

(Translation from the Italian original which remains the definitive version)

REPORT ON THE CORPORATE GOVERNANCE AND THE SHAREHOLDING STRUCTURE

pursuant to article 123-*bis* of the Consolidated Finance Act and article 89-*bis* of the
Consob Issuer Regulation

(traditional administration and control model)

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GLOSSARY

BANK/BMPS/MPS: Banca Monte dei Paschi di Siena

Board/BoD: the Issuer's board of directors.

Civil Code: the Italian Civil Code.

Code: the Code of Conduct of Listed Companies approved in March 2006 by the Corporate Governance Committee and recommended by Borsa Italiana S.p.A.

Consob Issuer Regulation: the Regulation issued by Consob with its resolution no. 11971 of 1999 about issuers (as subsequently amended).

Consob Regulation on markets: the Regulation issued by Consob with its resolution no. 16191 of 2007 (as subsequently amended) about stock exchanges.

Consolidated Finance Act: Legislative decree no. 58 of 24 February 1998.

Instructions to the Stock Exchange Regulation: the instructions for the Regulation of stock exchanges organised and managed by Borsa Italiana S.p.A..

Issuer: the issuer of the listed shares to which the report refers.

Report: the report on corporate governance and the shareholding structure that companies are required to prepare pursuant to article 123-*bis* of the Consolidated Finance Act and article 89-*bis* of the Consob Issuer Regulation.

Stock Exchange Regulation: the Regulation of stock exchanges organised and managed by Borsa Italiana S.p.A..

Year: the year to which the report refers.

1. THE ISSUER'S PROFILE

This report is available on the website www.mps.it in the “investors & research” section.

INTRODUCTION

The whole issue of “Corporate Governance” is of fundamental importance to Banca Monte dei Paschi di Siena (**BMPS**), beyond its traditional technical implications of a grouping of regulations and coordinated units that regulate relationships among the shareholders and between them, the directors and senior management.

In line with the Bank’s mission, corporate governance is the purest form of governance of its relationships with all its stakeholders:

- ✓ **To create value for shareholders in the short and long term, prioritising customer satisfaction, employee professional development and stakeholders’ interests**
- ✓ **To be a model for the constantly changing Italian banking world, confirming the Montepaschi group’s leadership position in the domestic market**
- ✓ **To develop the sense of membership of a group, concurrently emphasising cultural differences and local traditions**

Mission

The group’s bodies act in such a way to ensure its success. Thanks to a fair and transparent corporate governance system and an exhaustive Code of Ethics, BMPS has put in place rules to ensure its stakeholders’ legitimate expectations are considered and their satisfaction is an objective.

Corporate governance system

BMPS’s corporate governance system is based on the Code of Conduct for Listed Companies.

Compliance with the Code entails clear-cut segregation of duties and responsibilities, the appropriate allocation of power and the balanced composition of internal bodies. It relies on effective controls, monitoring of all business risks, adequate information flows and social responsibility.

The administration and control system is traditional with:

- **a board of directors**, in charge of strategic guidelines and supervision;
- **a board of statutory auditors**, which monitors compliance with the law, regulations and by-laws, correct administration, the adequacy of the organisational, control and administrative-accounting systems, how the corporate governance rules provided for by the Code of Conduct for Listed Companies, to which the Bank has adhered, are complied with and the adequacy of the instructions given to subsidiaries pursuant to article 114.2 of Legislative decree no. 58/98 (Consolidated Finance Act);
- **shareholders’ meetings**, when the shareholders resolve on matters such as the appointment and dismissal of directors and statutory auditors, their fees and responsibilities, approval of financial statements, allocations of profits (losses) for the year, mergers, spin-offs, share capital increases, changes to the by-laws and appointment of independent auditors in ordinary and extraordinary meetings.

2. INFORMATION on the SHAREHOLDING STRUCTURE (article 123-bis of the Consolidated Finance Act)

at 5 March 2010

a) Share capital

Subscribed and paid-in amount: € 4,502,410,157.20

Share categories:

	no. of shares	% of share capital	listed/unlisted	Rights and obligations
Ordinary shares	5,569,271,362	82.8759	listed	=
Preference shares	1,131,879,458	16.8434	unlisted	Preference when allocating profits
Savings shares	18,864,340	0.2807	unlisted	Preference when allocating profits

Other financial instruments that give the right to subscribe newly issued shares:

	Listed / unlisted	No. of outstanding instruments	Share category for conversion/exercise	No. of shares for conversion/exercise
Floating Rate Equity-linked Subordinated Hybrid Preferred Securities ("F.R.E.S.H.")	Listed (Luxembourg stock exchange)	€ 470,595,675.71 (total)	Ordinary shares pro-rata	178,933,717

With respect to the issue of the convertible Floating Rate Equity-linked Subordinated Hybrid Preferred Securities ("F.R.E.S.H.") and as resolved by the shareholders on 15 January 2004, conversion requests for € 61,329,190.72 were received in the September 2009 conversion period. In its meetings of 17 September and 15 October 2009, the board authorised the issue of 23,319,081 ordinary BMPS shares, equal to roughly 0.42% of its pre-conversion ordinary share capital at a conversion price of € 2.63, including 7,877,251 with dividend rights from 8 September 2009, 1,995,437 with dividend rights from 9 September 2009, 13,446,393 with dividend rights from 11 September 2009 and 1 (one) with dividend rights from 30 September 2009. As a result, the number of shares increased from 5,545,952,280 to 5,569,271,362 and share capital went from € 4,486,786,372.26 to € 4,502,410,157.20.

Reference should be made to the disclosure on the allocation of financial instruments to company directors, employees and consultants pursuant to article 84-bis of Consob regulation no. 11971/99 for information about the stock grant plan set up for the group's employees involving the bonus granting of ordinary BMPS S.p.A. shares. The existing plans have not led to increases (including bonus) in share capital as the shares required were repurchased on the market by BMPS S.p.A. in accordance with article 2357 of the Civil Code and the current trading regulations exclusively on the stock exchange managed by Borsa Italiana S.p.A. and as provided for by article 2.6.7 of the Regulation.

b) Restrictions to the transfer of shares

There are no by-laws clauses that restrict the transfer of shares. However, article 6 thereof establishes that transfers of preference shares shall be communicated by the seller to the bank immediately and leads to the automatic conversion of the preference shares into ordinary shares at par.

Moreover, the shareholder that qualifies as the banking foundation as governed by Law no. 461 of 23 December 1998 and Legislative decree no. 153 of 17 May 1999 and subsequent amendments and

integrations or that is directly or indirectly controlled by one of these parties, may never convert preferred shares held by it into ordinary shares.

c) Significant investments

As required by article 85 of Consob regulation no. 11971 and based on the shareholder register and other communications received pursuant to the law and any other information available, the only shareholders that directly or indirectly own more than 2% of share capital, consisting of shares with voting rights, are (updated at 5 March 2010):

Declarant	Direct shareholder	% of ordinary shares	% of voting rights
Fondazione Monte dei Paschi di Siena	Fondazione Monte dei Paschi di Siena	45.68	54.86
J.P. Morgan Chase & Co.	JP Morgan Securities Ltd – JP Morgan Whitefriars Inc.	5.54	4.59
AXA SA	Different group companies	4.56	3.79
Francesco Gaetano Caltagirone	Caltagirone Editore S.p.A. – Mantegna 87 S.r.l. – SO.FI.COS S.r.l.- Finced S.r.l.- Fincal S.p.A. - Capitolium S.p.A.	4.45	3.70
Unicoop Firenze Soc. Coop. a r.l.	Unicoop Firenze Soc. Coop. a r.l.	3.32	2.76

d) Shares with special rights

No shares with special control rights have been issued.

e) Employee investments: voting right exercise mechanism (article 123-bis.1.e) of the Consolidated Finance Act)

Each Montepaschi group employee holding ordinary BMPS S.p.A. shares deriving from stock grant plans may exercise their voting rights at ordinary and extraordinary shareholders' meetings.

f) Restrictions to voting rights

Article 9 of the by-laws establishes that, with respect to possible restrictions to voting rights due to excess of the shareholding threshold, no shareholder, except for Fondazione MPS, may hold ordinary shares exceeding 4% of the bank's share capital. When calculating this threshold pursuant to article 9.1/2 of the by-laws, shares held via trustees and/or nominees are considered.

The voting rights of shares exceeding this threshold cannot be exercised and the potential voting rights of the shareholders involved is decreased proportionally in line with their investment, unless the shareholders make a prior joint statement. In the case of non-compliance with this requirement, the resolution can be challenged as provided for by article 2377 of the Civil Code if the required majority is not reached in the absence of the excess votes that exceed the above threshold.

Shares for which the voting rights cannot be exercised are considered to decide whether shareholder meetings have been regularly constituted.

g) Shareholder agreements

BMPS has received the **following communications** about the existence of voting or blocking syndicates or shareholder agreements or any form of agreement covering the exercise of rights related to shares or their transfer and the terms of article 122 of the Consolidated Financial Intermediation

Act:

- ⇒ on **17 January 2007**, after its signing on **15 January 2007** of a new three-year consultancy agreement, tacitly renewed every three years (unless withdrawal is communicated with six months notice), by 50 shareholders covering **81,851,786** ordinary Bank shares, then equal to **3.34%** of the ordinary share capital and **2.71%** of the shares with voting rights at extraordinary meetings, setting out rules of conduct and agreements for the exercise of votes at meetings and the sale and/or possession of ordinary shares;
- ⇒ on **3 April 2008**, after its signing on 29 March 2008, of an amendment to the above consultancy agreement agreed on 15 January 2007 by 50 shareholders, covering the sale or transfer in whole or in part, also on a future basis of shares and any financial instruments covered by the agreement, the sale or transfer of bare interest and/or enjoyment of all or part of the shares covered by the agreement, the entering into of option or swap agreements, voting rights on shares given as guarantee or pledged and any communications about these transactions;
- ⇒ on **7 July 2008**, a statement that, following changes in BMPS's share capital, the consultancy agreement covering **161,906,647** ordinary shares equal to **2.9475%** of the total ordinary shares and **2.4439%** of the shares with voting rights at extraordinary meetings;
- ⇒ it now covers **161,696,084** ordinary shares, equal to **2.9156%** of the total ordinary shares and **2.42139%** of the shares with voting rights at extraordinary meetings, held as follows:

<i>Shareholder</i>	<i>% of ordinary shares</i>
Lorenzo Gorgoni	0.5263%
Mario Palumbo	0.2678%
Gina Leuzzi	0.1934%
Dario Montinari	0.1779%
Piero Montinari	0.1779%
Pantaleo Nicola Montinari	0.1725%
Antonia Gorgoni	0.1449%
Sigilfredo Montinari	0.1232%
Andrea Montinari	0.1232%
Luisa Montinari	0.1038%
Enrica Verderamo	0.1001%
39 shareholders with investments of less than 0.1%	0.8046%
TOTAL	2.9156%

and, therefore, a total of 50 ordinary shareholders.

Given that no withdrawals had been communicated by the parties to the shareholder agreement at 15 July 2009, the agreement is held to have been tacitly renewed from 15 January 2010 for another three years, ie, until 15 January 2013.

h) Change of control clause

BMPS and its subsidiaries have not entered into significant agreements that become effective, are changed or terminated in the case of the change of control of the signing party.

i) Proxies to increase share capital and authorisation to repurchase treasury shares

On **15 January 2004**, the shareholders resolved to increase BMPS's share capital to service the issue of convertible preferred securities by a maximum 213,414,634 ordinary shares, with dividend rights from the conversion date, without prejudice to the fact that: (i) the deadline for the share capital increase is 30 September 2009; (ii) the directors will issue the shares to the holders of the convertible preferred securities within the calendar month after the date on which the conversion request is made, which can be during September of each year from 2004 to 2010 and after this at any time or during the month after automatic conversion or conversion for redemption of the convertible preferred shares, such that the shares have dividend rights from the conversion date; and (iii) the directors will file the statement of the share capital increase showing the nominal amount of the shares issued with the company registrar within one month from the conversion date.

On **29 April 2009**, the shareholders in an ordinary meeting resolved to authorise the repurchase of the Bank's treasury shares pursuant to article 2357 of the Civil Code at the price, conditions and methods set out below:

- repurchase may take place in one or more transactions, within 18 months from the date of this resolution;
- the minimum repurchase price for the ordinary shares shall not be lower by 30% than the official price at which the shares were traded on the business day before each repurchase transaction. The maximum price shall not exceed the official price at which the shares were traded on the business day before each repurchase transaction by more than 5%;
- the maximum number of shares repurchased shall not exceed 70,000,000;
- repurchases shall be made in accordance with the ruling regulations for listed companies, ie, article 132 of Legislative decree no. 58/98 (the Consolidated Finance Act), article 144-*bis*.1.b)/c) of Regulation no. 11971/99 and subsequent amendments and integrations, the methods established in the organisation and management rules for stock exchanges so as to ensure equal treatment of the shareholders and all other applicable regulations, including those of EC directive 2003/6/CE of 28 January 2003 and the related EU and national implementation legislation.

During the same meeting and pursuant to article 2357-ter.1 of the Civil Code, the shareholders also authorised the board of directors to:

- a) sell all or part of the treasury shares repurchased, also before having carried out the repurchase transactions, in one or more transactions, within 18 months using the methods established by Consob regulation no. 16191/2007 and subsequent amendments and integrations, which implemented the Mifid directive. The minimum sales price shall not be lower than the official price at which the shares were traded on the stock exchange on the business day before each sales transaction by more than 5%;
- b) use the repurchased treasury shares for conversion of the convertible bonds (Banca Antoniana Popolare Veneta convertible subordinated hybrid fixed rate 1999-2009 bonds) following the merger of Banca Antonveneta S.p.A. into BMPS using a conversion ratio set for the merger of 1,893 ordinary BMPS shares held by the merging bank with the right to regular dividends for each convertible bond (nominal € 2,582.28) of the above bond issue, which matured during 2009 and for which conversion was requested.

At 31 December 2009, the bank had 23,972,383 treasury shares.

l) Management and coordination

BMPS is not managed and coordinated by another party as intended by article 2497 and following articles of the Civil Code.

m) Directors' compensation in the case of their dismissal or discontinuation of their term of office due to a public purchase offer

The Issuer does not have agreements with its directors for their compensation in the case of their dismissal without just cause or discontinuation of their term of office due to a public purchase offer.

3. COMPLIANCE

Following the inspection of its organisational model, the bank's board of directors confirmed its compliance with the Code of Conduct for Listed Companies (the "**Code**"), approved in March 2006 by the "Committee for Corporate Governance of Listed Companies" with its resolution of 5 April 2007, stating that its model is a reference point for an effective "Corporate Governance" model. The Code is available for consultation on Borsa Italiana's website (www.borsaitaliana.it).

Neither BMPS nor its strategically important subsidiaries are subject to non-Italian laws that would affect the Bank's corporate governance structure.

4. BOARD OF DIRECTORS

4.1. Appointment - replacement of directors and by-laws changes

The board of directors has a number of members set by the shareholders in ordinary meetings of between nine and 17. No director can concurrently act as a member of a board of directors, of a management board or a supervisory board of competitor banks that are not part of the BMPS group that have banking licences issued by the Italian supervisory authorities and operate in the Italian banking sector without falling from office. A BMPS director who accepts one of the above positions shall promptly inform the board of directors, which immediately communicates their fall from office. Directors have a term of office of three years, which expires with the shareholders' meeting called to approve the financial statements for the last year of their engagement. Appointment takes place using lists presented by the shareholders in which the candidates are listed using consecutive numbering. At least two candidates on each list (to be specifically indicated) are independent, as established by law for statutory auditors and the additional independence requirements set forth in the Code of Conduct for Listed Companies. The following is presented with each list within the date for their deposit at the bank's registered office: (i) statements in which each candidate accepts their candidature and confirms, under their own responsibility, the inexistence of any reasons for their ineligibility or disqualification and that they have the requirements for the position prescribed by the ruling laws and regulations; (ii) statements of at least two candidates that they meet the independence requirements; and (iii) their professional and personal profiles, describing positions held as directors and statutory auditors in other companies. Specifically, the candidates state that they are not members of a board of directors, management board or supervisory board of a competitor bank that is not part of the Montepaschi group, that has a banking licence issued by the Italian supervisory authorities and operates in the Italian banking sector. Lists that do not comply with these by-laws requirements cannot be voted for.

Lists presented by shareholders shall be presented at the bank's registered office at least fifteen days before the date of the shareholders' meeting on first call and shall be made available to the market in accordance with the ruling legislation. Each shareholder may individually or jointly present just one list and each candidate may be included in just one list to be eligible. Only shareholders that individually or jointly with other shareholders hold shares equal to at least 1% of the Bank's share capital with voting rights at ordinary meetings or another percentage fixed by the relevant legislation may present lists. In order to demonstrate title to the number of shares necessary to present lists, the shareholders shall present and/or send a copy of the documentation showing their right to attend shareholders' meetings at least five days before the date of the meeting on first call to the Bank's registered office. Each shareholder with the right to vote may vote for just one list.

Article 15 of the by-laws establishes that directors be elected as follows:

- a) directors representing half the number to be elected, with rounding down to the nearest entire number in the case of fractions, are taken from the list that obtains the majority of the votes in consecutive order as included in the list;
- b) the other directors are taken from the other lists; the votes won by the lists by divided by one, two, three, four, etc depending on the number of directors still to be elected. The resulting points are assigned to the candidates of each list consecutively using the list order. They are then compiled into one list in decreasing order and the directors with the highest results are elected.

When more than one director is awarded the same number of points, the candidate from the list that has not yet had any of its directors elected or that has had the smallest number of directors elected, is elected.

When none of these lists has had a director elected or they have all had the same number of directors elected, the candidate with the highest number of votes is taken from these lists. When the lists have the same number of votes and points, the shareholders vote again and the candidate with the most votes wins.

Moreover, and as a departure from the above, at least one director shall always be taken from the list of the non-controlling shareholders that has won the most votes and is not in any way, including indirectly, linked to the shareholders that presented or voted for the list that got the most votes.

When the voting process is finished, should no director with the necessary independence characteristics required of statutory auditors by law have been elected:

- (i) the first candidate in consecutive order who is one of the independent candidates on the list that got the most votes replaces the non-independent candidate who was the last picked from this list;
- (ii) the candidate with the highest total is elected from among the independent candidates on the list to replace the non-independent candidate among the last to be elected from the other lists.

When just one director with the independence characteristics required of statutory auditors by law has been elected at the end of the voting process and this director was on the list that got the most votes, the candidate with the highest total of the independent candidates on the other lists is picked to replace the non-independent candidate to be the last selected from the other lists.

When just one director with the independence characteristics required of statutory auditors by law has been elected at the end of the voting process and this director was on a list other than that which got the most votes, a second independent director is elected being the first independent candidate on the list that got the most votes.

The candidate replaced to ensure the appointment of the minimum number of independent directors cannot be a director taken from the non-controlling shareholders' list with the most votes and that is not linked in any way, including indirectly, with the shareholders that presented or voted the list that got the most votes. In this case, the second last non-independent director in terms of total points awarded is replaced. The shareholders' decisions about the appointment of directors are regulated by law (including the majorities required) when not provided for above.

Directors who fall from office are replaced in accordance with the law. If the majority of the directors falls from offices, the entire board falls with effect from its reconstitution.

Shareholders may dismiss directors at any time, without prejudice to their right to compensation if they are dismissed without just cause.

Changes to the by-laws are made in accordance with the ruling legislation and regulations.

4.2. COMPOSITION

The current board of directors has 12 members, was appointed by the shareholders in their ordinary meeting of 29 April 2009 and will remain in office until approval of the financial statements as at and for the year ending 31 December 2011. Each director complies with the legal requirements.

Three lists were presented at the meeting of 29 April 2009:

- 1) **List no. 1** - Fondazione Monte dei Paschi di Siena, owner of 45.87% of the ordinary share capital, presented candidates Giuseppe Mussari, Ernesto Rabizzi, Fabio Borghi, Graziano Costantini, Alfredo Monaci and Andrea Pisaneschi;
- 2) **List no. 2** - companies Società Caltagirone Editore S.p.A., Fincal S.p.A., Capitolium S.p.A., Mantegna 87 S.r.l., Fincel S.r.l. e So.Fi.Cos S.r.l. - that own 4.72% of the ordinary share capital of BMPS and are directly and indirectly controlled by Gaetano Caltagirone – Unicoop Firenze Soc. Coop. – that owns 3.34% of the ordinary share capital of BMPS – and a group of shareholders represented by Lorenzo Gorgoni that together own 2.96% of the ordinary share capital of BMPS; these shareholders entered into a shareholder agreement that automatically terminated after the meeting, representing 11.02% of the ordinary share capital of BMPS and presented candidates Francesco Gaetano Caltagirone, Turiddo Campaini, Lorenzo Gorgoni, Carlo Querci, Massimiliano Capese Minutolo and Mario Delfini;
- 3) **List no. 3** - Axa S.a. direct owner and jointly with its subsidiaries of 4.58% of the ordinary share capital of BMPS presented candidates Frédéric Marie de Courtois d'Arcollierés and Paolo Andrea Rossi.

It was stated that there were no connections between the lists.

The voting went as follows:

- List no. 1: total votes 1,187,806,420, voting percentage 50.330676%, percentage of share capital 21.417538%;
- List no. 2: total votes 945,157,193, voting percentage 40.048950%, percentage of share capital 17.042289%;
- List no. 3: total votes 222,034,216, voting percentage 9.408210%, percentage of share capital 4.003536%.

Giuseppe Mussari, Francesco Gaetano Caltagirone, Ernesto Rabizzi, Fabio Borghi, Turiddo Campaini, Lorenzo Gorgoni, Graziano Costantini, Andrea Pisaneschi, Carlo Querci, Alfredo Monaci, Frédéric Marie de Courtois d'Arcollierés and Massimiliano Capece Minutolo were elected.

A brief profile of each director is given below, showing their experience and skills in company management.

Giuseppe Mussari: Law graduate, included in the register of lawyers of the Siena Court since April 1993. Positions held include chairman of the criminal section of the Siena Court from 2000 to 2001, chairman of Fondazione MPS from July 2001 to April 2006, deputy chairman of ACRI from September 2001 to April 2006 and chairman of the guidelines committee of Cassa Depositi e Prestiti until approval of the 2006 financial statements. Currently holding different positions including as member of the board of directors and member of the executive committee of the Italian Bankers Association (ABI - since July 2006), member of the supervisory board of AXA S.A. (since May 2007), member of the steering committee of ABI - Ania since June 2008. Chairman of the Issuer's board of directors since 30 April 2006.

Francesco Gaetano Caltagirone: Engineering graduate, acquired control and became chairman of Vianini S.p.A., of the major listed general contractors (now Caltagirone S.p.A.) in 1984. He subsequently extended his operations to the cement and media sectors, creating one of the largest Italian business groups which has five listed companies, important strategic investments and increasing international presence. As well as being chairman of Caltagirone S.p.A. (listed on the Milan stock exchange), he is also chairman of Caltagirone Editore S.p.A. (listed on the Milan stock exchange), Il Messaggero S.p.A., Il Gazzettino S.p.A., Eurostazioni S.p.A. and Associazione Amici della LUISS. Director of Assicurazioni Generali S.p.A., Aalborg Portland, Cimentas (listed on the Istanbul stock exchange), Auditorium-Musica per Roma, the Italian Bankers Association, Università LUISS and Fondazione Cini. Deputy chairman of the Issuer since 27 April 2003.

Ernesto Rabizzi: employee with BMPS from 1963 to 2000 when he was a manager. From 2001 to 2004, member of the general deputation of Fondazione MPS, from 2004 to 2006, deputy president of the Siena provincial authorities, from 2004 to 2006 member of the board of directors of the Università per Stranieri di Siena. Currently, chairman of Cassa di Previdenza Aziendale per il Personale del Monte dei Paschi di Siena (May 2006), chairman of the Consorzio Operativo of MPS group (June 2006) and chairman of Consum.it (April 2007), deputy chairman of Biofund S.p.A., director of Banca Antonveneta S.p.A., director of the Italian Bankers Association, director of the Fondo Pensione Complementare per i dipendenti di BMPS (Complementary Pension Fund for BMPS employees) and director of Fondazione Toscana Life Sciences since May 2009. Deputy chairman of the Issuer since 30 April 2006.

Fabio Borghi: member of Fondazione MPS from September 2001 to April 2003 and member of the board of directors of Siena Biotech S.p.A., Banca Monte Parma and Unipol Gruppo Finanziario from April 2002 to April 2004. Currently, chairman of MPS Gestione Crediti, chairman of the Complementary Pension Fund for BMPS employees and chairman of MPS Banca Personale. Director of the Issuer since April 2003.

Turiddo Campaini: chairman of the supervisory board of Unicoop Firenze soc. coop. since 2008. From 1973 to 2007, chairman of the board of directors of Unicoop Firenze soc. coop. From 2002 to 2007, chairman of Brico Business Cooperation S.r.l. In 2006, chairman of the board of directors and managing director of Finsoe S.p.A.. Currently director of MPS Capital Service and director of BMPS since April 2003.

Lorenzo Gorgoni: Economics graduate, from 1973 to 1985, member of the board of directors of Banca del Salento S.p.A., from 1978 to 1985, managing director, from 1991 to 1993, deputy chairman and from 1993 to 2000 deputy chairman. From 1988 to 1990, chairman of the board of directors of Banca di Bisceglie S.p.A., from 2000 to 2002, chairman of Banca 121 S.p.A. and up until September 2008, member of the executive committee of Banca Agricola Mantovana S.p.A.. Currently, director of the Italian Bankers Association and Telecom Media S.p.A.. Director of BMPS since April 2003.

Andrea Pisaneschi: Law graduate, included in the register of lawyers since 1985. From 1997, professor of law in the law department of the Siena University. Currently, director of AXA MPS Assicurazioni Vita, AXA MPS Assicurazioni Danni and chairman of Banca Antonveneta. Director of the Issuer since April 2003.

Carlo Querci: Law graduate, worked as a forensic lawyer from 1957 to 1980. From 1968 to 1981 and from 1992 to 1997, member of the board of directors and deputy chairman of Banca Steinhauslin S.p.A.. Member and subsequently deputy chairman of Banca Monte Parma. Currently, director of Monte Paschi Banque s.a. (Paris) and Banca Antonveneta. Director of the Issuer since May 1997.

Graziano Costantini: Economics and banking graduate, included in the register of auditors with legal effect from 21 April 1995. From 2001 to 6 April 2009, general manager at Fondazione Monte dei Paschi di Siena. When elected, was director with administrative and control duties: Giunta Conferescenti di Siena, director of Fortezza S.r.l. (Gestione Supermercati Gruppo Etruria), director of CRAI Toscana Soc. Coop. R.I. (now Etruria Soc. Coop. R.I.), chairman of the board of statutory auditors of Mens Sana Basket S.r.l., chairman of Etruria C&C S.r.l. (Etruria group), deputy chairman of Toscana Discount S.r.l. (Etruria group), director of G.M.S. S.r.l. (Etruria group). Director of Sansedoni S.p.A. since 12 October 2009.

Alfredo Monaci: High school diploma in accountancy, included in the register of journalists in Tuscany since 1987. Director of Sandonato S.r.l. (2003/2004), of Immobiliare Novoli S.p.A. (2003/2004), Sansedoni S.p.A. (2002/2006 as deputy chairman). Member of the standing committee of the Istituzione Museale Santa Maria della Scala di Siena from 1998 to 2005; director of EUROBIC Toscana as a representative of the Siena chamber of commerce (Poggibonsi, SI); chairman of Biverbanca since 20 October 2009; director of the Issuer since 29 April 2009.

Massimiliano Capece Minutolo : diploma from the “liceo classico”, civil engineering graduate (specialised in transportation) from the first Università di Roma La Sapienza. Included in the Rome register of engineers at no. 16543/92. Manager with Vianini Lavori S.p.A.. Currently director of Caltagirone S.p.A. (listed), Vianini Lavori S.p.A. (listed), Cementir Italia S.r.l. (subsidiary of Cementir Holding S.p.A. listed), Cimentas A.S. (listed on the Istanbul stock exchange), Finanziaria Italia 2005 S.p.A., Grandi Stazioni S.p.A., Romana Partecipazioni 2005 S.r.l., Immobiliare Caltagirone S.p.A., Consorzio Ponte di Nona, sole director of Porto Torre S.p.A., Cogeim S.r.l., Ammiraglio Bergamini S.r.l., Colli di Angiullara S.r.l. and Margherita 2004 S.r.l..

Frédéric Marie de Courtois d'Arcollières: Engineering graduate with the National Superior School of Telecommunications of Paris and management degree from the Ecole Nazionale des Ponts et Chaussées. Commenced his career with CGI Informatique in Germany in 1989 before transferring to UAP (which merged with AXA in 1996) with its Finance Department. Held different positions within the AXA group including from 2000 to 2001 deputy chairman of AXA Conseil with direct responsibility for the distribution networks, deputy CEO of AXA Re, as manager in charge of the Finance, legal and claims department; in 2003, he became CFO of AXA Japan Holding Co, and of AXA Life Insurance Co, Ltd (Japan); in 2006, he became chairman of AXA Japan Holding Co, Ltd and deputy chairman of AXA Life Insurance Co, Ltd and CEO of AXA P&C operation in Asia.

From 2007, managing director of Compagnie AXA MPS Vita and Axa MPS Assicurazione danni S.p.A., chairman of AXA MPS Financial Ltd and member of the board of directors of AXA Assicurazioni S.p.A. and IPAS S.p.A.. Director of the Issuer since 29 April 2009.

CURRENT BOARD OF DIRECTORS

Name	Position	In office since	List	Exec	Non exec.	Indep. as per Code.	Indep. as per Consolidated Finance Act	% BoD	Other positions
Giuseppe MUSSARI	Chairman	30.04.06	M		X		X	96.6	6
Francesco Gaetano CALTAGIRONE	Deputy chairman	30.04.06	m		X			46.6	10
Ernesto RABIZZI	Deputy chairman	30.04.06	M		X			100	4
Fabio BORGHI	Director	30.04.06	M		X			93.3	2
Turiddo CAMPAINI	Director	30.04.06	m		X			86.6	4
Graziano COSTANTINI	Director	30.04.09	M		X	X	X	100	15
Lorenzo GORGONI	Director	30.04.06	m		X			100	1
Andrea PISANESCHI	Director	30.04.06	M		X			100	3
Carlo QUERCI	Director	30.04.06	m		X			93.3	2
Alfredo MONACI	Director	30.04.09	M		X			100	1
Massimiliano CAPECE-MINUTOLO	Director	30.04.09	m		X	X	X	95	16
Frédéric Marie de COURTOIS d'ARCOLLIERES	Director	30.04.09	m		X		X	90	5

DIRECTORS WHO LEFT OFFICE DURING 2009

Lucia COCCHERI (*)	Director	30.04.06	M		X			80	(*)
PierLuigi STEFANINI (*)	Director	30.04.06	m		X			40	(*)

KEY

List: M/m depending on whether the director was elected from the list voted by the Majority or by a minority

Exec.: to be filled in if the candidate qualifies as executive

Non-exec.: to be filled in if the candidate qualifies as non-executive

Indep.: to be filled in if the candidate qualifies as independent as established by the Code, specifying at the foot of the table whether these criteria have been integrated or amended

% BoD: fill in number of directors present at board meetings as a percentage (consider the number of meetings at which the directors have participated compared to the number of meetings held during the year or since their appointment)

Other positions: total number of positions held in other companies listed on regulated markets (also foreign), in financial companies, banks, insurance companies or other significant size companies.

Since 27 May 2009, the remuneration committee members are the following directors: Lorenzo Gorgoni (coordinator), Massimiliano Capece Minutolo (independent) and Graziano Costantini (independent); for completeness purposes, the table also shows the previous members.

Since 27 May 2009, the remuneration committee members are the following directors: Andrea Pisaneschi (coordinator), Massimiliano Capece Minutolo (independent) and Graziano Costantini (independent); for completeness purposes, the table also shows the previous members.

Name	Position	EC	% EC	AC	% AC	RC	% RC	ICC	% ICC
Giuseppe MUSSARI	Chairman								
Francesco Gaetano CALTAGIRONE	Deputy chairman					M	50		
Ernesto RABIZZI	Deputy chairman								
Lucia COCCHERI (*)	Director					M	100		
Turiddo CAMPAINI	Director								
Graziano COSTANTINI (**) Current members of the RC and the ICC	Director					M	100	M	100
Lorenzo GORGONI Current RC coordinator	Director					C	100	M	100
Andrea PISANESCHI Current ICC coordinator	Director					M	100	C	100
Carlo QUERCI	Director					C	100		
Alfredo MONACI (**)	Director								
Massimiliano CAPECE MINUTOLO (**) Current member of the RC and the ICC	Director					M	100	M	88
Fabio BORGHI	Director							M	50
Frédéric Marie de COURTOIS d'ARCOLLIERES (**)	Director								

KEY

EC: executive committee - not set up

% EC: executive committee - not set up

AC: appointments committee - not set up

% AC: appointments committee - not set up

RC: put C/M if coordinator/member of the remuneration committee

% RC: show presence of director at remuneration committee meetings as a percentage

ICC.: put C/M if coordinator/member of the internal control committee

% ICC: show presence of director at internal control committee meetings as a percentage

The following directors left office during the year (up until 29/04/2009):

* Lucia COCCHERI

* Pier Luigi STEFANINI

(**) Directors since 30/04/2009

Self-assessment of the BoD

Concurrently with approval of this report, the board of directors carried out the self-assessment procedure as required by its regulation of its adequacy as a whole, considering the strategies pursued and the context within which the bank operates and its activities. Its findings were positive in respect of the adequacy of its size, its composition, its professionalism, the type and nature of the expertise and experience of its members and its working. However, it has deemed it suitable to request the independent directors to carry out additional procedures, including by availing of the assistance of the relevant internal structures, and to report thereon as promptly as possible to the board. Their objective is to analyse certain aspects in more detail, to fine-tune the self-assessment procedures and to make the board more efficient.

Maximum number of positions held in other companies

The board's regulation, adopted in 2009, establishes that its members may hold positions in six other companies listed by shares outside the Montepaschi group without compromising their effective performance of their duties as director within the bank. Specifically, positions to up a maximum of four within the same group qualify as one position, more than four qualify as two. In addition, they may hold a maximum of three positions (except for in exceptional circumstances) in Montepaschi group companies, excluding the parent or other companies as appointed by the group.

Determination of the maximum number of positions in line with current legislation considers the substance of the positions held rather than the actual number. Therefore, it is based on the type of position held (eg, executive or non-executive director), the nature and size of the company in which the positions are held (eg, listed or unlisted), the specific circumstances and, especially, the bank's interests.

With respect to the board of directors in office until 29 April 2009: (i) on that date, the shareholders assessed the compatibility of the directors' positions held in other companies with their proper performance as directors of the bank; and (ii) the directors continued to hold substantially the same positions held when elected and when assessed by the shareholders in 2006, 2007, 2008 and 2009.

The shareholders assessed whether the positions held by the new directors elected on 29 April 2009 were compatible with their proper performance as directors of the bank.

Concurrently with approval of this report, the board of directors assessed the limits to the number of positions held by its members, using the principles and criteria established also by its regulation and the profiles presented by the directors when elected and updated during preparation of the corporate governance report and information available to the bank. It confirmed the compatibility of their other positions with that as director of the bank and their proper performance as directors as, *inter alia*, none of the directors has exceeded the above thresholds. This compatibility is consistent and confirmed by the actual figures about the directors' participation at meetings of the board and internal board committees, which are very satisfactory. In fact, participation at board meetings by the individual current directors is an average 92.6% and 100% for the committee meetings.

The directors are required to inform the board on a timely basis of any changes compared to the statements made about their professional characteristics and positions held in other companies so as to comply with correctness, transparency and disclosure requirements.

4.3. ROLE OF THE BOARD OF DIRECTORS

During 2009, 30 meetings were held with an average duration of 1 hour and 50 minutes each. Twenty-five meetings are scheduled for 2010, four of which have already taken place.

Distribution of information is regulated and structured to ensure efficient management and effective controls.

Specifically, information is made available to the directors and statutory auditors using a specific procedure available on the intranet or extranet on a protected basis whereby all the directors can review the proposals and annexes and obtain all the information necessary in due time to participate in the discussions and resolutions about the matters on the agenda at meetings in an informed manner.

The chairman ensures that adequate and exhaustive information and documentation about the matters on the agenda for the board meeting is made available in due time to all the directors, using a priority order depending on the importance, significance and complexity of each position to be examined, without prejudice to the rule that the documentation is made available in due time to allow the directors to examine and assess the proposals.

Access to the proposals and documents is provided to the directors and statutory auditors in a protected mode.

The general manager and the deputy general manager and the secretary (selected from the bank's managers, as provided for by the by-laws) participate at board meetings.

Occasionally and at the board's discretion, it may invite managers or consultants to participate at its meeting solely to illustrate specific matters.

For confidentiality reasons, documentation about matters on the agenda may be provided to the directors solely at the meeting. This took place in 2009 for approximately 4%-5% of the total matters on the agenda at the different meetings.

It may also be necessary to include a matter under "AOB" that was not previously on the agenda given its urgency and without obtaining the prior consent of all the directors (even if they are absent).

Powers

The board of directors have all the ordinary and extraordinary administrative powers to fulfil the bank's business object that are not reserved to the shareholders by law or by the by-laws. Specifically, article 17.2 of the by-laws reserves the following powers exclusively to the board that cannot be delegated:

- ✓ preparation of strategies and guidelines for the bank and the banking group which it heads and approval of the related business and financial plans and strategic transactions (article 17.2.a));
- ✓ supervision of the correct and consistent implementation of the guidelines and strategic plans described above to manage the bank and the banking group;
- ✓ determination of the guidelines for the bank's general structure and approval of its organisational structure, approval and amendment of its main internal regulations (article 17.2.c);
- ✓ preparation of general guidelines for the structure and working of the banking group, deciding the criteria for coordination and management of the group companies and compliance with instructions issued by Banca d'Italia;
- ✓ preparation of the financial statements and presentation to the shareholders;
- ✓ taking of resolutions about the setting up of advisory committees;
- ✓ appointment of the general director and resolutions about his dismissal, suspension, removal, termination of his term of office and determination of his fees;
- ✓ supervision of the manager in charge of financial reporting to ensure he has adequate powers and means to carry out his duties and comply with administrative and accounting procedures.

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On 10 March 2008, the board of directors approved the **new 2008-2011 business plan for the group**.

This new business plan exploits the benefits reaped from the business measures designed and implemented in the previous 2006-2009 plan adopted after acquisition of Banca Antonveneta. It enables a far-reaching restructuring and transformation of the group so as to free up value, in terms of improving sales performances, recovering efficiency and optimising risk and capital management.

The improvement in sales performances is achieved by strengthening and optimising distribution, focusing on customer service customisation and full use of the new production structure. The aim is to position the group as the leader in terms of service quality. Specifically:

1. Development of the distribution structure using a geographical “dominance” approach (the sole bank for each area) and subsequent elimination of any existing overlapping. This implies that Banca Antonveneta becomes again the bank for the Veneto and surrounding regions, Biverbanca is the reference point for central and eastern Piedmont and Banca Monte dei Paschi is the only bank with national coverage. In addition to extending the group’s geographical network considerably, its distribution chain will become more powerful thanks to the increase in front line personnel and their greater expertise.
2. Continuation of the strategic diversification of the customer distribution channels by concentrating on innovative channels.
3. Simplification and shortening of commercial chains.
4. Better use of the new production structure through a precise strategic focus on the group’s internal product factories and joint ventures covering specialist customer areas and procurement of products at an international level at the best possible terms on an open architecture basis.
5. Additional customer service specialisation.

The structural improvement in efficiency will be achieved by containing operating costs, proactively managing risks and costs related thereto and greater focus on the group’s core business. In particular:

6. The structural reduction of operating expenses, through:
 - Achievement of economies of scale thanks to the larger operating scope and integration of the group’s general management/network structures.
 - Reorganisation of the back office, ICT and credit functions.
 - Continuation of cost management actions, implemented on a vaster scale through sweeping reviews of the service chain operating processes.
 - Greater centralisation of governance, support and commercial direction structures in the parent.
7. Review of the group’s risk weighted assets (RWA) management policies using an integrated and cross-functional programme which will improve the return/RWA ratio.
8. Restructuring of non-core activities through service outsourcing/partnerships with third parties (real estate portfolio, etc.).

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As envisaged by the **group’s 2008-2011 business plan** which also provided for a far-reaching structural reorganisation of the group itself and of the network following the merger of Banca Agricola Mantovana S.p.A. and Banca Antonveneta S.p.A. (which took place on 16 September and 22 December 2008, respectively) into Banca Monte dei Paschi di Siena S.p.A. and the set up of the Nuova Banca Antonveneta S.p.A., now Banca Antonveneta S.p.A. (NBAV) as the network bank based in the north east, the merger of Banca Toscana S.p.A. into Banca Monte dei Paschi di Siena S.p.A. was formalised with a deed on 24 March 2009, effective from 11.59 pm on 29 March 2009.

The merger took place as a direct merger, given that the merged bank was already fully owned by the merging bank.

For statutory purposes, it complied with article 2501 and following articles of the Civil Code and using the methods and at the conditions described in the Merger Proposal.

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On 23 November 2008, the board of directors approved the “Group directive for internal control systems”, which regulates governance of the group’s internal control systems.

The new regulatory framework replaces the group’s previous regulation (no. 16) and was designed to comply with the new legislative/regulatory requirements, the group’s organisational structure and Italian and international best practices.

As the “Body with strategic and management supervision duties”, the board of directors ensures the working, effectiveness and efficiency of internal controls, adopting timely corrective measures when necessary.

Reference should be made to point 13 - Internal control system for all the related information on the:

- corporate governance model;
- control components;
- internal bodies involved;
- relationships with the supervisory authorities.

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On 24 December 2006 and after consulting the Remuneration Committee, the board set the chairman’s fees. During 2007 and 2008, it determined the variable part of the chairman’s fees for 2006 and 2007 using the criteria agreed in its previous resolution of 2006. It subsequently (on 21 April 2009) resolved that the variable part, left to its discretion, would be € 150,000,000 for 2008 in line with its previous resolution of 2006. The chairman waived in full his right to such remuneration.

On 25 June 2009, the shareholders resolved not to change the chairman’s fees and, therefore, to give Giuseppe Mussari as chairman an annual fixed gross fee, including his remuneration as director, which can be increased by a variable part if so resolved by the board of directors.

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The board of directors reports to the board of statutory auditors on a timely basis on its activities and the key transactions carried out by the bank and its subsidiaries. Specifically, it reports on any transactions that could give rise to conflicts of interest. The board approved the “Code of Conduct for Related Party Transactions” on 16 February 2006.

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On more than one occasion (13 November 2002, 19 February 2004, 15 May 2006 and 25 January 2007), the bank’s board of directors reviewed and resolved on the obligations of banks and directors’ interests considering the relevant legislation (article 2391 of the Civil Code and article 136 of Legislative decree no. 385 of 1 September 1993 - the Consolidated Banking Act).

In fact, on 25 January 2007, the board established the principles and criteria to be adhered to with respect to the bans provided for by article 136 of the Consolidated Banking Act. It also resolved to request each director to provide a specific statement listing:

- i) the companies in which they are shareholders with unlimited liability;
- ii) the companies in which they have significant interests, also indirectly;
- iii) the companies which they control;

- iv) the companies in which they act as directors or statutory auditors;
- v) the subsidiaries, which control the companies as per points iii) and iv).

This resolution was passed in order to carry out the procedure as per article 136 of the Consolidated Banking Act on possible obligations contracted by the director either directly or indirectly or by related companies, with the bank for which it acts as director, manager or statutory auditor or with group companies:

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As noted, the directors' obligations, their interests and related party transactions are governed by specific legislation (article 136 of Legislative decree no. 385 of 1 September 1993 - Consolidated Banking Act, article 2391 of the Civil Code, article 2391-*bis* of the Civil Code, IAS 24 and the Code of Conduct of Listed Companies, respectively), adopted by the bank with specific internal resolutions and documents (for example, the Code of Conduct for Related Party Transactions, adopted by the bank with the board of directors' resolutions of 6 March 2003 and 16 February 2006).

Transactions not directly involving the directors but rather parties related to them are also covered by the above legislation, especially directors' obligations as per article 136 of the Consolidated Banking Act and for related party transactions.

Therefore, the bank implements all the necessary measures, with the cooperation of all its directors to keep its register of relevant persons complete and up-to-date pursuant to article 136 of the Consolidated Banking Act and legislation covering related party transactions. This register is used when preparing the annual financial statements disclosures on related party transactions and whenever group companies have significant transactions as per the above legislation.

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The bank's board of directors has revised the Code of Conduct for Related Party Transactions over the years. It was first adopted in March 2003 and subsequently amended in 2006 to reflect the changed reference legislative framework and organisational model. The general notion of a "Related Party" is based on the following criteria in the Code of Conduct: **a) group relationship**, for parties that control, are related to or have significant influence directly over the bank and its group; **b) direct relationship**, which covers the directors, statutory auditors, general manager and also managers with powers assigned by the board of directors (namely, the deputy general managers, the BMPS Network head, the department heads of the parent and network offices that have independent decision-making powers for lending, and parties (also indirect) to shareholder agreements as per article 122.1 of Legislative decree no. 58/98 covering the exercise of voting rights at the bank's shareholders' meetings, if such agreements allow the exercise of significant influence over BMPS; **c) indirect relationship**, which includes close family members of the persons included in points a) and b), that is, family members who can potentially influence or be influenced by the person who has the relationship with BMPS and parties controlled or jointly controlled by the persons adhering to the above shareholder agreements, or over which the persons have significant influence or directly or indirectly hold a significant portion of the voting rights.

Moreover, these transactions (ie, transactions carried out by the bank, also via subsidiaries, with its related parties) can be split between: *ordinary transactions* (with no particular elements), *significant transactions* (which require disclosure to the market pursuant to article 71-*bis* of the Issuer Regulation adopted by Consob with resolution no. 11971), *relevant transactions*, that, while not significant transactions, are in some way atypical and/or unusual.

Ordinary transactions are approved in line with the authorisation powers set by the current system of decision-making powers while significant and relevant transactions are approved by the board of directors (although the process may differ for urgent cases as provided for by the bank's by-laws).

Whenever required due to the nature, amount or other characteristics of the transactions, the board of directors may decide to base its decisions on opinions issued by one or more independent advisors about the financial conditions and/or technical structure and/or aspects of the transaction in question. With respect to transactions with related parties of the bank, the subsidiaries comply with the parent's code, adapting it to comply with their decision-making structure using specific and timely methods to inform the parent about such transactions.

Obviously, the obligations imposed by article 136 of Legislative decree no. 385 of 1 September 1993 (Consolidated Banking Act) about the "obligations of bank directors" remain valid.

Intragroup transactions between BMPS and group related parties take place on the basis of assessments of the mutual financial convenience at market conditions, like for transactions with other related parties covered by the Code. None of these transactions required obligatory disclosure to the market pursuant to article 71-*bis* of Consob regulation no. 11971/99.

The shareholders did not take any general or prior resolutions during their meeting in 2009 for the departure from the anti-competition provisions of article 2390 of the Civil Code.

No director informed the board during the year of any activities that are in competition with those of the bank.

The above procedure for the approval and execution of related party transactions has been properly implemented. The most significant transactions are described in detail in part H of the notes to the separate financial statements.

The bank's corporate legal staff applies a specific operating procedure for the systematic updating of the positions of parties classified as "Relevant parties" pursuant to article 136 of the Consolidated Banking Act, legislative covering "Related parties", article 2391-*bis* of the Civil Code and IAS 24.

This procedure both complies with the obligations of the legislation (Consolidated Banking Act and Consolidated Finance Act) and Consob regulations. The law also requires that information about "Related parties" is to be published in the half year interim financial report and the annual separate and consolidated financial statements.

A specific software application is used for the above procedure consisting of four modules: Relevant parties, Corporate governance, Investments, and Supervisory communications.

The day-to-day entries in this application also feed the general customer database of BMPS and all the group's related parties.

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Consob approved the Regulation for related party transactions on 12 March 2010.

After two public consultations, the Commission adopted the new regulation, which governs related party transactions carried out by listed companies and issuers of shares, establishing disclosure requirements and principles for the transparency, substantial and procedural correctness of such transactions.

The regulation's key points are:

- a) strengthening of the independent directors' role in all stages of decision-making about related party transactions;
- b) transparency.

The definitions of "related party" and "related party transactions" are based on those provided for by IAS 24.

The definition of "independent directors" is almost the same as the requirements of the Consolidated Finance Act (article 148) but is stricter for companies that comply with the Code of Conduct.

The regulation makes a difference between related party transactions depending on the materiality, how the procedures are implemented, the independent directors' role and transparency.

The bank is currently taking the necessary steps to ensure compliance with the new rules.

4.4 CHAIRMAN OF THE BOARD OF DIRECTORS

The chairman of the bank's board of directors has not received any operating proxies from the board nor does he have a special role in deciding strategies. He is neither the CEO nor the bank's controlling shareholder.

4.5 BODIES WITH SPECIAL POWERS

Executive committee

The current board of directors was appointed by the shareholders in their ordinary meeting of 29 April 2009 and is in office until approval of the financial statements as at and for the year ending 31 December 2011. It has not appointed an executive committee.

Communications to the board

As noted, the chairman of the board of directors has not been given any operating proxies.

4.6. OTHER EXECUTIVE DIRECTORS

All the board members are "non-executive directors" as: (i) a managing director, as provided for by the by-laws (articles 18 and 22) has not been appointed; (ii) an executive committee (provided for by articles 18 and 19 of the by-laws) has not been set up; and (iii) none of the directors have manager positions in the bank.

4.7. INDEPENDENT DIRECTORS

Article 3 of the Code, to which the bank has adhered with resolution of 5 April 2007 as a reference point for an effective corporate governance system, provides that the duties of a board of directors include the assessment: (i) of its non-executive members' independence, with more weight given to substance than to form; and (ii) of relationships that could or could seem to compromise the non-executive directors' independent judgement taking, based on information provided by the directors themselves or available to the issuer.

As already mentioned in the corporate governance reports of 2007 and 2008, the board deems that classification of a non-executive director as independent does not express a value judgement but represents an actual situation, ie, the lack of a relationship with the issuer or its related parties, such that would affect the director's independent judgement and unqualified appreciation of the bank's management team.

As noted, articles 147-ter and 148 of Legislative decree no. 58/98 (Consolidated Finance Act) and the Code of Conduct for Listed Companies regulate the independence requirements for directors.

Accordingly, the board has applied all the relevant criteria and, after assessing each director's position using the information provided or available to the issuer, checked that, at 27 May 2009, the directors appointed by the shareholders on 29 April 2009 were independent under the dual requirements of the different regulations (Consolidated Finance Act and the Code of Conduct). It checked that no past or present relationships existed between the issuer or parties related to the issuer and the directors Graziano Costantini and Massimiliano Capece Minutolo. It confirmed these findings on 5 August 2009, as required expressly by Banca d'Italia which has not made any other requests to date.

On 28 May 2009, the board of statutory auditors checked the correct application of the criteria and procedures by the board of directors to verify its members' independence. It found that the board had applied the criteria and procedures required by the different primary and secondary legislation, regulations, by-laws and other requirements.

With approval of this report, the Board of Directors carried out its annual assessment of the directors' qualifications, as required by the board's regulation, applying the criteria set out in the Code of Conduct and the Consolidated Finance Act, assessing each director's position based on the information provided at the time of their election, their statements updating their position, especially as regards positions held in other companies, information available to the issuer and considering that communications had not been received to modify the statements made at the time of their election (Massimiliano Capece Minutolo and Graziano Costantini stated they qualified as independent pursuant to both the Code of Conduct and the Consolidated Finance Act, Giuseppe Mussari stated his independence pursuant to the Consolidated Finance Act but not the Code of Conduct).

Following this assessment, the board confirmed that:

- Massimiliano Capece Minutolo, Graziano Costantini and Giuseppe Mussari continue to meet the independence requirements as per the Consolidated Finance Act for directors
- Massimiliano Capece Minutolo and Graziano Costantini are independent pursuant to the Code of Conduct for Listed Companies using the criteria set out in the Code;
- therefore, the directors Massimiliano Capece Minutolo and Graziano Costantini meet the independence requirements as per both the Consolidated Finance Act and the Code of Conduct for Listed Companies.

The board of statutory auditors will check the correct application of the criteria and procedures adopted by the board of directors to assess its members' independence in one of its next meetings and will disclose this in its report to the shareholders called to approve the financial statements as at and for the year ended 31 December 2009.

4.8. LEAD INDEPENDENT DIRECTOR

As noted in point 4.4, given that the chairman of the bank's board of directors has not been given operating proxies by the board, is not involved in preparing strategies nor acts as CEO and is not a controlling shareholder, the bank's board of directors has not appointed an independent director to act as lead independent director as the requirements of Criterion 2.C.3 of the Code were not met.

5. PROCESSING OF INTERNALLY GENERATED INFORMATION

The principles and guidelines for identification of a suitable procedure to manage privileged information are set out in the "Group directive for market abuse" (the "Directive") approved by the board on 12 October 2006.

In accordance with external regulations, the Directive also establishes the code of conduct, organisational rules, procedures and requirements as well as the responsibilities and duties of the organisational bodies involved for issues that are important for the group companies.

In order to be an exhaustive source of information about market abuse, the Directive summarises the content of the "Internal Dealing Regulation", approved by the board on 29 March 2006 and subsequently amended with its resolution of 28 January 2010. This latter regulation is published on the

bank's website in the section [Banca Monte dei Paschi di Siena | Investor Relations | Raccolta download](#) and the intranet (www.mps.it).

The Directive covers the following issues:

- I) **Internal Dealing:** communication obligations with the market and Consob about transactions by relevant parties, also via nominees, involving the shares of listed issuers or other related financial instruments.
The Directive summarises the key parts of this issue (only applicable to BMPS) while it is dealt with in detail in the “Internal Dealing Regulation”.
- II) **Repurchase of treasury shares:** definition of how to repurchase treasury shares and communicate the programme to the market.
- III) **Recommendations:** rules about the correctness and transparency of market surveys and research on listed financial instruments.
- IV) **Privileged information:** introduction of the concept of privileged information as information to be disclosed and the obligation to set up a “Register of persons with access to privileged information”.
The Directive defines the principles and methodological references for group companies affected by this issue.
- V) **Register of persons with access to privileged information:** the obligation for issuers and parties controlling them to set up and manage a register of persons who, due to their work, have access to privileged information. The scope and rules of application are also defined.
- VI) **Abuse of privileged information and market manipulation:**
 - introduction of new administrative offences;
 - creation of specific “safe harbours” and allowed market practices;
 - introduction of the obligation to identify and inform Consob of transactions that, on the basis of justifiable reasons, figure as market manipulations and/or abuse of privileged information, ie, “suspect transactions” (article 187-*nonies* of the Consolidated Finance Act).

The obligations imposed by article 187-*nonies* of the Consolidated Finance Act about the identification and communication of “suspect transactions” are dealt with by the Directive giving a concise definition of the principles and methodological references for the group companies to which the Directive applies. They then prepared and issued a specific internal operating rule which defines the functions, duties and responsibilities of the central and outlying offices.

Transparency

Legislative decree no. 195/2007 introduced new regulations about the standardisation of transparency obligations for information about issuers whose shares are traded on regulated markets. The decree incorporates two EC directives, 2004/209 (the “Transparency directive”) and 2002/14. The new regulations are applicable to issuers with Italy as their state of origin.

With respect to financial reporting, the new article 154-*bis* of the Consolidated Finance Act extends the obligations of the manager in charge of financial reporting, who is given new duties and responsibilities. This manager shall state, using the forms established by Consob in regulation no. 11971/1999 and subsequent resolutions, the last of which was issued on 1 April 2009 (article 81-ter and related annex 3.C-ter), that the financial reporting includes a reliable analysis of:

- ✓ the adequate and effective application of the administrative and accounting procedures;
- ✓ compliance with the International Financial Reporting Standards enacted by the European Community;
- ✓ the consistency of the financial reports with the accounting records and entries;
- ✓ the financial report's suitability to present a true and fair view of the financial position, results of operations and cash flows of the parent and consolidated companies;
- ✓ inclusion in the directors' report of a reliable analysis of the results of operations together with a description of the key risks and uncertainties.

Article 154-ter of the Consolidated Finance Act, covering financial reporting, sets, *inter alia*, the deadlines for publishing financial reports: within 120 days of the reporting date for annual financial statements (separate and consolidated), the directors' report, the statement of the relevant senior manager and the manager in charge of financial reporting and the independent auditors' report, and within 60 days of the reporting date for half year interim financial reports.

6. INTERNAL COMMITTEES

The board has set up a **remuneration committee**, an **internal control committee** (see point 12) and a **social responsibility committee**, which are described below giving details of the numbers of their members, the date of approval of their regulations and any amendments thereto.

SOCIAL RESPONSIBILITY COMMITTEE

This committee has three members and advises the board about projects to protect the environment, customer satisfaction, employee professional development and the safeguarding of stakeholders' interests.

It assists the board to define social responsibility policies, assessing risks and opportunities pertinent to the bank and its performance.

Up until 29 April 2009, its members were Carlo Querci, Turiddo Campaini, Andrea Pisaneschi and Lucia Coccheri. Its current members (since 27 May 2009) are Turiddo Campaini, Massimiliano Capece Minutolo (ind.) e Graziano Costantini (ind).

The chairman of the board of statutory auditors, or a statutory auditor appointed by him, and the general manager work with the committee.

Two meetings were held in 2009 to discuss matters such as the 2008 social report (2 April 2009, for which minutes were not drawn up), strengths and possible improvements in social responsibility strategies also with respect to the MPS share and its positioning on the Dow Jones Sustainability Indexes (MPS share sustainability rating and internal responsibility for each area investigated made available to the committee members in the meeting of 17 September 2009, for which minutes were drawn up).

The average length of the meetings was roughly 90 minutes.

All the members were present, no external parties participated and no consultancy services were requested. Two meetings are scheduled for the current year. No financial resources have been set aside.

7. APPOINTMENTS COMMITTEE

The board of directors decided not to set up this committee in its meeting of 1 March 2001 and confirmed this decision in its resolution to adhere to the Code on 5 April 2007.

The non-existence of an appointments committee is consistent with the bank's shareholding structure and pursuant to articles 15.1 and 26.3 of its by-laws, whereby directors and statutory auditors are elected from lists presented by the shareholders individually or with other shareholders that together hold shares equal to at least 1% of the share capital with voting rights at ordinary meetings, or another percentage applicable pursuant to the relevant legislation. The lists are deposited at the bank's registered offices at least fifteen days before the date set for the meeting on first call and are made available to the market in accordance with the ruling legislation.

With respect to the election of directors, the following is presented with each list within the date for their deposit at the bank's registered office: (i) statements in which each candidate accepts their candidature and confirms, under their own responsibility, the inexistence of any reasons for their ineligibility or disqualification and that they have the requirements for the position prescribed by the ruling laws and regulations; (ii) statements of at least two candidates that they meet the independence requirements set for statutory auditors pursuant to article 148.3 of the Consolidated Finance Act; and (iii) their professional and personal profiles, describing positions held as directors and statutory auditors in other companies. Specifically, the candidates state that they are not members of a board of directors, management board or supervisory board of a competitor bank that is not part of the Montepaschi group, that has a banking licence issued by the Italian supervisory authorities and operates in the Italian banking sector; and (iv) information about the identify of the shareholders that presented the lists, stating their ownership percentages.

8. REMUNERATION COMMITTEE

The board of directors set up a remuneration committee with its resolution of 1 March 2001.

It approved the committee's regulation on 6 September 2001 and amended it on 6 March 2003.

Since 27 May 2009, the committee members have been Lorenzo Gorgoni (coordinator), Massimiliano Capece Minutolo (ind.) and Graziano Costantini (ind.). The chairman of the board of directors, or a statutory auditor appointed by him, works with the committee.

Its duties include preparing proposals for the board of directors, to be discussed in the absence of the director involved, about the remuneration of directors with special duties in accordance with the articles of association, and the remuneration of senior management, being the general manager and deputy general managers, which includes stock option plans or stock grant plans. The committee also carries out other duties assigned by the board of directors.

During 2009, the committee met six times, with the participation of the chairman of the board of statutory auditors except for the meetings of 26 February 2009 and 26 November 2009 (he was substituted by another statutory auditor at the latter meeting). It appointed a secretary and defined the parameters to determine the general manager's P.A.R. for 2008 and the objectives for 2009. It provided the board of directors with its opinion about the incentive system for the general manager, deputy general managers and other managers for 2009. It proposed criteria for the definition of the variable part of the chairman's 2009 remuneration to the board. The committee also defined the retribution structure for the deputy general managers for 2009 and the remuneration of the deputy chairmen pursuant to article 27.3 of the by-laws. It set the guidelines for the remuneration of the bank's senior management and made the relevant proposals about the resolutions as per article 17.2.f), h) and i) of the by-laws. It provided for payment of compensation for the manager in charge of financial reporting and made proposals about the remuneration and incentive system as per the central bank's instructions of 28 October 2009.

The average length of the meetings was roughly 35 minutes.

Minutes were drawn up regularly.

No meetings have been planned for 2010 as these will only be held if specifically required.

No financial resources have been earmarked for the committee to enable it to carry out its duties although this is possible if necessary.

The committee has access to information and internal units required to carry out its duties.

9. DIRECTORS' REMUNERATION

The shareholders decided the directors' annual remuneration for 2009, 2010 and 2011 on 29 April 2009 as follows:

- € 80,000 (eighty thousand);
- € 500 (five thousand) for attendance at each board or executive committee meeting; this cannot be accumulated for more than one meeting in the same day;
- reimbursement of any travel and accommodation costs incurred when carrying out their duties.

At present, the directors do not receive variable remuneration tied to the bank's results and/or attainment of specific objectives, not even in the form of stock option plans.

Article 27 of the by-laws provides that after consulting the board of statutory auditors, the board of directors sets the remuneration of the directors with special powers in accordance with the by-laws and directors that are on internal committees (eg, the internal control committee and the remuneration committee). The shareholders decide the chairman's remuneration.

In accordance with the by-laws, the shareholders resolved that the chairman, Giuseppe Mussari, receive an annual fixed gross fee of € 700,000.00 in their meeting of 25 June 2009. This includes his remuneration as director and can be increased by a variable part of up to a maximum of € 150,000.00 if so resolved by the board of directors.

Fees received by the directors in 2009

NAME	FEES FOR POSITION	NON- MONETAR Y BENEFITS Δ	BONUS AND OTHER INCENTIVES	OTHER REMUNERAT ION	TOTAL
Giuseppe MUSSARI – Chairman	714,500.00 (*)	1,5980.05			716,0980.05
Ernesto RABIZZI - Deputy chairman	204,000.00	1,5770.00		192,285.29 (1)	397,862.29
Francesco Gaetano CALTAGIRONE Deputy chairman	171,976.71	1,5770.00			173,5530.71
Fabio BORGHI	97,9530.42	1,5980.05		193,683.29 (2)	293,234.76
Turiddo CAMPAINI	93,0000.00	1,5770.00		31,450.00 (3)	126,027.00
Lucia COCCHERI (a)	32,332.86			138,450.05 (4)	170,782.91
Lorenzo GORGONI	102,5240.61	1,5770.00		12,073.00 (5)	116,174.61
Andrea PISANESCHI	107,572.63	1,598,05		165,389.00 (6)	274,559.68
Carlo QUERCI	95,976.71	1577.00		59,987.50 (7)	157,541.21
Pierluigi STEFANINI (a)	27,356.16 (°)				27,356.16

Massimiliano Minutolo CAPECE	73,8020.73	1,598.05			75,400.78
Graziano COSTANTINI	74,302.73	1598.05			75,900.78
Alfredo MONACI	63,589.04	1,577.00		21,888.36 (8)	87,054.40
D'Arcollieres DE COURTOIS	62,589.04 (**)	1,577.00			64,166.04

(*) In its meeting of 21 April 2009, the board determined the variable part of the chairman's remuneration, which is left to its discretion, to be € 150,000.00 for 2008 pursuant to its resolution of 14 December 2006 which defined the remuneration structure. The chairman waived in full his right to such remuneration.

(**) paid to AXA SA Spain

(^o) paid to Unipol Assicurazioni S.p.A.

(a) from 1 January to 29 April 2009

Δ medical policy

- (1) Rabizzi from subsidiaries, including:
 - € 77,350.00 from Consum.it S.p.A. for his position as chairman of the BoD;
 - € 49,1520.00 from Consorzio Operativo Gruppo MPS for his position as chairman of the consortium members committee;
 - € 48,550.00 from Banca Antonveneta S.p.A. for his position as director;
 - € 11,700.00 from Cassa di Previdenza Aziendale per il Personale del Monte dei Paschi di Siena for his position as chairman;
 - € 5,533.29 from Fondo Pensione Complementare per i dipendenti della Banca MPS S.p.A. after 1 January 1991 for his position as director;
- (2) Borghi from subsidiaries, including:
 - € 61,250.00 from MPS Gestione Crediti Banca S.p.A. for his position as chairman;
 - € 115,600.00 from MPS Banca Personale S.p.A. for his position as chairman from 31 March 2008;
 - € 5,700.00 from Cassa di Previdenza Aziendale per il Personale del Monte dei Paschi di Siena for his position as director;
 - € 11,133.29 from Fondo Pensione Complementare per i dipendenti della Banca MPS S.p.A. after 1 January 1991 for his position as chairman;
- (3) Campaini from MPS Capital Services Banca per le Imprese S.p.A. for his position as director;
- (4) Coccheri from subsidiaries, including:
 - € 44,000.00 from Paschi Gestioni Immobiliari S.p.A. for his position as chairman of the board of directors;
 - € 2,6110.00 from Marinella S.p.A. for his position as deputy chairman from 1 January to 24 February 2009;
 - € 47,850.00 from Banca Antonveneta S.p.A. for his position as director;
 - € 43,989.05 from Cassa di Risparmio di Biella e Vercelli from 1 January to 1 October 2009 for his position as chairman;
- (5) Gorgoni from subsidiaries:
 - € 12,0730.00 from Monte Paschi Asset Management SGR S.p.A. for his position as deputy chairman until 20 April 2009;
- (6) Pisaneschi from subsidiaries, including:
 - € 159,200.00 from Banca Antonveneta S.p.A. for his position as chairman;
 - € 6,189,00 from Monte Paschi Asset Management SGR S.p.A. for his position as director until 20 April 2009;
- (7) Querci from subsidiaries, including:
 - € 48,550.00 from Banca Antonveneta S.p.A. for his position as director;
 - € 11,437.50 from Monte Paschi Banque S.A.- Paris for his position as director.
- (8) Monaci: from Cassa di Risparmio di Biella e Vercelli for his position as director from 2 October 2009 and as chairman of the BoD from 20 October 2009;

10. THE BANK AND ITS KEY MANAGERS

BMPS has identified as **key managers** senior managers that meet the definition of IAS 24 about financial statements disclosures on related party transactions, that is, those parties that have the direct and indirect power and responsibility for planning, management and control over the bank's activities.

Firstly, the general manager, **Antonio Vigni**, who supervises the bank's entire structure and, as stated in article 24 of the by-laws, "... executes the board of directors' resolutions ... and coordinates the group companies' activities in accordance with the general guidelines and criteria established by the board of directors". He is assisted by the deputy general managers and heads of the parent's different departments when exercising his powers or those given to him by the board (article 25 of the by-laws).

The deputy general manager, **Fabrizio Rossi**, who also heads the HR department and the logistics-real estate organisation department, the deputy general manager **Giuseppe Menzi**, the deputy general manager **Marco Morelli**, CEO until 11 February 2010, and the manager in charge of financial reporting from 14 May 2009 to 11 February 2010, the deputy general manager **Marco Massacesi**, CEO since 12 February 2010, deputy general manager **Nicolino Romito** and deputy general manager **Antonio Marino** all assist the general manager. The key managers also include **Giancarlo Barbieri**, the former head of the commercial banking/distribution network department and now head of the network management department, and **Claudio Pieri**, head of MPS network management department until 31 December 2009.

Marco Morelli left the Montepaschi group on 11 February 2010.

Daniele Bigi, head of administration and financial reporting, became the manager in charge of financial reporting on 12 February 2010.

11. REMUNERATION OF THE GENERAL MANAGER AND KEY MANAGERS

The total remuneration paid to the general manager and key managers for 2009 is set out below. The board of directors fixed a bonus of € 908,000 for 2008 for the general manager. The actual amount paid was € 454,000 (shown in the “Bonus and other incentives” column) as the general manager voluntarily decided only to accept half the bonus.

NAME	FEES FOR POSITION	NON- MONETAR Y BENEFITS Δ	BONUS AND OTHER INCENTIVES	TOTAL	OTHER REMUNERATI ON (3)
Antonio VIGNI General manager	1,152,162.21	3,298.99 (1)	800,000.00 (2)	1,967,461.20	12,000.00
Key managers (*)	4,057,401.00	22,537.42 (1)	2,256,666.67 (2)	6,516,896.09	180,291.00

Δ (1) Medical policy

(2) Performance bonuses for 2009 paid in 2010

(3) Paid by group companies and returned to BMPS.

(*) deputy general managers, CFO, manager in charge of financial reporting, the parent’s department heads and head of the BMPS network unit.

The key managers do not have stock option plans.

12. INTERNAL CONTROL COMMITTEE

The bank’s board of directors set up an internal control committee with its resolution of 1 March 2001, complying with the regulations set out in the Code of Conduct for Listed Companies. The Code has been revised and amended over time to improve transparency and clarity on regulated markets and ensure correct corporate governance systems. The current version was approved in March 2006 and was adopted by the bank with the board of directors’ resolution of 5 April 2007.

Point 8.P.4 of section 8 of the Code “Internal controls” sets out instructions for the internal control committee while the subsequent criteria give an “open and not exhaustive” list of the key aspects of the operating regulations and duties to be assigned to such committee.

The committee has its own regulation, approved for the first time by the board of directors with its resolution of 6 November 2001. This regulation has been revised and the latest version was approved by the board on 10 May 2007.

During 2009, 14 meetings were held with an average attendance percentage of 91% (see attached table). The chairman of the board of statutory auditors, or another statutory auditor appointed by him, always attended as did the general manager or his substitute. The average length of the meetings was roughly 60 minutes.

Fourteen meetings are scheduled for 2010 (at least one a month) and two have already been held.

The committee's composition and working

The committee's regulation requires that it have three non-executive directors appointed by the board of directors as members, the majority of whom are also to be independent. At least one member should have adequate accounting and financial experience.

The committee appoints a coordinator from among its members and this person calls and chairs the meetings. The committee also appoints a secretary (not one of its members) who draws up the minutes and assists the committee. The minutes, signed by the secretary and the coordinator, are available to the board of directors, which replaces any members that fall from office for any reason.

The current committee was appointed by the board of directors with its resolution of 27 May 2009 for a three-year period. Its members are non-executive and the majority are independent. Their term of office is the same as their term as directors.

Since 27 May 2009, they were Andrea Pisaneschi (coordinator), Graziano Costantini (ind.) and Massimiliano Capece Minutolo (ind.). At least the majority of the members in office has to be present at meetings for them to be valid.

Previous members were the directors Andrea Pisaneschi (coordinator), Fabio Borghi and Lorenzo Gorgoni.

Meetings are generally held at the bank's registered office although they can validly be held by video conference or conference call. In the latter cases, they are deemed to have taken place in the offices where the coordinator and secretary are. When necessary and depending on the matters on the agenda, other directors, employees, third party consultants and/or the independent auditors as well as other external parties may be invited to attend. The committee may engage external specialists at the bank's cost.

Functions of the internal control committee

As specifically resolved by the board of directors, the committee has the functions and/or duties of the supervisory body provided for by article 6.1.b) of Legislative decree no. 231/2001 - "Administrative liability of legal persons, companies and associations without legal personality".

The committee carries out its duties and functions as established in its regulation and by the reference regulations approved by the board of directors. It assists the board of directors to set up an appropriate internal control system.

Some of its most important activities are described below, carried out to comply with its assigned duties and functions. These are described in greater detail in the specific regulation, the internal rules and in the bank's regulation no. 1 "Organisation of the parent bank and BMPS network unit".

Accordingly, as part of its duties to advise the board of directors and carry out preliminary procedures, the committee assists it to:

- a) define the guidelines for the internal control system so that the main risks facing the bank and its subsidiaries are correctly identified, adequately measured, managed and monitored, also determining compatibility criteria for these risks with the bank's proper and correct management;
- b) assess at least once a year the adequacy, efficiency and effective working of the internal control system;
- c) describe in the corporate governance report the essential elements of the internal control system, expressing an opinion on its overall adequacy.

The committee also provides the board of directors with its opinion on appointments and dismissals and their remuneration for the internal control unit employees (department head and managers) and the heads of the audit, compliance and risk management units (areas and services).

In addition to the above duties, the committee also, *inter alia*:

- a) assesses, together with the manager in charge of financial reporting (Law no. 262/2005) and the independent auditors, the correct application of the accounting policies and their consistency for the preparation of the separate and consolidated financial statements. This procedure includes examination of the reports drawn up by the relevant body and discussions with the independent auditors;
- b) when requested to do so by the board of directors, expresses opinions on specific aspects related to the identification of the main business risks and design, implementation and management of an internal control system;
- c) examines work plans prepared by the internal control head and the compliance head before they are approved by the board of directors; receives and examines their periodic reports;
- d) assesses the independent auditors' audit plan and related findings;
- e) checks the audit's effectiveness;
- f) receives information on the activities performed and reports of the control units and reports thereon to the board of directors at least during approval of the annual and six month interim financial statements (separate and consolidated) in a document summarising the activities performed and adequacy of the internal control system.

With respect to the above, during 2009, the internal control committee:

- ❖ examined the 2009 audit plan of the internal control unit;
- ❖ examined the information (inspection reports) provided by the internal control unit, preparing suitable documents summarising them and containing its comments for the board of directors once a quarter;
- ❖ examined the half-yearly reports prepared by the internal control unit and commented thereon to the board of directors about its activities and related conclusions, the overall working of the control system and any updates thereof and any follow-up activities;
- ❖ analysed information provided by the internal control unit required by specific supervisory instructions and expressed an opinion thereon before such information was examined by the board of directors and board of statutory auditors for its subsequent transfer to the supervisory authorities (Consob and Banca d'Italia), as required by the relevant regulations;
- ❖ assessed the information/proposals of the internal control unit prepared for the board of directors about new reporting mechanisms given recent corporate transactions in order to make management reporting to senior management on the key audit procedures more timely and effective;
- ❖ examined in advance and presented its considerations to the board of directors on the half-yearly reports prepared by the compliance unit on the bank's and group's compliance. It also issued an opinion on the compliance plan for 2009;
- ❖ issued its opinion as requested upon the appointment of the risk management head. It also acknowledged the new information source (monthly risk report) on key business risks prepared specially by the risk management unit, which is sent to the chairman of the board of directors, the internal control committee and the general manager;
- ❖ held several meetings with the independent auditors KPMG to discuss the status of the audit work;
- ❖ met with the manager in charge of financial reporting as per Law no. 262/2005 to discuss the necessary information about the activities for preparation of the separate and consolidated financial statements;

- ❖ reported to the board of directors, at least once every six months at the approval of the annual and half year interim financial statements on its activities and the adequacy of the internal control system. It also informed the board of directors (again every six months) on the activities and duties performed as the supervisory body as per Legislative decree no. 231/2001 as part of the duties assigned to the committee for the monitoring, updating and supervision of the organisational model as per Legislative decree no. 231/2001.

Supervisory body as per Legislative decree no. 231/2001-

As mentioned in the introduction section, the internal control committee also acts as the supervisory body pursuant to article 6.1.b) of Legislative decree no. 231/2001 (“Administrative liability of legal persons, companies and associations without legal personality”).

Accordingly, the committee:

- monitors the Model’s efficiency, checking consistency between actual conduct and the Model, and communicates any violations of the rules contained in the Model to the relevant bodies that apply sanctions to parties that do not respect them;
- assesses the Model’s adequacy, that is its actual ability to prevent undesired conduct;
- analyses continuation over time of the Model’s solidity and working requirements, especially with respect to environmental changes and new risks;
- updates the Model, (i) presenting proposals to the board of directors; and (ii) checking that the solutions adopted are actually implemented and are workable;
- complies with the obligations and duties imposed by Legislative decree no. 231/2007 (anti-money laundering), especially with respect to the content of article 52 of the decree.

As part of the above and in its role as supervisory body pursuant to Legislative decree no. 231/2001, the committee:

- has powers to take initiatives independently and carry out controls, including the power to request and obtain information from all the bank’s employees and operating sectors;
- avails of the operating assistance of the compliance unit and the internal audit unit for checks and controls and of the legal and corporate unit for legal issues, as well as other internal units depending on the matters in question;
- is required to comply with the disclosure obligations of the Model pursuant to article 6.2.d) of Legislative decree no. 231/2001;
- ensures that the requirements of article 52 of Legislative decree no. 231/2007 are met in its position as supervisory body pursuant to Legislative decree no. 231/2001, using the information received from the audit unit to make the specific anti-money laundering communications to the relevant sector authorities. It is assisted in this by the board of statutory auditors, which has similar obligations, as provided for by the current anti-money laundering regulations (anti-money laundering communications).

As noted, the committee reports to the board of directors in a specific document on the activities carried out as supervisory body pursuant to article 6.1.b) of Legislative decree no. 231/2001 twice a year during approval of the annual and half-year interim financial reports.

The committee also advises on the design of models for the group companies and coordinates their supervisory bodies.

With respect to the other duties carried out as the supervisory body pursuant to Legislative decree no. 231/2001, the committee requested the relevant units to update the BMPS Organisational model as per Legislative decree no. 231/2001 to include the new crimes provided for by this decree and introduced in the second half of 2009.

As required by Law no. 81/2008 which sets out the requirements for compliance with obligations as part of membership of the EU, the bank's prevention, protection and environment service drew up the required half-yearly report, provided to the supervisory body through the compliance and customer care unit. This report specifies that the service carried out its mandatory activities in the second half of 2009, also as per the obligations imposed by the organisational model as per Legislative decree no. 231/2001, without identifying any critical issues.

With respect to the 2008 certification for health and safety in the workplace issued by RINA S.p.A., the activities aimed at maintaining and improving the current system were continued, also as part of the re-certification in March 2010.

The committee received regular information from the supervisory bodies of the group companies during the year on their controls over their organisational models' compliance and suitability. It expressed opinions and/or approvals in line with internal regulations, providing guidelines and coordination to the supervisory bodies. The findings of the risk self-assessments carried out in 2009 by the bank's bodies and senior management were presented to the committee, showing an overall improvement in the bank's risk profile.

Mitigation actions were introduced for the few areas requiring attention identified.

Assessments to identify sensitive activities pursuant to Legislative decree no. 231/2001 were carried out using the internet multi-compliance procedure, which allowed identification of risks as per the above Legislative decree, operational risks and risks as per Law no. 262/2005 in one operating environment.

13. INTERNAL CONTROL SYSTEM

On 23 November 2008, the board of directors approved the "Group directive for internal control systems", which regulates governance of the group's internal control systems.

The new regulatory framework was designed to comply with the new legislative/regulatory requirements, the group's organisational structure and Italian and international best practices.

The document defines:

- ▶ the corporate governance model,
- ▶ the guidelines and components of the control system;
- ▶ the roles and responsibilities of the internal control unit;
- ▶ relationships with the supervisory authorities.

Corporate governance model

The group's corporate governance model complies with the relevant instructions of the supervisory body about corporate governance and is as follows.

The board of directors as the "Body with strategic supervision and management duties" is the body that ensures the working, effectiveness and efficiency of the control system and adopts timely corrective measures when necessary.

General management as the "Management body with executive duties" is the management body which designs the measures aimed at ensuring and maintaining an effective and efficient control system. It

defines the information to be provided to the board of directors to ensure it full knowledge and management of internal events.

The board of statutory auditors and the internal control committee as the “Bodies with control duties”, as provided for by the regulations, legislation and Code of Conduct for Listed Companies. The group’s internal control committee is also its supervisory body pursuant to Legislative decree no. 231/2001 (see above).

Control components

The internal control system is the set of rules, procedures and organisational structures designed to allow, through a suitable process of identification, measurement, management and monitoring of risks, the proper, correct and consistent management of a company in line with its objectives.

An efficient control system is essential for a company to pursue its objectives. Corporate governance rules and organisational structures must guarantee healthy and prudent management conditions. Efficient mechanisms used by internal bodies to interact and share an integrated view of risks and an active procedure to adapt control modes to changes in the internal and external environments are essential.

The group’s control system components are:

- ✓ the control environment: formalisation of roles and responsibilities as part of internal processes is necessary for an effective control system. It is the basis for all the other components, ensuring transparency, accountability and compliance with the principles of healthy and prudent management;
- ✓ risk controls: risk governance is the group of activities related to the identification, assessment, management and monitoring of risks affecting the different operating segments and definition of policies to manage them;
- ✓ the control structure: the individual internal units have suitable structures, rules and tools to govern their activities. In line with group policies, definition of the control structure entails the careful segregation between business and control functions to avoid conflicts of interest, also by resorting to segregation and disclosure and protection mechanisms;
- ✓ information and communications: the information must be identified, collected and circulated using the formats and timing suitable to allow each unit to comply with its responsibilities. The information systems must also ensure compliance with obligations imposed by internal regulations and legislation;
- ✓ monitoring: the internal control system must be monitored to ensure its adequacy and working over time. Any necessary remedial actions must be communicated to the appropriate qualified decision-making centres promptly. The internal audit unit assesses the adequacy and working of the internal control system on a half-yearly basis and reports thereon to the bank bodies.

Internal units in the control system

For the purposes of the group’s internal control system model, the internal units are classified as business, control or internal audit.

Business units: production, commercial, administrative, operating and support. These units are responsible for monitoring the individual components of the control system for the processes assigned by the group's regulation.

The business units define the controls over their relevant processes for risk governance purposes, identifying the controls they have to carry out. Special attention is paid to the control system when the bank enters new operating sectors or when it launches new products and services. The units define the controls together with the organisation unit and formalise them in the internal regulations.

Control units: Units with responsibility for monitoring the controls over specific risk environments.

Given the cross-nature and complexity of the individual control processes, the group's model provides for the allocation of activities and duties to the different internal units involved depending on their activities and with the clear allocation of responsibilities to each control function. This approach allows economies of scale, the reduction of negative external inputs and more efficient actions.

These units in the group's model are:

- ▶ the compliance unit;
- ▶ the risk control unit;
- ▶ the information reliability risk control unit (pursuant to Law no. 262/05);
- ▶ the advanced risk management systems testing unit;
- ▶ the management controls and planning unit;
- ▶ the capital adequacy control unit;
- ▶ the business disruption risk control unit;
- ▶ the safety and health in the workplace risk control unit;
- ▶ the personal data processing control unit.

The group's regulation defines their responsibilities while the organisation model ensures the separateness and independence from the business units. The group's directives regulate the process and operating mechanisms for interaction between the different units and the control unit (see the section on "Roles and units involved" below).

When the control units identify areas requiring special attention, they inform the control bodies which may ask the audit unit to carry out specific procedures.

The procedures are assigned to the group companies' organisational units on a proportionate basis or to the parent's units. The criteria and decisions taken by the individual companies for the different areas must be agreed with the parent's units, as set out in the specific directives about each issue, and with the parent's organisational and internal audit units. When they are centralised, specific intragroup agreements must be drawn up together with the related service level agreements.

Internal audit unit: all the control system components are audited to assess their adequacy, working and consistency with changes in the group's organisation and external regulations.

Accordingly, the internal audit unit operates independently and in order to provide assurance and advice to the internal bodies and senior management. It has access to all internal information and structures in order to do so. The unit's independence and advisory role are ensured by mechanisms regulating relationships with the internal bodies. The requirement of independence is guaranteed by its position which does not imply hierarchical dependence on and/or influence (conditioning) by any of the operating unit heads.

The internal audit units of the group companies are also independent, like that of the parent, and free from hierarchical constraints. It is possible for the parent's internal audit unit to provide the internal audit service to a group company if agreed with the internal control committee and on a proportionate basis.

Relationships with the supervisory authorities

Each group company and the bank manages its relationships with the supervisory authorities independently. Accordingly:

- reports required by law or regulations are prepared by the relevant internal unit with the specific responsibility/compliance duties. When they include information about the company's or the bank's financial position, results of operations or cash flows, they are authorised in advance by the information reliability risk control unit;
- when they include issues involving compliance risk, they are approved by the compliance unit;
- the internal units provide the internal audit unit with all the reports prepared by them or requests received from the supervisory authorities;
- the group companies' internal audit units inform the parent's internal audit unit when requests received from their supervisory authorities impact the group as a whole or involve issues of relevance.

Assessment of the internal control system

During 2009, the board of directors reviewed the assessments made by the internal controls unit of the substantial adequacy of the internal control system and the steps taken to resolved identified critical issues in, moreover, an extremely difficult operating context. It also acknowledged the related observations of the internal control committee, that held the processes and activities carried out by the internal controls unit as part of the assessments to be adequate.

* * *

RISK MANAGEMENT AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

INTRODUCTION

The methodological model for financial reporting risk management is explained in the "Group directive enacting Law no. 262/2005" and developed in accordance with the international benchmarks, the COSO Framework and COBIT Framework for the IT component.

This model, part of the internal control system (ICS), has the aim of ensuring the reliability, accuracy, correctness and timeliness of financial reporting. It thus contributes to strengthening controls.

The Montepaschi group is required to apply the provisions of Law no. 262/05 for both the parent's separate financial statements and the consolidated financial statements. Accordingly, the group

companies have adopted the regulations and guidelines issued by the parent and have defined roles, responsibilities and conduct for the different issues.

STAGES OF RISK MANAGEMENT AND INTERNAL CONTROLS WITH RESPECT TO THE FINANCIAL REPORTING PROCESS

The above reference models and the group's methodological approach are based on two fundamental assumptions:

- Existence of an adequate internal control system in each company aimed at reducing risks of errors and incorrect conduct for the purposes of accounting and financial reporting (Entity Level Controls - ELC);
- Existence and continuation of adequate processes designed for financial reporting, by formalising activities and controls and checking of their adequacy and effective application over time.

The methodological approach was developed using a number of macro stages prior to issuing the statement, as described below:

- Identification of the “sensitive” application scope. This stage consists of the following activities:
 - Selection of the in-scope companies: identified using quantitative (their results and equity) and qualitative (potential risk) parameters;
 - Selection of significant accounting captions: established using “relevant”¹ financial information, considering quantitative (materiality concept) and qualitative (potentially significant for the users of financial statements) criteria;
 - Association of the accounting captions considered to be significant with the related internal processes which provide them.
- Assessment of relevant administrative accounting processes (Risk2 & Control Assessment). The selected processes are assessed in terms of potential risk for financial reporting purposes, especially with respect to the typical banking activities (lending, finance), which are monitored by assessing the design and documentability of the identified key controls.³
- Assessment of the IT system (Information Technology General Controls - ITGC). This comprises an assessment of the rules for the technological infrastructure and IT applications used for administrative accounting purposes and the related risks. Accordingly, it also includes an assessment of the design and documentability of the identified key controls.
- Assessment of the efficiency/effective application of key controls
This follows the design assessment stage and is aimed at assessing the effective application of the key controls in the reference period.
- Entity Level Control - ELC. In line with the reference framework, the group's internal control system model includes the ongoing testing of the existence of adequate corporate governance systems for the bank and the group, such as, for example, suitable risk management processes,

¹ Relevance is defined considering the possible effect that omission of the information or its wrong presentation could have on the decisions taken by the parties for which the information is presented in the financial statements.

² Assessment of risks as per Law no. 262 is part of “integrated multi-compliance” (operating risks, Law no. 231) managed within the group using a special application which includes a risk catalogue (see the “Group directive on operational risk management”).

³ “Key” controls are those the absence or inadequacy of which could have a significant impact on the correct presentation of financial reporting.

adequate codes of conduct, efficient organisational structures, precise proxy and responsibility assignment models and an adequate information and communications system.

- Management of assessment findings. After the above assessment and testing activities, any necessary mitigation actions are decided.

In order to provide additional support to the above process, the group has introduced a sub-statement system to make all the group structures involved more aware and responsible. It involves monitoring the quality of the information produced and verifying its correctness for the manager in charge of financial reporting.

Information containing the findings of the activities carried out are regularly communicated to the internal control committee and the board of directors in reports written by the manager in charge of financial reporting, backing up the statements on financial reporting. These reports summarise the findings of the determination of the scope, results of the assessments and any mitigation action taken.

ROLES AND FUNCTIONS INVOLVED

The group has adopted an organisational model involving different functions and structures, which carry out specific activities and roles, in compliance with the above rules and control process.

Staff controls Law no. 262

This unit assists the manager in charge of financial reporting with the activities performed in order to issue the requested statements, as set out in the adopted methodological model.

Internal audit unit

This unit assists the manager in charge of financial reporting to assess the adequacy of the internal control system (ELC) and to monitor risks related to the administrative-accounting processes. It presents its findings to the manager in charge of financial reporting.

Organisation unit

The organisation unit and other organisation functions analyse and store documentation (operating regulations) about the group's processes.

Consorzio Operativo di Gruppo

The group's operating consortium (which manages the technological infrastructure) plans and carries out the activities necessary to assess the adequacy and effective application of the ITGC.

Local reference persons as per Law no. 262 at the in-scope companies

The group companies included in the Law no. 262 scope do not usually have a manager in charge of financial reporting but have local reference persons who assist the manager. Their duties include responsibility for the sub-statement process which is formally completed with the issue of a statement to the manager in charge of financial reporting and approved by the group company's board of directors.

13.1 EXECUTIVE DIRECTOR IN CHARGE OF THE INTERNAL CONTROL SYSTEM

The board of directors has not appointed a director to be in charge of the internal control system given that results of the controls performed by the internal audit unit on the regular performance, risk trends and working of the entire control system are communicated:

- (a) in analytical reports
 - to the chairman of the board of directors, the internal control committee and senior management (general manager) when they relate to strategic-management issues or to group companies, the bank's general management team or significant operating units of the network;
 - always to the board of statutory auditors
- (b) in periodic summary documents
 - to the chairman of the board of directors, the board of directors, the internal control committee, the board of statutory auditors and senior management (general manager).

The compliance and risk management units have similar periodic reporting structures to senior management about their activities.

13.2 INTERNAL CONTROL HEAD

This position is held by the parent's internal audit manager, ie, the head of the internal controls unit.

The internal controls unit reports to the board of directors and is outside the hierarchical chain of command.

In order to increase its independence and advisory role, the board of directors resolved on 28 September 2006:

- the appointment/dismissal of the parent's internal control head as proposed by the chairman of the board of directors, after consulting the internal control committee and the board of statutory auditors;
- definition by the board of directors of the remuneration of the internal control head and of the related service managers as proposed by the chairman and after consulting the internal control committee and the HR and organisation unit;
- definition of an audit plan by the board of directors using the internal controls unit's reports, after consulting the general manager and the board of statutory auditors and after the internal control committee reviews the reports and comments thereon;
- possible requesting of internal audits by the chairman of the board of directors, the board of directors itself, the internal control committee and the general manager;
- definition of the composition and size of the internal controls unit by the board of directors, based on the internal control reports, after consulting the HR and organisation unit and the internal control committee;
- approval by the parent's board of directors of the group-level guidelines used to manage resources earmarked for the internal audit unit, based on the internal control reports and after consulting the HR and organisation unit and the internal control committee;
- modular reporting on the activities performed with:

- analytical details, these are ordinary reports produced after audit work and sent to the general manager, the internal control committee, the chairman of the board of directors and the chairman of the board of statutory auditors;
- summaries, consisting of year-end/interim reports such as the half-yearly reports on the internal control system, summaries of work performed, etc, again addressed to the internal control committee, the board of directors, the board of statutory auditors and senior management.

These issues are set out in the regulation defining the organisational model and structure of the parent bank and BMPS network unit and identifying the units' responsibilities.

The internal controls unit has its own financial resources allocated to it during the annual budget process.

Specifically, the following was made available to it in 2009:

- € 1.0 million to design, update and develop technological tools to be used for audit purposes, as part of the "ICT master plan";
- € 0.35 million for third party consultancies about risk management and internal controls as part of the "Consultancy master plan".

The current internal controls head is Fabrizio Leandri, appointed by the board of directors, upon the proposal of the chairman and after consulting the internal control committee and the board of statutory auditors, on 29 November 2007 and reconfirmed on 20 October 2008 after the unit had been reorganised.

In 2009, the unit focused on analysing and improving the functions of its processes and its structures' ability to adapt to strategic indications.

Specific unplanned work was carried out due to the economic climate and effects of the integration among group companies.

Specifically:

- credit risk: management and controls over consumer credit;
- market risk: the group's financing process;
- real estate: supervision and management of the related process.

Due to the unprecedented economic situation, the unit also assisted the business units with credit risk issues, especially with regard to credit restructuring and evaluation by both the parent's and Banca Antonveneta's general management team.

Banca d'Italia and Consob inspections entailed a great volume of work for the management of relationships and performance of the audit procedures as specifically requested by the supervisory authorities.

Accordingly and different to schedule, the unit decreased its tests of the branches' operations to provide greater cover of structures at higher risk as identified by the internal scoring system. The unit completed the audit plan for the parent's and companies' structures.

Planning was almost completed for the operational risks of the local units, the first year this has been assigned to the unit. This entailed unforeseen activities to support the sales of branches and a rise in special checks of specific operational risk events.

Overall, 425 on-site audits were carried out, increased by the unit's sector visits to group companies (2,273).

As is normal practice, information was provided to the company bodies and general management in line with the ruling corporate governance rules and the Directive on the internal control system.

Mitigation actions were based on areas identified as requiring improvement and their operating implementation was monitored regularly and reported on to senior management.

Significant resources were allocated to the anti-money laundering activities, also carried out on behalf of Banca Antonveneta, due to the rise in the number of communications about suspect transactions to be inspected. Additional procedures were also carried out on the request of the relevant authorities (Financial Intelligence Units, Tax Police, etc).

As resolved by the board (and communicated to the supervisory authority), the audit units of the subsidiaries MPS Investment and MPS Fiduciaria were transferred to the parent in 2009. One of the parent's employees became the audit head for MPS Investment as provided for by the shareholder agreements.

Considerable resources were required for the change management activities and training of audit staff of the merged banks and to implement changes due to the restructuring of the unit, setting up local audit teams.

The unit also expanded considerable effect in assisting and consulting other bank structures about the redesign and optimisation of processes, partly generated by changes in the external regulations.

13.3 COMPLIANCE UNIT

Following the guidelines issued by the Basel Committee in April 2005, prevention of risks of non-compliance has become a central point in banks' corporate governance mechanisms due to the need to encourage healthy and prudent banking activities.

Accordingly, the compliance unit has its basis in the Consolidated Finance Act and the regulation issued jointly by Banca d'Italia/Consob on 29 October 2007 as a key part of corporate governance systems of intermediaries.

In order to comply with the requirements indicated by the supervisory authorities, the bank's board of directors approved the creation of a "permanent and effective" compliance unit and the preparation of a specific group directive about compliance risk management, to be applied also by its subsidiaries.

The unit is responsible for monitoring general compliance of the internal procedures with regulations valid from time to time, proactively communicating a compliance culture and values within the group.

Given that responsibility for compliance ultimately lies with the internal bodies and in line with the hierarchical and functional independence provided for by the regulations from the operating and business units, the compliance unit reports directly to the general manager and also interacts with the board of directors, the internal control committee and the board of statutory auditors.

In organisational terms, the unit is part of the internal control system and works closely with the internal controls unit carrying out compliance tests.

On 11 September 2008, the board of directors resolved to appoint the manager Leandro Polidori as head of the compliance unit. He is also currently the head of the customer care unit.

13.4. ORGANISATIONAL MODEL Legislative decree no. 231/2001

As described in point 12, to which reference should be made, the internal control committee also acts as the supervisory body pursuant to article 6.1.b) of Legislative decree no. 231/2001 ("Administrative liability of legal persons, companies and associations without legal personality").

The bank has adopted a specific “Organisational model pursuant to Legislative decree no. 231/2001” which includes the professional and operating rules to prevent relevant crimes as per this decree.

The model is revised regularly or whenever needed to reflect significant changes in the organisational structure or processes or the inclusion of new crimes in the decree.

The model was revised in March 2009 following review of the parent’s organisational structure and legislative changes about new crimes.

13.5. INDEPENDENT AUDITORS

On 29 April 2005, the shareholders resolved to engage KPMG S.p.A. to audit the bank’s separate and consolidated financial statements as at and for the year ended 31 December 2005 and two subsequent years (2006 and 2007).

On 6 December 2006, they subsequently extended the engagement to include: (i) the audit of the separate and consolidated financial statements of BMPS for the three years 2008 to 2010; and (ii) the review of the half-year interim financial reports for the same period (30 June 2008, 2009 and 2010) and to check that the accounting records are kept regularly and correctly show the bank’s and group’s operations.

13.6. MANAGER IN CHARGE OF FINANCIAL REPORTING

As noted, Law no. 262 of 28 December 2005 (and subsequent amendments) “*Instructions for the protection of savings and securities regulations*” and inclusion of article 514-*bis* into the Consolidated Finance Act introduced the position of the manager in charge of financial reporting into Italian listed companies. This manager is in charge of preparing the company’s financial reporting.

Accordingly, the bank’s by-laws establish that the board of directors appoint a manager in charge of financial reporting from among the bank’s managers who has longstanding experience in accounting and financial matters as proposed by the general manager and after consulting the board of statutory auditors. This manager is given suitable powers and means to carry out the duties assigned by law.

The manager in charge of financial reporting has adequate accounting and administrative procedures available to prepare the financial statements and provides a statement, attached to the separate and consolidated financial statements, confirming the adequacy of the internal control system in respect of the administrative-accounting procedures, and its effective application over the period to which the financial reporting relates. The statement is provided to the board of directors.

The manager in charge of financial reporting also prepares a statement confirming the consistency of the financial reporting with the accounting ledgers, entries and results for all reports issued to the market (including interim financial reports).

The board of directors approved an internal model to be used to assess the adequacy of the administrative-accounting internal control system and to test its effectiveness in a specific directive which complies with the legislative requirements. This model is based on the international best practices (COBIT and COSO Reports).

As part of this directive and the above scope, the manager in charge of financial reporting for the bank and other group companies was given powers to:

- freely access all administrative and accounting information deemed useful to carry out their duties;
- request management and operating information related to analyses useful to guarantee the adequacy of the administrative and accounting procedures;
- request binding changes to the internal procedures that directly or indirectly impact the bank’s financial position, results of operations or cash flows due to critical issues identified;

- perform administrative and accounting checks on all internal procedures and processes that directly or indirectly affect the bank's financial position, results of operations or cash flows;
- request binding changes to the accounting internal control system (being the employees, tools, information, rules for risk mitigation to deal with risks that threaten the bank's financial reporting objectives);
- request assistance from other internal units to carry out risk assessment activities and administrative-accounting controls;
- request legal opinions on issues related to their activities and responsibilities and to appoint legal counsel in the case of proceedings in which they are involved for events due to the carrying out of their duties;
- access all documentation about resolutions passed by the internal bodies directly or indirectly related to the accounting situation;
- work with all administrative and control bodies.

Moreover, the manager in charge of financial reporting may set up an adequate team under their responsibility and incur expenses, using a specific budget, informing the board of directors about this as part of the normal process of managing human and financial resources.

On 14 May 2009, the bank's board of directors appointed the manager Marco Morelli as manager in charge of financial reporting, replacing the manager Daniele Pirondini, whose term of office had expired and who was to hold another position in the group. Following Marco Morelli's departure from the group, the board of directors appointed **Daniele Bigi**, the parent's administration and financial statements head, as manager in the charge of the parent's financial reporting on 11 February 2010.

Based on the above considerations, the manager in charge of financial reporting issued the required statements during 2009, maintaining all those contacts and relationships necessary with the other external and internal control bodies such as the board of statutory auditors, the independent auditors, the supervisory authorities, the internal control committee and the internal control unit as part of their activities.

14. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS

This issue is dealt with in point 4.3 Role of the board of directors, to which reference should be made. That point describes the resolutions taken by the board of directors about related party transactions (Code of Conduct for Related Party Transactions) and the obligations of banks and directors' interests (article 2391 of the Civil Code, article 136 of Legislative decree no. 385 of 1 September 1993 - the Consolidated Banking Act).

15. APPOINTMENT OF STATUTORY AUDITORS

The board of statutory auditors has three standing members and two alternate members.

They are elected using lists presented by the shareholders, consisting of two sections, one for the election of standing statutory auditors and the other for the alternate statutory auditors. The candidates are listed using consecutive numbering and cannot exceed the number of statutory auditors to be elected.

The lists must be deposited at the bank's registered office at least fifteen days before the date set for the shareholders' meeting on first call and are made available to the market in accordance with the ruling regulations.

Only shareholders that individually or together with other shareholders hold shares equal to at least 1% of the bank's share capital with voting rights at ordinary meetings may present lists.

The following is presented with each list within the date for their deposit at the bank's registered office: (i) information about the identity of the shareholders presenting the lists; (ii) statements in which each candidate confirms the inexistence of any reasons for their ineligibility or disqualification and that they have the requirements for the position prescribed by the ruling laws and regulations; and (iii) their professional and personal profiles, describing positions held as directors and statutory auditors in other companies.

The statutory auditors are elected as follows: a) the first two candidates on the list that obtains the highest number of votes are elected and the first candidate on the list that got the second highest number of votes and that is not linked directly or indirectly to the shareholders that presented or voted for the list that got the most number of votes are elected as the statutory auditors; b) the first candidate of the list that got the highest number of votes and the first candidate of the list that got the second highest number of votes and that are not linked directly or indirectly to the shareholders that presented or voted for the list that got the most votes are elected as the alternate statutory auditors; c) if the first two or more lists get the same number of votes, the shareholders vote again only using those lists; d) if an elected candidate cannot accept the position, the first candidate of those not elected on the list of the candidate who has not accepted is elected; and e) the chairman is the standing statutory auditor on the list that got the second highest number of votes.

Persons who are incompatible as provided for by law or who do not meet the relevant requirements cannot be elected as statutory auditors and, if elected, fall from office. The thresholds about the number of positions held set by the ruling regulations also hold true. Statutory auditors may not hold positions in banks other than those which are part of the Monte dei Paschi di Siena banking group and those that are jointly controlled by the bank and another entity.

The statutory auditors may not hold positions other than as directors or statutory auditors in other group companies or companies part of the financial conglomerate or in companies in which the bank holds a strategic investment, also indirectly.

At least one standing statutory auditor and at least one alternate statutory auditor must be included in the register of auditors and have acted as such for at least three years. Therefore, at least the first candidate on each section of the list must have these characteristics.

A maximum of two standing statutory auditors and one alternate statutory auditor can be elected that do not meet the above characteristics as long as they have at least three years' experience in:

- a) administration or control or management of companies limited by shares with a share capital of not less than € 2 million, or
- b) professional activities or university lecturing about legal, economic, financial, banking, insurance and technical-scientific subjects, that are closely related to the bank's operations, or
- c) management with state bodies or public administrations active in the lending, financial and insurance sectors or sectors closely tied to that of the bank's.

In the case of death, waiver or fall from office of the chairman of the board of statutory auditors, the alternate statutory auditor elected from the list that got the second highest number of votes acts as chairman until the board is reconstituted pursuant to article 2401 of the Civil Code. In the case of death, waiver or fall from office of a standing statutory auditor, the alternate statutory auditor from the same list is elected.

The shareholders appoint statutory auditors to integrate the board of statutory auditors pursuant to article 2401 of the Civil Code by majority vote, although the non-controlling interests are always considered.

Two lists were presented for the chairman and other members of the board of statutory auditors and the alternate statutory auditors for the years 2009, 2010 and 2011 for the ordinary shareholders' meeting of **29 April 2009**:

➤ **List no. 1**, presented by the shareholder Fondazione Monte dei Paschi di Siena with candidates:

(as standing statutory auditor)

- 1) Leonardi Pizzichi, born in Siena on 16 October 1967;
- 2) Marco Turchi, born in Siena on 23 May 1961.

(as alternate statutory auditor)

- Paola Serpi, born in Siena on 1 March 1965.

➤ **List no. 2**, presented by the shareholders companies Caltagirone Editore S.p.A, Fincal S.p.A, Capitolium S.p.A, Mantegna 87 S.r.l., Finced S.r.l., So.Fi.Cos S.r.l., and UNICOOP Firenze soc. coop. and a group of shareholders represented by Lorenzo Gorgoni, with candidates:

(as standing statutory auditor)

- Tommaso Di Tanno, born in Andria (Ba) on 8 November 1949;

(as alternate statutory auditor)

- Luigi Liaci, born in San Cesario di Lecce (Le) on 20 June 1942.

The chairman confirmed that, pursuant to article 148.2 of Legislative decree no. 58/98 (Consolidated Finance Act) and article 144-quinquies of Consob regulation no. 11971 of 14 May 1999 and subsequent amendments and integrations (Issuer Regulation), the board of directors found the parties that presented the "minority list" (list no. 2) and the shareholders that hold, also jointly, a relative majority investment (Fondazione Monte dei Paschi di Siena) do not have undeclared relationships that would constitute a connection as per the above articles of the Consolidated Finance Act and the Regulation.

List no. 1 obtained 1,253,165,256 votes equal to 53.114163% of the shares admitted for voting; List no. 2 obtained 886,547,282 votes equal to 37.575425% of the shares admitted for voting.

The following were elected:

Standing statutory auditors: Tommaso Di Tanno, first on the minority list - standing statutory auditor sections; Leonardo Pizzichi, first on the majority list - standing statutory auditor section; Marco Turchi, second on the majority list - standing statutory auditor section;

Alternate statutory auditors: Paola Serpi, first on the majority list - alternate statutory auditor section; Luigi Liaci, first on the minority list - alternate statutory auditor section.

Tommaso Di Tanno: Founder of Studio Di Tanno & Associati, Tax law professor at the Siena University. Coordinator of the Certi/Bocconi tax technical committee; lecturer on the tax law course at the Bocconi University and the tax masters course of “Il Sole 24 ore”.

Member of numerous Italian and foreign tax study groups.

Advisor for economic and financial affairs to the Ministry for Finance (1996/2000). Member of the Piazza Finanziaria Italiana committee (1998-2001 and 2006-2008). Chairman of the board of directors of Sisal S.p.A. and Assicurazioni di Roma. Also chairman of the board of statutory auditors of Vodafone Italia and Bat Italia S.p.A.; member of the board of statutory auditors of Atlantia S.p.A. and Alitalia Cai. Former chairman of the board of statutory auditors of Banca Nazionale del Lavoro (2002-2005) and Caltagirone S.p.A. (2004-2007).

Leonardo Pizzichi: Economics and political sciences graduate. Auditor since 1999 and works as a chartered accountant since February 1997. Former chairman of the board of statutory auditors of Fondazione Toscana Life Sciences, Banca Toscana S.p.A., Cantine toscane Blu S.r.l., Cooperativa Comunità e Persona S.c.r.l. and Archè Consorzio coop. Sociali S.c.r.l.

Chairman of the board of directors of MPS Banca Personale S.p.A., MPS Sim (formerly AXA Sim), MPS Leasing&Factoring S.p.A. and Eutelia S.p.A..

Former standing statutory auditor of Fondo di Previdenza Complementare dipendenti MPS (for employees after 1 January 1991), Cooperativa Querciolaie Rinascente S.c.r.l., Siena Parcheggi S.p.A.. Currently standing statutory auditor of Uniposta Centro S.p.A., Cortona Sviluppo S.r.l. and Foncomid S.p.A..

Marco Turchi: Included in the register of auditors. Former standing statutory auditor of AGEA from 1999 to 2002, Mediocredito Toscano S.p.A. from 1992 to 2001, Unicoop Senses Cos. Coop. a r.l. from 1992 to 1995 among others. Administrator and liquidator of S.A.C.I. S.r.l. from 1987 to 2003.

Current positions include chairman of the board of statutory auditors of Amministrazioni Immobiliare S.p.A. (now MPS Tenimenti S.p.A.), E.A.CO.S. Edili artigiani consorziati, CRAI Toscana Soc. Coop. a r.l. (now Etruria Soc. coop. a r.l.), Cooperativa esercenti senesi Soc. Coop. a r.l. and CE.SE.CO. S.r.l. (now CON FIN S.p.A.). Standing statutory auditor of Agricola Poggio Bonelli, Bandini S.p.A., Cuendet and CIE S.p.A.. Auditor for the Buonconvento municipality and Colle Val d’Elsa. Administrator and liquidator of Pietro Mari S.r.l..

Paola Serpi: Included in the register of auditors and register of chartered accountants and audit experts of Siena. Active since 1989 as accountants with Studio Serpi.

Luigi Liaci: Economics graduate, included in the register of chartered accountants and register of auditors. Former chairman of the board of statutory auditors of Credito Popolare Salentino S.c.r.l., Banca di Bisceglie, Mezzogiorno Futuro SGR S.p.A., Pool Factor S.p.A., standing statutory auditor of Banca del Salento S.p.A. and sole director of G&G Investments S.r.l..

Currently chairman of the board of statutory auditors of Sviluppo Immobiliare Salentino S.r.l., Vestas S.r.l., S.I.G.A. S.r.l., Le Valli Immobiliari S.r.l. and Milanopace S.p.A.. Standing statutory auditor of FICES S.p.A., Castelserranova S.r.l., Castello Monaci S.r.l., Import Levante S.r.l., Centro Sanitario del Salento S.r.l. and Casa di Cura Petrucciani S.r.l..

16. STATUTORY AUDITORS

Name	Position	In office since	Until	List	Independent	% of attendance at meetings	Other positions
Tommaso Di Tanno	Chairman	29.4.2006	2012	m	YES	90%	16
Pietro Fabretti (*)	Standing statutory auditor	29.4.2006	29.4.2009		=	100%	4
Leonardo Pizzichi (***)	Standing statutory auditor	29.4.2006	17.11.2009	M	YES	96.3%	7
Marco Turillazzi (*)	Alternate statutory auditor	29.4.2006	29.4.2009		=	=	=
Carlo Schiavone (*)	Alternate statutory auditor	29.4.2006	29.4.2009		=	=	45
Marco Turchi	Standing statutory auditor	29.4.2009	2012	M	YES	100%	83
Paola Serpi (* *)	Standing statutory auditor	29.4.2009	2012	M	YES	100%	18
Luigi Liaci	Alternate statutory auditor	29.4.2009	2012	m	YES	=	13

(*) Statutory auditors replaced at the shareholders' meeting of 29 April 2009.

(**) Paola Serpi became a standing statutory auditor on 17 November 2009 replacing Leonardo Pizzichi (***) who resigned (16 November 2009).

On 29 March 2010, the shareholders resolved pursuant to article 2401 of the Civil Code on the proposal made by Fondazione Monte dei Paschi di Siena for the appointment of Paola Serpi as standing statutory auditor and Francesco Bonelli as alternate statutory auditor.

During 2009, the board of statutory auditors met 67 times with an average meeting duration of 1 hour and 45 minutes. Fifty meetings are scheduled for 2010 of which 18 have already been held.

On 27 May 2009, the board of statutory auditors assessed its members' independence in line with the criteria set by the Code of Conduct for directors (criterion 10.C.2).

On 29 March 2010 during a special meeting, the members checked again that they met the independence requirements and confirmed the inexistence of situations that would affect their independent judgement. The board of statutory auditors gave more weight to substance than to form and noted that each member continued to be independent as per the Code of Conduct.

With respect to the Code (criterion 10.C.4), statutory auditors of BMPS who, directly or on behalf of third parties, have an interest in a specific transaction, inform the other statutory auditors and the

chairman of the board of directors promptly and completely of the nature, terms, origin and scope of their interest.

In order to properly carry out its supervisory activities about compliance with correct administration principles, the board of statutory auditors attended four shareholders' meetings and 30 meetings of the directors held during the year. It examined all the matters dealt with in advance and, when it deemed it to be necessary, requested greater details and clarification of the bank bodies or relevant units.

The board of statutory auditors worked closely with the internal controls unit both to receive the necessary assistance with its controls and all the reports prepared by the unit on its inspections carried out during the year. The board was thus able to assess the reliability and efficiency of the bank's internal controls both for the bank itself and as parent of a banking group.

The board of statutory auditors also checked that transactions carried out with parties that administer, manage or control the bank and the group companies always comply with article 136 of the Consolidated Banking Act and the supervisory authority's instructions and that they are approved unanimously by the board of directors and all the statutory auditors, without prejudice to the obligations imposed by article 2391 of the Civil Code about directors' interests.

The board of statutory auditors checked that related party transactions complied with the transparency and substantial and procedural correctness criteria set out in the reference regulations and were part of the bank's normal operations, carried out at market conditions and in the mutual interests of all parties.

The board of statutory auditors also supervised the bank's administrative and accounting system by directly carrying out checks and regularly exchanging information with the independent auditors KPMG. It monitored the independent auditors' independence and compliance with the relevant regulations as well as the nature and scope of the non-audit services provided to the bank and its subsidiaries. No critical issues were identified.

The board of statutory auditors also, *inter alia*, checked the bank's organisational structure considering its size and the nature of its operations. It carried out specific tests on a sample of outlying offices in Italy and abroad as well as holding meetings with the bank's main central functions. It also exchanged information with the related functions of certain subsidiaries about their administration and control systems and performance.

Information was also shared with the internal control committee on an ongoing and timely basis, also thanks to the fact that the chairman of the board of statutory auditors, or his substitute, takes part in the committee's activities as provided for by its regulation (article 3.3).

17. RELATIONSHIPS WITH SHAREHOLDERS

The bank has carefully built up good relationships with its shareholders over the years. In order to monitor its market positioning and attractiveness of its shares, BMPS has set up special internal units:

- [Research, Intelligence & Investor Relations Unit](mailto:investor.relations@banca.mps.it), which reports directly to the CFO investor.relations@banca.mps.it - tel. 0577/296477-296476-293038, fax 0577/296757, and monitors relationships with the key investors and operators of the domestic and international financial community; Alessandro Santoni has been the head of this unit since 20 October 2008.
- [Legal Corporate Staff](mailto:staff.legalesocietario@banca.mps.it), part of the Legal and Corporate Office, staff.legalesocietario@banca.mps.it - tel. 0577/296863, fax 0577/296396; headed by Luisa Lapucci since 20 October 2009.

In order to make access to useful information by its shareholders easy and timely, the bank uses its website to post on-line information in Italian and English about corporate governance, financial statements and highlights, presentations, ratings, press releases, corporate events and presentations.

Specifically, to facilitate its shareholders and key investors, the bank has set up a special section

<http://www.mps.it/Investor+Relations/Corporate+Governance/Assemblee>

on its website which has all useful documentation in complete formats.

With respect to shareholder meeting regulations, approved by the board of directors using a format issued jointly by Assonime and the Italian Bankers Association, they are used by the chairman to determine *ex ante* how the shareholders can exercise their management and control powers attributed thereto by the by-laws (article 12.3/4).

Therefore, the regulations establish how the chairman is to act at meetings to carry out his duties. They are made available to the market at the bank's registered offices, at Borsa Italiana S.p.A. and are included in the notice calling shareholders' meetings.

18. SHAREHOLDERS' MEETINGS (article 123-bis.2.c of the Consolidated Finance Act)

The bank's by-laws establish that all those shareholders that can demonstrate their legitimate right to attend using the methods provided for by ruling regulations may exercise their voting rights at meetings. Specifically, the documentation demonstrating this, listed in the notice calling the meeting, should be received by the bank at least two business days before the date of the meeting.

The by-laws do not require that shares, for which the communication as per article 2370.2 of the Civil Code is required, remain unavailable until when the meeting has been held. Shareholders with voting rights at meetings (articles 13/14 of the by-laws) and that, also jointly, represent at least one fortieth of the share capital with voting rights may request, within five days of publication of the notice calling the meeting, integration of the agenda to be discussed, describing the additional matters they wish to discuss. In this case, the shareholders shall present the documentation showing their right to participate at the meeting along with the request for the additional matters.

These additional matters are communicated to the market at least ten days before that set for the meeting using the same format required for the publication of the notice calling the meeting.

Integration of the agenda is not allowed for matters which the shareholders resolve upon by law proposed by the directors or based on a proposal or report prepared by them.

The shareholders usually met in Siena although meetings can be held at other premises as long as they are in Italy. The by-laws allow that votes can only be made with the physical presence of the shareholder at the meeting. They cannot be made by correspondence or on-line.

The current regulations were approved by the board of directors and are made available to the shareholders at each meeting. They are also available at the bank's registered office, at Borsa Italiana S.p.A. and on the bank's website <http://www.mps.it/Investor+Relations/Corporate+Governance/>.

Shareholders that wish to speak at meetings are requested to complete a specific "form for intervention" prepared for the matters on the agenda, stating their details and consigning their electronic voting device given to each shareholder or representative which contains the shareholders' identification number and related shares to a specific counter "Intervention point", located at the entrance to the meeting hall. The chairman informs the shareholder wishing to speak of the maximum time allowed when discussions start and invites the shareholders to make their observations pertinent and short, considering the importance of the matter and depending on the number of requests made.

The chairman publishes a notice of each meeting in the Italian Official Journal and a national daily newspaper with the requirement to deliver the relevant documentation to the bank's registered offices and to Borsa Italiana S.p.A..

During 2009, no significant changes took place in the issuer's shares' market capitalisation or in its shareholding structure. Therefore, the board of directors did not deem it appropriate to propose changes to the by-laws about the percentage required to exercise shares and the measures in place to protect non-controlling interests to the shareholders.

19. ADDITIONAL CORPORATE GOVERNANCE ISSUES (article 123-bis.2.a of the Consolidated Finance Act)

The board of directors has a social responsibility committee, consisting of three directors, which advises the board as described in point 6 of this report. It has also set up a communication committee, which although it is not an internal board committee, has directors as its members. Its duties are to prepare the communication strategies and budget for the group to be proposed to the board (see point 6).

As discussed in detail elsewhere in this report (point 13), the bank has adopted an organisational model as per article 6 of Legislative decree no. 231/2001 and updated it during the first half of 2009.

Pursuant to the “Supervisory authority’s instructions about banks’ organisation and corporate governance” issued by Banca d’Italia on 4 March 2008, the bank drew up a corporate governance project in 2009 for the entire group which was approved by the bank’s board of directors and board of statutory auditors. It was presented to the shareholders on 25 June 2009.

The project presents the choices made to ensure effective and efficient management and control systems throughout the group, considering the parent’s and Italian and foreign subsidiaries’ organisational structures.

Accordingly, the shareholders approved the “remuneration policies” in their meeting of 25 June 2009 setting out the criteria and application policies for the remuneration and incentive plans for the bank’s directors, employees and consultants.

The aim is to increase shareholders’ awareness of an essential part of the bank’s management and control system, being the objectives pursued through remuneration policies, criteria and definition (also the balance of the fixed and variable parts) and the connection between remuneration and risks, objectiveness and results.

20. CHANGES SINCE THE REPORTING DATE

Changes to the corporate governance structure since the reporting date have been described in this report.