	-	-	-
Exposures to UCITs	21,614	19,326	-	-	21,614	19,326
Other exposures	-	19,289	-	-	-	19,289
Securisation exposures	-	-	-	-	-	-
Total	**17,371,856**	**28,601,521**	**626,820**	**193,738**	**17,998,676**	**28,795,259**

The table provides, by regulatory asset class, the exposures of the banking group considered for credit risk purposes – standardised
method secured by financial collaterals and by personal guarantees; the exposures taken into consideration are determined according to prudential supervisory regulations, net of any netting agreements. Therefore, the table does not include all types of guarantees; for example, the exposures guaranteed by real estate are not included, since they are not recognized for the purpose of risk mitigation and are directly reported in the same class, as shown in table 6.1.
There are no exposures hedged with credit derivatives, which are valid for the purpose of the risk mitigation techniques.

Table 9 – Counterparty risk

Qualitative disclosure

The Montepaschi Group is committed to monitoring counterparty risk, understood as the risk that the counterparty in a transaction involving specific financial instruments (i.e. OTC derivatives, *securities financing transactions* and long settlement transactions) is in default before the settlement of the transaction.

In conformity with regulatory requirements, the Montepaschi Group uses the “current value” method to calculate the value of exposures for OTC derivatives and long settlement transactions. This method consists in calculating current and potential exposure using the market value as the current exposure and the regulatory add-on to represent, in a simplified manner, the potential future exposure.

For SFTs *(securities financing transactions)*, the comprehensive method with supervisory volatility adjustments is used.

The Group has adopted credit risk mitigation measures such as netting agreements, collaterals, break clauses, etc. to substantially limit the risk assumed.

From an operational point of view, activities relevant for the purpose of counterparty risk may be broken down into two macrosegments on the basis of both counterparty characteristics (ordinary clients and institutional counterparties) and the operational and monitoring methods put in place by the Group.

With regard to business with financial institutions, counterparty risk exposure on individual credit lines is monitored on a daily basis by the Control Units of the various Business Units. In short, the process involves:

- granting credit lines to counterparties on the basis of requests from Business Unit staff, with a periodical review of the limits set;
- inserting the limits in the management systems;
- inserting the deals and collaterals according to ISDA/ISMA standards and related Credit Support Annexes (CSA) and Global Master Repurchase Agreements (GMRA) signed with each counterparty;
- daily activities to monitor and exchange collaterals with counterparties in relation to the market value of outstanding positions (Collateral Management);
- daily monitoring of drawn and overdrawn amounts - also in real time - considering, the guarantees pledged or received.
- the Legal function periodically checking whether netting clauses and collaterals set out in the bilateral CSA and GMRA agreements signed with the counterparties are judicially and administratively valid in the event of their default, by making reference to the case law of their respective countries.

With regard to liquidity risk, assessments are carried out on any further additions to the guarantees required by institutional counterparties should the Montepaschi Group be downgraded as a result of signed CSA and GMRA agreements.

The process for derivative transactions with ordinary clients is based on the distinction of roles and responsibilities among the different entities within the Group. Trading in derivatives with customers provides for centralization of product factors and market risk monitoring within MPS Capital Services, with allocation, management and monitoring of counterparty credit risk for customers in the bank's networks.

To this end, Retail banks:

- authorise the credit facilities granted to customers;
- manage each transaction in their books;
- take care of the related documents and regulatory requirements;
- review the amounts drawn with respect to the credit facilities granted.

With regard to products offered to customers, from a general point of view, a series of common elements are typical of most operations.

Specifically, the products traded

are not of a speculative nature;

are for the exclusive purpose of covering risk;

are associated with an underlying position, even if they are contractually and administratively separate from it;

show limited elements of complexity;

on the overall position covered, they hold no financial leverage.

To reduce counterparty risk in 2010, MPS Capital Services indirectly joined the swap clear service managed by the central counterparty, LCH Clearnet London for activities with OTC derivatives.

The centralisation of a part of trading in OTC derivatives to LCH makes it possible to considerably reduce the risk of default from these activities since LCH is the guarantor and direct manager of flows deriving from the contracts. Any default of a direct member of the service is covered by the guarantee funds and backup systems of LCH.

A project is under way to identify and manage exposure that is adversely correlated with counterparties' credit quality (i.e. *wrong way risk*).

Quantitative disclosure

Table 9.1 – Counterparty risk: derivatives

	Gross Positive Fair value (book values)	Effect of nettings agreements	Netted Fair value	Effect of collateral arrangements	Net Credit Exposure
Derivatives as at 31/12/2012	11.352.345	8.337.427	3.014.918	1.244.830	4.870.410
Derivatives as at 31/12/2011	11.940.520	9.241.470	2.699.050	968.835	5.579.328

The table represents the exposure of the Banking Group to counterparty risk for derivative instruments. All the financial and credit derivatives traded over the counter (OTC) with any counterparty institutional, corporate, retail counterparties etc.) are included in the table irrespective of the regulatory (trading and banking) portfolio they belong to. In particular, the "gross positive fair value" corresponds to the book value of the above-mentioned contracts and therefore is inclusive of the netting agreements. The Nettings" represent the gross positive fair value amount, which as a result of the agreements executed with the counterparties, is offset with negative value transactions. The net "netted fair value" indicates the positive fair value amount remaining after the nettings. The "Exposure" is a value calculated according to prudential supervisory requirements. In the Current Value method adopted by the Montepaschi Group, it is based on the positive fair value net of nettings; this value is increased by the future credit exposure (add-on) and reduced by the effects of the guarantee agreements. The future credit exposure takes account of the probability that in future the current value of the contract, if positive, may increase or, if negative, may become a credit position. This probability is linked with the volatility of the underlying market factors and the residual maturity of the contract. In other terms, it is calculated on the basis of the notional amount of all the derivatives taken into consideration, both with a positive and negative fair value. With regard to LSTs (Long Settlement Transactions) and SFTs(Securities Financing Transactions), the overall exposure recorded comes to approximately Euro 4.16 billion.
The capital requirement for Counterparty Risk in the regulatory Trading Book and Banking Book is reported for each individual regulatory portfolio under the Standardised and Advanced IRB approach in the Capital Requirements tables (Table 4 and following).

Table 9.2 – Derivatives: breakdown of positive fair value by type of underlying

	Interest rates	Foreign currencies and gold	Equity securities	Credits	Other	Total
Derivatives as at 31/12/2012	9,029,477	120,316	586,063	1,586,255	30,235	11,352,345
Derivatives as at 31/12/2011	8,334,899	365,721	323,866	2,886,331	29,703	11,940,520

The table illustrates the breakdown of the positive gross fair value of OTC derivative contracts by type of underlying assets.

Table 9.3 – Credit Derivatives: notional amounts

Group of Products	Banking Portfolio		Regulatory Trading Book	
	Protection purchases	Protection sales	Protection purchases	Protection sales
Credit default swap	81,900	684,311	27,228,062	27,595,872
Total rate of return swap	-	-	-	253,417
Total as at 31/12/2012	**81,900**	**684,311**	**27,228,062**	**27,849,289**
Total as at 31/12/2011	**81,900**	**-**	**39,128,374**	**39,902,955**

The table shows the notional values of credit derivative contracts, by portfolio (banking and trading book) and the role played by the Montepaschi Group (buyer/seller of protection).

Table 10 - Securitisation transactions

Qualitative disclosure

10.1. Securitisation activity: Bank objectives and roles

The Group operates in the securitisation market both as an originator, through the issue of notes from originated securitisations, and as an investor through subscription of securities from third-party securitisations. As at today, the Montepaschi Group has not sponsored any securitisation transactions.

Originated securitisations include:

- securitisation transactions structured with the aim of deriving economic advantages regarding the optimisation of the loan portfolio, the diversification of sources of funding and the reduction of the cost of funding and the alignment of the natural maturities of assets and liabilities (securitisation transactions in the strict sense).
- securitisations aimed at strengthening the available funding sources, through the conversion of the loans sold into securities that can be refinanced (self-securitisations). Self-securitisation transactions are part of the more general policy of strengthening the group's liquidity position and are not included in securitisations of a stricter sense since they do not transfer risk outside the Group. For this reason, the numerical data concerning these transactions are not included in the tables under the quantitative section.

Securitisations in the strict sense of the term

In general this type of transactions involve the spin-off of a package of assets (generally loans) recognised in the balance sheet of Group banks and its subsequent transfer to a Special Purpose Entity. The SPE, in turn, finances the purchase through the issue and placement of securities exclusively guaranteed by the assets received (ABS – Asset-Backed Securities). Resources raised in this way are returned to the Montepaschi Group (the seller), whereas commitments to subscribers are met using the cash flows generated by the loans sold. Following is an outline of the Group's main securitisation transactions (of the traditional type, as the Group has not engaged in any synthetic securitisations) originated in previous years and outstanding at 31 December 2012 - broken down into quality/type of underlying and vehicle company:

- securitisation of **performing loans**:
  - Mantegna Finance II Srl (2002, BAM)
  - Spoleto Mortgages Srl (2003, BP Spoleto)
  - Siena Mortgages 10 -7 Srl (2010, BMPS)
  - Casaforte Srl (2010, BMPS)
- securitisation of **non-performing loans**:
  - Ulisse 4 (2001, BP Spoleto)

- securitisation of **other assets**:
  - Gonzaga Finance S.r.l (2000, BAM)

The portfolios securitised through the vehicle, Mantegna Finance II Srl, comprise real estate-backed loans of former Banca Agricola Mantovana (BAM , now merged into the MPS Group), for a total outstanding debt of EUR 0.032 bln.

The Spoleto Mortgages s.r.l. and Ulisse 4 securitisations were originated by Banca Popolare di Spoleto (BP Spoleto), a bank valued at equity, as at 31.12.2012 by the Parent Company. Spoleto Mortgages S.r.l. is a securitisation of performing loans with a total outstanding debt of EUR 0.031 bln. As at 31 December 2012 the vehicle had repaid 92.56% of the senior notes. Ulisse 4 is a securitisation of non-performing loans with a total outstanding debt of EUR 0.013 bln. The senior notes were fully redeemed.

Gonzaga Finance Srl, a company governed by Luxembourg law, is a securitisation of bonds and credit derivatives which has a remaining debt balance of EUR 0.015 bln.

In the course of 2010, in light of the European ABS market recovery and with a view to achieving economic benefits through reserves management, two additional securitisations were completed through the vehicles, Casaforte Srl and Siena Mortgages 10-7 Srl.

All outstanding securitisations, except for Siena Mortgages 10-7, entail the derecognition of the underlying assets (see following section "Accounting Policies").

Siena Mortgages 10-7 S.r.l

This securitisation transaction was carried out on 30 September 2010. Its portfolio contained 34,971 BMPS performing, real-estate backed loans for a total outstanding debt of approx. EUR 3.5 bln.

The special-purpose vehicle Siena Mortgages 10–7 is 93% owned by Stichting Canova, a foundation incorporated under Dutch law, and the remaining part is owned by the Parent Company. The vehicle structure ensures its independence.

As at 31/12/2012, the remaining debt balance amounted to EUR 2.9 bln.

On 22 November 2010, Siena Mortgages 10-7 financed purchasing of the portfolio by issuing Residential Mortgages Backed Floating Rate Securities in the following tranches:

Securities	Rating Fitch/ Moody's	Total consideration (€/thousand)
A1 Senior	AAA/Aaa	595.00
A2 Senior	AAA/Aaa	400.00
A3 Senior	AAA/Aaa	1,666.90
B Mezzanine	NR /Caa1	817.60
C Junior	NR/NR	106.63

Classes A1 and A2 were placed with market investors, whereas the remaining classes of notes issued by the vehicle were underwritten by the Parent Company. The deal has not entailed 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. An offsetting entry for the cashflows arising from the disposal of tranche A1, A2 was posted on the liabilities side of the balance sheet.

Casaforte Srl

With a view to enhancing part of the Group's properties used in the business, the Parent company formalised an additional securitisation transaction for an amount of EUR 1.7 bln on 21 September 2010. The transaction was completed at the end of December with the transfer of receivables arising from a mortgage loan granted to the consortium company "Perimetro Gestione Proprietà Immobiliari", to vehicle Casaforte srl. As at 31/12/2012, the total outstanding debt amounted to EUR 1.5 bln.

On 22 December, the vehicle Casaforte Srl (with share capital entirely held by Stichting Perimetro and registered offices in Amsterdam) issued asset backed securities (classes A, B and Z) in the following tranches:

Securities	Rating Fitch	Total consideration (€/thousand)
A	A-	1,536.64
B	NR	130.00
Z	NR	3.00

Class B and Z notes are not offered to the public. They were placed with professional and/or qualified investors.

The securitisation-underlying assets were derecognised in their entirety from the balance sheet of the Parent Company, since all of the risks and rewards associated thereto were transferred to the vehicle in both form and substance.

Self securitisations

These transactions involve the transfer of a package of assets (generally loans), originated by Group banks, to a Special Purpose Entity which, in turn, finances the purchase through the issue of Residential Mortgage-Backed Floating Rate Notes (also known as Residential Mortgage-Backed Securities or RMBSs). All Residential Mortgage Backed Securities (RMBS) issued are signed by the Parent Company. Although the Group's full underwriting did not generate any direct cash flows from the market, it still provided the Group with securities that could be used for ECB refinancing and repo transactions, thereby improving the MPS's safety margin and liquidity risk position. In fact, securities that can be allocated with an AAA rating represent the Group's main core for covering short-term obligations using instruments that can be readily liquidated.

In this logic, from 2007 to 2010 five self-securitisastion transactions were carried out on performing loans for a total amount of EUR 20.1 bln.

With a view to further improving the Group's Counterbalancing Capacity, two new self-securitisations were completed in 2011, using the portfolio of loans to small- and medium-sized companies disbursed by MPS Capital Services Banca per le Imprese Spa (MPS CS) and the leasing portfolio of the subsidiary, MPS Leasing & Factoring, for a total amount of EUR 5.4 bln and with a remaining debt of EUR 4.7 bn as at 31 December 2012.

Here follows a list of the self-securitisations as at 31 December 2012, which show a remaining debt of approximately EUR 18.44, of which EUR 9.76 bln accounted for by eligible assets:

- Self-securitisations of performing loans:
  - Siena Mortgages 07 -5 Srl (2007)
  - Siena Mortgages 07 -5/Bis Srl (2008)
  - Siena Mortgages 09-6 (2009)
  - Siena Mortgages 09-6/Bis Srl (2009)
  - Consum.it Securitisation Srl (2010)
- Self-securitisations of **other assets**:
  - Siena Sme 11-1 Srl (2011)
  - Siena Lease 11-1 Srl (2011)

The first two transactions, involving performing residential mortgage loans were carried out in December 2007 (EUR 5.2 bln) and March 2008 (EUR 3.4 bln) for an overall amount of EUR 8.6 bln, through the vehicle, Siena Mortgages 07-5 Srl.

In 2009, two new transactions were added (EUR 4.4 bln as at February 2009 and EUR 4.1 bln as at June 2009), involving performing loans for a total of approx. EUR 8.5 bln through the vehicle, Siena Mortgages 09 – 6 Srl. These transactions have generated eligible assets for a total amount of EUR 7.6 bln at 31/12/2012.

On 21 June 2010 the Consum.it securitisation transaction was completed with the sale of a portfolio consisting of 341,309 performing consumer loans of the company, Consum.it S.p.A., with instalments regularly paid as at the date of valuation of the disposed portfolio and a remaining debt in the region of EUR 3 bln.

MPS Asset Securitisation S.p.a., later named "Consum.it Securitisation S.r.l" was used as the transferee of the transaction-underlying assets. The vehicle is 90% owned by Stichting Montecristo. and 10% owned by the Parent Bank. On 30 June 2010, "Consum.it Securitisation S.r.l." financed purchasing of the portfolio by issuing Asset-Backed Fixed-rate Securities in the following tranches:

Securities	Rating Fitch/ Moody's	Total consideration (€/thousand)
A	AAA/Aaa	1,710.00
B	A/Aa3	540.00
C	Caa2/nr	750.00
D	NR	132.30

As at 31/12/2012, the total outstanding debt amounted to EUR 1.8 bln.

As for previous self-securitisations, a cash reserve corresponding to D junior securities was set up and posted to the balance sheet under loans to customers.

In 2011, a further two transactions were completed by Group companies (Siena Sme 11 – 1 SRL and Siena Lease 11 – 1 Srl) for a total amount of EUR 5.4 bn.

Siena Sme 11 – 1 SRL

On 22 November 2011, MPS CS (Originator) 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 3.0 bln. The vehicle, Siena Sme 11 – 1, 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.

On 30 November 2011, Siena SME 11-1 financed purchasing of the portfolio by issuing Residential Mortgages Backed Floating Rate Securities in the following tranches:

Securities	Rating Moody's/DBRS	Total consideration (€/thousand)
A Senior	Aaa/AAA	1,244.20
B Mezzanine	A3/A (low)	394.50
C Mezzanine	Caa1/NR	1,395.90
D Junior	NR/NR	95.70

The remaining debt amounted to EUR 2.7 bn as at 31/12/2012.

Siena Lease 11 – 1 Srl

On 5 December 2011, MPS Leasing & Factoring (Originator) finalised the disposal of a portfolio of 20,585 real-estate, motor 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. The assets leased under these contracts, classified as 'performing' by the BMPS Group and with all instalments regularly paid as at the date of valuation (30 November 2011) amount to approximately EUR 2.4 bln, equal to the remaining debt balance. The vehicle, Siena LEASE 11 – 1, 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.

On 21 December 2011, Siena LEASE 11-1 financed purchasing of the portfolio by issuing Residential Mortgages Backed Floating Rate Securities in the following tranches:

Securities	Rating Moody's/DBRS	Total consideration (€/thousand)
A1 Senior	AAA/Aaa	916.60
A2 Senior	AAA/Aaa	170.80
B Mezzanine	NR/NR	1,276.20
C Junior	NR/NR	36.30

The remaining debt amounted to EUR 1.9 bn as at 31/12/2012.

Self-securitisations do not contribute to the numerical data reported in the following tables of the quantitative disclosure, because –as was explained above- they do not constitute securitisations in the strict sense of the term.

Securitisation transactions completed in 2012

In the course of 2012, the Group did not complete any new securitisations but, for the purpose of optimising its liquidity, it continued with its covered bond issuance programme

Securitisations redeemed in 2012

In January 2012, the Mantegna Finance Srl securitisation was redeemed, with subsequent repurchase of residual receivables consisting in real estate-backed loans issued by former Banca Agricola Mantovana SpA. The repurchase transaction contributed EUR 2.5 mln in profit to the Bank's financial results.

Third-party securitisations

The Montepaschi Group plays a role in the securitisation market also as an investor. For this reason, a portion of the Group's capital is allocated to stock market investments.

In particular, the Group pursues a multitude of objectives to:

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

In pursuing the above objectives, the Group set up a specifically dedicated unit within the Finance, Treasury and Capital Management Area of the Parent Company.

The scope of operations within the financial markets tends to be as broad as possible so as to draw the maximum benefit from risk diversification and reduced exposure to specific sectors of the stock market. For this purpose, in addition to typical investment activities in government bonds, securities and forex markets, 2002 also saw the launch of targeted activity on the market of *corporate* bonds and *credit derivatives.*

The specifically dedicated unit followed market pattern developments over time, making investments in structured bonds as well. These investments are compliant with the above-mentioned process of diversification. Financial technology has actually made it possible over time to take positions on specific credit risk components such as correlation and recovery through structured bonds.

This parent company

structure is also supported by a specialized desk within the subsidiary, MPS Capital Services. The investment process, for this area too, starts with the specific analyses and evaluations made by the *traders* in a *bottom-up* logic.

The process is included in the overall monitoring of portfolio risks. In other terms, positions are taken following an analysis by *traders* and within the maximum risk profile of the portfolios. All operations in securities markets are subject to risk limits set by the Board of Directors that are monitored daily by the Business Control Units and the Parent Bank's Central Risk Management Unit. These are *stop-loss* and risk limits, which also include, in particular, nominal limits for maximum exposure for major issuer categories broken down by rating.

Securitisations: methods for calculating risk weighted exposures

The MPS Group applies the standardized

approach for calculation of the capital requirement for credit risk relating to securitised exposures included in the Banking Book.

The same approach is also used to calculate the capital requirement for market risk (specific risk) relating to securitised exposures included in the Trading Book for regulatory purposes. For this reason, risk-weighted exposure is calculated by applying a 'weight' depending on the ratings assigned by an External Credit Assessment Institution (ECAI) to the securitised exposures (in the banking book and trading book). The ECAIs used by the group for positions in short-term rated securitisations and securitisations other than those with a short-term rating, include:

Fitch Ratings Ltd

Moody's Investors Service Ltd

Standard & Poor's Ratings Services

Rating Agencies for own securitisations

Type[a]	Rating agencies
PERFORMING LOANS	
SIENA MORTGAGES 10-7 (BMPS)	Fitch Rating Ltd Moody's Investors Service Ltd
MANTEGNA FINANCE II (BAM)	Moody's Investors Service Ltd Standard & Poor's Rating Services
SPOLETO MORTGAGES (BP SPOLETO)	Moody's Investors Service Ltd Standard & Poor's Rating Services
CASAFORTE (BMPS)	Fitch Rating Ltd Moody's Investors Service Ltd
NON PERFORMING LOANS	
ULISSE 4 (BP SPOLETO)	Moody’s Investors Service Ltd
OTHER ASSETS	
GONZAGA FINANCE (BAM)	Moody's Investors Service Ltd Standard & Poor's Rating Services

(a) Originator in brackers.

Accounting policies

The accounting of securitisation transactions completed prior to the first-time adoption (FTA) of international accounting standards are not reported in the financial statements inasmuch as the Group has made use of the optional exemption provided for by IFRS 1, which permits not re-posting financial assets/liabilities sold or derecognised prior to 1 January 2004. Therefore, loans underlying the transactions prior to the first-time-adoption of international accounting standards have been derecognised from the transferor's balance sheet. The relative junior securities underwritten have been classified among receivables.. For transactions completed subsequent to the first-time-adoption of international accounting standards, where receivables were sold to vehicle companies and in which - even with formal transfer of legal ownership of the receivables - control over the cash flows 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 payable is posted with the vehicle company net of the securities issued by the company and repurchased by the seller. The profit and loss statement also reflects the same accounting criteria. Related junior notes underwritten were classified among receivables.

Thus, for the purposes of calculating capital absorption, the loans are maintained in the Group's weighted assets as if they had never been sold.

The only exception in the post-IAS securitisations is Casaforte Srl, the underlying receivables of which were removed in their entirety from the Parent Company's balance sheet since the risks and rewards connected thereto were transferred to the vehicle company in both form and substance.

From an accounting standpoint, self-securitisations do not entail the derecognition of underlying assets.

10.2. Control and Management Reporting systems

The securitisation management process is supported by a specific internal procedure which assigns roles and responsibilities to the various organisational units involved in the individual phases of the process.

The Parent Company's ALM & Capital Management function establishes general practices and coordinates activities in relation to securitisation transactions. The Montepaschi Group set up a specific unit within the Parent Company's Specialised Processes and Services area, responsible for determining the rules and criteria for the management of performing securitisations. More specifically, the Special-purpose Loans and Securitisations service within this Area sets the operational guidelines while looking after aspects and obligations associated with servicing activities. The trend of the transactions is steadily monitored through the periodical (monthly and quarterly) recording of remaining principal repayment flows, default and bad debt positions generated by these securitisations.

In coordination with other originator banks in the Group, the Special-purpose Loans and Securitisations service prepares summary reports on portfolios sold ("total reports"). In addition, as part of critical situation management, this 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; it also verifies
- 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 are managed by a separate unit of the subsidiary, MPS Gestione Crediti S.p.A, whereas the securitisation of consumer loans is managed by the subsidiary, Consum.it SpA.

Risk-hedging policies

With regard to monitoring procedures for risks inherent in own securitisations , the Bank uses the control tools already in place for portfolio risks. Pursuant to the provisions set out in the Supervisory Instructions issued by the Bank of Italy on this subject, the Bank makes sure that the overall transactions are managed in compliance with the law and the prospectuses. When transactions are structured, it is the responsibility of the ALM & Capital Management Service, in collaboration with the Arranger and liaising with the asset-holding unit, the Quality Control function and Risk Management, to submit to the approval of the Finance Committee the definition of the hedging strategy as well as the potential recourse to a back-to-back swap as a way to hedge against the risks of fluctuations in the interest rates of securitised assets.

With regard to procedures aimed at monitoring the risks of third party securitisations, the bank uses the control tools and internal models implemented for the measurement and management of market risks in line with the qualitative and quantitative requirements set out by the regulatory authorities. In detail, the BoD-defined limits of the following are monitored: Stop Loss, Value at Risk (VaR) and nominal limits of maximum exposure by issuer's product categories, broken down by rating classes. Finally, the appropriateness and quality of the market settings applied to Front Office and Market Risk Management are monitored, as are the frequency and quality of upgrades.

Traditional securitisations and self-securitisations originated by the Group are also relevant for liquidity risk monitoring and management. Securitisations have been used by the Group in recent years primarily with a view to 'certificate' commercial assets, using hem for ECB refinancing transactions and collateralised securities lending. In order to maximise the efficiency and economic advantageousness of these transactions, some of the structuring roles required are generally carried out by the *originator* bank itself. In particular, the roles that are particularly relevant for the purpose of liquidity management include the following:

- **Servicer**: the originating entity, which manages the cash flows and usually maintains a direct relationship with its own customers, avoiding disclosure of the list of debtors sold to a third party entrusted with the collection of payments for -and daily management of- the portfolio in question;
- **Account Bank:** the entity that acts as a custodian of the securitisation liquidity, i.e. the depository bank for the collections that the servicer deposits on a daily basis;
- **Swap counterparty:** the direct counterparty for vehicles' interest rate risk hedging swaps.

To fulfil the above roles, the entity is required to comply with specific credit market requirements for the entire period in which the transaction is in place. To maintain the rating of its transactions, if the creditworthiness of the *originator* is downgraded to a rating below the minimum levels set out by the Rating Agencies, the originator will be required to put in place remedies which may expose it to **liquidity risk**. On a case by case basis it may, in particular, be necessary to collateralize or secure the credit exposure arising from the role itself or replace it with a third institution.

Consequently, a downgrade has significant repercussions on the originating banks in terms of liquidity risk, due both to higher collateral required to maintain the typical roles of these transactions in place and the cost for outsourcing part of these roles.

More specifically:

- in order to maintain the role of Servicer, if the bank's rating is downgraded to below the levels set out by the rating agencies, it will be required to fund a reserve, known as the **commingling** reserve which, should a default occur, will provide hedging against the risk that the amounts collected on behalf of the vehicle and not yet credited to the vehicle's accounts may fall into the funds available for the general body of creditors of the bankrupt bank;
- for the role of Account Bank, Rating Agencies may require a third bank to be entrusted with the custody of the vehicles' financial assets, thus generating strong liquidity losses;
- for the role of Swap Counterparty, if credit

scoring is below a certain level, Agencies may require either replacement of (or a guarantee from) the counterparty or specific collateralisation. Externalisation or derivative guarantee may instead be imposed by the Agencies if creditworthiness is below a certain limit threshold.

10.3 - Covered Bond transactions

In 2009, with a view to improving the mid-long term financial profile, the Board of Directors of the Montepaschi Group authorised a programme for the Issuance of **Covered Bonds** in the amount of EUR 10 bln.

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 maturity profile.

Subsequently, with a view to improving the efficiency and stability of the Group's Counterbalancing Capacity, on 9 February 2012 a further issuance programme was authorised for a maximum of EUR 20 bn in not-explicitly-rated covered bonds. The second programme is not intended for the market but for transactions eligible as collateral in refinancing transactions through the European Central Bank

These transactions are structured into the following stages:

a) the Parent Company, or other Group company, transfers, without recourse, a pool of assets having certain characteristics to the vehicle, MPS Covered Bond S.r.l. and MPS Covered Bond 2 S.r.l, thus forming a segregated *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 involved in the transaction; the guarantee involves limited recourse to the assets of the Cover

Pool owned by the vehicle (guarantor).
The structure of the deal is such that the Parent Company is the transferor (a), lender (b) and issuer (c) in the transaction.
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 Programme, in both cases, was 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.

The portfolio held for sale in the first bond issuance consisted in performing residential mortgages in real estate and building secured by 1st mortgages and with all instalments regularly paid as at the date of valuation of the portfolio.
In order to support the issuances of Covered Bonds, reported below are the details of portfolios sold, amounting to approx. 151 thousand mortgages for a total of EUR 15.4 bln:

Date of sale	Portfolio	Loans number	Ammount (€/mld)
25/05/10	Loans BMPS	36,711.00	4.4
19/11/10	Loans BMPS	19,058.00	2.4
25/02/11	Loans BMPS	40,627.00	3.9
21/05/11	Loans BAV	26,804.00	2.3
17 /09/11	Loans BMPS	27,973.00	2.3

In Covered Bond issuances, it is not the vehicle but MPS that issues securities directly. As part of its first issuance programme, the Parent Company finalised issuances of covered bonds in the Eurobond market for a total amount of EUR 4.5 bln, of which EUR 2.25 in 2010 and EUR 2.25 bln in 2011.

Details are reported in the following table:

Issuer Date	Legal maturity	Rating Fitch/ Moody's	Interesr Rate	Ammount (€/mld)
30/06/10	30/06/2015 extensible to 30/06/2016	AAA/Aaa	3.125% yearly	1
23/09/10	23/09/13	AAA/Aaa	2.50% yearly	1.25
09/02/11	03/02/18	AAA/Aaa	5.00% yearly	1
15/03/11	15/09/16	AAA/Aaa	4.875% yearly	1.25

BMPS also finalised 3 private placement issuances of Registered Covered Bonds (RCB) in 2011, for a specific target of buy and hold investors. RCBs are a very flexible instrument making it possible to target a niche of prime investors and obtain very advantageous funding both in terms of maturities (extending debt issued by up to 20/30 years) and cost of funding, thanks to a competitive spread which is not subject to the typical volatility of the secondary market.

The characteristics of these issuances, totalling EUR 0.2 bln, are reported below.

Issuer Date	Legal maturity	Rating Fitch/ Moody's	Interesr Rate	Ammount (€/mld)
13/05/11	13/05/26	AAA/Aaa	5.375% yearly	0.075
13/05/11	13/05/30	AAA/Aaa	5. 5% yearly	0.075
13/05/11	13/05/31	AAA/Aaa	zero coupon	0.05

Covered bonds for a total amount of EUR 3.07 bln were also issued in 2011, which were not placed on the market but subscribed for by MPS or other Group companies and partly used as collateral for ECB refinancing transactions or other forms of secured financing.

As at 31 December 2012 assets sold under the first programme amount to 142 thousand mortgages for a total of EUR 13 bn. Issuances were completed for a total of EUR 7.77 bn (of which EUR 3.07 bn subscribed by MPS/Group companies).

The held-for-sale portfolio of the second Issuance of Covered Bonds consists of real-estate backed, residential and commercial mortgage loans, receivables from -or guaranteed by- the Public Administration and securities issued as part of securitisations consisting in these same types of loans and receivables.

In order to support the issuances of Covered Bonds, reported below are the details of portfolios sold, amounting to approx. 68 thousand mortgages for a total of approx. EUR 8.7 bln:

Date of sale	Portfolio	Loans number	Ammount (€/mld)
27/04/12	Loans	27,302	Loans
22/06/12	Loans	14,008	2.48
24/08/12	Loans	17,353	1.40
21/09/12	Loans	9,870	2.47

Management of the new Covered Bond programme follows the proven processes and controls already adopted for management of the Covered Bonds Programme established in 2010.

Below are the details of these issuances - totalling EUR 7.8 bn - not intended for the market but repurchased by the bank and used as collateral for refinancing transactions in the Eurosystem.

Issuer Date	Issuer Date	Interesr Rate	Ammount (€/mld)
25/5/2012	Jul-15	Euribor 3m+1,4%	1.5
21/6/2012	Oct-15	Euribor 3m+1,4%	0.6
10/7/2012	Jan-16	Euribor 3m+1,4%	0.8
10/7/2012	Apr-16	Euribor 3m+1,4%	0.8
10/7/2012	Jul-16	Euribor 3m+1,4%	0.6
5/9/2012	Oct-16	Euribor 3m+1,5%	0.7
5/9/2012	Jan-17	Euribor 3m+1,5%	0.7
28/9/2012	Apr-17	Euribor 3m+1,5%	0.7
28/9/2012	Jul-17	Euribor 3m+1,5%	0.7
28/9/2012	Oct-17	Euribor 3m+1,5%	0.7

From an accounting viewpoint, both Covered Bond transactions did not involve the derecognition of assets sold. It should be noted that:

- transferred loans continue to be reported in the Parent Company's balance sheet 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 assement 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 received by borrower is recognized as an offsetting entry to Account 10 "Interest income: Loans 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 Vehicle "MPS Covered Bond S.r.l." is invested in by the Parent Company for a control stake of 90%, recognised under Account 100 "Equity Investments" and included in the Group's consolidated financial statements under the comprehensive approach;
- the vehicle "MPS Covered Bond 2 S.r.l." is invested in by the Parent Company for a control stake of 90%, recognised under

Account 100 “Equity Investments” and included in the Group’s consolidated financial statements under the comprehensive approach;

- bonds issued are posted to Account 30 “Debt securities in issue” on the liabilities side, and related interest expense is recognised on an accrual basis.

Quantitative disclosure

Table 10.1 – Exposures securitised by the MPS Group

Type of Assets/Exposures securitised	Exposures		Losses for the period
	net	of which impaired	
RMBS	**4,543,108**	**39,426**	**-**
Non-performing loans	13,214	13,214	-
Ulisse 4	*13,214*	*13,214*	-
Mortgages	4,529,894	26,212	-
Mantegna Finance II (Bam)	40,358	4,410	-
Spoleto 03 4 (Banca Popolare Spoleto)	31,102	2,436	-
Casaforte Srl (Banca MPS)	1,509,778	-	-
Siena Mortgages 10 - 7 (Banca MPS)	2,948,656	19,366	-
CDO	**15,000**	**-**	**-**
Bonds and credit derivates	15,000	-	-
Gonzaga Finance (Bam)	*15,000*	-	-
Total as at 31/12/2012	**4,558,108**	**39,426**	**-**
Total as at 31/12/2011	**4,881,261**	**28,365**	**-**

Reported below are the assets underlying the securitisations originated by the Bank, included in the Banking Book. These securitisations involve total derecognition of underlying assets from an accounting viewpoint, with the exception of Siena Mortgages 10 – 7, which is not derecognised. Until now the Group has not carried out any synthetic securitisations. The securitizations, Ulisse 4 and Spoleto Mortgages , were originate by Banca Popolare di Spoleto valued at equity by the Parent Company as at 31.12.2012 (previously consolidated under the proportional method). For this reason, its figures are not included in the Tables of the Financial Statements concerning Own Securitisations.
The Group has not issued any synthetic securitisations so far.

The following tables report the Group's overall exposures in on- and off-balance sheet securitisations broken down by Banking and Trading Book and by type of securities.

The tables refer to exposures used for prudential supervisory reporting purposes and include securitised exposures that are not recognised for the purpose of capital requirement calculation. In this latter case, capital requirements are calculated having regard to the securitised assets and not to the corresponding exposure.

Table 10.2 – Total securitised exposures by type of securities* (on- and off-balance-sheet)

	Securitisations		Total
	own	of third parties	
1. Balance-sheet exposures	168,976	472,468	641,444
Banking book	8,194	382,911	391,105
ABS	-	2,524	2,524
CBO	-	-	-
CDO	-	-	-
CDO di ABS	-	309,073	309,073
CLO	-	16,741	16,741
CMBS	-	5,587	5,587
RMBS	8,194	48,986	57,180
Trading book	160,782	89,557	250,339
ABS	-	721	721
CBO	-	7,603	7,603
CDO	-	3,898	3,898
CMBS	160,665	21,928	182,593
RMBS	118	55,408	55,525
2. Off-balance-sheet exposures	-	-	-
Total as at 31/12/2012	**168,976**	**472,468**	**641,444**
Total as at 31/12/2011	**157,601**	**1,543,415**	**1,701,016**

(*) Asset types are defined in the Glossary.

Table 10.2.1 – Own securitised exposures by type of securities and underlying assets-Banking Book

	Junior	Mezzanine	Senior	Total
RMBS				
Residential mortgages	-	-	-	-
Mortgages	7,831	-	363	8,194
Total as at 31/12/2012*	**7,831**	**-**	**363**	**8,194**
Total as at 31/12/2011	**23,848**	**-**	**920**	**24,768**

** None of the exposures shown are recognised in the calculation of prudential requirements reported in Tables 10.3.1 and 10.3.2.*

Table 10.2.2 – Third-party securitised exposures by type of securities and underlying assets - Banking Book

	Junior	Mezzanine	Senior	Total
ABS	**-**	**635**	**1,889**	**2,524**
Equip Lease	-	-	1,889	1,889
Consumer loans	-	635	-	635
CDO di ABS	**-**	**-**	**309,073**	**309,073**
Financial	-	-	49,885	49,885
Mixed Assets	-	-	259,188	259,188
CLO	**-**	**16,741**	**-**	**16,741**
Residential mortgages	-	16,741	-	16,741
CMBS	**1,479**	**4,109**	**-**	**5,587**
Commercial mortgages	1,479	4,109	-	5,587
RMBS	**-**	**1,149**	**47,836**	**48,986**
Residential mortgages	-	1,149	47,836	48,986
Total as at 31/12/2012	**1,479**	**22,634**	**358,798**	**382,911**
Total as at 31/12/2011	**15,778**	**26,891**	**1,204,709**	**1,247,378**

Table 10.2.3 – Own securitised exposures by type of securities and underlying assets – Trading Book

	Junior	Mezzanine	Senior	Total
CMBS	**-**	**33,288**	**127,377**	**160,665**
Non-residential mortgage loans	-	33,288	127,377	160,665
RMBS	**-**	**-**	**118**	**118**
Mortgages	-	-	48	48
Residential mortgage loans	-	-	70	70
Total as at 31/12/2012	**-**	**33,288**	**127,494**	**160,782**
Total as at 31/12/2011	**-**	**52,970**	**79,863**	**132,833**

Table 10.2.4 – Third-party securitised exposures by type of securities and underlying assets – Trading Book

	Junior	Mezzanine	Senior	Total
ABS	**-**	**-**	**721**	**721**
Lease	-	-	721	721
CBO	**-**	**-**	**7,603**	**7,603**
Bond	-	-	7,603	7,603
CDO	**-**	**3**	**3,894**	**3,898**
Bond	-	-	3,894	3,894
SME loans	-	3	-	3
CMBS	**-**	**-**	**21,928**	**21,928**
Commercial mortgages	-	-	21,928	21,928
RMBS	**-**	**-**	**55,408**	**55,408**
Residential mortgages	-	-	55,408	55,408
Total as at 31/12/2012	**-**	**3**	**89,553**	**89,557**
Total as at 31/12/2011	**-**	**3,648**	**292,389**	**296,038**

The tables refer to securitised exposures (own and third-party securitisations), broken down by Banking or Trading Book subject to the standardised approach and related capital requirements. The tables do not include exposures whose requirements are calculated on the basis of their underlying assets. The risk weighting factors provided for by regulations are applied in this latter case and such exposures are included in the regulatory portfolios of Table 6.1.

Table 10.3 - Total securitised exposures by Banking/Trading Book and related capital requirements (Standardised Approach)

Type	Exposures	Capital requirements
Banking Book	382,911	102,766
Trading Book	250,339	21,242
Total as at 31/12/2012	**633,250**	**124,008**
Total as at 31/12/2011	**1,681,611**	**102,593**

Exposures in own and third-party securitisations and re-securitisations are not credit risk mitigated through CRM techniques such as those included in Table 8.1. The exposures broken down by Banking or Trading Book, type of securitisation and weight band are reported in the tables below.

Table 10.3.1 - Securitised exposures by risk weight bands - Banking Book

Type	Risk weight band							Total
	20%	50%	100%	225%	350%	1250%	1250% no Rating	
Own Securitisations	-	-	-	-	-	-	-	-
Third-party Securitisations	5,175	3,736	45,241	-	1,479	1,467	16,741	73,838
Re-securitisations	-	-	204,212	49,885	-	54,976	-	309,073
Total as at 31/12/2012	**5,175**	**3,736**	**249,453**	**49,885**	**1,479**	**56,443**	**16,741**	**382,911**
Total as at 31/12/2011	**725,842**	**54,351**	**399,773**	**54,676**	**1,502**	**7,434**	**9,163**	**1,252,741**

The table above details the securitised exposures by risk weight bands and type of transactions. The amounts shown, in line with prudential regulations, relate to own and third-party securitised exposures included in the banking book. Therefore, they do not include the securitised exposures included in the regulatory trading book, detailed in the following Table 10.3.3. Moreover, as far as own securitisations are concerned, in compliance with supervisory regulations, the table does not include securitised exposures:
a) that refer to transactions that are not recognised as securitisations for prudential supervisory purposes, since, among other reasons, they do not entail the actual transfer of credit risk,
b) whose overall risk-weighted value to the same securitisation exceeds the risk-weighted value of underlying securitised assets, calculated as if they had not been securitised (cap test). Both in the case of a) and b), capital requirements are calculated in relation to securitised assets and not to the corresponding exposures securitised. Moreover, in this case, securitized assets are classified in their original regulatory classes (exposures secured by real estate, etc.) and are therefore excluded from "Securitisations"

Table 10.3.2 - Capital requirements of securitised exposures by risk weight bands – Banking Book

Type	Risk weight band							Total
	20%	50%	100%	225%	350%	650% 1250%	1250% no Rating	
Own Securitisations	-	-	-	-	-	-	-	-
Third-party Securitisations	83	149	3,619	-	414	1,467	16,741	22,474
Re-securitisations	-	-	16,337	8,979	-	54,976	-	80,292
Total as at 31/12/2012	**83**	**149**	**19,956**	**8,979**	**414**	**56,443**	**16,741**	**102,766**
Total as at 31/12/2011	**11,613**	**2,174**	**31,982**	**9,842**	**420**	**11,234**	**5,363**	**72,628**

Table 10.3.3 - Securitised exposures by risk weight bands - Trading Book

Type	Risk weight band							Total
	20%	50%	100%	225%	350%	650% 1250%	1250% no Rating	
Own Securitisations	-	118	160,665	-	-	-	-	160,782
Third-party Securitisations	2,646	29,353	48,971	-	7,412	1,175	-	89,557
Re-securitisations	-	-	-	-	-	-	-	-
Total as at 31/12/2012	**2,646**	**29,471**	**209,635**	**-**	**7,412**	**1,175**	**-**	**250,339**
Total as at 31/12/2011	**169,537**	**33,924**	**196,669**	**-**	**25,803**	**2,936**	**-**	**428,870**

The table above details the exposures securitised by risk weight bands and by type of transactions. The amounts shown relate to own and third-party securitised exposures included in the regulatory trading book.

Table 10.3.4 - Capital requirements of securitised exposures by risk weight bands - Trading Book

Type	Risk weight band							Total
	20%	50%	100%	225%	350%	650% 1250%	1250% no Rating	
Own Securitisations	-	5	12,853	-	-	-	-	12,858
Third-party Securitisations	42	1,174	3,918	-	2,075	1,175	-	8,385
Re-securitisations	-	-	-	-	-	-	-	-
Total as at 31/12/2012	**42**	**1,179**	**16,771**	**-**	**2,075**	**1,175**	**-**	**21,242**
Total as at 31/12/2011	**2,713**	**1,357**	**15,734**	**-**	**7,225**	**2,936**	**-**	**29,964**

Table 12 - Operational risk

Qualitative disclosure

The Montepaschi Group has implemented an integrated risk management system on the basis of a governance model which involves all the companies of the Montepaschi Group included in the 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 Montepaschi Group was authorized by the Bank of Italy on 12 June 2008 to use the internal advanced measurement approach (AMA) for the calculation of capital requirements for operational risks. The advanced model officially started operating on 1 January 2008. The first consolidated regulatory reporting on the basis of the model was prepared in relation to the results as at 30 June 2008.

The Bank of Italy granted the authorization after verifying compliance with the requirements set out in Circular 263. Verification involved all aspects of risk measurement, management and mitigation, with strong engagement from the Group's Top Management. All the domestic banking and financial components are incorporated in the scope of advanced measurement approach (AMA). For remaining components and foreign companies, the foundation model has been adopted.

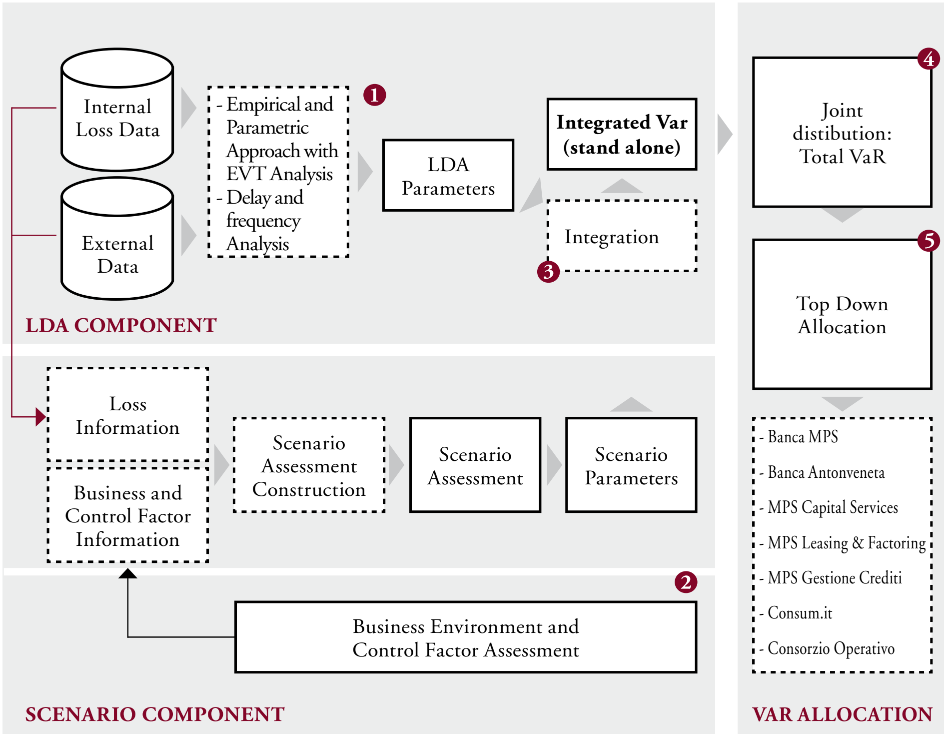
Today's internal model coverage in terms of total banking income stands at 95.8%.

The advanced approach adopted by the Montepaschi Group is designed so as to homogeneously combine all the main qualitative and quantitative information (or data) sources (Mixed LDA-Scenario Model).

The quantitative Loss Distribution Approach component is based on the statistical collection, analysis and modelling of internal and external historical loss data (Italian Database of Operational Losses, DIPO). The model includes calculation in relation to the 7 categories of events established by Basel 2 used as risk classes, with the adoption of Extreme Value Theory techniques.

The estimated frequency of occurrence is based exclusively on internal data. 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, the companies are involved in process and risk identification, risk evaluation by process managers, identification of possible mitigation plans, discussion (in scenario-sharing sessions) of priorities and technical-economic feasibility of mitigation actions with the H.O. units.

The AMA model, which had been running in parallel for two years prior to final approval, ensured a better informed management of operational risk and a gradual reduction of risk within the Group.



Finally, the percentage breakdown of events and operational losses recorded in 2012 is reported, divided into the following risk classes:

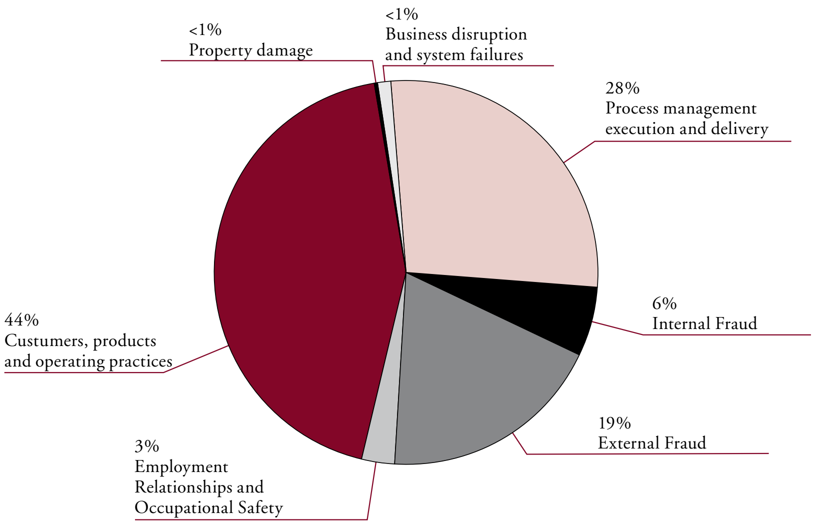
- Internal fraud: losses arising from unauthorised activities, fraud, embezzlement or violation of laws, regulations or corporate directives that involve at least one internal resource of the Group;
- External fraud: losses due to fraud, embezzlement or violation of laws by subjects external to the Group;
- 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-fulfilment 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 or vandalism;
- Business disruptions and system failures: losses due to business disruption or system failures or interruption;
- Process management, execution and delivery: losses arising from operational and process management shortfalls, as well from transactions with business counterparties, vendors and suppliers.

The positive trend registered in previous years, both in terms of number of operational risk events and in terms of loss, was confirmed for 2012 .

The effort of transparency undertaken by the

Group in respect of financial portfolios as well as legal issues currently under way leave room for the assumption that capital may have possibly been impacted by operational risk events, which cannot but be quantified after the final closing of processes involving balance sheet analyses and quantification of assumptions that may qualify as internal fraud.

Losses breakdown
Montepaschi Group - 31.12.2012



Events breakdown
Montepaschi Group - 31.12.2012

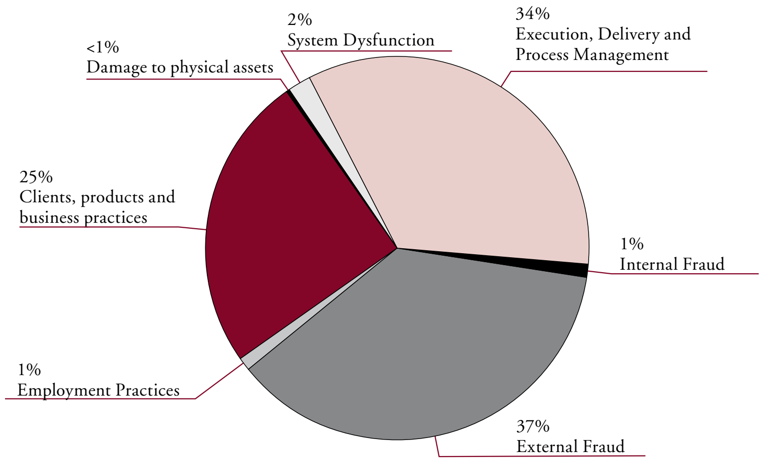


Table 13 - Equity exposures: disclosures for banking book positions

Qualitative disclosure

13.1 Purpose of exposures

Exposures in equity instruments are held by the Group for strategic purposes (group investments, associates and joint ventures), institutional purposes (investments in trade associations, local entities and institutions), purposes functional to the bank's business and the development of commercial business and financial investment purposes (limited to the investments associated with the merchant banking business of MPS Capital Services). Other investments exist, which are no longer considered as strategic and that are being sold, as well as investments in companies in liquidation. Equity exposures included in the banking book are classified for balance sheet purposes under available-for-sale financial assets and equity investments.

13.2 Measurement and accounting criteria

13.2.1 Assets available for sale

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, investment in an associate and joint control, and bonds which are not subject to trading.

Such investments may be transferred for any reason, such as need for liquidity or variations in interest rates, exchange rates, or stock price.

Recognition criteria

Financial assets represented by debt or equity securities are initially booked at the settlement date, whereas receivables are initially booked as of the disbursement date. 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 as a result of reclassification from assets held to maturity, the value at which the assets are booked is represented by the fair value as of the date of transfer. In the case of debt instruments, any difference between the initial value and the value of repayment is posted to P&L and spread out over the life of the debt instrument in accordance with the method of amortised cost.

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 net 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 non-monetary (equity) instruments are posted to the specific net equity reserve, whereas changes in monetary instruments (loans/receivables and debt instruments) are allocated to profit and loss. Equities, 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 are, for instance, significant financial difficulty of the issuer, non-fulfilment or defaults in payments of interest or principal , the possibility that the borrower is declared bankrupt or submitted to other forms of insolvency proceedings, the 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 profit and loss statement.

With regard to debt securities, regardless of whether or not these are listed on active markets, any impairment loss is recognised in the profit and loss 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.

Any writedowns recognised as a result of the impairment test are booked to the profit and loss statement as an operating expense.

If the reasons for impairment cease to exist, following an event which occurred after recognition of impairment, writebacks are recognised in equity in the case of equity instruments, and through profit and loss in the case of debt securities.

Derecognition criteria

Financial assets are derecognised from the

balance sheet when the contractual rights to the cash flows derived from the assets expire or when the financial asset is sold and virtually all of the risks and rewards in relation thereto 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.
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.

Criteria for the reporting of income and expenses

Upon disposal, or 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:
account "100 - Gains/Losses on purchase/ disposal of: b) financial assets available for sale", in the case of disposal;
account "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 appropriately reversed: through profit and loss in the case of loans or debt securities, and through net equity in the case of equity instruments.

13.2.2 Equity investments

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 equity investments is made regardless of the legal status and the computation of voting rights includes any potential voting rights currently exercisable.

Recognition criteria

The account includes equity investments held in associates: these investments are initially recognised at purchase cost.

Revenue recognition and measurement 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 profit and loss 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 in profit or loss under Account "240 - Gains (losses) on equity 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.

Derecognition criteria

Investments are derecognised from the balance sheet when the contractual rights to the cash flows derived from the assets expire or when the financial asset is sold and virtually all of the risks and rewards in relation thereto 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.

Quantitative disclosure

Table 13.1 - Equity exposures: Banking Book

Type	Book Value	Fair Value	Market Value	Exposure	Realised gains/ losses	Unrealised gains/losses Total	Unrealised gains/losses of which included in Tier 1 and Tier 2 capital
Available For Sale securities (A)	**354,143**	**354,143**	**x**	**354,143**	**29,470**	**34,528**	**17,264**
quoted	41,585	41,585	41,585	41,585	27,032	5,990	2,995
unquoted	312,558	312,558	x	312,558	2,438	28,538	14,269
Investments (B)	**193,924**	**x**	**x**	**280,448**	**829**	**-**	**-**
quoted	48,570	x	x	43,842	-	-	-
unquoted	145,354	x	x	236,606	829	-	-
Total 31.12.2012 (A+B)	**548,067**	**354,143**		**634,592**	**30,299**	**34,528**	**17,264**
quoted	90,155	41,585	41,585	85,427	27,032	5,990	2,995
unquoted	457,912	312,558	x	549,164	3,267	28,538	14,269
Total 31.12.2011 (A+B)	**741,596**	**586,300**		**818,422**	**70,091**	**-16,255**	**-16,255**

x = value not attributable
PN = Patrimonio Netto, Net Equity
PB, PS = Patrimonio di Base (Core Capitale) and Patrimonio Supplementare (Supplementary Capital), respectively
The table illustrates exposures in capital instruments broken down by the respective accounting portfolio. Values refer to the exposures included in the Banking Book and do not include exposures in capital instruments which are deducted for the calculation of Regulatory Capital. In the column "Exposure" the related value is calculated according to the rules of Prudential Supervision and thus differs from the Book value. The value of the Exposure also includes the value of the shareholding in MPS Tenimenti which, for prudential purposes, is calculated with the net equity method while for Financial Statements the comprehensive method is applied.

Table 14 - Interest rate risk on positions in the banking book

Qualitative disclosure

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 of reference. The definition of the scope of the Banking Book (in line with that for the regulatory book) and the process of centralising the management of ALM are contained in a resolution by the Board of Directors of the Parent Bank, aimed at centralising Asset & Liability Management and operational limits for interest rate risk of the Group Banking Book as previously approved in September 2007 and updated in October 2009 to adjust the overall framework to the changed share ownership structure, as well as to develop the approach in keeping with the format outlined in the regulatory provisions (Bank of Italy Circ. 263).

The Banking Book also includes active bonds held for investment purposes, classified as either AFS or L&R. The same ALM rate risk metrics of measurement used for other accounts were also applied to this aggregate.

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 first and foremost 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 25bp, 100bp and 200bp, the latter in accordance with the requirements set out in the "second pillar" of Basel 2.

The risk measurements of the retail banks of the Montepaschi Group 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 variations in interest rates are described in systems with a statistical/predictive model *(replicating portfolio)*, which takes into consideration a significant historical series of customer behaviours in the past.

In addition, the Montepaschi Group's ALM model includes within rate risk measurements, a behavioural model which takes into account the aspect of mortgage advance repayment *(prepayment risk)*.

The Montepaschi Group is committed to the continual updating of risk measurement methodologies by gradually fine-tuning estimation models so as to include all major factors that progressively modify the interest rate risk profile of the banking book.

Specifically, within the scope of periodic assessment and verification of risk model adequacy, the behavioural modelling for prepayment risk treatment and demand deposit assessment was fine-tuned.

While keeping the methodological approach in use at the Montepaschi Group unaltered, the fine-tuning was particularly focused on the assignment of specific behavioural models, differentiated by business or customer clusters.

In the course of 2012, the Group continued to carefully and constantly monitor its risk profile characteristics particularly in the light of existing contractual options and operating practices adopted, all of which make the risk profile more dependent on market performance, interest rates and their volatility.

The Group adopts a 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 the ongoing verification of 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.

As part of the above system, the Parent Company has opted for a centralisation of the responsibility for defining the policies aimed at managing the Group Banking Book and controlling its related interest rate risk.

Quantitative disclosure

The sensitivity of the Montepaschi Group, at the end of 2012, suggests a profile of exposure to rate hike risk. With a shift of +200 bp in the interest rate curve, total sensitivity of the economic value stands at -1,790.01 EUR/mln, an increase compared to the end of 2011.

Risk is almost entirely allocated to exposures denominated in Euros.

Table 14.1 – Interest Rate Risk in the Banking Book (IRRBB)

Shift (+/-)	Effect on Economic Capital (EUR/mln)	
	dec-12	dec-11
Eur +200bp	-1,769.21	-1,643.49
Usd +200bp	-26.19	-6.39
Other +200bp	5.39	11.41
Total +200bp	**-1,790.01**	**-1,638.47**
Eur -200bp	1,747.69	2,057.52
Usd -200bp	5.12	3.17
Other -200bp	-1.83	-13.81
Total -200bp	**1,750.98**	**2,046.88**

The amount of the economic value at risk is, in any case, below the level considered as a critical threshold by current regulations.

Table 15 – Remuneration and incentive policies and practices

Qualitative disclosure

In the objective of attracting and retaining staff that has professional skills appropriate to the complexity of its business, the Group's remuneration policies are inspired by the values of fairness and economic sustainability. The policies are consistent with the national and international regulatory framework of reference and in line with market trends. The policies do not favour an increase in corporate risk and are compatible with the objective of creating value over time. Group policies are reflective of a corporate culture based on the ethics of responsibility, a strong sense of belonging and a constant focus on the growth of human capital.

The principles inspiring the general guidelines are aimed at favouring an appropriate balance between the fixed and variable components of remuneration and having it connected with actual performance over time, using specific deferral mechanisms for all employees whose professional activity has or may have considerable impact on risk profiles (a.k.a. "identified personnel").

Internal bodies and functions involved

Pursuant to the Articles of Association, the task of defining and maintaining appropriate remuneration and incentive policies is assigned to the Shareholders' Meeting and Board of Directors.

The ordinary Shareholders' Meeting determines the remuneration of Directors and Statutory Auditors, and approves the remuneration policies and share-based payment plans for the Bank's directors, employees and contractors.

It is instead the role of the Board of Directors to enforce the remuneration policies approved by the Shareholders' Meeting, intervening on the legal and economic status of personnel, including the General Manager, Deputy General Managers, Executives, Heads of functions reporting directly to the Chief Executive Officer, and – subject to the prior opinion of the Board of Auditors - Heads of control functions.

Within the Board of Directors, an Appointment and Remuneration Committee was set up: made up of four directors, most of whom independent (including the Chairman), the Committee is in charge of passing an independent judgement on remuneration policies and practices and submit proposals to the Board with regard to the remuneration of Directors entrusted with special assignments and the economic treatment of the Bank's Top Management. To this end, support also comes from the Operational Committee for remuneration, an internal body made up of the Heads of the Human Resources, Planning, Compliance and Risk Management functions; the Head of Internal Audit takes part as an auditor.

As delegated by the Board of Directors (pursuant to art. 22 of the Articles of Association), the Chief Executive Officer submits proposals to the Board on issues such as the incentive system for human resources and the definition of internal policies and regulations on the legal and economic status of employees; at the same time, the CEO has decision-making powers regarding definition of the legal and economic status of employees at all levels, with the exception of the Financial Reporting Officer, the Heads of Control Functions and all those roles whose appointment and compensation are, according to the Articles of Association, under the exclusive responsibility of the Board of Directors.

The technical input necessary to make sure that policies adopted are properly aligned with the regulatory framework in force comes from the company's control functions – Internal Audit, Compliance and Risk Management – whose involvement is ensured from the very phase of remuneration policy definition in ways designed to preserve their independence. Among these, the Internal Audit Function is called to verify, on a yearly basis, whether the remuneration practices are in alignment with the remuneration policies approved by the Shareholders' Meeting and existing regulations, submitting the outcome of its assessment to the attention of the highest governing body of the company.

The final function involved is that of "Human Resources" which implements the policies from a technical and operational standpoint, ensuring Group-wide coordination (for individual companies) in terms of both fixed and variable salary components associated with the incentive system.

Remuneration of Directors and Auditors

The gross annual compensation for Directors for the years 2012-2013-2014 was approved by the Shareholders' Meeting of 27/04/2012 at a fixed amount of EUR 60,000 in addition to Euro 400 for each meeting attendance; an additional EUR 15,000 is added for Executive Committee members.

At the same meeting, Shareholders determined the Chairman's fee, reducing the gross annual amount from EUR 700,000 to EUR 500,000 – including remuneration due as member of the Board of Directors. In this regard, it should be noted that the Chairman, Mr. Alessandro Profumo, has waived this fee, retaining only the portion relating to his role as member of the Board.

For the Board of Statutory Auditors, the Shareholders' Meeting has set a gross compensation of 100,000 for the Chairman and EUR 60,000 for Standing Auditors.

Pursuant to art. 2389 of the Civil Code, the Board of Directors established an additional gross annual compensation of EUR 85,000 for the "Deputy Chairman" with duties provided for by art. 23, paragraph 2 of the Articles of Association", and an additional compensation of EUR 65,000 for the other Deputy Chairman; both Deputy Chairmen waived this additional fee in accordance with the example given by the Chairman.

The Board of Directors also established a compensation of EUR 10,000 for each member of the Internal Control Committee (now, the Control and Risk Committee, as provided for by the Corporate Governance Code) and EUR 5,000 for members of the Appointment and Remuneration Committee and the Independent Directors Committee.

On 28 August 2012, the Board of Directors, upon proposal of the Appointment and Remuneration Committee, established a fee of EUR 400,000 for the Chief Executive Officer (effective as of the start date of office, 3 May 2012) in addition to his compensation as General Manager. Mr. Fabrizio Viola has also waived this fee.

With reference to Directors' remuneration, the principle approved by the Shareholders' Meeting applies, which states that there is no link with the Group's economic results and that directors shall not be the recipients of any type of incentive plans. This principle is also applied to the governing bodies of the Group's subsidiaries.

Moreover, in compliance with the provisions of Recommendation no. 2004/913/EC of the European Commission, no allowance is due to directors in connection with termination of office (a.k.a. "golden parachute").

Employees' remuneration

The implementation of employees' remuneration policies is an exclusive competence of the Parent Company's Board of Directors, which may partly delegate the CEO.

The Board of Directors' decisions on the remuneration policies, inspired by fairness and economic sustainability, are based on the following principles:

- Attraction and retention of resources of high professional standing;
- Motivation and professional growth support for all employees, placing specific emphasis on resources with roles of responsibility; strategic skills or high potential
- Consistency of remuneration with the value of the professional services rendered, with variations functional to the nature and strategic "weight" of roles and priorities for positions that have a material impact on the business (network roles);
- Differentiation of treatment according to logics of internal consistency that enhance role seniority while preventing, however, excessive differences within job categories so as to preserve the values of cohesion and corporate unity, which lie at the basis of the employees' sense of belonging.

In their widest scope, the compensation structures consist of a fixed component (Gross Annual Salary – it. R.A.L.), a variable portion (mainly comprising a Company Bonus and a bonus linked to the achievement of performance objectives) and benefits.

Fixed remuneration is determined by the

National Collective Labour Agreement (CCNL) on the basis of professional levels and is integrated across the company through a complex set of actions – some of which are identified during negotiations with trade unions - aimed at supporting and enhancing the professional growth of resources.

Starting from Executives, whose contractual minimum salaries are but slightly higher than those of Middle Managers, the MPS Group has developed a gradual customisation process -starting from individuals with higher standing roles- which makes it possible to establish a link between their remuneration and the different "weight" these resources have within the organisation

The legal and economic status of members of the Top Management is approved by the Board of Directors with the involvement of the Appointment and Remuneration Committee as far as the General Manager is concerned; upon proposal of the General Manager – subject to the prior favourable opinion of the Appointment and Remuneration Committee – as far as Deputy General Managers are concerned; upon proposal of the Chief Executive Officer – again subject to the prior favourable opinion of the Appointment and Remuneration Committee – as far as his reports (i.e. the Heads of H.O. Areas and functions) are concerned.

The itemised values of the Gross Annual Salary of managers are determined by taking account of the managers' role relevance, individual characteristics and average market values for organisational positions by business areas.

A specific path is followed for the remuneration of Executives in charge of control functions, which is determined in its economic details by the Board of Directors, subject to the prior opinion of the Control and Risk Committee and the Board of Statutory Auditors upon proposal of the Director in charge of the 'control and risk' system as far as '1st level-unit' managers are concerned (Parent Company's Areas) and subject to the prior opinion of the Control and Risk Committee for '2nd level-unit' managers (Parent Company's services/staff units)

For middle/junior managers and other professional categories, that make up the large majority of the company's population (approx. 98.5%, of which 60% professional categories), minimum salary levels for the various categories as set out by industrial regulations are integrated with actions aimed at enhancing the relevant contribution of these resources to the solidity of the Group's growth in operations and revenues and reflecting a better correlation between grades, organisational positions and their remuneration.

The variable remuneration scheme essentially consists of two components, (i) a contractually regulated Company Bonus (former 'per capita added value' or "VAP" in Italian) payable to all Group employees (excluding Executives) upon achievement of certain income, capital and productivity parameters at consolidated level; and (ii) a Performance-based Bonus (linked with corporate, organisational-unit or individual objectives) paid on the Bank's initiative through the incentive system, whose operating rules and logics are briefly described below.

Planning of the annual incentive system starts by determining the overall amount of variable remuneration (bonus pool) at the beginning of the financial year. The amount to be allocated is determined by the Parent Company's Board of Directors at a consolidated level, in line with the annual Budget and multiyear Business Plan, in such a way as not to limit the Group capacity to maintain/reach capitalisation levels adequate to the risks taken.

The "bonus pool" generally accounts for approximately 2% of revenues, net of value adjustments on loans and financial assets; it is obviously included in the amount budgeted for personnel expenses, of which it accounts for a relatively moderate share (roughly 3%). Its payment is conditioned upon consolidate performance criteria defined by the Parent Company's Board of Directors at the time of bonus pool allocation. The extent of the bonus pool to be allocated is instead determined ex-post on the basis of criteria correlated with the level of achievement of a "mix of Group objectives", similarly decided upon at the time when the bonus pool is allocated.

The internal distribution of objectives is regulated by specific "scorecards", defined during the operational planning process, which contain reference indicators (a.k.a. "mix of objectives") for each H.O. and outer unit, on the basis of respective responsibilities. Indicators are both quantitative (risk-adjusted balance-sheet and P&L) and qualitative.

In particular, with regard to the risk-adjusted logics that lie at the basis of the indicators (as prescribed by the Supervisory Provisions on remuneration and incentive policies for banks of 30 March 2011), it should be noted that their development by the Group's Planning function starts with a "Credit and Risk Appetite" approach, which defines the Group's risk appetite in terms of Expected Loss and Economic Capital objectives, taking account of all First and Second Pillar risk factors (credit, operational, financial, other) and ends with an "Economic Risk Adjusted" approach, which collects the expected results in terms of Profit and Loss (Margins, Commission income and other revenues, Loan loss provisions, Costs), Capital (end-of-period volumes, average volumes, Mark Down, Mark Up) and Risk Adjustments (Economic Capital, Expected Loss, Nopat, Raroc), by company/market.

The scorecards are used on an individual basis for part of the Management team, and at unit level (e.g. Branch) for all other employees, and are structured with "bonus-malus" clauses to limit risk exposure.

In the scorecards for the Network ("ISP"), an important role is given to quality and compliance indicators in the aim to increase the levels of loyalty and enhance relations with households and corporates in the marketing of products, by favouring virtuous conduct and penalising malpractice

Once the financial period is closed, the bonus pool amount is checked against official balance sheet data and, if corporate objectives have been reached, the award of individual bonuses follows. The award follows different methods of determination according to the recipient category: "Identified Personnel", Other Executives, Middle Managers and professional categories.

Executives falling within the scope of the "Identified Personnel", i.e. all individuals whose professional activities have or may have a material impact on the risk profile of the Bank or Group, are identified through a screening process based on one or more of the following organisational elements:

- prominence of the position held;
- credit-risk decision-making autonomy;
- operational limits for market risk;
- membership in corporate bodies with decision-making autonomy on risk issues (i.e. Credit Committees, Finance Committees, etc.).

In addition to the above conditions, the following requirement should be met for inclusion in the scope: total remuneration (fixed + potential variable portion) ≥ Euro 350,000 with a > 50% ratio of variable to fixed remuneration

The only exception to this remuneration requirement is represented by the General Managers of the two foreign banks of the Group who are included in the scope in view of their responsibilities towards the supervisory authorities of the Countries of settlement.

As at today, the "Identified Personnel" scope includes 8 senior managers (the CEO, two Deputy General Managers and 5 Heads of business lines /corporate functions), 10 risk takers and 6 heads of control functions.

Within the scope, different treatment is reserved for the Top Management (CEO and Deputy General Managers) in terms of potential maximum variable remuneration as a percentage of the Gross Annual Salary and deferred pay-out.

The following table summarises the structure of variable remuneration for the different clusters of "Identified personnel".

Variable remuneration payment systems

Identified Personnel	Variable remuneration scheme					
	max % of variable/Gross Annual Salary	Deferral		Pay-out		Period
Top Management	up to 150%	up-front	40%	cash	1/2	spot
				shares	1/2	2 years
		deferred	60%	cash	1/3	3 years
				shares	2/3	3 years + 1 lock up
Other Risk Takers	up to 80%	up-front	50%	cash	1/2	spot
				shares	1/2	2 years
		deferred	50%	cash	1/3	3 years
				shares	2/3	3 years + 1 lock up

A number of ‘malus’ clauses apply to the deferred portion of the variable component which are effective during the deferral period, i.e. prior to actual payment. By reason of these clauses, the percentage of the bonus not yet paid out may be reduced or eliminated depending on risk-adjusted performance, capital levels, compliance objectives, etc.
The actual bonus for the individuals in scope is determined on the basis of the following criteria:
70% when a personal “mix” of performance indicators (identified among the annual budget’s qualifying indicators) is reached.
30%, when at least 80% of the above performance indicators is reached, upon assessment of managerial skills by the Board of Directors subject to the prior opinion by the Appointment and Remuneration Committee.For the “identified personnel”, the actual level of variable remuneration as a percentage of fixed pay is determined by the Board of Directors within the maximum contractual limit on a yearly basis, in correlation with the total extent of the distributable bonus pool and in a logic of economic and financial compatibility with the performance of the company.
With regard to the variable component of remuneration for Executives in control functions and the Chief Reporting Officer, the Shareholders’ Meeting has resolved that, to avoid potential conflict of interest, they be excluded from the incentive system, with a ‘position-related allowance’ assigned to them as a percentage of fixed remuneration, subject to yearly variations. This provision, effective as of 2010 for the Heads of the Business Areas of the Parent Company was subsequently extended to 2nd tier executives in control functions (Parent Company’s units and Heads of functions in the subsidiaries).

It is noted that the 'Identified personnel' scope is groupwide and all remuneration provisions applicable to this scope are contractually formalised.

For executives not included in the "identified personnel" scope, a variable component of maximum 50% of fixed remuneration is contractually applied in line with the amounts defined for the 'identified personnel'. For this staff, however, the bonus payment methods envisaged for the 'identified personnel" (deferral and payment in financial instruments) are not applied.

Bonus determination for this personnel is the result of:

- a first portion, i.e. "quantitative", correlated with the achievement of the scorecard objectives set for the Area/Unit upon definition of the Budget; this portion is calculated on the basis of the level of achievement of the mix of objectives set, by applying appropriate correlation criteria;
- a second portion, i.e. "qualitative", deriving from the assessment of managerial behaviours.

Even for these managerial roles the actual portion of variable remuneration is determined every year with reference to the company's overall bonus pool that can be allocated.

Bonuses for operational level positions – Middle Managers and Professional categories - are determined starting from a role-based "bonus target", which is benchmarked against the unit-related scorecard level achieved and the weight assigned to the resource presence during the year. The final step, which may modify the thereby determined bonus within a pre-established positive or negative range, consists in an appraisal of the individual contribution to results achieved. The appraisal by the resource's direct reporting officer is made in a logic of selectivity and merit-centricity.

The operational workforce of the Control Functions are "rewarded" on the basis of function-specific quantitative and qualitative indicators, irrespective of the results achieved by Bank areas under their control

Implementation of remuneration policies in 2012

Several managers were hired and others left the Group in 2012. The contracts for the Group's newly hired managers were drafted in accordance with the policies approved by the Shareholders' Meeting, taking account of market levels for equivalent organisational positions. However, their overall economic value – for both fixed component and total (fixed + variable) is significantly lower than the amount granted to executives no longer in office. Only in three cases was an 'entry bonus' awarded.

Only two leavers received compensation for early termination of their employment relationship, albeit for a lower amount than contractually provided.

In 2012, due to the prolonged adverse macroeconomic and financial scenario and the difficulties experienced by the Group, no incentives relating to the 2011 financial year were paid out, nor was the 2012 incentive system implemented, in any company of the Group

During the year, a 12-month 5% reduction in executives' salaries exceeding Euro 120,000 (including "car" benefit) was introduced, as set out in the 2012-2015 Business Plan and as part of the initiatives geared towards containment of personnel expenses.

With regard to activities performed by decision-making bodies on remuneration, it is noted that 25 BoD meetings and 6 meetings of the Appointment and Remuneration Committee were held during the year.

Remuneration policies in 2013

In 2013, after a two-year suspension, the variable remuneration component is planned to be reintroduced and paid through the 'Work by Objectives' incentive system and, if an agreement is reached with the Union counterparties, through a Company bonus (former 'per capita added value' or "VAP" in Italian).

In particular, the WbO incentive system will target resources working for the Network sales and distribution units (branches, specialised centres, Local Market Units).

The rules of operation provide for disbursement to occur in 2014 upon achievement in 2013 of a Group Consolidated Net Profit ≥ 50% of the Budget value ("Gate"), with no bonus disbursed below this threshold. For results ranging between 50% and 95% of the Budget Value of Consolidated Net Profit, a maximum bonus pool of 50% shall be allocated. Should 95% to 105% of Budget Value be achieved, the full amount allocated upon approval of the 2013 Budget will be disbursed. For results exceeding 105%, an additional amount of economic resources is planned to be paid out. The rewarding system rules provide for all of the workforce of the business units (by cluster of operations, i.e. Branches, Private Banking Centres, SME Centres and Institutional Client Centres) to gain access to the bonus system, when better performing than set out in their 2013 Budget objectives, as long as they delivered at least 90% of the target. The number of best-performing units having access to the bonus varies depending on the amount of bonus pool disbursed: first 10% of best-performers if 50% of the bonus pool is disbursed, first 20% if the whole bonus pool is disbursed and first 25% if budget targets are exceeded.

No resolution has been adopted by the relevant bodies concerning the 2013 variable component for Executives and the 'Identified personnel'.

Quantitative disclosure

Table 15.1 - Total remuneration by Areas of Business – as 31/12/2012

Areas of business	Total	No. of employees
Private	960,378	21,839
Corporate	46,212	804
Finance	12,399	188
Services	357,295	6,918
Total	**1,376,285**	**29,749**

The staff of the Group has been divided into four main areas: Private, Corporate, Finance and Services, for a total of 29,749 employees (excluding the staff of foreign subsidiaries).

The following table reports a breakdown of the variable and fixed components of remuneration for the Identified Personnel, classified according to the criteria described above. The Identified Personnel scope differs from the scope used for preparation of "Part H – Related-party transactions" in the Notes to the Consolidated Financial Statements.

Table 15.2 - Identified Staff total remuneration – as 31/12/2012: variable and fixed

Identified Staff	Total	Nr. of incumbents	Total		Nr. of incumbents	
			fixed remuneration(**)	variable remuneration(***)	fixed remuneration(**)	variable remuneration(***)
Executive Directors	1,544	1	1,404	140	1	1
General Manager	3,594	9	3,224	370	9	3
Heads of Business lines	-	-	-	-	-	-
Heads of Group functions/Geographical areas	-	-	-	-	-	-
Heads of Strategic functions	2,077	6	1,709	368	6	1
Heads of Control functions (*)	2,169	8	2,169	-	8	-
Other Risk takers	**9,384**	**24**	**8,506**	**878**	**24**	**5**

(*) Inclusive of position-related allowances for "Control Functions".
(**)Fixed remuneration paid in 2012 and relating to 2012.
(***)Variable remuneration paid for various reasons (e.g. entry bonuses, one-offs, etc.) of which: € 280,000 paid to an executive for early termination of employment; € 220,000 paid to Heads of Buisness Lines in settlement of the balance of the 2010 medium-long term incentive scheme; € 87,500 paid to an executive in control functions by reason of his previously held position, in settlement of the balance of the 2010 medium-long term incentive scheme. An additional € 500,000, not reported in the table, relating to 2012, will be paid out as entry bonus in the following three years.

As previously specified, no Company Performance Bonus relating to 2012 will be allocated to any Group companies (not even for the Identified Personnel) due to failure to meet the pre-set condition of consolidated net profit.

Declaration of the Financial Reporting Officer

Pursuant to para. 2, article 154-bis of the Consolidated Law on Banking, the Financial Reporting Officer, Mr. Daniele Bigi, declares that the accounting information contained in this document corresponds to the underlying documentary evidence and accounting records.

Siena, 29 March 2013

Daniele Bigi

Financial Reporting Officer

Glossary of the main terms used

ABS: *see* Asset Backed Securities

Advanced Internal Rating Based (AIRB): advanced internal models used to calculate capital requirements for credit and counterparty risk within the Basel 2 international framework. They differ from the FIRB models since with the AIRB approach, the banks uses its own internal estimates for all inputs. See also PD, LGD, EAD.

Advanced Measurement Approach (AMA): advanced internal models used to calculate capital requirements for operational risk within the "Basel 2" international framework. The approach involves the measurement of capital requirements by the bank through calculation models based on operational loss data and other valuation elements the bank collects and processes.

AFS: *see* Available For Sale

AIRB: *see* Advanced Internal Rating Based

ALM: *see* Asset & Liability Management

AMA: *see* Advanced Measurement Approach

Asset & Liability Management (ALM): the set of risk management models and techniques applied to the Banking Book for the purpose of measuring interest rate risk and liquidity risk. See also Banking Book, Interest Rate Sensitivity, Shift Sensitivity, Economic Value Approach.

Asset Backed Securities (ABS): Financial Securities whose coupon yield and redemption are guaranteed by a pool of assets (collateral) of the issuer (usually a Special Purpose Vehicle), exclusively intended to ensure satisfaction of the rights attached to said financial securities. Typically, they are broken down into RMBS and CMBS.

Available For Sale (AFS): IAS category used to classify the assets available for sale.

Banking Book: in accordance with International best practices, the term "banking book" refers to all of the non-trading 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 interest rate, liquidity and forex risk of the Banking Book are typically measured trough Asset & Liability Management (ALM) models. See Regulatory Banking Book.

Basel 1: the regulations relating to the application of Minimum Capital Requirements issued by the Basel Committee in 1988.

Basel 2: the regulations relating to the application of the New Capital Accord issued by the Basel Committee in 2006.

BCU: see Business Control Unit.

bp (basis point): one hundredth of a percentage point, ie. 1bp = 0.01% = 0.0001.

BU: Business Units.
Business Control Unit (BCU): Local, fi rst-level risk management functions, located within the areas / business units (BUs).

Cap test: the test undergone by all securitisation transactions recognised for prudential purposes, according to which the risk-RWAs of securitisation positions are compared with those of securitised exposures (calculated as though the latter were not securitised). If the RWAs of the former are greater than those of the latter (cap) then the latter are taken into consideration.

Capital position: the difference between Regulatory Capital, including Tier 3 capital and Overall Capital Requirements. The difference may be positive (surplus), or negative (defi cient), according to whether the Regulatory Capital is higher or lower than the Overall Capital Requirement.

Capital Requirements Directive (CRD): EU directive no. 2006/48 and 2006/49, transposed by the Bank of Italy into Circular Letter no. 263/2006 of 27 December 2006 and subsequent updates.

Capital Requirements: the sum of capital, calculated according to supervisory regulations, destined to cover the single risks of the First Pillar in compliance with the supervisory framework.

CBO (Collateralized Bond Obligation): Securities similar to CDOs issued against an underlying portfolio of bonds.

CCF: Credit Conversion Factor

CDO: *see* Collateralised Debt Obligation

CDS: *see* Credit Default Swap.

CMBS: *see* Commercial Mortgage Backed

(CDO) Securities Collateralised Debt Obligation: Securities issued based on differentiated risk classes with various tranches following the securitisation of a portfolio of debt instruments incorporating the credit risk. Typically characterised by the presence of a financial lever.

Corporate clients: Customer segment consisting of medium- and large-sized companies (mid corporate, large corporate).

CLN (Credit-Linked Notes): debt securities whose yield, i.e. capital repayment, is linked to the performance of one or more underlying assets.

CLO (Collateralized Loan Obligation): CDO-type securities that have bank loans as underlying assets.

(CMBS) Commercial Mortgage Backed Securities: ABS with underlying commercial mortgages.

Confidence level: level of probability linked to VaR measurements.

Consolidated Law on Banking (it. *Testo Unico Bancario*, T.U.B): Legislative decree no. 385 of 1 September 1993, as amended and supplemented.

Core Capital (Tier 1): defined by the Supervisory framework as the sum of the following components: (+) general banking risk fund (+) capital (+) share premium reserve (+) reserves (+) innovative capital instruments (-) retained losses (-) capital subscribed and not paid in (-) treasury shares (-) other intangible assets (-) goodwill.

Core Tier 1 ratio: the ratio between Tier 1 capital, net of preference shares, and total risk-weighted assets. The Tier 1 ratio is the same ratio inclusive of the preference shares in the numerator.

Counterparty risk: counterparty risk is the risk that the counterparty in a specific financial transaction is in default prior to settlement.
Counterparty risk is associated with certain, specifically-identified types of transactions, which: 1) generate an exposure that is equal to their positive fair value; 2) have a market value which evolves over time depending on underlying market variables; 3) generate an exchange of payments or an exchange of financial instruments or goods against payment. The categories of transactions subject to counterparty risk are:

- credit and financial derivative instruments traded *Over the Counter* (OTC);
- Securities Financing Transactions (SFTs);
- Long Settlement Transactions (LST).

Covered bond: Special bank bond that, in addition to the guarantee of the issuing bank, is also backed by a portfolio of mortgage loans or other high-quality loans sold to a special purpose vehicle.

CRD (Capital Requirements Directive): EU Directives no. 2006/48 and 2006/49, transposed by the Bank of Italy into Circular Letter no. 263/2006 of 27 December 2006 and subsequent updates.

Credit Default Swap (CDS): Contract under which one party transfers to another the credit risk of a loan or security contingent on occurrence of a default.

Credit derivatives: Derivative contracts for the transfer of credit risks. These products allow investors to perform arbitrage and/or hedging on the credit market, to acquire credit exposures of varying maturities and intensities, to modify the risk profile of a portfolio and to separate credit risks from other market risks.

Credit Risk Mitigation (CRM): set of credit risk mitigation techniques recognised for supervisory purposes (e.g., compensation of accounts in balance sheet, personal guarantees, credit derivatives, financial collaterals), for which the following eligibility requirements apply - legal, economic and organisational - for the purpose of reducing risk.

Credit risk: the risk that a debtor may default on his obligations, either at maturity or subsequently. Credit risk is associated with an unexpected change in creditworthiness of a responsible party - towards whom there is an exposure - which generates a corresponding unexpected change in the value of the credit position.

CRM: *see* Credit Risk Mitigation.

Current Value method: Supervisory method used to determine counterparty risk in derivatives and the capital requirement to cover it. The current value is calculated adding the replacement cost (or intrinsic value, determined on the basis of the “mark-to-market” value of the derivative, if positive) to the future credit exposure (approximating the time value of the derivative, i.e. the probability that, in the future, the intrinsic value will increase, if positive, or convert into a credit exposure if negative); the future credit exposure is determined for all contracts, independently of the positive value of the replacement cost, multiplying the nominal value of each derivative contract by coefficients differentiated by residual maturity and type of contract.

Default, credit exposures in: these include nonperforming loans, watchlist loans, restructured loans and past-due.

Default, the state of: state of insolvency or delinquency of a debtor. Declared inability to honour one's debt and/or make the relevant interest payments.

Delta EL: *see* Surplus of expected loss value over the value of net provisions.

DIPO *(The Italian Database of Operational Losses)*: Database used for operational risk.

Diversification: benefit arising from the simultaneous holding of financial instruments which depend upon risk factors not perfectly matched. In the case of VaR, this corresponds to the correlation effect among risk factors on the overall VaR value.

Duration Gap: the difference between the duration of assets and liabilities of a given portfolio in relation to the total amount of assets.

Duration: also defined as average fi nancial duration, this is a synthetic index which represents the weighted arithmetic mean of time upon expiry of the individual components of a cashflow (principal + interest), since the weights are determined as current values of the individual components, calculated on the basis of the term structure of the interest rates. It is typically used as a measurement of bond price sensitivity to interest rate fluctuations.

EAD: *see* Exposure-at-Default.

ECA: Export Credit Agency.

ECAI: External Credit Assessment Institution (Rating Agencies).

Economic Capital: the capital needed to deal with any loss in value generated by unexpected changes in conditions, internal or external, as a consequence of risk. It is calculated on the basis of risk measurement models developed by the Risk Management area. In general, it is obtained on the basis of a consistent transformation in terms of holding period and confidence interval of VaR measurements calculated for individual risk factors and appropriately diversified. The confidence interval is a function of the bank's objective rating. The Economic Capital is the internal estimation of capital needed to deal with risk that is the necessary operational equivalent of Capital Requirements (Regulatory Capital).

Economic Value approach: measure of the changes in the Banking Book overall net current value (defined as the difference between the current value of assets, the current value of liabilities and the value of hedging derivatives) in the presence of different alternative interest rate scenarios. The focus is placed on the changes in the net current economic value of the Bank and takes account of all maturities of assets, liabilities and off-balance-sheet items existing at the time of each valuation. It is typically measured with shift sensitivity assumptions. See also ALM, Banking Book, Interest Rate Sensitivity, Shift Sensitivity.

Equity Tranche: the portion of the portfolio that is at greater risk, also known as "first loss"; it is subordinate to all other tranches; it is therefore the first to be impacted by the losses that may arise during the recovery of underlying assets.

Expected Loss: the total amount of net losses which, on average, the bank can expect (estimate) to incur in the 12 month period following the date of reference on the total amount of performing loans in the portfolio upon measurement. Since it is an estimate, it does not represent the actual risk of the credit exposure. Estimated ex-ante as the "cost of doing business", it ought to be directly included, in terms of spread, in the pricing conditions applied to the customer and covered using an appropriate accounting provision policy. It is defined as the product of the probability of default (PD), loss given default (LGD) and exposure at default (EAD):
- PA = PD x LGD x EAD.

Exposure at Default (EAD): estimated future value of an exposure upon default of a client. Defined as:
- EAD = Drawn Amount + k (Committed amount - Drawn Amount) where k ($0 \leq k \leq 1$) represents the expected "drawn" percentage of the unused amount before default.

The EAD essentially depends on the technical form of the loan and is faced up to through loan trend management.

Value required in the advanced model for credit risk measurement (AIRB - "Advanced Internal Rating Based Approach") as set out by Basel 2. For regulatory purposes, a credit conversion factor (CCF) is applied to the EAD.

Fair Value (FV): the amount at which an asset could be bought or sold or a liability incurred or settled, in an arm's length transaction between willing, independent parties.

FIRB: *see* Foundation Internal Rating Based.

Floor: The lower limit set for Overall Capital Requirement by the Bank of Italy in the event that the bank and the banking groups calculate Capital Requirements for Credit Risk or for Operational Risk through internal models; the basis of reference for the calculation of the Floor up to 2009 was provided by Basel 1; as of 2010, the basis of reference is represented by standard Basel 2 (i.e. the standardised approach for Credit Risk and the foundation approach for operational risk).

Foundation Internal Rating Based (FIRB): the internal models used to calculate capital requirements for credit and counterparty risk within the international Basel 2 Accord. It differs from the AIRB approaches because, in this case, only the PD parameters are estimated by the bank.

Held For Trading (HFT): IAS category used to classify trading assets and liabilities.

HFT: *see* Held for Trading.

Holding period (hp): forward-looking length of time for which a position is held.

IAS/IFRS: the International Accounting Standards are issued by the International Accounting Standards Board (IASB). The standards issued after July 2002 are called IFRS (International Financial Reporting Standards).

ICAAP: *see* Internal Capital Adequacy Assessment Process.

Internal Capital Adequacy Assessment Process (ICAAP): Under the "Second Pillar" (Chapter III of the Bank of Italy's Circular Letter no. 263/2006) banks are required to adopt processes and instruments for determining the level of internal capital needed to cover any type of risk, including risks different from those covered by the total capital requirement ("First Pillar"), when assessing current and future exposure, taking into account business strategies and developments in the economic and business environment.

IMA: *see* Internal Models Approach.

Impairment: when referred to a fi nancial asset, a situation of impairment is identifi ed when the book value of an asset exceeds its estimated recoverable amount.

Interest Rate Sensitivity: measurement of the impact an unexpected shift (parallel or not) in the yield curves by maturity generates on the bank's economic value. It is typically used to measure the interest rate risk of the Banking Book within the Asset & Liability Management (ALM) systems. The value is obtained from calculating the variation in the current value of the real and notional cashflows of sheet assets, liabilities and off-balance items existing at a certain date when there is a variation in the yield curve (eg. +25 bp) with respect to the values of the baseline. Measurement of risk as potential loss which emerges following an adverse movement in the structure of yield curves, schematically defined as:

- ΔVA = VA' - VA

where:

- ΔVA = variation in current value, ie. Sensitivity measurement;
- VA = current value of cash fl ows calculated on the basis of the yield curve at the recognition date;
- VA' = current value of the same cash flows calculated on the basis of the yield curve assumed (e.g. parallel upward shift of +25 bp").

If, for example, a +25bp shift in the yield curve results in ΔVA > 0 (positive sensitivity), this means that the bank is "liability sensitive", ie. it has more liabilities coming to maturity/being repriced than assets, and therefore its economic value is at risk in the event of a decrease in market interest rates.
If, on the other hand, a +25bp shift in the yield curve results in ΔVA < 0 (negative sensitivity), this means that the bank is "asset sensitive", ie. with more assets coming to maturity/<being repriced than liabilities, thus having an economic value that is at risk in the event of an increase in market interest rates.

Internal Models Approach (IMA): method of VaR internal models for the calculation of capital requirements for market risk.

Investment grade: issuers or issues with a rating between AAA and BBB-.

Issuer risk: connected to the issuer's official rating, this is the risk of decreasing portfolio value due to the unfavourable change in the issuer's credit standing up to the extreme case of default, in the buying and selling of plain vanilla or credit structured bonds, ie. purchase/selling of protection through credit derivatives.

Junior tranche: in a securitisation transaction it is the lowest-ranking tranche of the securities issued (Equity tranche), being the first to bear losses that may occur in the course of the recovery of the underlying assets.

L&R (Loans & Receivables): IAS category used to classify credit.

LDA: *see* Loss Distribution Approach.

LGD: *see* Loss Given Default.

Liquidity Risk: the risk that a company will be unable to meet its payment obligations due to its inability to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of rapidly converting financial assets into cash without negatively and significantly affecting their price due to inadequate market depth or temporary market disruptions (market liquidity risk).

Long Settlement Transactions (LSTs): long settlement transactions (in which a counterparty commits to delivering (receiving) a security, commodity or foreign currency against receipt (delivery) of cash payment, other financial instruments or goods with settlement upon a pre-established contractual date, later than the one determined by market practice for these types of transaction, namely five days from the transaction stipulation date.

Loss Distribution Approach (LDA): model used to assess exposure to operational risk. It makes it possible to estimate the amount of expected and unexpected loss for any event/loss combination and any business line.

Loss-Given-Default (LGD): is the discounted net loss measured over the years on positions classified as defaulting. LGD is estimated in the form of a coefficient ranging from 0 to 1 based on the following drivers: type of borrower, type of guarantee pledged, technical form of lending. This value is required within the framework of the Advanced Internal Ratings-Based Approach for credit risk under Basel 2. When conditioned on adverse macro-economic scenarios (or downturns), the LGD parameter is defi ned as “downturn LGD”.

Lower Tier 2: it designates subordinated liabilities that meet the eligibility criteria for inclusion in supplementary (Tier 2) capital.

LST: *see* Long Settlement Transactions.

M (Maturity): the residual life of an exposure, calculated according to prudential requirements for credit risk. For banks authorised to use internal ratings, it is explicitly considered if the advanced approach is adopted, while it is predetermined by legislation if the FIRB approach is adopted.

Market Risk: the risk of value loss on a financial instrument or a portfolio of financial instruments, resulting from an unfavourable and unexpected change in market risk factors (interest rates, share prices, exchange rates, price of goods, indices,…). A typical risk of the trading book.

Mark-to-market: valuation of a position at market value, usually from the trading book. For instruments officially traded on organised markets, it corresponds daily to the market closure price. For unlisted instruments, it results from the development and the application of specifically-developed pricing functions which determine the valuation starting from the market parameters relating to the respective risk factors. It is at the basis of the calculation of P&L in the trading book.

Mezzanine tranche: in a securitisation transaction, it is the tranche ranking between junior and senior tranche. As a rule, the mezzanine tranche is broken down into 2-4 tranches with different levels of risk, subordinated one to the other. They are typically characterised by an investment grade rating.

Monoline insurer: insurance companies specialised in guaranteeing payment of interest and notional amount of bonds upon default of the issuer. They are so called because, in general, they guarantee a service that is limited to a single industrial sector.

Non performing: term generally referring to loans for which payments are overdue.

Operational risk: the risk of incurring losses due to inadequacy or failure of processes, human resources or internal systems, or as a result of external events. These include, among others, loss deriving from fraud, human error, business disruption, system failure, breach of contract, natural disasters. Operational Risk includes legal risk while it does not include strategic or reputational risk (included in Pillar II of Basel 2).

OTC derivatives: financial and credit derivatives traded over the counter (eg: swaps, forward rate agreements).

OTC: *see* OTC derivatives.

Overall Capital Requirement (or Regulatory Capital): the sum of capital requirements relating to the individual type of risk, as well as those provisioned for real estate and equity investments assumed for credit recovery (“building block”). With regard to credit risk, the capital requirement is equal to 8% of risk-weighted assets.

P&L: *see* Profi t & Loss.

Past due: *see* Default.

PD: *see* Probability of Default

Performing: term generally referring to loans characterised by regular performance.

Preference shares: innovative capital instruments, usually issued by foreign subsidiaries, and included in tier 1 capital if their characteristics ensure the banks' asset stability. See also Core Tier 1 Ratio.

Private equity: activity aimed at the acquisition of equity investments and their subsequent sale to specific counterparties, without public offerings.

Probability of Default (PD): the probability that a customer/counterparty will default within the space of 1 year. Each PD derives from an internal ratings system and thus falls within a specific range of values corresponding to those used by the offi cial rating agencies (masterscale) so as to obtain standardised data processing between internal and external rating systems.
The PD strongly depends upon the definition of default: from the stricter sense of default limited exclusively to non-performing loans, the meaning has been broadened by the Basel 2 framework to include watchlist loans, restructured loans, loans under restructuring and past and overdue loans for over 180 days (timeframe set out by Basel 2). A value that is required by the advanced model for credit risk measurement (AIRB - "Advanced Internal Rating Based Approach") as provided for by Basel 2.

Profit & Loss (P&L): operational profit or loss indicator of the Trading book which expresses the difference in value of an instrument or a portfolio in a given timeframe, calculated on the basis of market values and directly validated/listed ("mark-to-market") or determined on the basis of internally-adopted pricing models ("mark-tomodel").

Prudential ratios: there are two particularly significant ones:
- the ratio between Regulatory Capital including Tier 3 Capital and the result from overall capital requirements multiplied by 12.5 (Total Capital Ratio);
- the ratio between Tier 1 Capital and the result from overall capital requirements multiplied by 12.5 (Tier 1 ratio).

RAPM: cfr. Risk Adjusted Performance Measurement.

Rating: the degree of risk of non-compliance regarding a specific debtor (counterparty or issuer rating) or a single loan (issuance rating). It is typically expressed through a qualitative assessment belonging to a grading scale. If determined by a rating agency it becomes an "official" rating. If it is based upon internally-developed models it is called an "internal" rating. It expresses the likelihood of default or insolvency.

Regulatory Banking Book: comprises all positions that are not assigned to the Regulatory Trading Book; its definition is therefore 'residual' in nature, even though most of a retail bank's exposures are assigned to this portfolio; in general, the rules for determining the capital requirements for Credit Risk are applied to the Regulatory Banking Book. See also Banking Book.

Regulatory capital: defined on the basis of Supervisory banking regulations, it is the numerator of the prudential ratio; it is calculated by starting from net equity and then carrying out adjustments, integrations, applying filters and making deductions; it is made up of Tier 1, Tier 2, net of deductions. Banks are required to constantly hold a total of Capital for regulatory purposes (including tier 3 capital) not lower than the Overall Capital Requirements, which is equal to the sum of Capital Requirements prescribed against Credit and Counterparty Risk, Market and Operational Risk, and those estimated for real estate and equity investments assumed for credit recovery.

Retail Clients: customer segment mainly including households, professionals, retailers and artisans.

Risk Adjusted Indicators: see Risk Adjusted Performance Measurement.

Risk Adjusted Performance Measurement (RAPM): measurement of performance adjusted by risk. Method of measurement of profitability, which is defi ned as "risk adjusted" in that - on the one hand - it includes a new P&L negative component under Profi t for the Year, that rises as the expected risk component increases (Expected Loss), and - on the other - replaces the "book value" capital used in the transaction with the Economic Capital.

Risk factor: the driver/variable which determines the variation in value of a financial instrument.

Risk Weighted Assets (RWA): a definition that applies to Credit and Counterparty risk; in particular, with regard to exposures subject to standard methods, it results from the application of certain risk weights to exposures as determined by supervisory regulations.

Risk: can be defi ned as an unexpected potential economic loss. Risk is an economic loss in the sense that, against the commercial initiatives undertaken, if risk emerges it always results in a loss of value in the books of the Bank. Risk is an unexpected loss and implies the need to set aside a corresponding sum of capital in order to guarantee the bank's stability and solvency over a long period. Risk is a potential loss in the sense that there may or may not be a certain confi dence level (probability) in the future (forward looking) estimate and it is therefore an estimate, not a known value. Since risk is potential, it is always prospective or forward-looking. It is not the measurement of an economic effect that has already materialised. Risk is covered by the bank's capital, both in the form of Regulatory Capital and that of Economic Capital.

RMBS: *see* Residential Mortgage Backed Securities.

RWA: *see* Risk Weighted Assets.

Scoring: a company's customer analysis system which consists in an indicator resulting from both an analysis of book data and an assessment of the performance forecast for the sector, on the basis of statistic-based methodologies.

Security Financing Transactions (SFT): repos and reverse repos on securities or commodities, securities or commodities lending or borrowing transactions and margin lending transactions. Senior/SuperSenior tranche: the tranche with the highest degree of credit enhancement, ie. the highest level of privilege in terms of remuneration and reimbursement priorities. It is higher in rating than the mezzanine tranche.

Seniority: Level of subordination regarding the repayment of notes, generally broken down (in decreasing order) into SuperSenior, Senior, Mezzanine, Junior.

Servicer: in securitisation transactions it is the subject that - on the basis of a specifi c servicing contract - continues to manage the securitised loans or assets after they have been transferred to the special purpose vehicle responsible for issuing the securities.

Settlement Risk: the risk that arises in transactions on securities when, after expiry of a contract, the counterparty is in default with regard to delivery of securities or payment of amounts due.

SFT: *see* Security Financing Transactions.

Shift Sensitivity: measurement of the impact of an unexpected and parallel shift in the yield curve upon the bank's economic value. See ALM, Banking Book, Interest Rate Sensitivity, Economic Value Approach.

SMEs: Small and Medium Enterprises.

SPE/SPV: see Special Purpose Entities or Special Purpose Vehicles.

Special Purpose Entities or Special Purpose Vehicles (SPE/SPV): established in pursuit of specific objectives, mainly to isolate financial risk. The assets consist in a portfolio, the proceeds of which are used for the servicing of bond loans issued. Typically used in asset securitisation transactions.

SREP: *see* Supervisory Review and Evaluation Process.

Stress test: a set of quantitative and qualitative techniques used by banks to assess their vulnerability to exceptional, though plausible, events.

Supervisory Review and Evaluation Process (SREP): a process put in place by the Supervisory Authorities with the objective of analysing the ICAAP process developed by the banks, verifying the congruence of results, providing an overall assessment of the banks and implementing, where necessary, the appropriate corrective measures, both organisational and financial.

Supplementary Capital (Tier 2): defined by the Supervisory framework as: (+) valuation reserves (+) Tier 2 subordinated liabilities (+) non-committed credit risk fund (+) hybrid capital instruments not included in Tier 1 capital (-) net capital losses on held to maturity investments (-) loan losses in the course of the year (+/-) net gain/losses on listed non-banking/financial equity investments.

Surplus expected losses on net provisions ("Delta PA"): the difference between expected losses and overall net value adjustments, limited to the exposures subject to internal models for credit risk; it is a component of the Regulatory Capital.

Syndicated lending: loans arranged and secured by a pool of banks and other financial institutions.

Tertiary Capital (Tier 3): defined by the Supervisory framework, it is used to cover up to a maximum of 71.4% of capital requirements against market risk.

Tier 1 Ratio: ratio of a bank's core capital to its total risk-weighted assets. It is a measure of capital adequacy defi ned in the Supervisory Regulations (stemming from the 1998 Basel Capital Accord known as Basel 1) as a solvency ratio for banks. No mandatory minimum level is required for this ratio by the Bank of Italy.

Tier 1: *see* Core Capital.

Tier 2: *see* Supplementary Capital.

Tier 3: *see* Tertiary Capital.

Total Capital Ratio: ratio of a bank's total regulatory capital to its total risk-weighted assets. It is a measure of capital adequacy defined in the Supervisory Regulations (stemming from the 1998 Basel Capital Accord known as Basel 1) as a solvency ratio for banks. This ratio must be no lower than 8%.

Trading Book: positions intentionally held for trading purposes and destined to be disposed of in the short term and/or assumed with the aim of benefitting, in the short term, from the differences between purchase and sale price, or other price or interest rate variations. It consists in a set of positions in fi nancial instruments and commodities held for trading or to cover risk inherent in other constituent of the same portfolio. For eligibility to be included under the trading book prudential treatment, the financial instruments must be exempt from any clause which would limit their tradeability or, in alternative, fully covered. Furthermore, the positions must be frequently and accurately assessed. The trading book must be actively managed.

UCITS: Undertakings for collective investments in transferable securities (UCITS).

Upper Tier 2: identifies hybrid capital instruments (e.g. perpetual loans) that make up the highest quality constituents of Tier 2 capital.

Value-at-Risk (VaR): probability measure of a portfolio's market risk. It is defi ned as the maximum potential loss in value of an asset or portfolio over a defi ned period *(holding period)* for a given *confidence interval* (with the *confidence level* expressing probability). As an example, with regard to the trading book, the VaR model estimates the maximum decrease (loss) that a portfolio is expected to incur with a specified probability (for ex. 99%), over a defined time horizon (for ex. 1 day). In this example, a 1 day VaR with a 99% confi dence implies that there is only a 1% chance of the Bank losing more than the VaR amount in one single working day.

Volatility risk: measure of the exposure to fluctuations in the historical or implied volatility of market risk factors. It is connected with the amplitude of price, rate, and foreign exchange fluctuations over a set period of time and is an integral part of market risk.

List of Tables

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