financial statement 2008

MPS
LEASING & FACTORING

MPS

LEASING & FACTORING

GRUPPOMONTEPASCHI

FINANCIAL STATEMENTS
AS AT
31 DECEMBER 2008

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MPS LEASING & FACTORING SPA

REGISTERED OFFICE: PIAZZA SALIMBENI, 3 – 53100 SIENA

GENERAL MANAGEMENT AND SIENA BRANCH (*FACTORING PRODUCTS*): VIA LIPPO MEMMI, 7/9 – 53100 SIENA

PRATO BRANCH (*LEASING PRODUCTS*): VIALE DELLA REPUBBLICA, 227 – 59100 PRATO

SHARE CAPITAL: € 287.965.745,00 fully paid in

TAX CODE AND REGISTRATION NUMBER IN THE SIENA TRADE AND COMPANIES REGISTER: 92034720521

VAT No.: 01073170522

COMPANY SUBJECT TO THE DIRECTION AND COORDINATION OF BANCA MONTE DEI PASCHI DI SIENA S.p.A.

MONTE DEI PASCHI DI SIENA BANKING GROUP – BANK REGISTER No.: 3210.2 - BANKING GROUP REGISTER No.: 1030.6

REGISTERED IN THE REGISTER OF BANKS MAINTAINED BY THE BANK OF ITALY UNDER NO. 5515

MEMBER OF THE INTERBANK DEPOSIT PROTECTION FUND

WEBSITE: www.mpslf.it

Governing and Control Bodies, Senior Management and Independent Auditors

Board of Directors

Massimo Bernazzi	Chairman	
Massimo Caputi	Deputy Chairman	
Stefano Bernardini	Director	In charge since 18 April 2008
Giacomo Brogi	Director	
Gianni Castagnini	Director	In charge until 17 April 2008
Franco Guerri	Director	
Raffaele Lo Buono	Director	In charge until 17 April 2008
Fulvio Mancuso	Director	
Sigilfredo Montinari	Director	
Moreno Periccioli	Director	
Claudio Pieri	Director	In charge until 17 April 2008
Roberto Rossi	Director	
Marco Spinelli	Director	In charge since 18 April 2008
Ivano Zeppi	Director	In charge since 18 April 2008

Board of Statutory Auditors

Leonardo Pizzichi	Chairman	In charge since 18 April 2008
Luciana Granai De Robertis	Chairman	In charge until 17 April 2008
Luca Landozzi	Standing Auditor	In charge until 17 April 2008
Paolo Paolucci	Standing Auditor	
Brunella Vaselli	Standing Auditor	In charge since 18 April 2008
Giuseppe Castellano	Alternate Auditor	
Vittorio Marroni	Alternate Auditor	

Senior Management

Gianfranco Antognoli	General Manager
Eugenio Negri	Acting Deputy General Manager
Marco Sarnacchiaro	Deputy General Manager in charge until 27 October 2008
Enrico Grazzini	Deputy General Manager in charge since 6 November 2008

Independent Auditors

Reconta Ernst & Young Spa

REPORT ON OPERATIONS

Market overview

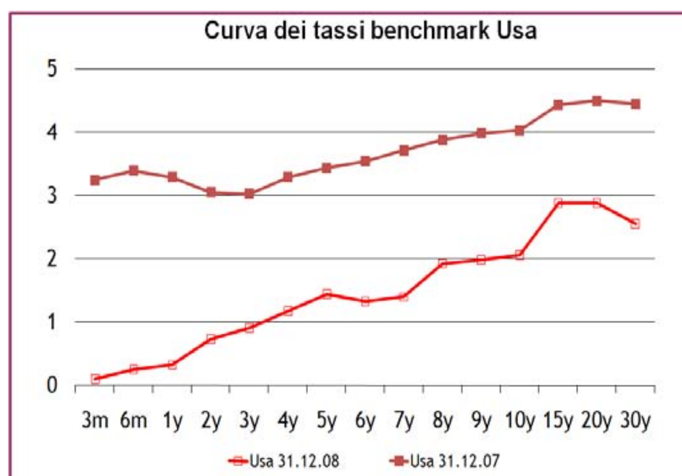
- Macroeconomic scenario

The **crisis which has been affecting the financial markets since 2007 has worsened**, involving a growing number of operators and calling upon public intervention to rescue a number of important financial institutions both in the US and in Europe. The governments and central banks, which partly reacted with additional extraordinary actions according to the guidelines proposed by the G7 summit and European Council, have ensured continuity of financial flows, widened guarantees on bank liabilities and strengthened the capital ratios of financial intermediaries in difficulty. Tensions spread to the real economy and had negative repercussions on consumption, investment and production choices thus bringing about **a phase of generalized and intense recession.**

GROWTH OF THE WORLD'S LEADING ECONOMIES			
	2007	2008	2009
World	5.4	3.9	0.5
Euro Area	2.0	1.2	-1.6
Italy	1.5	-0.6	-2.0
Germany	2.6	1.0	-2.3
France	2.1	0.9	-1.3
Japan	2.1	-0.2	-2.6
China	11.4	9.0	6.0

After topping $ 143 a barrel, oil prices tumbled back down to $ 35 at the end of December. With few exceptions, all other raw materials showed a similar trend, with a price peak reached in the summer and a collapse registered in the last part of the year. Inflationary tensions and the worsening of the economic scenario were flanked by a **resolute reduction of official interest rates**, which were almost zeroed in the US and Japan and lowered to 2.5% (2% in January 2009) in the Euro Area.

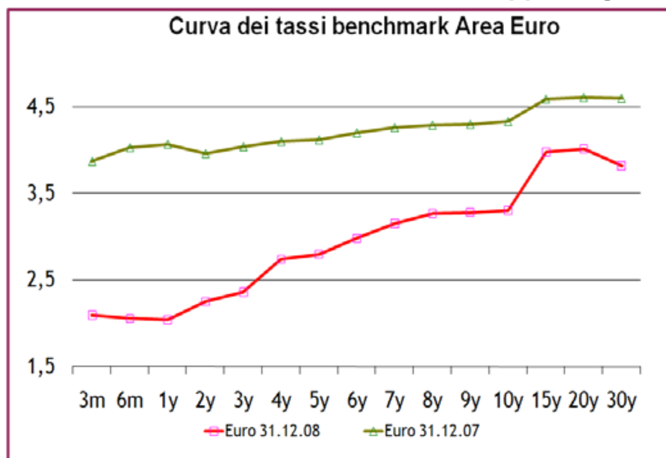
In the United States, as in most countries, **the crisis spread out to the real economy as a result of the real estate and financial wealth slowdown** and the cutting or putting off of expenditure and investment decisions. The GDP has been falling since the third quarter, as a consequence of the fall in private consumption, continuing drop in investments and slowdown of exports. The unemployment rate rose to 7.2%, whereas inflation, after topping a yearly 4.4% in August, now stands at 1%. After rescuing Fannie Mae and Freddie Mac and following Lehman's bankruptcy, the U.S. Congress has allocated 50% of the TARP fund (350 bln) to the recapitalization of the banking system. **With subsequent actions, the Federal Reserve Bank steered the reference rate on FED funds down from 4.25 to 1%, and defined a 0-0.25% objective range in mid December**. Additionally, it multiplied actions to favour the rebuilding of liquidity in the financial markets. The benchmark yield curve reflects the loosening up of monetary conditions and the recomposition of private portfolios with a shift towards government securities.



In the two central quarters of the year, the

GDP also slowed down in Japan as a consequence of the contraction of private investments and the negative net contribution of foreign trade. In the last months of the year, industrial production (approx. -9% on a yearly basis) and unemployment (exceeding 4% now) bear witness to a further deterioration of the economic situation. The Central Bank of Japan intervened twice to reduce the official rate from 0.5% to 0.1%. **In China, growth went down to 9%** and decelerated progressively down to 6.8% YoY in the fourth quarter, a pace of growth barely sufficient to guarantee a balanced labour market. In the second half of the year, a significant slowdown in the yearly growth rate and a deceleration in production were recorded also in other areas and emerging countries.

The Euro Area technically entered a recession phase after registering a GDP contraction in the two central quarters of the year, which was generated mostly by the drop in foreign demand and the putting off of investment decisions. The key economic indicators (sales, production) are down significantly and consumer inflation decreased to 1.6% at the end of the year. The confidence level of businesses and households is at an all time low and negative data is also being collected from the labour market of Germany and Spain in particular. **Governments have introduced supporting measures including deposit guarantees and bank securities, financing of infrastructure, energy and SMEs projects in collaboration with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD)**. After steering the reference rate to 4.25% for fear of inflationary thrusts in July, **the ECB drove the rate down to 2.5% later on (and to 2% by mid January)**, noting that unemployment and bankruptcies are now the major sources of concern. The Bank also strengthened its commitment to supporting liquidity, and has been conducting refinancing transactions since October according to a formula based on fixed rates and full granting of amounts requested. As a result of other monetary policy expansion measures, the yield curve at the end of the year showed a negative slope over the short-term period and a positive slope in the 2-10 year term, with a rather large spread (104 bps). The 1-month Euribor rate stood at 4.3% until August. It then rose to 4.8% after the Lehman bankruptcy, and fell to approx. 3% at the end of the year, on the back of interventions by the ECB and the governments of the major European countries.



In Italy, a GDP contraction has been experienced since the second quarter; the economic deterioration was exacerbated in the last part of the year by the drop in investments, contraction of exports and stagnation of household consumption. Industrial production reached a yearly low of 10% in the last months of 2008 and closed with a decrease by approximately 4%. Employment has come to a standstill and applications for redundancy benefits have become more frequent and widespread. According to the Italian Institute for Studies and Economic Analyses (*Istituto di Studi e Analisi Economica* - ISAE), confidence indexes for consumers and manufacturing companies have gone down to levels that are among the lowest in the last 15 years; ratings on levels of demand and orders have become more conservative. After rising to 4.2% YoY in August, consumer inflation stood at 2.3% at the end of the year, on the back of the reduction in oil prices and weak demand. Italy substantially aligned itself to the Euro Area as to the type of actions adopted in support of the financial system and real economy. In general, however, **actions in support of budget policies suffer the restrictions posed by a high public debt burden**, as revealed by the yield spread between the 10-year Italian treasury bond, BTP, and the comparable German Bund, which widened to approx. 140 bps at the end of the year.

Stock markets registered a significant generalized slowdown, reflecting the uncertainties as to the evolution of the recession underway and the policies adopted to try and solve it. **As compared to the end of 2007, Stock Exchange indexes dropped by more than 40% in the Usa, Eurozone and Japan, coming very close to 50% on the Italian Stock Exchange**, where banking stocks dropped by roughly 57%.

On the **market of government securities, trading volumes were up significantly** (over 10% during the year both in the US and in the Euro Area), especially in the second part of the year, as part of a "*flight to quality*" approach. **Also the Emerging Markets bond spread over US Treasuries widened,** and stood at approximately 700 bps at the end of the year, roughly 400 bps higher a level than it was at the beginning of June. **Corporate bond yields rose too** on all main risk classes, standing at approx. 600 bps for bonds rated BBB (from 200 at the end of 2007) both in the US and the Eurozone.

In the foreign-exchange markets, the Euro further improved its position against the dollar in the first half of the year, with the Euro currency exchange rate standing at 1.6 over the dollar (from 1.46 in December 2007); subsequently, in a context of high risk perception, **capitals which were previously invested in high-yield currencies have been re-directed towards the dollar and, in particular, to the yen**, thus leading to the Euro being depreciated down to a value equivalent to $1.41 and 127.7 yen at the end of December (it was at 163.6 one year before).

- The banking business

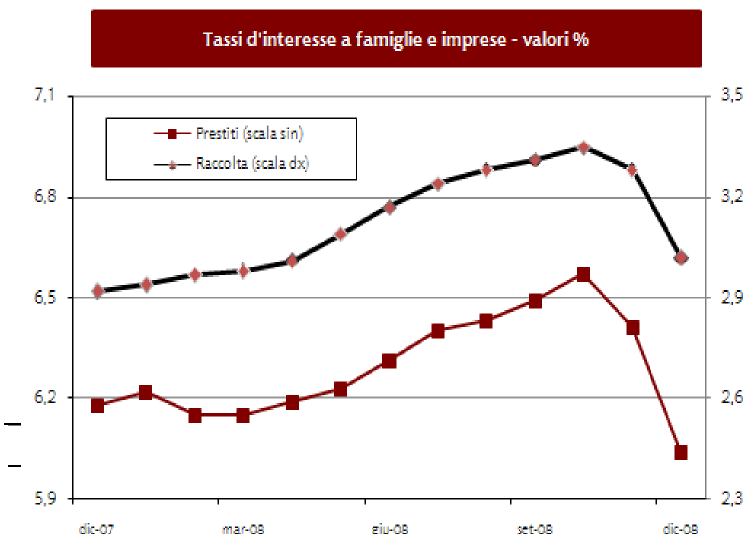
Italian banks are tackling the crisis that is affecting the world's financial system, based on their reliance upon a substantially healthy business model, which is mainly oriented towards retail lending and funding activities as well as towards gaining from the efficiency accumulated over the last years. Against this background, Italian banks have proved to be able to stand the impact better than the banks of other advanced economies, even though the economic deterioration has brought about strong tensions, a lowering of capital *ratios* and a significant reduction in profitability.

The worsening of the real economy conditions and the world financial crisis have led consumers to be extremely cautious, their preference being for simple and secure investments and products, including in particular government securities and bonds issued by banks. **Bank funding showed a gradual acceleration,** with the average annual growth rate standing at around 14% at the end of the year. In particular, the stock of bonds proves to be on the increase on average by more than 18% YoY (approx. 115 bln as compared to the end of 2007) and current accounts are up by more than 5%, namely one percentage point more than last year. The increase was favoured by the strong preference for liquidity. For the same reason, repurchase agreements keep being very dynamic as well (still standing at about +17% year on year).

The average growth rate of bank loans stood at +7.5% (as against +10.6% last year); in the course of the year, the bank loan growth rate decelerated from +10% at the beginning of the year down to +4.4% in December. The regression described is mostly attributable to loans to households which, during the fourth quarter, came to a substantial standstill on a yearly basis (as against the +10% increase registered at the beginning of the year): such standstill is partly accounted for by securitizations and, to a particular extent, by the contraction in real estate mortgage loan disbursements (-6.9% in the first three quarters of the year) as a consequence of reduced buying and selling. The growth of loans to non-financial businesses is decelerating as well (from +12% at the beginning of the year to +6%), in line with current real economy conditions and the reduced demand for credit. The ratio of non-performing loans to total loans stands at slightly above 1%, whereas **data available for the first three quarters highlight a substantial stability of the decay rate indicator** as to households (just slightly above 0.8%) and a modest rate increase in the case of non-financial businesses (from 1.2% in 2007 to 1.3%).

With regard to other forms of lending, **the year closed with a very limited growth in disbursements of consumer loans (+1.4%)**, reflecting the slump in the purchasing of durable goods. **The number of leasing contracts signed during the year decreased by approximately 21%**, and the result was negatively impacted by the real estate contraction whereas **the factoring market is growing at rates of about 6%.**

During the year, the interest rate on lending went down by 14 bps. Rates on new transactions were down significantly (roughly -70 bps). Conversely, the direct funding rate was up 10 bps between the end of 2007 and December 2008. **The annual average lending/funding spread continued to stand at about 3.2 percentage points**. The mark-up (measured with reference to short-term loans and 1-month EURIBOR) went up by about 30 bps on a yearly average, reflecting the financial tensions underway. By contrast, the markdown contraction is quite significant as it went down from 2.28 average percentage points in 2007 to 2.09 p.p.



The impact of the financial crisis and recession on banks' profit and loss statements is remarkable. The net interest income is nevertheless expected to report an

appreciable increase. With service revenues declining, profits from trading activity being zeroed and value adjustments and risk provisions going up significantly, a net profit reduction of at least 30% is expected to materialize**.**

- The regulatory framework

The **new regulations about capital ratios** (Basel 2) have been effective as of 1 January 2008. In June, the **Montepaschi Group** received the authorization from the Bank of Italy to use the advanced internal measurement approach to determine the capital requirements necessary to cover credit and operational risk. On the back of the financial crisis and in response to the recommendations by the Financial Stability Forum, **the Basel Committee has announced a number of proposals to supplement the existing regulations**, including: a) stricter capital requirements for *trading* assets, in particular in association with derivative products and off-balance-sheet constructions; b) new guidelines for liquidity management and supervision; c) strengthening of the second pillar, with special regard to risk exposure assessment and ratings assigned.

In January, the Italian banking system started to adopt the International Bank Account Number or IBAN (the 27-digit code which supersedes former bank coordinates) as the sole and only European standard to identify bank accounts across national borders when executing payments. Additionally, nearly all banks are in a position to send and receive SEPA **(Single Euro Payment Area)** transfers.

In March, the Bank of Italy disseminated the new **supervisory regulations concerning organization and corporate governance**. These rules assign a central role to the *corporate governance* bodies for the definition of risk management and control strategies and policies. The strategic supervision, management and control functions need to be assigned to the different corporate bodies in such a way as to enable a clear-cut definition of the relevant tasks as well as to establish a constructive dialogue and put in place appropriate mechanisms of control.

With regard to housing mortgage loans, diversified actions were undertaken during the year. An **agreement was signed between the Ministry of Economy and the Italian Banking Association** in May. Based on this agreement, first time home buyers will have the possibility to renegotiate the floating rate mortgage loans they had negotiated prior to 29 May 2008, obtaining fixed instalments for an amount equal to the instalment the client would have paid on average in 2006. The renegotiation entails the **reduction of the mortgage instalment amounts** (as of the first instalment payable in 2009) and a potential extension of its expiry date, depending on the future evolution of interest rates. Within the framework of "portability" (law no. 40/2007), the banking system has made **portability operational free of charge for the client as of 31 May.** With the introduction of law no. 2/2009, a provision was adopted for first-house floating-rate mortgage loans signed or renegotiated by natural persons until 31 October 2008, whereby **the instalment amount shall be the lower of either the amount calculated by applying a 4% rate** and the amount calculated based on the rate specified upon stipulation of the mortgage agreement. Any surplus difference shall be paid by the Government in the form of tax credit for banks. Furthermore, new mortgages signed as of 1 January 2009 may be re-indexed to the ECB main refinancing rate.

Among the measures impacting banks, it should be noted that Italian legislative decree no.112/2008 **has introduced a percentage of non-deductibility of interest expense** (3% this year, 4% as of 2009) for corporate income tax (IRES) and regional productivity tax (IRAP) purposes. According to an estimate by the Bank of Italy, this provision results in a 10 bps higher cost of funding. Also the **lowering of the percentage of deductibility for value adjustments** on receivables from 0.4% to 0.3% is worth mentioning. In addition, the so far existing tax regime for **stock options** is no longer applicable, with the consequence that stock option profits will be subject to progressive taxation. The legislative decree then **includes amendments to decree no.** 231/2007 and provides, among other aspects, for the reintroduction of the 12,500 Euro maximum limit for transfers of cash and non-transferable cheques.

On 29 July 2008, **the Interministerial Committee for Credit and Savings (it. CICR) passed a resolution which widened the limits of shareholdings held in companies by banks and banking groups.** In particular, a concentration ceiling equal to 15% of the Tier 1 capital of the shareholding bank/group has been set for each individual qualified shareholding held in companies by banks and banking groups; 60% of capital represents the overall concentration limit for the sum of shareholdings held by the bank in the same category. The **Banking Ombudsman functions with regard to the out-of-court settlement of disputes with clients** have also been reformed. These regulations are applicable to claims for an amount lower than Eur 100,000 and

they identify criteria for the adoption of lean procedures favouring an economical and effective protection of clients.

Law no. 190/2008 for the transposition of the two legislative decrees (no. 155 and 157) approved in October was passed on 3 December 2008 and includes urgent measures in support of banks, companies and consumers. Thereby, **the Ministry of Economy is empowered to underwrite or guarantee capital raising operations of banks with capital shortfalls** ascertained by the Bank of Italy, on condition that a stabilization and strengthening program approved by the Bank of Italy is put in place along with an appropriate dividend policy. Any shares purchased by the Ministry have priority over all other shares in the distribution of dividends (preference shares) but do not carry voting rights. Law 190/2008 also lays down that **the Government is to offer a guarantee on bank liabilities with a maturity ranging from 3 months up to 5 years issued after 13 October 2008;** the Ministry is then allowed to make **temporary swaps between government securities and financial instruments** held by banks with a maturity of up to 5 years. For each bank, the maximum covered amount (i.e. the total exposure taken in respect of government guarantees and/or temporary relief transactions to a bank) is to have a duration not exceeding 6 months (renewable until 31 December 2009) and must not exceed the bank's regulatory capital (including tier III). Finally, the Ministry is empowered to issue a **state guarantee on bank deposits for a 36-month period, as a supplement to the guarantee provided by the Interbank Deposit Protection Fund for the same amount,** which ensures coverage for up to **Eur 103,000 per depositor**.

Legislative Decree no. 185/2008, transposed into **Law no. 2/2009** empowers the Government, with the prior approval by the Bank of Italy and until 31 December 2009, to underwrite financial instruments with no voting rights issued by banks **(so-called Tremonti bonds) which are convertible into ordinary shares and redeemable at any time by the issuer**. The issuer is expected to make commitments on the extent and terms of lending to SMEs and households as well as on dividend policies that must be consistent with the need to meet capital adequacy requirements. Issuing banks must also adopt a code of ethics to regulate the remuneration of executives. In the course of the parliamentary law-making process of legislative decree no. 185/08, an amendment was introduced that **cancels the maximum overdraft fee on bank accounts if the account** has been in the red for less than 30 consecutive days or if the overdraft occurs in the absence of a loan facility. Pre-existing contracts are to be adjusted within a period of 150 days from the law effective date (29 January 2009). As to fees and commissions on funds made available to the current account holder regardless of the funds being used or not, a set of conditions are envisaged for this practice to apply.

- The Financial Leasing Market

The market for leasing in Italy experienced a significant slowdown in 2008, both in terms of number of contracts and contract amounts. The slowdown was produced by a systemic crisis which reverberated heavily on some of the most significant companies operating in the leasing industry.

According to figures compiled by ASSILEA, a leading trade association, new leasing contracts were signed for an amount of Eur 38,736 mln, down 20.86% as compared to 2007. The number of contracts signed decreased by 11.33% to a total of 384,896.

A breakdown by products reveals that volume reductions were registered in all market segments, with the percentage decrease being particularly relevant in the real estate business (-34.36%). With respect to the number of contracts, the contraction compared to last year is evident in all segments and even more noticeable in the real estate (-31.71%) and aircraft/watercraft leasing business (-15.63%). The aircraft/watercraft leasing business suffers a more limited contraction in terms of volumes (-2.32%) than other segments. However, this result was determined by a railway leasing transaction for an amount of approximately 616 mln which was signed in June 2008, while the leisure boats business, which had turned out to be the driving sector of the entire segment, is down by more than 17%. The capital goods leasing business witnessed a contraction in volumes by 11.48% (-12.23% in the number of contracts). Similarly, automotive leasing was down both in terms of volumes (-7.50%) and in terms of number of contract signed (-8.72%). In particular, even the industrial vehicle segment, which had held firm in the first months of 2008, was down by over 5% at the end of the year.

The business volumes and number of contracts for the individual segments as at 31 December 2008 and 2007 are reported below:

(in € 000s)

Segment	31/12/2008		31/12/2007		Change
	Amount	%	Amount	%	%
MOTOR VEHICLES	8,468,224	21.86%	9,154,721	18.70%	-7.50%
CAPITAL GOODS	12,222,778	31.55%	13,807,599	28.21%	-11.48%
AIRCRAFT, WATERCRAFT & RAILROAD EQUIPMENT	3,018,122	7.79%	3,089,943	6.31%	-2.32%
REAL ESTATE	15,027,073	38.80%	22,893,797	46.78%	-34.36%
TOTAL	**38,736,197**	**100.00%**	**48,946,060**	**100.00%**	**-20.86%**

Segment	31/12/2008		31/12/2007		Change
	Number	%	Number	%	%
MOTOR VEHICLES	210,837	54.78%	230,971	53.21%	-8.72%
CAPITAL GOODS	155,648	40.44%	177,346	40.85%	-12.23%
AIRCRAFT, WATERCRAFT & RAILROAD EQUIPMENT	4,243	1.10%	5,029	1.16%	-15.63%
REAL ESTATE	14,168	3.68%	20,747	4.78%	-31.71%
TOTAL	**384,896**	**100.00%**	**434,093**	**100.00%**	**-11.33%**

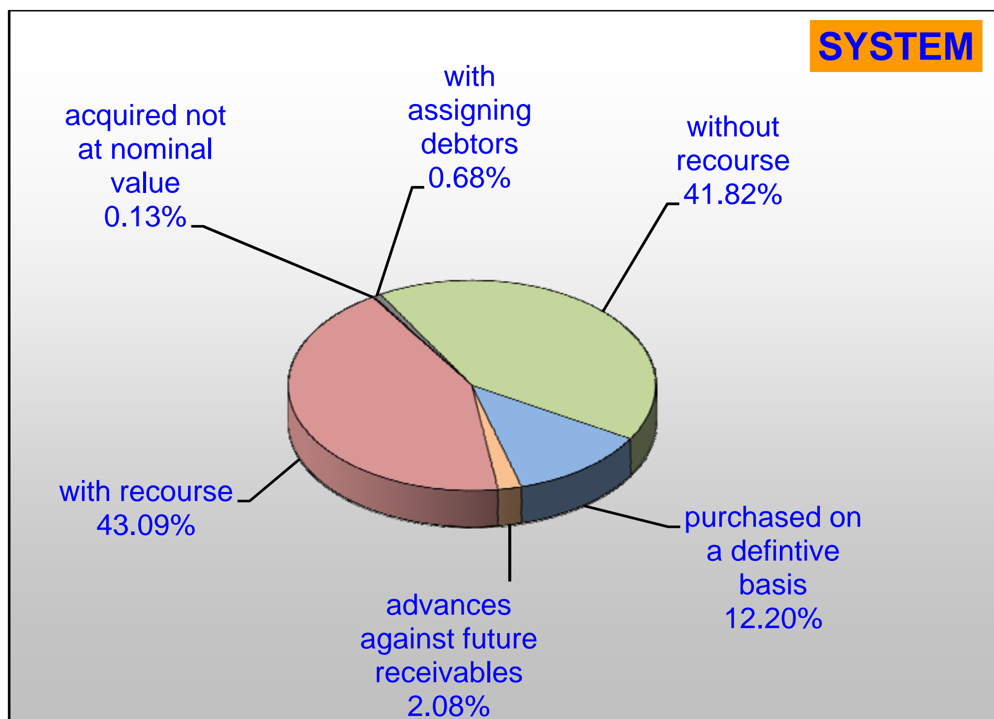
- The Factoring Market

The preliminary data on 2008 compiled by the trade association ASSIFACT highlight a 6.3% growth in turnover as compared to the previous year with outstanding factoring receivables rising by about 11% in the same period.

The market for factoring in Italy continues to be highly concentrated, with the top six companies commanding about 75% of total turnover.

The breakdown of the business by product type shows that some 66% of the aggregate turnover was represented by factoring with higher service content, such as factoring without recourse, which has also seen a strong development of products that are compatible with the introduction of the new international accounting principles of risk transfer.

The breakdown of the outstanding receivables also shows a prevalence of those acquired without recourse or on a definitive basis (roughly 54% of the total):



Business Development

The key business events during 2008 are summarized in the sections below.

The values of production in relation to the leasing business shall be presented in the form of aggregates for MPS Leasing & Factoring (hereinafter MPS L&F) and MPS Commercial Leasing (hereinafter MPS CL), a wholly owned subsidiary of MPS L&F which was acquired on 21 June 2006 and focuses on the development of the network of agencies. The production details for MPS L&F are also highlighted on a separate basis.

Business Highlights

- Leasing

On an aggregate basis, MPS Leasing & Factoring and MPS Commercial Leasing achieved significant growth as at 31 December 2008, with the value of contracts executed amounting to € 1,791,914,000 (+18.18% YoY), and the number of contracts climbing by 14.71% to 9,450.

The results become all the more significant when considering the contraction in the domestic leasing market in terms of both overall volumes and individual products.

An analysis of the individual segments reveals that all segments have grown, with the exception of the real estate business; aircraft and watercraft leasing, a segment of excellence for our Company, has almost doubled its results as compared to last year (+96.67%; number of contracts up 63.73%); the capital goods segment also turned in positive results, with volumes rising by 29.01% and the number of contracts climbing by 15.94%. Motor vehicles registered an increase by 26.09% in terms of volumes and 12.76% in terms of units leased; although within a general context of evident difficulties, the real estate succeeded in curbing the contraction effects and registered a slowdown by 3.83% in volumes and 2.67% in terms of number of contracts.

The results for 2008 are summarized in the tables below:

Leasing contracts signed by MPS L&F and MPS CL as at 31 December 2008 and 2007 - Amounts

(in € 000s)

Segment	31/12/2008		31/12/2007		Change 2008/2007	
	amount	%	amount	%	absolute	%
MOTOR VEHICLES	172,310	9.62%	136,655	9.01%	35,655	26.09%
CAPITAL GOODS	785,163	43.81%	608,627	40.14%	176,536	29.01%
AIRCRAFT, WATERCRAFT	181,913	10.15%	92,499	6.10%	89,415	96.67%
REAL ESTATE	652,528	36.42%	678,510	44.75%	-25,982	-3.83%
TOTAL	**1,791,914**	**100.00%**	**1,516,290**	**100.00%**	**275,624**	**18.18%**

Leasing contracts signed by MPS L&F and MPS CL as at 31 December 2008 and 2007 - Number

Segment	31/12/2008		31/12/2007		Change 2008/2007	
	number	%	number	%	absolute	%
MOTOR VEHICLES	3,340	35.34%	2,962	35.96%	378	12.76%
CAPITAL GOODS	5,229	55.34%	4,510	54.74%	719	15.94%
AIRCRAFT, WATERCRAFT	334	3.53%	204	2.48%	130	63.73%
REAL ESTATE	547	5.79%	562	6.82%	-15	-2.67%
TOTAL	**9,450**	**100.00%**	**8,238**	**100.00%**	**1,212**	**14.71%**

Leasing contracts signed by MPS L&F only as at 31 December 2008 and 2007 - Amounts

(in € 000s)

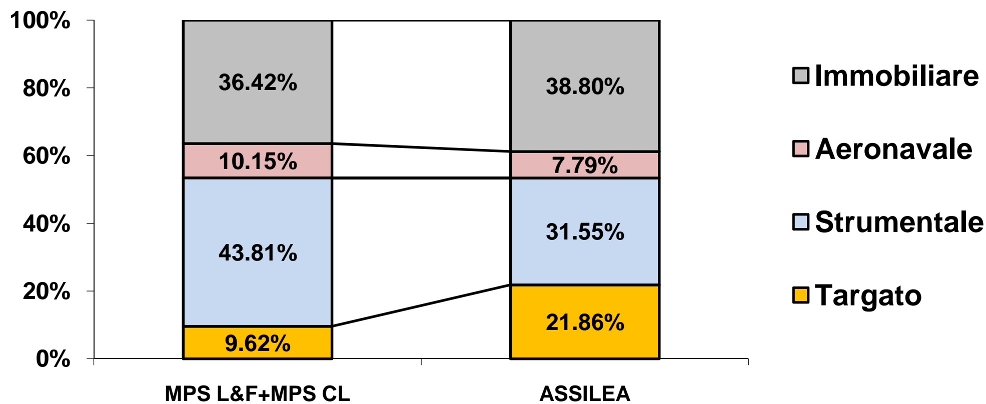
Segment	31/12/2008		31/12/2007		Change 2008/2007	
	amount	%	amount	%	absolute	%
MOTOR VEHICLES	107,020	8.24%	112,909	8.19%	-5,889	-5.22%
CAPITAL GOODS	545,335	41.97%	523,784	37.99%	21,551	4.11%
AIRCRAFT, WATERCRAFT	134,748	10.37%	90,847	6.59%	43,901	48.32%
REAL ESTATE	512,131	39.42%	651,246	47.23%	-139,116	-21.36%
TOTAL	**1,299,234**	**100.00%**	**1,378,786**	**100.00%**	**-79,552**	**-5.77%**

Leasing contracts signed by MPS L&F only as at 31 December 2008 and 2007 - Number

Segment	31/12/2008		31/12/2007		Change 2008/2007	
	number	%	number	%	absolute	%
MOTOR VEHICLES	2,208	36.42%	2,412	34.93%	-204	-8.46%
CAPITAL GOODS	3,252	53.64%	3,754	54.36%	-502	-13.37%
AIRCRAFT, WATERCRAFT	204	3.36%	202	2.92%	2	0.99%
REAL ESTATE	399	6.58%	538	7.79%	-139	-25.84%
TOTAL	**6,063**	**100.00%**	**6,906**	**100.00%**	**-843**	**-12.21%**

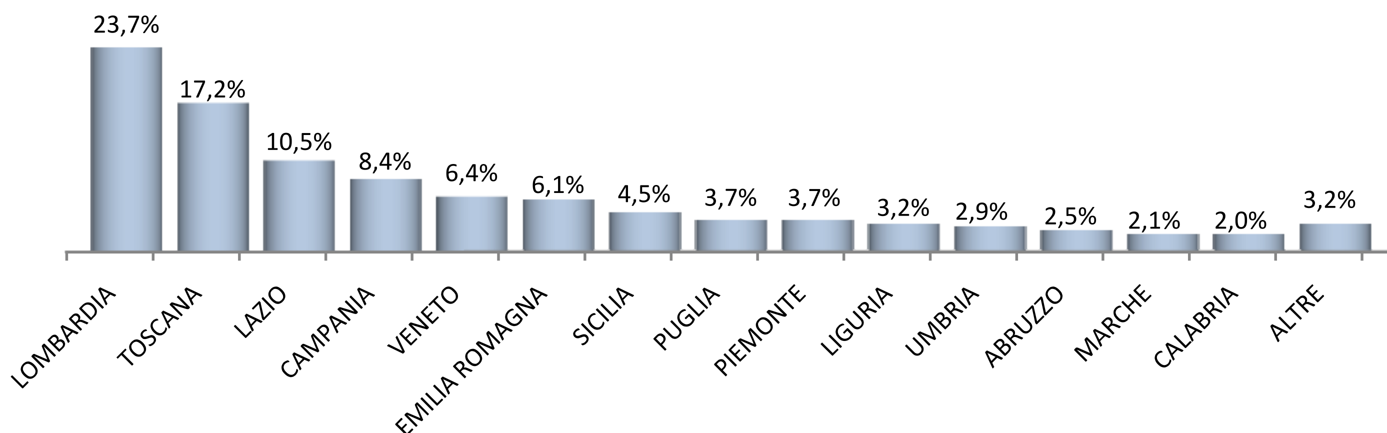
In consideration of the results indicated above, the Company's product mix compared with the ASSILEA data reveals a lower percentage of leases for the motor vehicles and real estate segments, whereas the two remaining business areas, and the capital goods segment in particular, showed a higher performance.

Breakdown of the value of contracts signed by MPS L&F and MPS CL as at 31 December 2008 by type and comparison with ASSILEA data.



In terms of geographic distribution of the leasing contracts signed by MPS L&F e MPS CL, a prevalence of Lombardy and Tuscany is recorded, followed by Lazio and Campania. This evidence is a result of the strong and deeply rooted presence of Group branches in these territories.

Geographic distribution of contracts signed (volumes): MPS L&F + MPS CL as at 31 December 2008



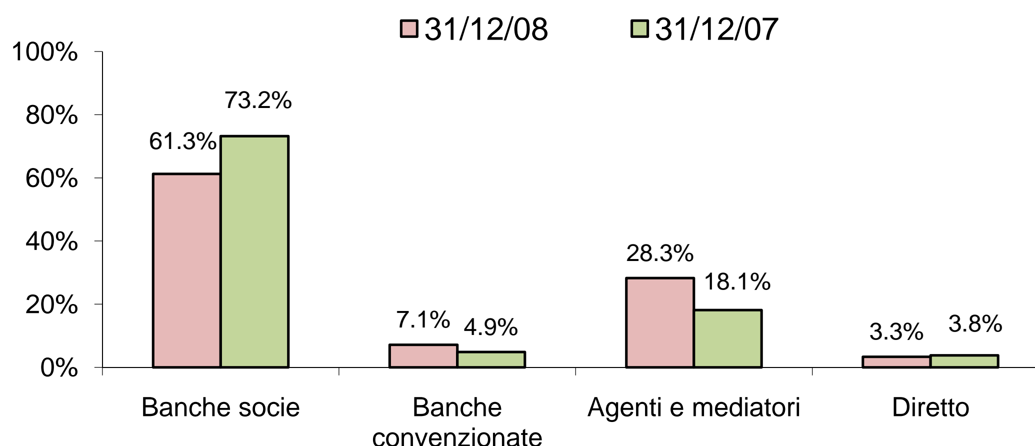
As far as network performance is concerned, a business increase was registered in all distribution channels, with the exception of shareholder banks which, although experiencing only a slight contraction by 1.1%, significantly reduced their contribution to total production; the growth achieved by the agents and intermediaries channel was particularly strong (+84.4%), with such channel rising to account for more than 28% of total production thanks to the vigorous contribution by subsidiary MPS CL and partner banks (+73.4%); the direct channel is also on a slight increase (+3.8%)..

Breakdown of leasing contracts signed as at 31 December 2008 and 2007 by distribution channel (MPS L&F + MPS CL)

(in € 000s)

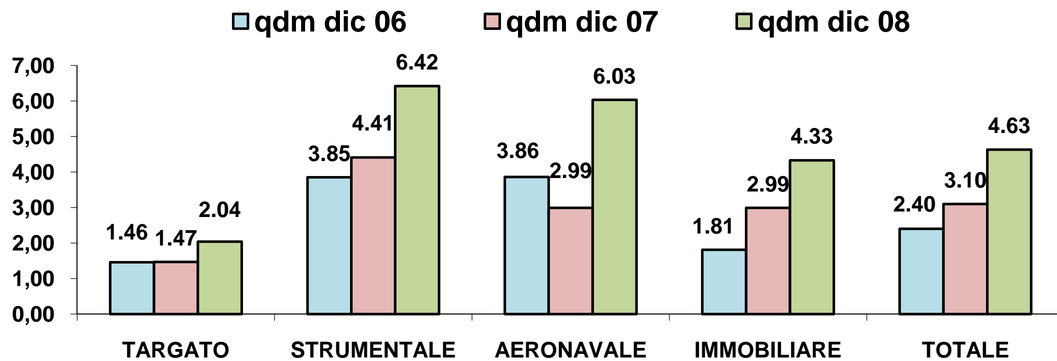
DISTRIBUTION CHANNEL	31/12/2008		31/12/2007		Chg %
	amount	%	amount	%	
Shareholder banks	1,097,732	61.26%	1,110,137	73.21%	-1.12%
Partner banks	127,876	7.14%	73,762	4.87%	73.36%
Agents and intermediaries	506,356	28.26%	274,647	18.11%	84.37%
Direct	59,950	3.34%	57,744	3.81%	3.82%
Total	**1,791,914**	**100.00%**	**1,516,290**	**100.00%**	**18.18%**

Percentage comparison of leasing contracts signed as at 31 December 2008 and 2007 by distribution channel (MPS L&F + MPS CL)

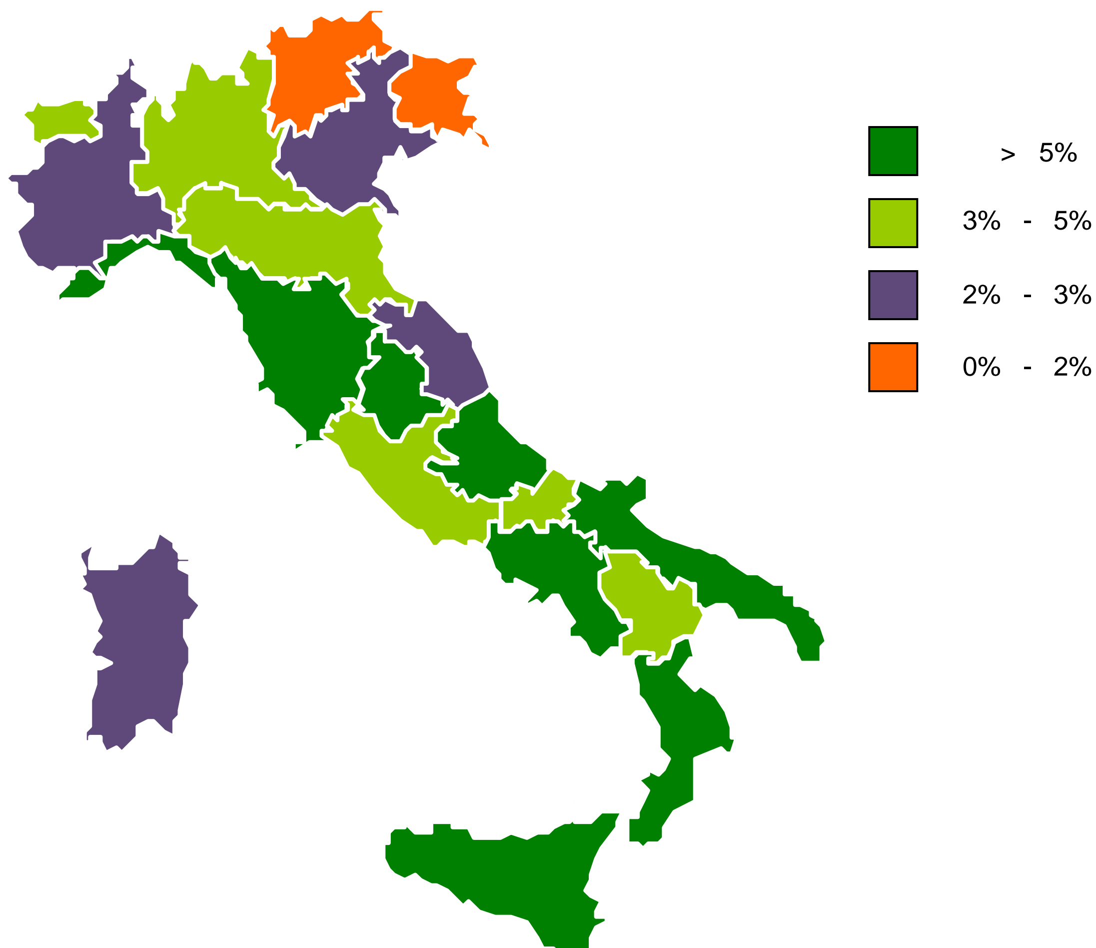


MPS Leasing & Factoring's share of the national leasing market (inclusive of subsidiary MPS Commercial Leasing) came to 4.63%, thus incorporating a significant increase by 153 bps compared with the 3.10% on record for 2007 and by 223 bps as compared to the 2.40% share on record as at 31 December 2006. The Company thus ranks as the sixth largest company in the domestic leasing market, moving up from the ninth and thirteenth places in the rankings for 2007 and 2006 respectively.

The Company's market share in the individual segments as at 31 December 2008 is outlined below and compared with the figures for the two previous years:



The chart below illustrates the aggregate market share of MPS L&F e MPS CL by Italian region, highlighting the significant correlation between the Company's performance in the leasing market and the MPS Group's market presence.



The trend of income-producing leases for MPS Leasing & Factoring and MPS Commercial Leasing was positive, with the total value thereof growing by 12.7% year on year to € 1,605,325,000, and the number of contracts up by 13.3% to a total of 9,266.

The tables below provide a breakdown of income-producing leases by product type:

Amount of income-producing lease contracts as at 31 December 2008 and 2007, MPS L&F + MPS CL

(in € 000s)

Segment	31/12/2008		31/12/2007		Change 2008/2007	
	Amount	%	Amount	%	absolute	%
MOTOR VEHICLES	168,543	10.50%	139,098	9.76%	29,444	21.17%
CAPITAL GOODS	734,916	45.78%	577,253	40.51%	157,663	27.31%
AIRCRAFT, WATERCRAFT	151,260	9.42%	83,083	5.83%	68,177	82.06%
REAL ESTATE	550,606	34.30%	625,507	43.90%	-74,901	-11.97%
TOTAL	**1,605,325**	**100.00%**	**1,424,941**	**100.00%**	**180,383**	**12.66%**

Number of income-producing lease contracts as of 31 December 2008 and 2007, MPS L&F + MPS CL

Segment	31/12/2008		31/12/2007		Change 2008/2007	
	number	%	number	%	absolute	%
MOTOR VEHICLES	3,214	34.69%	3,047	37.24%	167	5.48%
CAPITAL GOODS	5,241	56.56%	4,366	53.37%	875	20.04%
AIRCRAFT, WATERCRAFT	306	3.30%	210	2.57%	96	45.71%
REAL ESTATE	505	5.45%	558	6.82%	-53	-9.50%
TOTAL	**9,266**	**100.00%**	**8,181**	**100.00%**	**1,085**	**13.26%**

Amount of income-producing lease contracts signed by MPS L&F only as at 31 December 2008 and 2007

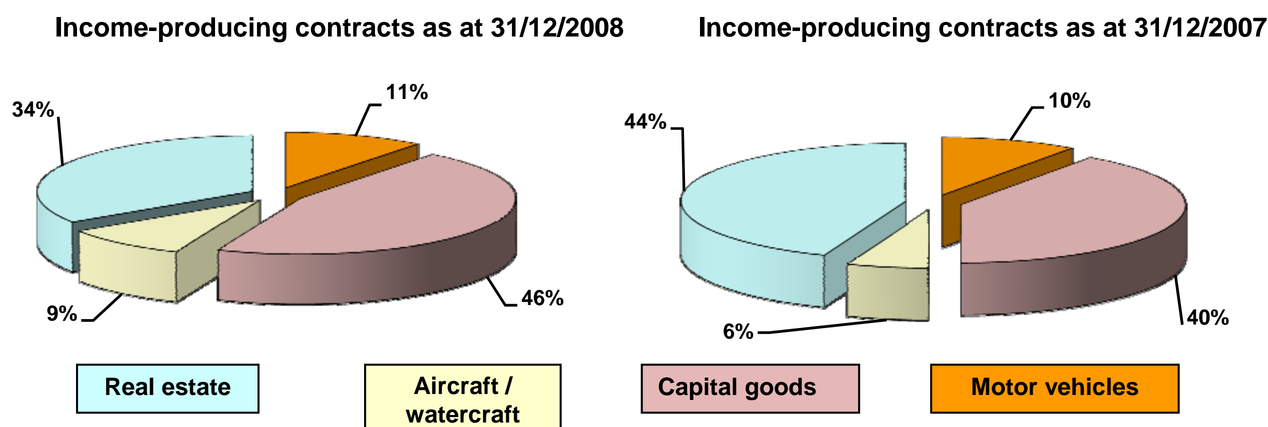
(in €/000s)

Segment	31/12/2008		31/12/2007		Change 2008/2007	
	amount	%	amount	%	absolute	%
MOTOR VEHICLES	107,866	9.21%	112,594	8.70%	-4,728	-4.20%
CAPITAL GOODS	524,817	44.79%	510,322	39.45%	14,495	2.84%
AIRCRAFT, WATERCRAFT	104,826	8.95%	80,700	6.24%	24,126	29.90%
REAL ESTATE	434,015	37.05%	590,119	45.61%	-156,104	-26.45%
TOTAL	**1,171,524**	**100.00%**	**1,293,735**	**100.00%**	**-122,211**	**-9.45%**

Number of income-producing lease contracts signed by MPS L&F only as at 31 December 2008 and 2007

Segment	31/12/2008		31/12/2007		Change 2008/2007	
	number	%	number	%	absolute	%
MOTOR VEHICLES	2,185	35.47%	2,428	35.56%	-243	-10.01%
CAPITAL GOODS	3,409	55.34%	3,677	53.85%	-268	-7.29%
AIRCRAFT, WATERCRAFT	179	2.91%	205	3.00%	-26	-12.68%
REAL ESTATE	387	6.28%	518	7.59%	-131	-25.29%
TOTAL	**6,160**	**100.00%**	**6,828**	**100.00%**	**-668**	**-9.78%**

The graph below shows a breakdown of the income-producing contracts signed by MPS L&F and MPS CL as at 31 December 2008 and 2007, subdivided into product segments:



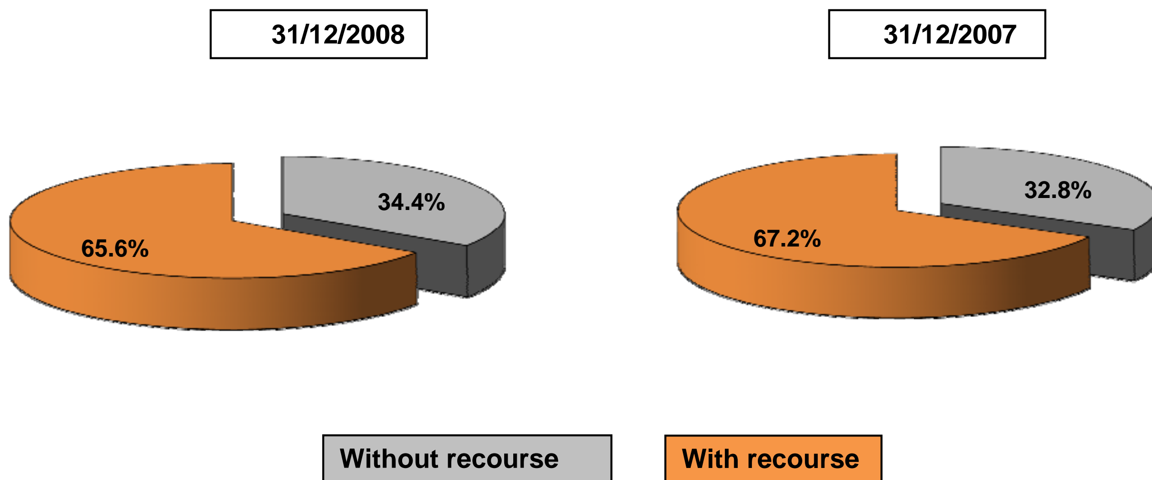
- Factoring

MPS Leasing & Factoring's turnover in 2008 amounted to € 5,826,173,000, increasing by 13.06% over 2007 and performing better than the market in general (+6.3%). 2008 was characterized by the placement of IAS-compatible products in terms of transfer of risks and benefits, such as the non-recourse definitive purchase of receivables (mainly related to transactions with the Public Administration), whose turnover volumes reflect a consolidation of 2007 figures.

As a result of the 2008 performance, the Company's market share rose to 4.8% (provisional data as at 31 December 2008) from 4.5% in 2007, making it the fifth largest factoring firm in the general ranking of competitors on the Italian market.

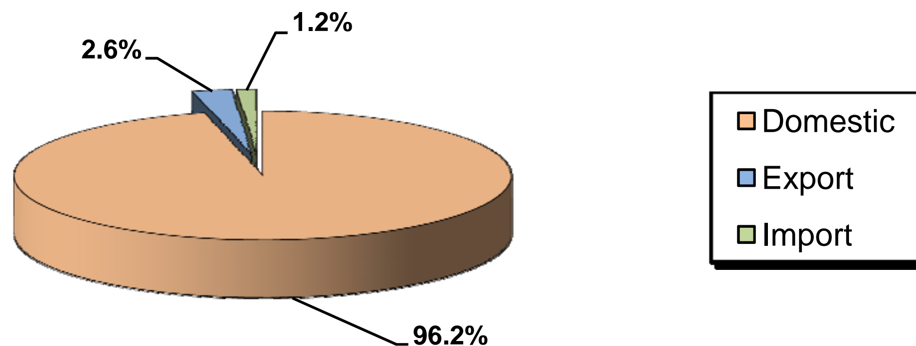
Some 65.6% of the Company's business as at 31 December 2008 regarded transactions with recourse, with the remaining 34.4% related to sales without recourse. The figures reflect a significant change in the mix of the Company's business, with a shift toward factoring with higher service content than in the past, particularly as a consequence of the aforementioned non-recourse definitive purchases of receivables. A significant differential still persists if compared to the mix of products generally available on the Italian market as a whole, where non-recourse products account for 66% of the business turnover.

Breakdown of turnover by type of factoring as at 31 December 2008 and 2007



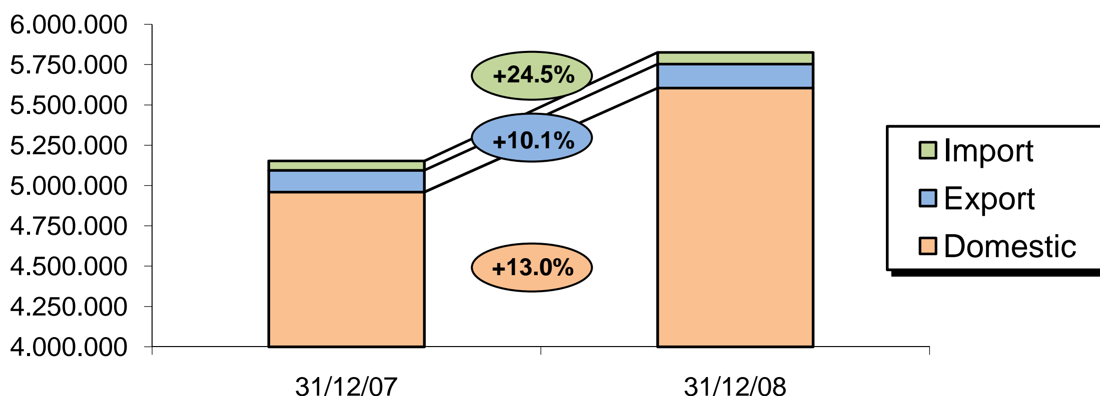
Some 96.2% of the receivables factored through the Company in 2008 regarded the domestic market, while the remaining 3.8% consisted in international transactions, the breakdown being substantially in line with the flow of last year, same period.

Breakdown of turnover by market as at 31 December 2008



A comparison of the turnover by market with figures as at 31 December 2007 shows a 13% growth of the domestic transactions, 10.1% growth of the export transactions and 24.5% growth of import transactions.

Trend of turnover by market as at 31 December 2008



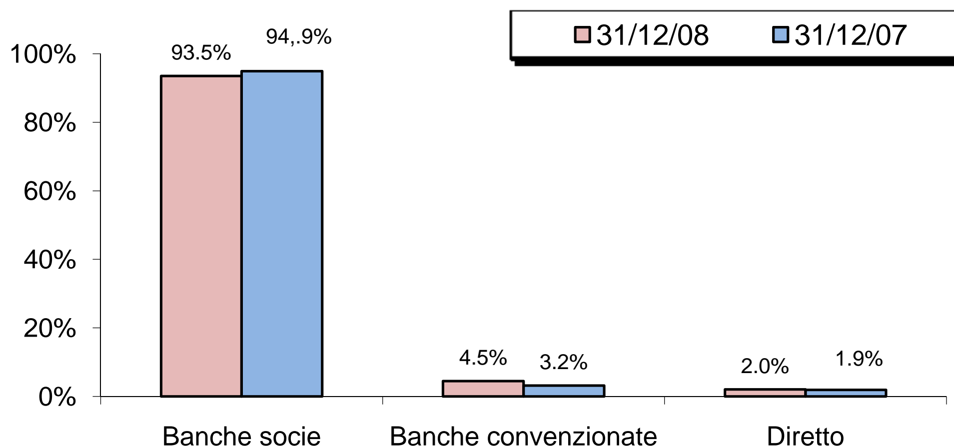
As shown by the table below, all distribution channels showed an increase in production as compared to last year values, with the volume produced by shareholder banks rising by 11.39%, that of partner banks up by 58.63% and that of the direct channel increasing by 20.61%. On the back of results achieved, the individual channels' share of the overall turnover shows a slight reduction in contribution by the shareholder banks to the benefit of the direct channel and of partner banks in particular.

Breakdown of factoring turnover as at 31 December 2008 and 2007 by distribution channel

(in € 000s)

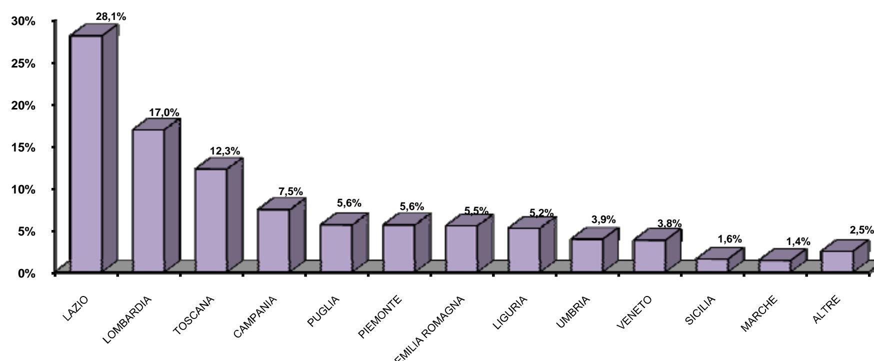
DISTRIBUTION CHANNEL	31/12/2008		31/12/2007		Chg %
	Amount	%	Amount	%	
Shareholder banks	5,447,608	93.50%	4,890,757	94.91%	11.39%
Partner banks	259,996	4.46%	163,903	3.18%	58.63%
Direct	118,569	2.04%	98,310	1.91%	20.61%
Total	**5,826,173**	**100.00%**	**5,152,970**	**100.00%**	**13.06%**

Percentage comparison of turnover as at 31 December 2008 and 2007 by distribution channel



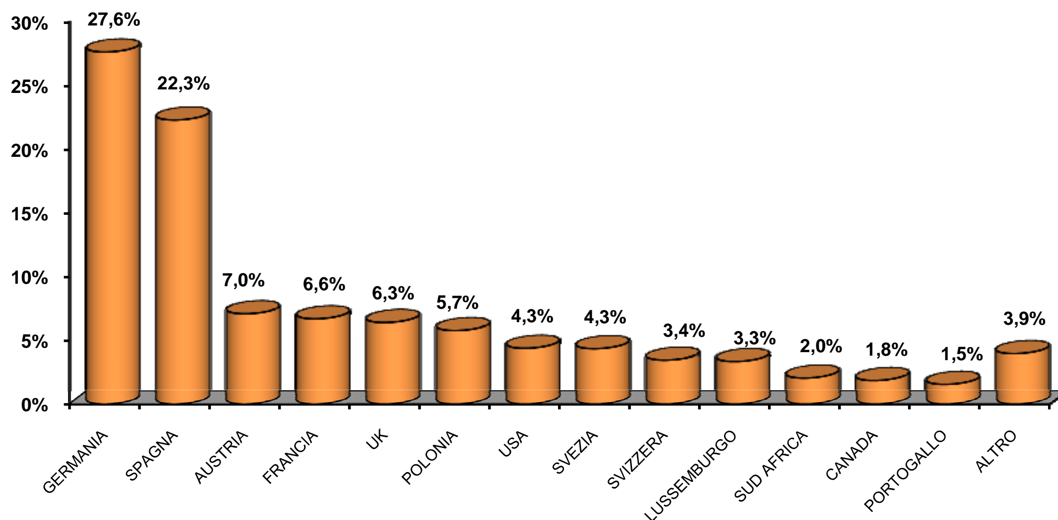
The geographic distribution of domestic turnover shows a prevalence of Lazio (28.1%), followed by Lombardy (17%) and Tuscany (12.3%), namely regions where the commercial banks of the Group are widely and deeply rooted in the local territory.

Geographic distribution of the volumes of domestic assignors by turnover as at 31 December 2008



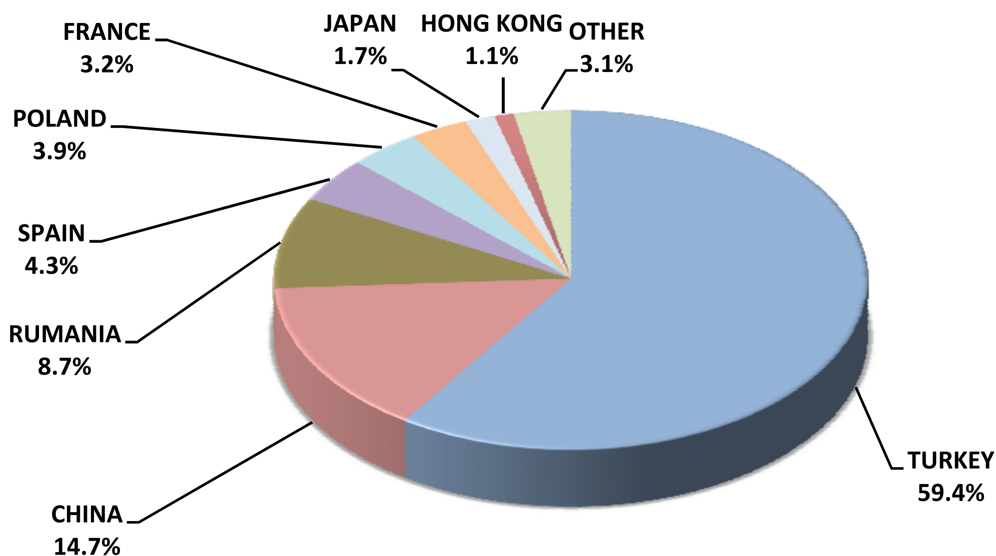
With regard to the breakdown of debtors abroad on the basis of the country of residence, over 27% of total receivables assigned came from Germany, thereby confirming the country's ranking as the most important market for Italian exports, followed by Spain (22.3%), Austria (7%) and France (6.6%).

Breakdown of export assignors by volume



With regard to the assignors for import factoring transactions, the flows come mainly from Turkey (59.4%), followed by China (14.7%) and Rumania (8.7%).

Breakdown of import assignors by volume



Key Financial Data

The Company's key balance-sheet and profit-and-loss data are set out in the tables below, along with various profitability and structural coefficients.

BALANCE SHEET

(in € 000s)

ASSETS	31/12/2008	31/12/2007	CHANGE	
			Absolute	%
Cash and cash equivalents	**0**	**1**	**(1)**	**-100%**
Receivables:	**7,195,760**	**5,285,312**	**1,910,448**	**36.1%**
Due from banks	1,622,466	12,735	1,609,731	ns
Due from customers:	5,573,294	5,272,577	300,717	5.7%
Financial assets available for sale	**5**	**5**	**-**	**-**
Non-current assets:	**32,854**	**33,234**	**(380)**	**-1.1%**
Equity investments	25,039	25,039	-	-
Tangible fixed assets	7,815	7,341	474	6.5%
Intangible fixed assets	0	854	(854)	-100.0%
Other assets	**65,319**	**63,169**	**2,150**	**3.4%**
TOTAL ASSETS	**7,293,938**	**5,381,721**	**1,912,217**	**35.5%**

LIABILITIES	31/12/2008	31/12/2007	CHANGE	
			Absolute	%
Payables:	**6,759,280**	**4,791,695**	**1,967,585**	**41.1%**
Due to banks	4,512,508	4,690,958	(178,450)	-3.8%
Due to customers	2,174,711	16,650	2,158,061	ns
Securities issued	72,061	84,087	(12,026)	-14.3%
Specific reserves:	**10,163**	**9,802**	**361**	**3.7%**
Provision for staff severance pay	455	546	(91)	-16.7%
Reserves for risks and charges	9,708	9,256	452	4.9%
Other liabilities	**217,825**	**286,712**	**(68,887)**	**-24.0%**
Shareholders' equity:	**306,670**	**293,512**	**13,158**	**4.5%**
Capital and reserves	293,512	279,537	13,975	5.0%
Net profit for the period	13,158	13,975	(817)	-5.9%
TOTAL LIABILITIES	**7,293,938**	**5,381,721**	**1,912,217**	**35.5%**

PROFIT AND LOSS STATEMENT

(in € 000s)

PROFIT AND LOSS STATEMENT	31/12/2008	31/12/2007	CHANGE	
			Absolute	%
Net interest income	**95,383**	**88,044**	**7,339**	**8.3%**
Net fees and commissions	8,133	7,336	797	10.9%
Other financial income (expense)	54	125	(71)	-56.8%
Total banking income	**103,570**	**95,505**	**8,065**	**8.4%**
Net impairment-related valuation adjustments to receivables	(48,104)	(32,800)	15,304	46.7%
Net profit (loss) from financial transactions	**55,466**	**62,705**	**(7,239)**	**-11.5%**
Administrative expenses:	(31,151)	(29,349)	1,802	6.1%
a) personnel expenses	*(18,537)*	*(17,767)*	*770*	*4.3%*
b) other administrative expenses	*(12,614)*	*(11,582)*	*1,032*	*8.9%*
Net valuation adjustments to fixed and intangible assets	(359)	(260)	99	38.0%
Operating expenses	**(31,510)**	**(29,609)**	**1,901**	**6.4%**
Net operating profit	**23,956**	**33,096**	**(9,140)**	**-27.6%**
Net provisions to reserves for risks and charges and other operating income (expense)	5,486	6,700	(1,214)	-18.1%
Valuation adjustments to goodwill	(854)	(732)	122	16.7%
Pre-tax profit (loss) from continuing operations	**28,588**	**39,064**	**(10,476)**	**-26.8%**
Taxes on income from continuing operations	(15,430)	(25,089)	(9,659)	-38.5%
Net income (loss) for the year	**13,158**	**13,975**	**(817)**	**-5.9%**

PROFITABILITY RATIOS	31/12/2008	31/12/2007	Change
Cost/income ratio	30.42%	31.00%	-58 bps
ROE	4.49%	5.01%	-52 bps
Net adjustments to receivables / Due from customers	0.86%	0.62%	24 bps

CREDIT QUALITY RATIOS	31/12/2008	31/12/2007	Change
Net non-performing receivables/Due from customers	1.50%	1.14%	36 bps
% of coverage of non-performing receivables	71.33%	74.81%	-348 bps
Net watchlist receivables / Due from customers	2.28%	1.55%	73 bps
% of coverage of watchlist receivables	19.97%	27.72%	-775 bps
Net restructured receivables / Due from customers	0.02%		
% of coverage restructured receivables	30.12%		
Other doubtful receivables (*past due*)/Due from customers	1.38%	1.03%	35 bps
% of coverage of other doubtful receivables	3.76%	9.60%	-584bps

CAPITAL RATIOS	31/12/2008	31/12/2007 Pro-forma
Tier 1 ratio	6.38%	6.60%
Total capital ratio	7.91%	8.51%

Balance-Sheet Aggregates

The trend of the principal balance-sheet aggregates in 2008 shows a 35.5% increase in total **Assets**, when compared to figures as at 31 December 2007, almost entirely as a result of a 36.1% growth in **Receivables**. In this connection, it should be noted that this growth is the result of an increase in loans to customers (+5.7%) and, to a larger extent, a conspicuous increase in loans to banks which have grown from 12.7 mln in 2007 to 1,622.5 mln in 2008. The largest part of such exposure derives mostly from the credit balance on a reciprocal account held with the Parent Company, which mainly originates from year-end crediting of loans signed with MPS Ireland Ltd (Eur 1,430 mln) so as to be in compliance with the Group's ALM policies, and which were posted as "due to customers" under liabilities. The liquidity available on the reciprocal account was immediately used in the first days of 2009 to pay out some loans signed with the Parent Company which were coming to maturity. Net of such transaction, the increase over the previous year would be equal to 9.0%. Receivables due from banks also include 114 mln relative to the disposal of receivables by the Italian branch of a foreign bank in virtue of a factoring agreement. A slight decrease was registered in **Non-current assets** (-1.1%), which was substantially originated by the write-down of goodwill. In this connection, the valuation of goodwill, subject to the *impairment test* applied in accordance with IAS 36, took account of the natural decay of the assumptions under which it was acquired, with its residual value thus presumed to be zero, as is reported in Section 16 - Parte C of the Notes to the Financial Statement. Investment in **Other assets**, an account made up for over 60% by tax assets, increased by 3.4%.

With reference to **Due from customers, Tangible fixed assets and the Reserve for risks and charges** it should be noted that, further to clarifying instructions issued by the Bank of Italy towards the end of February 2008 concerning the accounting of assets under construction and awaiting to be leased, the decision was made to apply the effects of such interpreting approach to the reclassification of comparative data for such accounts as at 31.12.2007.
In detail, this clarification entailed posting of assets under construction and awaiting lease to the account “Due from customers” when formal and explicit agreements provide for the substantial transfer of all risks to the lessee, even in the course of construction. Therefore, the initial posting and later assessment rules described for the "Due from customers" accounts shall apply to the above-mentioned transactions.
Prior to this clarification, the transactions in question were conventionally classified as "Tangible assets for functional use" pursuant to the then-existing legislative provisions.

The credit risk assessment and later valuation of the transactions at issue were carried out by the bank through appropriate provisions to "reserves for risks and charges".

On the basis of the above, the retroactive application (“*restatement*”) of this different classification principle which has been adopted in this financial year for the first time, made it necessary to reclassify last year's accounts in question as is better specified in the Notes to the Financial Statement - Section A – Accounting Policies. The afore-mentioned reclassifications do not bring about any economic effects given the consistency of the assessment criteria adopted in the past with those that are in line with the new classification of the transactions in question.

On the liabilities side, **Payables** grew by 41.1% with the change incorporating a decrease in the amounts due to banks (-3.8%) and a considerable increase in the amounts due to customers, resulting from the opening up of a number of credit lines -for Group ALM purposes- in the course of 2008 for a total amount of Eur 2,146 mln with MPS Ireland ltd which, as a financial company, is classified under customers.

The balance of **Other liabilities** (-24%) witnessed a substantial reduction due to a decrease in payables to suppliers for goods to be leased and a smaller amount of items undergoing processing.

Customer receivables, funding, equity investments, shareholders' equity and regulatory capital are analyzed below.

Due from customers

Due from customers ranked by risk class (net book value)

The net book value of the amounts due from customers is summarized in the table below:

(in € 000s)

Risk Class Net values	Total as at 31/12/2008		Total as at 31/12/2007		Chg %
	Amount	%	amount	%	
Non-performing receivables	83,521	1.50%	60,368	1.14%	38.35%
Watchlist receivables	127,048	2.28%	81,556	1.55%	55.78%
Restructured receivables	928	0.02%			
Other categories of doubtful receivables	76,959	1.38%	54,049	1.03%	42.39%
Total doubtful receivables	**288,456**	**5.18%**	**195,973**	**3.72%**	**47.19%**
Performing receivables	5,284,837	94.82%	5,076,605	96.28%	4.10%
Total net customer receivables	**5,573,293**	**100.00%**	**5,272,577**	**100.00%**	**5.70%**

The account "Other categories of doubtful receivables" includes amounts past due or over credit limits for more than 180 consecutive days, a category introduced by the Supervisory Authorities in accordance with the Basel II concept of "exposure at default".

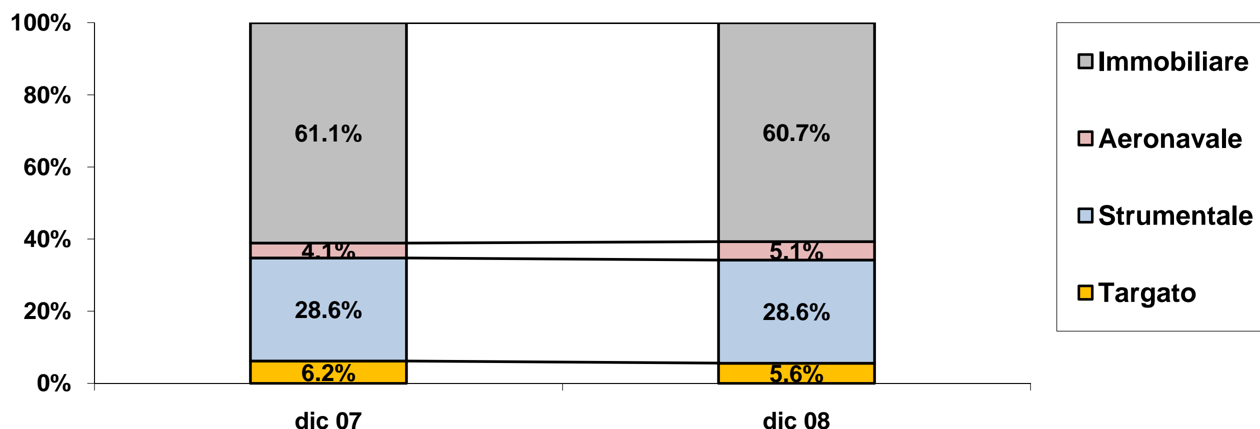
Net customer receivables as at 31 December 2008 grew by 5.70% YoY, with the change incorporating a 4.10% increase in performing receivables and a total 47.19% increase in doubtful receivables due to the negative economic background and the difficulties shown by some important borrowers. The behaviour of doubtful receivables in general reveals a growth in all risk classes, with non performing receivables increasing by 38.35%, watchlist exposures up by 55.78% and the *past due* rising by 42.39%.

- Performing receivables

As at 31 December 2008, net performing receivables of MPS L&F amounted to € 5,285 million compared with € 5,077 million as at 31 December 2007, registering a growth by over 4%.

Performing **lease** receivables as at 31 December 2008 totalled € 4,130,128,000 versus a prior-year balance of € 3,911,404,000 and thus reflect an increase of 5.6%.

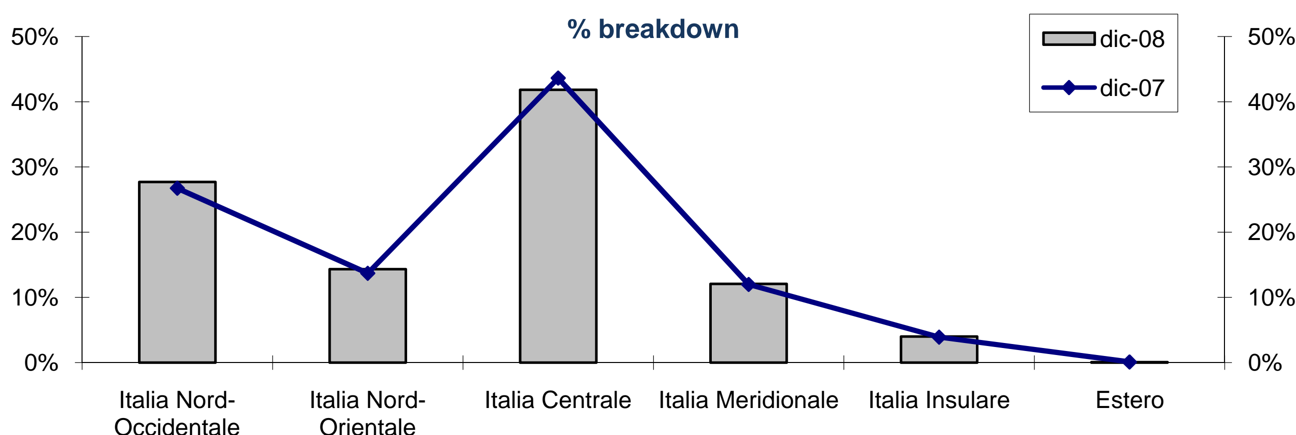
The breakdown of performing lease receivables by category as at 31 December 2008 reveals a stable mix in capital goods as compared with 31 December 2007. Aircraft / watercraft leases accounted for a bigger portion of the aggregate, while auto leases and the real estate represented a smaller portion of the performing portfolio:



The breakdown of lease receivables by geographic location is evidenced in the table and chart below, and shows a growing trend in all regions of Italy, with significant variations registered in the North of Italy (+10.6% in the North-East and +9.4% in the North-West).

(in € 000s)

Area (breakdown by customer residence)	Lease receivables as at 31/12/2008	Lease receivables as at 31/12/2007	Chg. %
Northwestern Italy	1,143,861	1,045,397	9.4%
Northeastern Italy	591,952	535,420	10.6%
Central Italy	1,727,267	1,705,629	1.3%
Southern Italy	499,080	468,675	6.5%
Sardinia and Sicily	164,729	152,681	7.9%
International	3,239	3,602	-10.1%
TOTAL	**4,130,128**	**3,911,404**	**5.6%**



The breakdown of performing lease receivables by economic sector is shown in the table below:

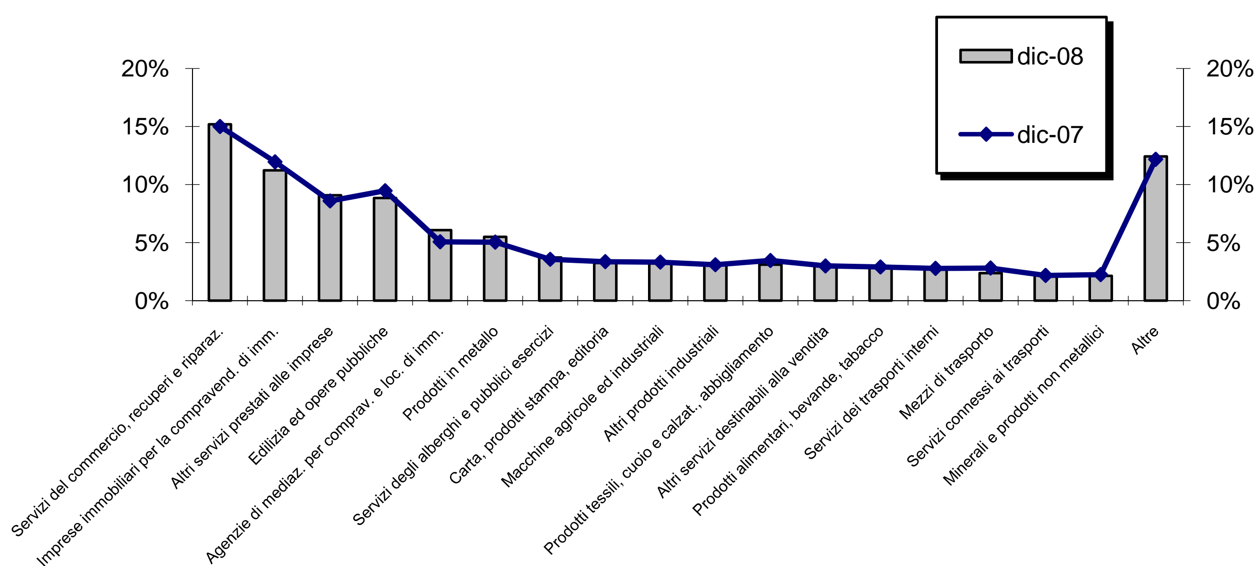
(in € 000s)

Sector	Lease receivables as at 31/12/2008		Lease receivables as at 31/12/2007		Chg. %
	Amount	%	amount	%	
Governments and gov.ment agencies	6,833	0.17%	12,205	0.31%	-44.0%
Financial and insurance companies	15,653	0.38%	22,122	0.57%	-29.2%
Non-financial companies	3,860,404	93.47%	3,637,230	92.99%	6.1%
Family-owned businesses	143,718	3.48%	158,065	4.04%	-9.1%
Arts and crafts	*59,269*	*1.44%*	*61,875*	*1.58%*	*-4.2%*
Other	*84,449*	*2.04%*	*91,190*	*2.46%*	*-7.4%*
Retail customers	83,081	2.01%	69,097	1.77%	20.2%
Other sectors	20,439	0.49%	12,686	0.32%	61.1%
TOTAL	**4,130,128**	**100.00%**	**3,911,404**	**100.00%**	**5.6%**

The data shows a strong prevalence of credit to non-financial companies (over 93% of total receivables), with the related receivables balance growing by 6.1% over the previous year; all other values were down, with the exception of retail customers which increased by 20.2% and Other Sectors (+61.1%).

Considering **credit for production purposes** (non-financial companies and family-owned businesses), which accounts for almost 97% of performing lease receivables, the sub-division by sector shows that a large portion of the Company's business is concentrated in commercial services (15.2%), real estate brokerage (11.2%), other business services (9.1%) and construction (8.9%). The most significant variations as compared to the previous year highlight an increase in energy products (+55.5%), healthcare services (+51.1%), real estate brokers (+26.2%) and maritime and air transport services (+17.6%). The most relevant reductions were instead witnessed in the balances related to technical services (-28.1%), office equipment (-23.1%), telecommunication services (-11.7%) and means of transportation (-11.1%).

The table and the graph below show the breakdown of performing lease receivables by economic sector:



Amounts in €/000s

Economic Sector Credit for Production Purposes	Lease receivables as at 31/12/2008	Lease receivables as at 31/12/2007	Chg. %
Farming, forestry and fishing products	48,684	43,518	11.9%
Energy products	66,197	42,571	55.5%
Ferrous/non-ferrous minerals and metals	40,254	39,397	2.2%
Non-metallic minerals and products	85,623	85,013	0.7%
Chemical products	32,425	31,322	3.5%
Metal products	220,033	191,120	15.1%
Agricultural and industrial machinery	127,625	125,834	1.4%
Office machines	12,553	16,319	-23.1%
Electrical materials and supplies	66,936	59,877	11.8%
Vehicles	94,956	106,835	-11.1%
Food, beverage and tobacco products	114,699	110,232	4.1%
Textile, leather, footwear and apparel products	124,031	131,225	-5.5%
Paper, printing, and publishing	129,628	127,426	1.7%
Rubber and plastic products	73,840	72,254	2.2%
Other industrial products	125,087	117,261	6.7%
Building and public works	353,979	359,510	-1.5%
Commercial services, recoveries and repairs	608,281	569,703	6.8%

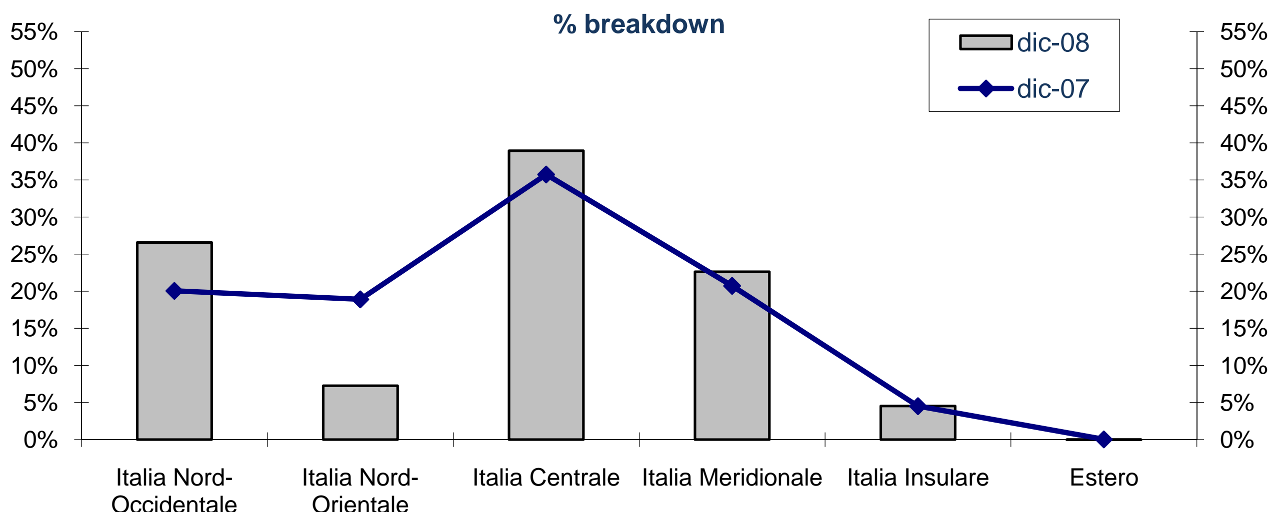
Services of hotels and public establishments	149,077	135,116	10.3%
Domestic transport services	107,373	105,593	1.7%
Maritime and air transport services	24,248	20,611	17.6%
Transport-related services	86,730	82,479	5.2%
Telecommunications services	9,694	10,977	-11.7%
Healthcare services	62,822	41,569	51.1%
Real estate investment firms	449,698	453,836	-0.9%
Real estate brokerage firms	242,990	192,564	26.2%
Technical services	60,144	83,706	-28.1%
Other services rendered to businesses	363,444	326,134	11.4%
Other marketable services	123,073	113,290	8.6%
TOTAL	**4,004,122**	**3,795,295**	**5.5%**

The total amount of performing **factoring** receivables as at 31 December 2008 totalled € 1,154,697,000 compared with € 1,165,200,000 as at previous year end, with the balance thus slightly decreasing by 0.9%.

The breakdown of factoring receivables by geographic location is evidenced in the table and chart below, and shows the biggest growth in Northwestern Italy (+31.4%). Increases by approx. 8% were registered in Central and Southern Italy. A considerable reduction was witnessed in North-Eastern Italy (-61.9%) and a slight decrease was noted in Sardinia and Sicily (-0.5%). As far as the percentage of the total is concerned, Central Italy accounts for approximately 39% of receivables and thereby shows an increase by over 3%, Northwestern Italy grows by 6.5% and accounts for 26.6% of the total; the weight of Northeastern Italy on the total declined strongly (-11.6%) to 7.3% at 31/12/08.

(in € 000s)

Area (breakdown by customer residence)	Factoring receivables as at 31/12/2008	Factoring receivables as at 31/12/2007	Chg. %
Northwestern Italy	306,968	233,691	31.4%
Northeastern Italy	84,026	220,390	-61.9%
Central Italy	449,721	416,409	8.0%
Southern Italy	261,404	241,499	8.2%
Sardinia and Sicily	52,482	52,722	-0.5%
International	96	490	-80.4%
TOTAL	**1,154,697**	**1,165,200**	**-0.9%**



The table below shows the breakdown of performing factoring receivables by sector of economic activity:

(in €/000s)

Sector	Factoring receivables as at 31/12/2008		Factoring receivables as at 31/12/2007		Chg. %
	Amount	%	Amount	%	
Governments and government agencies	50,480	4.37%	56,325	4.83%	-10.4%
Financial and insurance companies	23,269	2.02%	12,580	1.08%	85.0%
Non-financial companies	1,041,233	90.17%	1,070,266	91.85%	-2.7%
Family-owned businesses	20,868	1.81%	21,113	1.81%	-1.2%
Arts and crafts	*1,459*	*0.13%*	*1,985*	*0.17%*	*-26.5%*
Other	*19,409*	*1.68%*	*19,127*	*1.64%*	*1.5%*
Retail customers	1,101	0.10%	1,445	0.12%	-23.8%
Other sectors	17,746	1.54%	3,471	0.30%	411.3%
TOTAL	**1,154,697**	**100.00%**	**1,165,200**	**100.00%**	**-0.9%**

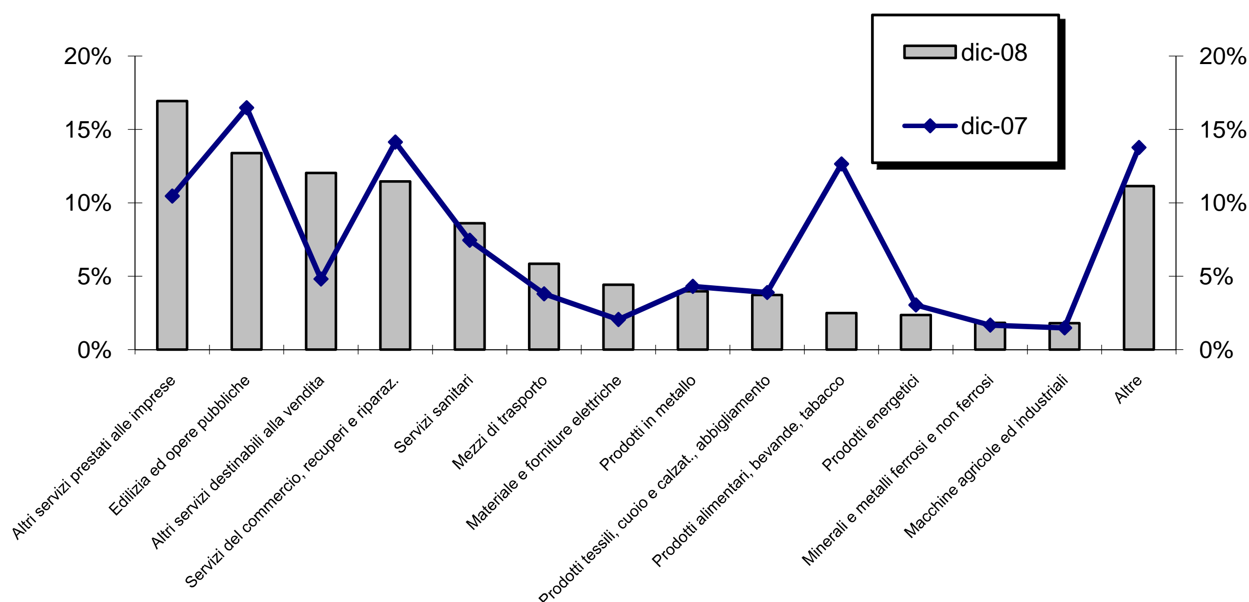
As in the case of the leasing business, most of the receivables for the factoring business are due from non-financial companies (over 90% at the end of 2008), even though the amount shows a slight contraction by 2.7% as compared with figures at 31/12/07.

Considering **credit for production purposes** (non-financial companies and family-owned businesses), which accounts for approx. 92% of performing factoring receivables, the sub-division by sector provided in the table below shows that the biggest growth is registered by real estate investment firms (+146.2%), other marketable services (+143.8%), electrical materials and supplies (+109.3%) and other services to businesses (+57.5%). The sectors with the most significant reductions are real estate brokers (-100.0), Food, beverage and tobacco products (-80.8%), Transport-related services (-71.1%) and Maritime and air transport services (-40.5%).

As far as the percentage of each economic sector out of the total is concerned, the prevailing sectors are Other services to businesses (16.9%), building and public works (13.4%) and other marketable services (12.0%).

The table and the graph below show the breakdown of performing factoring receivables by economic sector.

% breakdown



(in €/000s)

Economic Sector Credit for Production Purposes	Factoring receivables as at 31/12/2008	Factoring receivables as at 31/12/2007	Chg. %
Farming, forestry and fishing products	6,954	7,252	-4.1%
Energy products	25,109	33,142	-24.2%
Ferrous/non-ferrous minerals and metals	19,298	18,266	5.7%
Non-metallic minerals and products	3,919	5,425	-27.8%
Chemical products	10,522	14,304	-26.4%
Metal products	42,191	47,092	-10.4%
Agricultural and industrial machinery	19,170	16,192	18.4%
Office machines	5,631	8,582	-34.4%
Electrical materials and supplies	46,905	22,406	109.3%
Vehicles	62,096	41,483	49.7%
Food, beverage and tobacco products	26,444	138,024	-80.8%
Textile, leather, footwear and apparel products	39,466	42,471	-7.1%
Paper, printing, and publishing	17,646	21,057	-16.2%
Rubber and plastic products	11,127	14,664	-24.1%
Other industrial products	10,778	8,490	27.0%
Building and public works	142,226	179,850	-20.9%
Commercial services, recoveries and repairs	121,743	154,318	-21.1%
Services of hotels and public establishments	11,112	8,950	24.2%
Domestic transport services	15,057	17,108	-12.0%
Maritime and air transport services	5,951	10,004	-40.5%
Transport-related services	4,566	15,778	-71.1%
Telecommunications services	8,194	12,976	-36.9%
Healthcare services	91,456	81,351	12.4%
Real estate investment firms	3,454	1,403	146.2%
Real estate brokerage firms	0	591	-100.0%
Technical services	3,421	3,607	-5.2%
Other services rendered to businesses	179,807	114,143	57.5%
Other marketable services	127,857	52,442	143.8%
TOTAL	**1,062,101**	**1,091,379**	**-2.7%**

- Doubtful receivables

Net **doubtful receivables** experienced an increase in terms of both net exposure (+47.19%) and gross exposure (+28.46%). The impact of the financial crisis and recession underway determined an increase in the share of the various categories of doubtful receivables in the total due from customers; in particular, the share of total net non-performing receivables was up by 36 bps as compared to 2007 thus accounting for 1.50%; the *past due* share was up by 35 bps and that of watchlist receivables increased by 73 bps. With regard to the increase in the share of net watchlist receivables it is appropriate to underline that it originated from two transactions involving a significant amount, one in the leasing and one in the factoring business which, although classified in the watchlist category, were subject to negotiation with the respective borrowers, with the consequent effect of a smaller need for coverage. Net of these transactions, watchlist receivables would have been substantially stable in terms of both gross volumes (over total receivables) and related percentages of coverage.

The net value of non performing receivables, which was at € 60.4 mln last year, increased by 38.4% to € 83.5 mln (41.8% in the leasing business and +28.0% in the factoring). Net watchlist exposures were up 55.8%, but the above-reported considerations are applicable to this upturn. *Past due* exposures were also up by 42.4%, and such value is attributable to the leasing business.

As for gross exposures, the level of non-performing receivables increased by 21.6% (+25.8% in the leasing business and +13.6% in factoring); watchlist loans were down by 39.0% and the *past due* also decreased by 33.7%.

Although the doubtful portfolio is on the increase, the total coverage stands at an appreciable level, with the coverage of non-performing receivables at 71.33%, coverage of watchlist receivables at 19.97% and coverage of the *past due* at 3.76%.

With regard to the *past due* the lower coverage is determined by a different portfolio mix, which saw the weight of the real estate leasing component grow, with a consequent reduction in LGD.

As a whole, the ongoing attention to monitoring the "substandard" portfolio is allowing for a slightly lower coverage, although in the presence of a corporate policy that is always aimed at holding a prudential approach when evaluating performing and non-performing credit positions.

The tables below show the **credit quality ratios** for the leasing and factoring businesses and **details about the trend of doubtful receivables.**

CREDIT QUALITY RATIOS - LEASING	31/12/2008	31/12/2007	Change
Net non-performing receivables / Due from customers	1.47%	1.11%	36 bps
% of coverage of non-performing receivables	67.46%	71.13%	-367 bps
Net watchlist receivables / Due from customers	2.27%	1.73%	54 bps
% of coverage of watchlist receivables	16.42%	21.92%	-550 bps
Net restructured receivables / Due from customers	ns		
% of coverage of restructured receivables	ns		
Other doubtful receivables (*past due*) / Due from customers	1.73%	1.22%	51 bps
% of coverage of other doubtful receivables	3.75%	9.66%	-591 bps

CREDIT QUALITY RATIOS - FACTORING	31/12/2008	31/12/2007	Change
Net non-performing receivables / Due from customers	1.60%	1.26%	34 bps
% of coverage of non-performing receivables	79.46%	81.78%	-232 bps
Net watchlist receivables / Due from customers	2.31%	0.92%	139 bps
% of coverage of watchlist receivables	30.50%	53.91%	-2.341 bps
Net restructured receivables / Due from customers	0.08%		
% of coverage of restructured receivables	30.12%		
Other doubtful receivables (*past due*)/Due from customers	0.13%	0.37%	24 bps
% of coverage of other doubtful receivables	3.99%	8.93%	-494 bps

(in € 000s)

Doubtful Receivables	Total as at 31/12/2008	Total as at 31/12/2007	Change	
			Absolute	%
Gross non-performing receivables				
- Leasing	197,341	156,878	40,463	25.79%
- Factoring	93,966	82,726	11,240	13.59%
Total gross non-performing receivables	291,307	239,604	51,703	21.58%
Valuation adjustments				
- Leasing	133,117	111,582	21,535	19.30%
- Factoring	74,669	67,654	7,015	10.37%
Total valuation adjustments	207,786	179,236	28,550	15.93%
Net non-performing receivables				
- Leasing	64,224	45,296	18,928	41.79%
- Factoring	19,297	15,072	4,225	28.03%
Total net non-performing receivables	**83,521**	**60,368**	**23,153**	**38.35%**
Gross watchlist receivables				
- Leasing	118,768	90,369	28,399	31.43%
- Factoring	39,973	23,848	16,125	67.62%
Total gross watchlist receivables	158,741	114,217	44,524	38.98%
Valuation adjustments				
- Leasing	19,503	19,805	-302	-1.52%
- Factoring	12,190	12,856	-666	-5.18%
Total valuation adjustments	31,693	32,661	-968	-2.96%
Net watchlist receivables				
- Leasing	99,265	70,564	28,701	40.67%
- Factoring	27,783	10,992	16,791	152.76%
Total net watchlist receivables	**127,048**	**81,556**	**45,492**	**55.78%**
Gross restructured receivables				
- Leasing	2		2	ns
- Factoring	1,326		1,326	ns
Total gross restructured receivables	1,328	-	1,328	ns
Valuation adjustments				
- Leasing	-		-	
- Factoring	400		400	ns
Total valuation adjustments	400	-	400	ns
Net restructured receivables				
- Leasing	2		2	ns
- Factoring	926		926	ns
Total gross restructured receivables	**928**	**-**	**928**	**ns**
Other categories of gross doubtful receivables				
- Leasing	78,311	54,903	23,408	42.64%
- Factoring	1,654	4,885	-3,231	-66.14%
Other categories of gross doubtful receivables	79,965	59,788	20,177	33.75%
Valuation adjustments				
- Leasing	2,940	5,303	-2,363	-44.56%
- Factoring	66	436	-370	-84.86%
Total valuation adjustments	3,006	5,739	-2,733	-47.62%
Other categories of net doubtful receivables				
- Leasing	75,371	49,600	25,771	51.96%
- Factoring	1,588	4,449	-2,861	-64.31%
Other categories of net doubtful receivables	**76,959**	**54,049**	**22,910**	**42.39%**

(in € 000s)

SUMMARY OF DOUBTFUL RECEIVABLES (with interest accrued on past-due amounts)	31/12/2008	31/12/2007	Change
TOTAL DOUBTFUL RECEIVABLES, GROSS	531,341	413,609	28.46%
TOTAL WRITEDOWNS OF DOUBTFUL RECEIVABLES	242,885	217,636	11.60%
TOTAL DOUBTFUL RECEIVABLES, NET	**288,456**	**195,973**	**47.19%**

Funding

Globally, 2008 was characterized by the economic and financial crisis which brought about a contraction in industrial output indexes, a generalized slowdown of consumption and consumer trust indicators, an increase in raw material prices and inflation both in terms of production and consumption. The bankruptcy and/or downsizing of major merchant banks and the speculative bubble of subprime securities have exacerbated the already existing liquidity crisis and loss of trust in the system, thus contributing to the soaring growth in the cost of money which climaxed in October.
An extremely wide array of anti-crisis plans and measures has been put in place or investigated upon by central banks and national governments. The various macroeconomic financial remedies in the Euro area include a 225 bps reduction in the official reference rate introduced by the ECB from October 2008 to January 2009 and improved re-financing conditions with central banks.

In the period in question, the bank's effort was directed towards curbing the effects of the strong interbank rate oscillation by leveraging the spread of rates.
Short-term needs were covered by resorting almost exclusively to the Group's Centralized Treasury.
Within the framework of the MPS Group's liquidity risk policy, medium-term and long-term transactions were carried out with MPS Ireland for a total amount of 1,483 mln and 663 mln respectively. New EIB financing lines were resorted to, which will be used for leasing transactions with small/medium enterprises. Funds from previous financing have been used up.

As part of its Capital Management program, the Company issued two subordinated debenture loans (7- and 10-year maturities, issued in 2002 and 2003, respectively), with a residual nominal amount payable of Eur 72 mln as at the end of the year.

The Company's funding structure as at 31 December 2008 is summarized in the table below:

(in € 000s)

Maturity	Amount
Sight	4,927
Due within 18 months	3,998,808
Total short-term funding	**4,003,735**
Due within 5 years	1,885,024
Total medium-term funding	**1,885,024**
Over 5 years	870,521
Total long-term funding	**870,521**
Total funding	**6,759,280**

Short-term maturities consist almost exclusively in financing and deposits with the Parent Company, EIB financing lines coming to maturity (EUR 56 mln) and instalments of subordinated debentures (EUR 24 mln).

Medium-term transactions refer to: Eur 1,483 mln of MPS Ireland financing, Eur 150 mln of fixed-rate financing made available by the Parent Company; Eur 195 million of EIB financing; Eur 48 million of subordinated bond debt and Eur 9 million of subsidies in relation to subsidized leasing transactions.

Long-term transactions refer to Eur 208 million of EIB financing over and above the Eur 663 million financing with MPS Ireland.

At year end, the interest-rate risk exposure consisted of:

	Exposure	Agreed Limits
Market Sensitivity +25 bps /Tier I (*) - limit I	1.22%	1.80%
Market Sensitivity +25 bps /Tier I (*) - limit II	1.50%	3.00%
Market Sensitivity +200 bps /PV (**)	7.09%	20.00%
Market Sensitivity -200 bps /PV (**)	9.03%	20.00%

(*) Tier I as at 31.12.2008 € mln 302.23
(**) Regulatory capital as at 31.12.2008 Eur 374.93 mln

Financial assets available for sale

The financial assets available for sale refer exclusively to an investment amounting to Eur 5.000,00, unchanged as compared to 31/12/07, representing a 0.524% equity interest in the Patti Chiari Consortium. The asset has been booked pursuant to the parent company's instructions inasmuch as the investment is to be reimbursed in the event of the dissolution of the consortium fund.

Equity investments

As at 31 December 2008, MPS Leasing & Factoring had the following equity investments (unchanged as compared to 31 December 2007):

- a 0.028% interest in the consortium fund of the MPS Group Operating Consortium with a book value of € 39,022.00;

- 100% of the capital of MPS Commercial Leasing S.p.A. with a book value of € 25,000,000.00; the company, a financial intermediary registered pursuant to Article 106 of the Banking Consolidation Act, was set up in June 2006, and has its registered office at Via Lippo Memmi 7/9, Siena, and its general administration and operational offices at Viale della Repubblica 227, Prato. This company is expected to integrate the bank activity in its relations with agents.
The Company does not prepare any consolidated financial statements inasmuch as it is an intermediate holding company, and is thus exempt from this obligation under existing laws.

Shareholders' equity

As at 31 December 2008, the Company's share capital totalled Eur 287,965,745.00 and was divided into 287,965,745 shares with a par value of 1 Euro each. Subsequent to the merger by acquisition of Banca Agricola Mantovana S.p.A. by and into Banca Monte dei Paschi di Siena S.p.A in 2008, the 18,537,438 shares owned by the merged company for a value of € 18,537,438.00 were transferred to the merging company Banca Monte dei Paschi di Siena.

The shareholders with voting rights are reported in the table below, with the data taken from the shareholder register:

Shareholder	No. Shares Held	Nominal Value of Shares	% of Share Capital
Banca Monte dei Paschi di Siena S.p.A.	268,823,250	268,823,250	93.35
Banca Toscana S.p.A.	19,142,495	19,142,495	6.65
Total	**287,965,745**	**287,965,745**	**100.00**

The reserves indicated in the table below are also part of the Company's shareholders' equity:

Revaluation reserve under Law 266/05	**695,200**
Reserves	**4,851,436**
including:	
Legal reserve	*1,245,850*
Extraordinary reserve	*21,910,447*
Unrestricted earnings reserves (*)	*3,926,184*
Restricted earnings reserves (*)	*1,400,000*
Other reserves (*)	*-23,631,045*
TOTAL RESERVES	**5,546,636**

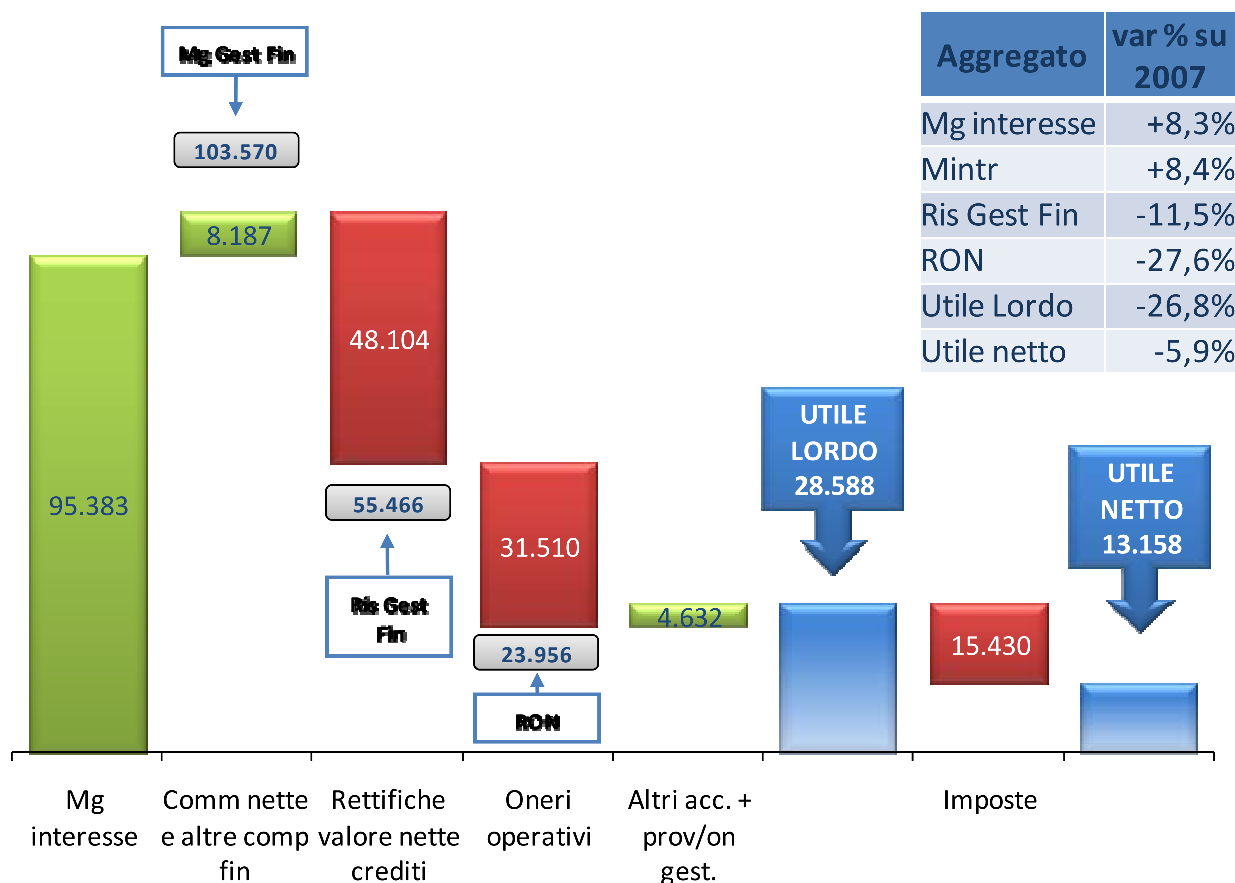
(*) reserves set up upon initial application of the international accounting principles (IAS/IFRS) in 2005

Pursuant to art. 2428 of the Civil Code, it is noted that, as at the date of closing, the Bank has no own shares or parent companies' shares in its possession. In 2008, the Company acquired 61,750 shares of the holding company Banca Monte dei Paschi di Siena S.p.A. at an average price of Eur 2.8932 per share, for a total of Eur 178,657.98; pursuant to a shareholder resolution approved on 28 February 2008, the shares were acquired for the purpose of granting them without consideration to the employees.
Of the total shares acquired, 61,557 were granted to employees on the basis of the rules and regulations approved by the Board of Directors, while the remaining 193 shares were sold on the market at a price of Eur 2.82 per share for a total of Eur 544,26.

Profit-and-Loss Aggregates

The charts below show the components of net profit for 2008 along with changes in principal profit-and-loss aggregates as compared to the preceding year.

(in € 000s)



Aggregato	var % su 2007
Mg interesse	+8,3%
Mintr	+8,4%
Ris Gest Fin	-11,5%
RON	-27,6%
Utile Lordo	-26,8%
Utile netto	-5,9%

The results of FY2008 confirm the positive trend registered in terms of revenues, despite the current period of contraction in the leasing business and the limited growth of factoring. However, the negative economic situation caused growing difficulties to the customers in general and to a number of major borrowers in particular, with significant repercussions on the cost of credit as well. This fact determined a contraction in the aggregates of the lower part of the profit and loss statement as compared to the previous year.

The profit and loss statement generated a **net profit** of € 13,158,000 in comparison with € 13,975,000 as at 31/12/07 (-5.9%), with **ROE** at 4.49% compared with 5.01% for 2007.

The **net interest income** stands at € 95.4 million as against 88.0 million for the preceding year (+8.3%), on the back of higher volumes of yield-generating lending and the improvement of profitability. A good trend is registered in **net commissions** which grew almost by 11%, partially as a consequence of actions adopted to improve the remuneration of services provided. As a result of the foregoing, the **total banking income** comes to € 103,570,000 compared with € 95,505,000 for the previous year (+8.4%).

The **net valuation adjustments to receivables** stood at € 48,104,000 thus increasing significantly (+46.7%) as compared with adjustments in 2007 (€ 32,800,000). In this connection, it is necessary to recall the clarification reported under "Due from customers" about the rules for initial recognition and later evaluation of assets under construction and awaiting lease which, pursuant to instructions issued by the Bank of Italy in February 2008, should be classified under "Due from customers" when formal and explicit agreements provide for the substantial transfer of all risks to the lessee, even in the course of construction and should be later evaluated according to IAS 39. Also the account "Net value adjustments / writebacks for the impairment of: a) receivables" was "*restated*" to make data comparable to those of the previous year without any profit and loss reverberations. With reference to the values for the previous year and with no impact on the profit and loss statement, the account "Net provisions to the reserves for risks and charges" was similarly restated. It used to determine the risk of the above-mentioned leasing transactions when these were conventionally classified as "Tangible assets for functional use" pursuant to the previous interpretation of the accounting standards.

Exhaustive information about these restatements is provided in the Notes to the Financial Statements - Section A – Accounting Policies.

The **Net profit (loss) from financial transactions** decreased by 11.5% as compared with the previous year, standing at € 55,466,000 *versus* EUR 62,705,000.

Operating expenses (administrative expenses, and net valuation adjustments to fixed and intangible assets) totalled € 31,510,000, up 6.4% year on year, due to growing personnel expenses (+4.3%) and other administrative expenses (+8.9%). The latter were essentially determined by expenses resulting from the agreement for sponsorship of the Mens Sana Basket team (+2.5% net of such expenses). Despite increasing costs, the more than proportional increase in total banking income generated a **cost/income ratio** (operating expenses/total banking income) that rose by 58 bps to 30.42% as compared with the previous year, which reflects a significant level of operating efficiency.

At € 23,956,000, the **net operating profit** reflected a decrease of 27.6% if compared with 2007.

The **provisions to the reserves for risks and charges** and **charges and other operating income (expense)**, yielded an amount of € 5,486,000 (income), down by 18.1% as compared with the value as at 31/12/07.

The **goodwill,** arising from the merger by acquisition of Merchant Leasing & Factoring, was tested for *impairment* in accordance with the international accounting principles since it was not possible to determine the asset's *fair value* because of the absence of an active market for the asset. The *impairment test,* which took account of the natural decay of the assumptions which had caused its posting, entailed a consequent total adjustment of the asset value by € 854,000.

The **profit before taxes** amounted to € 28,588,000 thus reflecting a reduction over the amount of € 39,064,000 reported for 2007 (-26.8%).

Income taxes for the year totalled € 15,430,000 (vs. 25,089,000 in 2007) and are expressive of a *tax rate* (taxes on gross income) of 54.0% vs. 64.2% in the previous year. The change essentially refers to extraordinary charges booked in relation to the tax rate reform effective as of 2008 and, specifically, to the reversal of deferred tax assets booked in prior years. The reduction can therefore be traced back to the absence of such extraordinary components in 2008 and to the current lower tax rate despite the non-deductibility of 3% of interest expense.

Standing at € 13,158,000, the **net income** reflected a decrease of 5.9% compared with 2007.

Relationships with MPS Group Companies

(in €/000s)

	Holding Company		Other Companies subject to Holding Company's Direction and Coordination		Total Group Companies	
	Total as at 31.12.2008	Total as at 31.12.2007	Total as at 31.12.2008	Total as at 31.12.2007	Total as at 31.12.2008	Total as at 31.12.2007
Assets	**1,507,631**	**12,492**	**27,018**	**30,400**	**1,534,649**	**42,892**
- Due from banks (including implicit lease receivables):	1,507,587	12,445	1,444		1,509,031	12,445
a) sight	*1,498,307*	*2,591*			*1,498,307*	*2,591*
b) other receivables	*9,280*	*9,854*	*1,444*		*10,724*	*9,854*
- Due from customers				5,118		5,118
- Equity investments in Group Companies			25,039	25,039	25,039	25,039
- Other assets	44	47	535	243	579	290
Liabilities	**4,062,855**	**4,300,459**	**2,223,983**	**79,055**	**6,286,838**	**4,379,514**
- Due to banks:	4,049,861	4,290,910	2,157,616	9,146	6,207,477	4,300,056
a) sight	*688*	*217,903*	*2,881*	*8,071*	*3,569*	*225,974*
b) time or with advance notice	*4,409,173*	*4,073,007*		*1,075*	*6,203,908*	*4,074,082*
- Due to customers:			2,154,735			
- Securities issued			63,254	63,896	63,254	63,896
- Other liabilities	12,994	9,549	3,113	6,013	16,107	15,562
Expenses	**213,383**	**190,974**	**37,944**	**13,866**	**251,327**	**204,840**
- Interest expense	189,051	170,600	28,083	1,762	217,134	172,362
- Commission expense	14,342	11,323	2,653	4,611	16,995	15,934
- Personnel expenses - secondments (net)	9,776	8,953	2,197	2,175	11,973	11,128
- Administrative expenses	214	98	5,011	5,318	5,225	5,416
- Other operating expenses						
Revenues	**1,124**	**800**	**391**	**474**	**1,515**	**1,274**
- Interest and similar income (including interest implicit in lease instalments)	1,124	800	84	112	1,208	912
- Commission income						
- Other operating income			307	362	307	362
Guarantees issued			**5,000**		**5,000**	
Guarantees received	**22,818**	**110,145**			**22,818**	**110,145**

The Company's assets for an amount of €/000 1,507,631 refer to:
- demand deposits due from banks, represented mostly by the balance of the correspondent account;
- other receivables (€ 9,280) in relation to a receivables purchase transaction taking place in 2007 in which the holding company is the assigned debtor;
- other assets (€ 44) regarding the quota of payroll accrued during the fourth quarter of the year in relation to seconded personnel;

The Company's assets with respect to other Group companies (€ 27,492 €/000) refer to:
- amounts due from banks (863) in relation to a factoring transaction in which Banca Toscana is the assigning debtor;
- amounts due from customers (14) in relation to a financial lease transaction and 567 in relation to a factoring transaction;
- a 100% investment in the newly acquired MPS Commercial Leasing S.p.A. (€ 25,000) and a minority investment in the MPS Group Operating Consortium (€ 39);
- other assets regarding invoices to be issued for the rendering of services (€ 535).

The Company's liabilities (€ 4.062.855 €/000) refer to:

- sight liabilities to banks (€ 688) and time deposits or deposits with advance notice of withdrawal (€ 4,049,173) which are used for the purpose of covering the Company's funding needs; such funding needs are covered almost exclusively by the Centralized Treasury Management area of the MPS Group;
- other liabilities including: amounts for invoices to be received for trading commissions (€ 3,763), amounts due as estimated for production bonuses in relation to personnel on assignment (€ 3,563) and the current corporate income tax liability (IRES), net of advance payments and withholding taxes (€ 5,661) in relation to the consolidated income tax return.

The Company's liabilities with respect to the other Group companies (2,223,983 €/000) refer to:
- amounts due to banks consisting of sight deposits (€ 2,881);
- amounts due to customers (2,154,735) in relation to a funding transaction with MPS Ireland Ltd.
- bond securities issued by MPS Leasing & Factoring S.p.A. and held by other Group companies (€ 63,254);
- other liabilities, including amounts for invoices to be received (€ 1,537), amounts due for services supplied by the MPS Group Operating Consortium (€ 934) and amounts for personnel on assignment (€ 642)

Expenditures sustained with respect to the Holding company (213,383 €/000) refer to:
- interest expense accrued on current accounts, deposits and loans (€ 189.051);
- trading commissions (€ 14,304) and commissions on guarantees received (€ 38),
- charges for personnel on assignment, net of reimbursements in relation to the Company's personnel assigned to other Group companies (€ 9,776);
- administrative expenses in relation to the rendering of services (214)

Expenditures sustained with respect to the other Group companies (37,944 €/000) include:
- interest expense accrued on current accounts, loans and the discounting of bills (€ 28,083);
- trading commissions (€ 1,604) and fees for services covering the management of legal disputes (€ 1,049),
- personnel on assignment (€ 2,197);
- administrative expenses including those for services supplied by the MPS Group Operating Consortium (4,009) and other services rendered (1,002).

Revenues with respect to the Parent Company (1,125 €/000) refer to:
- interest expense accrued on current and correspondent accounts.

Revenues with respect to the other Group companies (474 €/000) refer to:
- interest income implicit in financial lease instalments (84)
- other operating income for services rendered to the subsidiary MPS Commercial Leasing (285) and the reimbursement of administrative expenses (22).

Guarantees issued regard the sharing of risks on one lease transaction made by the subsidiary MPS Commercial Leasing.

Guarantees received regard guarantees issued by the Holding company for value-added tax credits whose reimbursement has already been requested.

All transactions giving rise to receivables and payables and revenues and expenses with respect to counterparties belonging to the MPS Group have been effected at market conditions and in the interest of the Company.

The Risk Management Process

The Risk Management discipline and definition of roles and responsibilities within the Montepaschi Group were further strengthened in 2008. Momentum was given also by the recognition by the Bank of Italy of advanced internal models for credit and operational risk reporting purposes

The risk management process within the MPS Group is based on the fundamental principle of a clear-cut distinction of roles and responsibilities between first, second and third level controls.

Within this framework, the Board of Directors of the holding company is responsible for defining strategic guidance and risk management policies at least on a yearly basis and establishing the overall degree of *risk appetite* for the entire Group. The Board of Statutory Auditors and Internal Controls Committee are instead responsible for evaluating the degree of efficiency and adequacy of the internal controls system, with particular reference to risk control.

The Senior Management of the holding company is in charge of guaranteeing compliance with risk policies and procedures. The Risk Committee defines the risk-management *policies* and verifies overall compliance with the limits assigned to the various operational levels. The Parent Company's Risk Committee is in charge of evaluating the following at a Group level and at the level of the individual Group companies: the risk profile reached and hence the employment of regulatory and economic capital and the trend of risk-return performance indicators. The Parent Company's Finance Committee is in charge of planning the Group's *funding*, formulating proposals for the allocation of capital to be submitted to the Board of Directors and identifying initiatives to be adopted to ensure the best risk-return profile for the Asset and Liability Management, and defining capital-management programs.

The internal controls area of the Parent Company sets the rules for the internal controls system and verifies the actual application and respect of the same.

The holding company's Risk Management Area defines the integrated analytical methods for measuring aggregate risks incurred, so as to guarantee accurate measurement and constant monitoring of risks and it also quantifies the Economic Capital, i.e. the minimum amount of capital to be held for coverage of all existing risks. On the basis of the internal models developed for the quantification of the Value-at-Risk (VaR) and the sensitivity of the economic value being exposed to the various risk factors considered, the Area produces control reporting documents and verifies the compliance with the operational limits set by the Board of Directors. Over the years, Risk Management monitoring was extended to an increasingly wider scope of risks and legal entities that are relevant at Group level.

On the other hand, the Business Control Units carry out conformity checks on transactions and, within the more general framework of the Internal Controls System, they act as a first level organizational control over operations.

In line with the principles set out in the new Accord on Capital Adequacy (so-called "Basel II") in relation to First Pillar risks, the Montepaschi Group completed the development of its internal models for credit and operational risks during the first half of 2008. Pursuant to the Bank of Italy Circular Letter no. 263/2006, dated 12 June last, the Montepaschi Group - first among Italian banks - was formally authorized to use advanced models for the measurement and management of credit risks (AIRB - Advanced Internal Rating Based) and operational risks (AMA – Advanced Measurement Approach). Work is continuing with a view to completing and extending the afore-mentioned models to the entities which were not originally included in the initial scope of validation and activities are being put in place to improve the internal models for market and counterparty risks. In particular, a Group Directive was issued in the second quarter of 2008 to regulate and formalize the various aspects related to Market Risk by redefining the roles, responsibilities and processes of all actors involved.

Activities needed for Second Pillar *compliance* continued as well. To this end, a specific Capital Adequacy Service was established within the Parent Company's Planning Area in the course of the year, with the task of coordinating the optimization and governance of the Group capital adequacy self-assessment processes within the framework of the Internal Capital Adequacy Assessment Process (ICAAP). In the second quarter of 2008, a Group Directive was issued to regulate the ICAAP governance roles and responsibilities with a view to rationalizing the entire *governance* process of the overall Internal Capital.

With respect to the Third Pillar (obligation of "Disclosure to the Public") and with a view to preparing everything necessary for compliance with the *disclosure* obligations set forth by the regulatory framework, the Montepaschi Group launched a specific project -fitting within the scope of the "Basel 2" activities- aimed at defining the structure and contents of the document "Disclosure to the Public - Pillar 3" and related implementation processes. The working group, coordinated by the Risk Management Area, under the responsibility of the manager in charge, saw the collaboration of all of the Parent Company's main units. The “Pillar 3” Disclosure to the Public is an extremely effective summarized document that provides the Market with information concerning activities carried out, capital adequacy, risk exposure and the general features of the systems in place for the identification, measurement and management of risks. This document was published on the Montepaschi Group's website (www.mps.it/Investor+Relations) and is constantly updated on the basis of existing regulations.

With regard to customer portfolio risks and reputational risks incurred by the Montepaschi Group as a consequence of any potential effects impacting the products and portfolios placed with customers, the responsibility for control, measurement and monitoring of such macro-factor falls upon the Wealth Risk Management service, which is in staff with the Private Banking/Wealth Management head office.

Having said this, following the coming into effect of the new Basel Accord as of 1 January 2008, MPS Leasing & Factoring has adopted the standardized approach for calculation of capital absorption. Nevertheless, from an operational management perspective, the Company adheres to the large-scale value creation and management programme managed by the Parent Company's Planning function and therefore, through the

Parent Company's Risk Management service, the calculation is based on the economic capital and expected loss logics that are in line with the metrics envisaged for the other banks of the MPS Group.

In relation to the operational risk, the Company participates in the Group processes aimed at the development of an operational risk management approach in line with the *Advanced Measurement Approach*.

Risk factors

In the course of its 'business as usual' on the markets, the Montepaschi Group faces different types of risk which may be schematically summarized as follows: credit risk, market risks pertaining to the trading portfolio, interest-rate risk on the Banking Book (Asset & Liability Management), liquidity risk, risk of losses originated by the equity investment portfolio, counterparty and issuer risk, operational risks and business risk (consisting in the risk of losses due to the volatility of the cost and revenue structure), reputational risks (originated by the potential deterioration of the mutual trust relation between the bank and the customer).

For many of the afore-mentioned risks (of course including those which are explicitly mentioned in the First Pillar of Basel II) and for some others (including for instance the Banking Book rate risk and the concentration risk), the Montepaschi Group has developed its own internal measurement models over time, which are used to determine the overall Internal Capital adequacy according to the Pillar II requirements. Development activities focused on the integration of risks and the refining of business risk in particular are continuing. With respect to liquidity risks, a rigorous measurement and *policy framework* has been put in place according to a vision shared with the operational units. The full array of risk macro-factors, which have direct repercussions on the Group's capital, is subject to periodic measurement by the Risk Management Area of the Parent Company which, besides providing the monitoring reports on the operational limits decided upon by the BoD, also prepares the periodic documentation for the Parent Company's Risk Committee and the BoD.

Analysis of Economic Capital

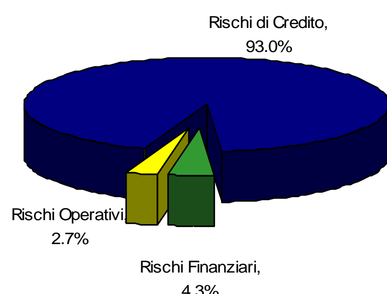
The Risk Management Area of the bank holding company has periodically calculated the Economic Capital for each individual type of risk using mostly internal measurement models. These models were developed *ad hoc* for individual risk factors and are essentially based on methods aimed at computing the maximum potential loss as given by a one-year time interval and confidence interval compatible with the level of probability of *default* assigned to the MPS Group by the rating agencies. The Economic capital is defined as the minimum amount of capital resources necessary to cover economic losses due to the occurrence of unexpected events generated by different types of risk.

Major risks included in the scope of measurement refer to: a) credit risk (inclusive of counterparty risk, issuer risk and concentration risk) b) market risks on the Trading Book, c) interest-rate risk on the Banking Book (ALM), d) operational risk, e) equity risk, defined as the risk of losses originated by the equity investments portfolio.

In consideration of their being "individually" significant pursuant to existing regulations and international *best practices*, Value-at-Risk (VaR) measurements for each risk factor are determined by adopting *holding periods* and confidence intervals that are differentiated by risk factors, in compliance with the recommendations set forth in the latest Supervisory Instructions for Banks issued by the Bank of Italy. The Total Economic Capital is computed by measuring all individual risk factors: These measures are made homogeneous in terms both of timeframe (annual *holding period*) and of confidence interval, which is pre-selected in line with the rating assigned to the MPS Group by the rating agencies, and are subject to "*intra-risk*" and "*inter-risk*" diversification processes.

The final output highlights the overall Internal Capital differentiated by legal Entity, Business Unit and Area of Responsibility, and is periodically monitored and published in a report prepared by the Risk Management Area of the parent company. In addition, the same measurement is done – at a centralized level – for the individual legal entities and reviewed with the corporate bodies of each of

Capitale Economico Diversificato
(esclusa operatività infragruppo)
MPS Leasing & Factoring - 31 dicembre 2008



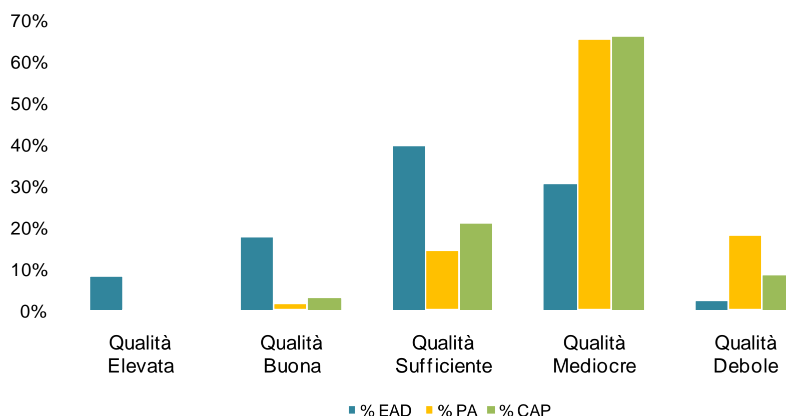
these entities via the preparation of special reports adapted to the specific lines of business of the banks included in the scope of consolidation.

As at 31 December 2008, approximately 93% of the Economic Capital of MPS Leasing & Factoring is attributable to credit risk (including counterparty, issuer and concentration risk) while another 2.7% is traceable back to operational risks. The operating capital to cover financial risks (represented by the Banking book rate risk only) is equal to approximately 4.3% of the total Economic Capital. The contribution of equity risk is negligible.

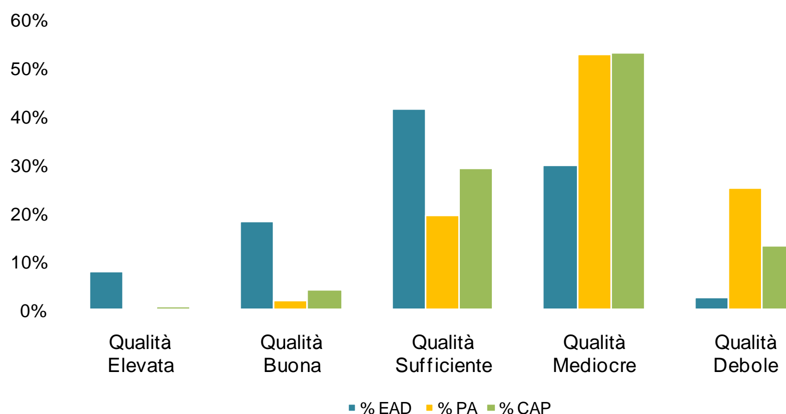
Credit risk measurement models

Credit risk is analyzed by using a credit Portfolio Model developed internally by the Parent Company which generates, as a detailed output, the typical risk measures of Expected Loss, Unexpected Loss and *inter-risk* diversified Economic Capital, with a time horizon of one year and a confidence interval calibrated to the official rating of the Group. Input is manyfold: probability of *default*, LGD rates, number and types of collaterals in support of the credit facility, internal EAD coefficients, correlation matrix. In particular, as to the probability of *default*, in 2008 the Supervisory Authorities approved the internal PD and LGD estimation models for corporate and retail clients of the MPS banks, Banca Toscana, Banca Agricola Mantovana (merged into MPS in September) and MPS Capital Services. Since over 90% of MPS Leasing & Factoring clients are clients of the afore-mentioned legal entities as well, these probabilities of *default* are used in the Credit Portfolio Model for the estimation of individual risk measures. Conversely, as mandated by the Bank of Italy's Circular Letter no. 263 of December 2006, the LGD parameters are based on the historic evidence of recoveries / costs incurred in relation to MPS Leasing & Factoring positions which transitioned to a *default* state over the previous years. These estimations, which are subject to periodic revisions, will be submitted to the Supervisory Authorities for approval over the next few years, as is provided for in the Montepaschi Group's *roll-out* plan. The correlation matrix is based on internal Group estimates and is used to make periodic fine-tunings aimed at introducing more advanced measurement methods. The matrix enables the quantification of the diversification / concentration component of individual portfolio positions. In line with practices commonly adopted by other banks, the Economic Capital calculation logic is based on Credit-VaR metrics. The portfolio model generates detailed measures for the individual positions: it enables the identification of a time-related pattern of credit risk according to different options of aggregation of the analyzed variables by legal entity, type of customer, geographic area, economic area of activity, rating class, continental area. It also enables the identification of the absorbed capital component with indication of the impact of diversification as compared with a *building-block* logic. The Credit Portfolio Model also provides additional indications as to the "*what-if*" analysis of a number of discriminating variables such as the probabilities of *default*, LGD rates, value trend of guarantees and margins available on credit lines so as to quantify Expected Loss and Economic Capital levels if the underlying events (both hypothetical and historical) should occur.

The graph below highlights the credit quality breakdown of the MPS Leasing & Factoring credit portfolio. The representation analysis highlights that approximately 70% of exposures at risk are disbursed to high, good and sufficient quality borrowers. It is noted that the afore-mentioned exposures include amounts due from banks, governmental agencies and non-regulated financial and banking intermediaries. In accordance with the portfolio model - even though a specific programme for the implementation of internal ratings is not contemplated in the short run for the purpose of the Supervisory Authorities' approval- these exposures are in any case assigned a credit standing based on official ratings, if available, or internally determined values, as appropriate.



The graph below highlights the breakdown of credit quality with a focus on Corporate and Retail portfolios only, as approved by the Supervisory Authorities for Basel II purposes (internal rating models). Significantly, high, good and sufficient quality exposures as at 31 December 2008 account for approx. 68% of total exposures.



Part E of the Notes to the Financial Statements provides additional quantitative information on credit risk.

Interest-Rate Risk (Banking Book)

In accordance with international best practices, the Banking Book identifies all of the Company's business transactions related to the transformation of the maturities of balance-sheet assets and liabilities, treasury transactions, and hedging derivatives in relation thereto. The definition of the Banking Book's perimeter (in alignment with that for the regulatory banking portfolio) and the definition of the process for centralizing ALM are set out in a resolution passed by the Board of Directors of the holding company in September 2007 and

referenced "Centralization of Asset and Liability Management and operational limits with respect to interest-rate and liquidity risk on the Group's Banking Book".

The strategic and operational decisions made with respect to the Banking Book by the Finance and Liquidity Committee are monitored by the holding company's Risk Committee and are based on the measurement of interest-rate risk in a "*total return*" perspective. Such decisions are aimed at minimizing the volatility of the expected net interest income during the current financial year (12 months) or, in other words, at minimizing the volatility of the overall economic value as a function of changing rate structures.

The analysis of the change of the net interest income at risk and the analysis of the change of the economic value of the Banking Book's assets and liabilities are developed by looking at the extent to which potential deterministic *shifts* in interest rates (25, 100 and 200 basis points, the latter of which is contemplated by the second pillar of Basel II) affect Tier I capital and consolidated regulatory capital in percentage terms.

In the last quarter of 2008, the Montepaschi Group further added to the rate risk measures a behavioural model which also takes account of the so-called loan *prepayment risk*. The loan prepayment rates and, in particular, those for residential mortgage loans have become potentially more unstable as a consequence of a number of concomitant factors such as the increasing volatility of the rate curve in the wake of the international crisis.
The Treasury and Capital Management Area of the Group has responsibility for managing the MPS Leasing and Factoring interest-rate and liquidity risk at a centralized level.

The Treasury and Capital Management Area includes a Centralized Treasury Service that manages the Group's short-term interest-rate risk and liquidity risk. The Group Balance Sheet Management service manages the Group's structural rate risk and maturity transformation risk (structural liquidity), by monitoring and managing hedging (with the various accounting models that can be used). The service is also a single point of reference in governing the definition of internal rates within the Group's network (BMPS and other Group companies) for all transactions in Euros and foreign currencies with maturities exceeding the short term. It also submits to the Finance and Liquidity Committee the proposed economic conditions for Group companies to access funds. The Treasury and Capital Management Area manages the Group's *funding* needs, proposing new bond issues and centrally managing the administrative issues in relation to the Group's bond issues.

At the end of 2008, a sensitivity analysis of MPS Leasing & Factoring revealed it is exposed to interest-rate risk in the event of an increase in market interest rates. However, the extent of the economic value at risk is perfectly compatible with both Tier I and regulatory capital and well below the "alert threshold" level set (at 20% for 200 bp rate shocks) by the New Capital Accord (Basel 2).

MPS Leasing & Factoring	31/12/08	
Risk indicators in the event of a (+/-) 100 bps shift	**+100 bp**	**-100 bp**
Net interest income at risk / net interest income upon final balance	1.96%	1.94%
Economic value at risk / Tier I	4.66%	5.26%
Economic value at risk / Regulatory Capital	3.76%	4.24%

Liquidity Risk

The Montepaschi Group structurally addresses liquidity risk issues with a formal *policy* for the management of this type of risk, also in view of *compliance* with the provisions set out in the second Pillar of Basel II. The organizational and operational *framework* provides for:

- a *liquidity policy* that requires the Group's liquidity scope and *governance* model be centralized within the Treasury and Capital Management Area, and that defines the short- and medium/long-term organizational model, the construction of the net financial position (*maturity ladder*) as well as short and medium/long

term limits. A *stress test policy* that is part of the "*liquidity policy*" is to be used for simulating the effects of stress conditions and putting in place appropriate corrective actions;

- a *contingency plan* that addresses the issue of managing liquidity in the midst of anomalous conditions, defining the risk indicators and organizational processes needed to deal with crisis situations.

The overall structural liquidity profile is monitored by quantifying the mismatches of cash flows coming due, by settlement date. Optional items have models for representation that are consistent with those used for the interest-rate risk.

A special focus is placed on the planning of *funding* policies at Group level (Funding Plan). Such effort is headed and coordinated by Treasury and Capital Management (in collaboration with the Planning area), which:

- submits for approval to the Finance and Liquidity Committee the plan for financial market transactions that are functional to the fulfilment of business plan objectives and *capital management* requirements;
- coordinates access to national and international, short- and long-term capital markets for all of the Group's banks, as well as access to ECB refinancing transactions and centralized management of mandatory reserves;
- develops projections about future liquidity, simulating different market scenarios.

Part E of the Notes to the Financial Statements provides quantitative information on the subject.

Operational Risk

By administrative provision dated 12 June 2008, the Montepaschi Group received authorization from the Bank of Italy to use the advanced internal measurement approach to determine the capital requirements necessary to cover credit and operational risks.

The adoption of the advanced model (AMA) calls for an organizational and cultural rearrangement of the banks, which are necessarily required to:

1. adopt an internal organization defining the roles of the corporate bodies and functions involved in the operational risk management process;
2. establish a control function for data gathering and storing, requirement calculation, risk profile assessment and reporting;
3. verify the management system quality and its compliance with regulatory norms on an ongoing basis;
4. delegate the internal auditing body to conduct periodic checks on the operational risk management system;
5. make sure over time that the system is actually used in the management of business (use test).

For this purpose, the Montepaschi Group has adopted an integrated system for operational risk management, i.e. an internal framework built around a governance model that involves all companies fitting within the AMA model scope of application. The system defines the standards, methods, and instruments that make it possible to measure the exposure at risk and the effects of the measures to mitigate risk by each area of business.

The advanced measurement approach has been developed so as to allow for a well-balanced combination of all principal information or data sources whether qualitative or quantitative (LDA-Scenario mixed model).

The quantitative component (Loss Distribution Approach) is based on the collection, analysis and statistical modeling of internal and external historical loss data supplied by the DIPO consortium (DIPO = it. Database Italiano Perdite Operative = eng. Italian Database of Operating Losses).

The qualitative component is focused on the self-assessment of the risk profile of each company in the scope, and is based on the identification of significant scenarios.

To the Framework, it is the Group Operational Risk Management (ORM) function that is in charge of operational risk control. Besides calculating the capital requirement for covering the operational risks of all companies in the AMA scope, this function uses the various model components (internal data, external data, context and control factors, qualitative analysis) to support the Top Management *decision making* process with a view to creating value through retention, mitigation and transfer of detected risks.

During the different processes of the operational risk management system, the Company's involvement is ensured in all of the following phases: in the phase of loss-related data collection (quantitative source), during the identification of processes and risks to be assessed, in the course of the assessment of such risks by the process managers, in the identification of potential mitigation plans, in the sharing of potential prospective scenarios with the Parent Company's central functions and during the determination of the technical/economic feasibility and priorities of risk mitigating initiatives.

The implementation of actions scheduled and compliance with objectives and deadlines defined are monitored at centralized level in collaboration with the internal operational risk function. The Group Framework also envisages that specific reports summarizing and analyzing the different aspects of the bank's operational risk should be periodically submitted to both Parent Company's ORM and Top Management in order to ensure timely information.

From an organizational perspective, the Company has set up a local Operational Risk function which deals with the various phases of the operational risk management process in close coordination with the holding company's ORM unit.

Regulatory Capital and Capital-Adequacy Requirements

The evolution of the regulatory capital and risk-weighted assets and the capital ratios for the period between December 2007 and December 2008 are outlined in the tables below; the figures were prepared on the basis of the new accounting principles provided for by the Basel II Accord. Considering that the new accounting rules became effective in 2008, the values posted in the column relating to 31.12.2007 were reliably estimated on the basis of the same criteria in order to obtain a like-for-like comparison.

(in €/000s)

	31/12/2008	31/12/2007 Pro-forma
Risk-weighted assets	**4,719,571**	**4,424,950**
Tier I capital	302,231	291,963
Tier II capital	72,695	84,695
Regulatory capital	**374,926**	**376,658**
Total regulatory requirements	**283,174**	**265,497**
Surplus capital	**91,752**	**111,161**

CAPITAL RATIOS	31/12/2008	31/12/2007 Pro-forma
Tier 1 ratio	6.40%	6.60%
Total capital ratio	7.94%	8.51%

As at 31 December 2008, the regulatory capital totalled Eur 375 million, with approximately 81% represented by Tier I capital.

Risk-weighted assets amounted to € 4,551 million and thus called for a Eur 364 mln capital requirement (equal to 8%) which, reduced by 25% in the case of banks belonging to banking groups, stood at Eur 273 million. The capital requirement for operational risk, calculated according to the internal advanced measurement approach (AMA), equals Eur 13.5 mln which, reduced by 25% in the case of banks belonging to banking groups, stood at Eur 10 mln. The Company thus has Eur 91.7 million of regulatory capital in excess of the amount required, thereby entailing a margin for additional investment of approx. € 1,529 mln.

The Company thus had a *Tier 1 ratio* (Tier I capital to risk-weighted assets) of 6.40%, and a *Total capital ratio* (regulatory capital to risk-weighted assets) of 7.94%.

Finally, it is noted that the sum of the capital requirements determined according to the Basel II calculation method exceeds the minimum *floor* set by the interim norms indicated by the Bank of Italy in its supervisory instructions to the banks that use the IRB system or AMA methods.

Internal Controls System

In accordance with supervisory regulations and provisions of the MPS Group's Controls System Rules and Regulations, the Company has long prepared its own "Regulations for Controls" in order to assure ongoing and efficient control over all of its corporate activities. The “control system” of the bank is subject to regular verification by the “Internal Controls Staff”. Reporting directly to the administrative body, the internal controls staff works closely with the holding company's Internal Controls Area as well as with the individual Audit departments of the partner banks.
Within the framework of this activity, the Internal Controls function makes amendments to the "controls system" as appropriate and develops it in compliance with the existing organizational set up and business stepping in to suggest procedural improvements and verifying compliance with the internal rules of the Company and the Group. This Function reports periodically to the Administrative and Control Body, as well as to the Parent Company about the adequacy of the "Internal Controls system".

In order to evaluate the functioning of the internal controls system, the Company has studied the uniformity of, and the relationships between, processes, risks and controls. In so doing, the Company has pinpointed the principal areas of risk within the processes in order to be able to identify any deterioration of the same, and has verified the significance, reliability and proper sizing of the controls in place. Aimed at making risk controls increasingly effective, this activity has yielded the mapping of processes and the identification of operational risks, which are continually monitored by a dedicated function established within the Company: the Operational Risk Manager who, on the basis of a risk monitoring and detection process, has responsibility for proposing to the departments involved any initiatives needed to mitigate risks. The process for managing, detecting and reporting operational risks is annually reviewed by the Internal Controls function. Both functions contribute to guaranteeing an adequate standard of efficiency to the company's internal controls system.
With regard to operational risks, the Company participates in the Operational Risk Management process developed by the holding company, which has selected and developed an approach to address such risks following the principles of the "advanced measurement approach". Although more demanding in terms of commitment of resources, training and systems involved, a system based on the advanced measurement approach guarantees maximum awareness of operational risk events and consistent actions at Group level in order to manage and mitigate such events. The AMA methodology, which is adhered to by the MPS Leasing e Factoring bank, was validated by the Bank of Italy and has become the consolidated operating process for all companies of the MPS Group that have adopted it.

Working with its counterpart at the holding company, the Company's risk management department coordinates initiatives for developing value-creation and capital-allocation methods, with a preference for the introduction of formulas based on risk probability.

The Company's Credit Management function, a "third" function separate from credit granting and ordinary credit management, is charged with monitoring and controlling credit quality, working hand in hand with the holding-company's counterpart function. This function liaises and interfaces with MPS Gestione Crediti Banca S.p.A., which manages non-performing receivables, and MPS Gestioni Immobiliari S.p.A., which evaluates/manages leased buildings to be put back on the market. The Credit Management area is responsible for the appropriate tracking of the administrative status of risk positions and for a critical review of the doubtful behaviour of credit relationships.

Additionally, it should be noted that, consistently with the bank's development plan, significant actions are under way with regard to operating procedures which, within a reasonable time period, will lead to the adoption of "IT systems" capable of responding to the company's core business in a better way, thereby strengthening the control activities as well.

Together with an organizational structure which will be adjusted but that as at today already places a greater focus on the management and operational activity of the two business areas separately from the credit function,

this will make it possible to further improve controls (which are by the way considered adequate) within a short term.

Finally, in order to protect the overall risk exposure in relation to its leasing and factoring activities, the Company is involved in a more broad-based project aimed at the introduction of an internal rating system consistent with the model already implemented by the holding company. With the system, the Company will assign the initial MPS Group rating to the customers who become credit customers of the MPS Group through a first credit facility granted by MPS Leasing and Factoring. The rating system is nonetheless already in use for shared customers, i.e. customers having relationships with other entities of the Group.

Research and Development

Given the nature of its business, the Company did not carry out any research and development activity in 2008. Nevertheless, this section highlights some of the principal initiatives in relation to the Company's approach to the market and new products.

With regard to commercial initiatives, a sales campaign was promoted in collaboration with the Parent Company's Retail Area to address professionals with lease products in the small capital goods and motor vehicles business. The initiative was extended until 30 September 2008. After the recent mergers, the campaign scope was extended to include Banca Antonveneta and Biverbanca.

As far as *web marketing* activities are concerned, the release of the new website of MPS Commerciale Leasing, a subsidiary of MPS L&F, should be highlighted. This product display website is an important support to both Leasing customers and all prospective clients of the Group at national level. In addition, the MPS Leasing & Factoring website *restyling* has started. The website graphics will be aligned with the other websites of the Montepaschi Group in 2009.

In March 2008 a commercial and co-marketing agreement was signed with a prestigious Italian shipyard. This agreement lays down both a commercial arrangement for the leasing business and a co-branding initiative on occasion of some selected events in the realm of navigation. A *merchandising* activity is also being planned with combined logos on the material and gadgets to be forwarded to all *prospective* shipowners / clients, to better channel the brand image of the two companies.

With regard to medium-long term rental, the bank has renewed its commercial agreement with a leading rental and corporate fleet management company.
Finally, MPS L&F is now the official partner of Mens Sana Basket, having signed a three-year sponsorhip agreement with this team. This initiative will enable the MPS Leasing & Factoring brand to be advertised nationally by posting the logo in the Palamensana sports facilities and on the basketball team apparel.

Organizational structure

The major organizational actions undertaken in 2008 are summarized below.

The use of the new IT system, initially adopted to manage domestic non-recourse factoring transactions and the definitive purchase of non-recourse receivables was extended also to transactions with recourse and import factoring. An export factoring position and a pilot MPS Bank branch were also migrated from the old system: the migration will be completed within the first part of 2009.

Since April 2008, the bookkeeping of domestic factoring collections has been outsourced to the Back Office of the Group's Operating Consortium, with the scope being limited to easily and univocally attributable collections, wihout prejudice to the "Direzione Factoring" (Factoring General Mmanagement) being in charge of relationships with assigning/assigned debtors and/or relationship managers of the partner banks for the gathering of information required for the allocation.

Further to the amendments to Legislative Decree no. 231/2001, a number of activities were undertaken to protect the bank from the exposure to crimes in relation to ‘security contracting risk’ in building sites. The scope of action includes contract amendments and actions focusing on administrative and IT procedures.

Following its inclusion in the Group, an agreement has been signed for the placing of leasing and factoring products with Banca Antonveneta. Leasing transactions are being temporarily channelled to the subsidiary MPS Commerciale Leasing.

During the first half of the year, an analogous agreement was signed with Biverbanca, whose leasing transactions are similarly channelled to MPS Commerciale Leasing.

As to the reorganization of the MPS Group, the location of representative offices has been reconsidered to guarantee continuity to the commercial support.

With respect to internal offices, changes include the creation of the "staff Segreteria di Direzione " (General Management Secretariat staff) and the allocation of the Compliance function to the "Segreteria Generale, Legale e Societaria" ("General Legal Corporate Secretariat").

The restructuring of the head office building in Prato was completed. It was aimed at a functional improvement and more rational layout of spaces.

In compliance with Group *policies*, the codes of access to the IT system have been redesigned and re-encrypted to guarantee adequate levels of security in line with Group standards.

In the second half of 2008 activities were undertaken for the new Business Plan to be drafted in alignment with the process defined for the implementation of the strategic guidelines set out in the 2008-2011 Group Business Plan. Within this framework, consideration was given to an overall review of the organizational structure of the bank, functional for the achievement of the strategic objectives defined in the Plan.

Human Resources

As at 31 December 2008, the company's headcount totaled 79 employees (including 3 secondments with Banca MPS and 5 secondments with subsidiary MPS Commerciale Leasing, 2 of which at 50%).

The actual work force (i.e. also including employees seconded from other MPS Group companies and those seconded with other Group companies) came to 186, and reflects an increase by 4 resources with respect to 31/12/2007.

A breakdown of the work force is shown in the table below:

GENERAL MANAGEMENT

Category / Rank	***Number***	***% of Total Work Force***
Senior Managers	*5*	*4.63%*
Middle Managers	*63*	*58.33%*
Other professionals	*40*	*37.04%*
Total	***108***	***100.00%***

LEASING - Head office

Category / Rank	***Number***	***% of Total Work Force***
Senior Managers	*2*	*4.08%*
Middle Managers	*18*	*36.73%*
Other professionals	*29*	*59.18%*
Total	***49***	***100.00%***

FACTORING - Head office

Category / Rank	***Number***	***% of Total Work Force***
Senior Managers	*1*	*3.45%*
Middle Managers	*10*	*34.48%*
Other professionals	*18*	*62.07%*
Total	***29***	***100.00%***

TOTAL BANCA MPS Leasing & Factoring S.p.A.

Category / Rank	*Number*	*% of Total Work Force*
Senior Managers	*8*	*4.30%*
Middle Managers	*91*	*48.92%*
Other professionals	*87*	*46.77%*
Total	***186***	***100.00%***

The middle managers mentioned in the tables above are employed across all four grade levels defined by the national labour contract.

In 2008, the Company continued the process aimed at improving the Company's operating flexibility and cost structure, with reduction in senior staff being partially offset by the recruitment of young high-potential professionals, almost all of whom were assigned to the product areas, with the aim of reinforcing the operating performance of those areas. The early retirement incentive scheme involved one employee and 2 secondments.

The percentage breakdown of the actual workforce of MPS Leasing & Factoring S.p.A by age and seniority is shown in the tables below:

WORKFORCE: BREAKDOWN OF WORKFORCE BY AGE

Age	*Number*	*% of Total Work Force*
up to 40 years	*61*	*32.80%*
41 - 50 years	*68*	*36.56%*
over 50 years	*57*	*30.64%*
Total	***186***	***100.00%***

WORKFORCE: BREAKDOWN OF WORKFORCE BY YEARS OF SERVICE

Age	*Number*	*% of Total Work Force*
up to 10 years	*103*	*55.38%*
11 - 20 years	*43*	*23.12%*
21 - 30 years	*12*	*6.45%*
over 30 years	28	*15.05%*
Total	***186***	***100.00%***

In terms of priorities, the management of human resources was focused on developing professional skills and successfully governing the personnel retraining process. This orientation was supported by training programs to foster the development of high-level professional/managerial profiles and styles.

In its relations with the union organizations, the Company has basically worked towards the objective of achieving greater flexibility in workforce management and structuring of expenditures.

With the ongoing accent placed on product/service content innovation and the search for an increasingly efficient balance between the various distribution channels, the Company's main objective with training in 2008 was to ensure that the changes in the marketing and organizational structure would be accompanied by the development of the necessary technical and professional skills. This effort also entailed a more focused training of individual employees.

Getting the most value out of the personnel, and thus supporting the employees' development through training and knowledge management programs, is a key part of the MPS Group's more general strategies, and is an essential premise for the achievement of quantitative and qualitative objectives, particularly in the medium / long term.

The 2007-2008 edition of the MPS Group's long-term training initiative involves all of the Group's employees, with the aim of providing a comprehensive and consistent vision of the organizational and operational strategies, so as to make the employees aware of their roles in the context of the changes occurring within the Group.

The basic training focused on a range of themes, with particular accent on the Credit, IT and Human Resources areas. Training also included subjects of special interest that are closely intertwined with the bank business, such as insurance in the leasing business and leasing for photovoltaic investment purposes.

On line training was also further expanded in 2008, and was mainly oriented towards supporting the activity of the product centres and the use of new interactive instruments designed to reinforce the quality of customer relationships.

Material Events Subsequent to Year End

There were no events occurring after year end that may have had a material impact on the Company's earnings, financial position or capital.

In any event, here follows a list of the most important initiatives since year end that are worth noting:

- In alignment with the process defined for the implementation of the strategic guidelines set out in the 2008-2011 Group Business Plan, the Board of Directors approved the 2009-2011 Business Plan of MPS Leasing & Factoring on 16 January 2009, following approval of its guidelines for development by the Parent Company's Board of Directors on 15 January 2009.

- The 2009-2011 Business Plan envisages a review of the organizational structure which has already been set in motion since mid-February.

Future prospects

Against the background of the guidelines for strategic development set out in the 2008-2011 Group Business Plan and in line with the 2009-2011 MPS Leasing & Factoring Business Plan, the 2009 budget is essentially reflective of the strategies outlined for the first year of the Group's business plan with budget priorities being on the following elements:

- turnover of leasing and factoring contracts in line with market forecast
- limited growth in lending, with a stronger concentration in the leasing business.
- strong recovery of profitability vis-à-vis 2008
- limited growth of expenditures
- maintenance of a strong focus on creditworthiness and an adequate provisioning level for doubtful receivables.

Business development during the first months of 2009 is in line with the forecasts for the year.

It is further communicated that, on the back of future profitability prospects as indicated in the 2009-2011 business plan approved by the Board of Directors in January 2009, no issue arises with respect to the bank's business continuity.

Proposal for Allocation of 2008 Net Profit

Shareholders,
You are kindly requested to approve the Financial Statements consisting of the Balance Sheet, the Profit and Loss Statement, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement and the Notes to the Financial Statements, as well as the Report on Operating Performance, considered as a whole and with respect to the individual accounts, and to allocate the 2008 net profit as follows:

Net profit for the period:	13,157,600.42
Allocation to:	
- Legal reserve	657,880.00
- Extraordinary reserve	8,756,165.73
	3,743,554.69
Allocation to Capital:	
- to the 287,965,745 ordinary shares (par value 287,965,745, value per share 1.00) equal to EUR 0,013 per share	3,743,554.69

FINANCIAL STATEMENTS

BALANCE SHEET

	Assets	31.12.2008	31.12.2007 (*)
10.	Cash and cash equivalents	423	565
40.	Financial assets available for sale	5,000	5,000
60.	Due from banks	1,622,466,282	12,735,190
70.	Due from customers	5,573,293,526	5,272,577,493
100.	Equity investments	25,039,022	25,039,022
110.	Tangible fixed assets	7,815,052	7,341,434
120.	Intangible assets	-	854,000
	of which: goodwill	*-*	*854,000*
130.	Tax assets	39,618,964	38,536,828
	a) current	*202,947*	*3,876,682*
	b) deferred	*39,416,017*	*34,660,146*
150.	Other assets	25,699,869	24,631,244
	Total Assets	**7,293,938,138**	**5,381,720,776**
	Liabilities and Shareholders' Equity	**31.12.2008**	**31.12.2007**
10.	Due to banks	4,512,508,229	4,690,958,403
20.	Due to customers	2,174,710,768	16,649,752
30.	Securities issued	72,060,679	84,086,980
80.	Tax liabilities	266,258	887,323
	a) current	*131,990*	*749,630*
	b) deferred	*134,268*	*137,693*
100.	Other liabilities	217,559,336	285,824,322
110.	Provision for staff severance pay	454,813	546,129
120.	Provisions for risks and charges	9,708,074	9,255,485
	b) other provisions	*9,708,074*	*9,255,485*
130.	Valuation reserves	695,200	695,200
160.	Reserves	4,851,436	(9,123,991)
180.	Capital	287,965,745	287,965,745
200.	Net income (loss) for the year	13,157,600	13,975,428
	Total Liabilities and Shareholders' Equity	**7,293,938,138**	**5,381,720,776**

(*) Reference is made to Part A – "Accounting Policies" of the Notes to the Financial Statements for further details about the restatement of comparable balance sheet data as at 31.12.2007.

PROFIT AND LOSS STATEMENT

	Profit and loss accounts	31.12.2008	31.12.2007 (*)
10.	Interest and similar income	337,527,439	277,650,386
20.	Interest and similar expense	(242,144,423)	(189,606,262)
30.	**Net interest income**	**95,383,016**	**88,044,124**
40.	Commission income	26,411,731	25,660,465
50.	Commission expense	(18,278,605)	(18,324,391)
60.	**Net fees and commissions**	**8,133,126**	**7,336,074**
80.	Net profit (loss) on trading	54,035	125,481
120.	**Total banking income**	**103,570,177**	**95,505,679**
130.	Net value adjustments/writebacks due to impairment of:	(48,103,651)	(32,799,725)
	a) receivables	*(48,103,651)*	*(32,799,725)*
140.	**Net profit (loss) from financial transactions**	**55,466,526**	**62,705,954**
150.	Administrative expenses:	(31,150,974)	(29,349,233)
	a) personnel expenses	*(18,536,907)*	*(17,767,140)*
	b) other administrative expenses	*(12,614,067)*	*(11,582,093)*
160.	Net provisions for risks and charges	5,076,329	5,297,617
170.	Net valuation adjustments to fixed assets	(358,901)	(260,144)
190.	Other operating income (expenses)	409,324	1,402,555
200.	**Operating expenses**	**(26,024,222)**	**(22,909,205)**
230.	Valuation adjustments to goodwill	(854,000)	(732,000)
250.	**Pre-tax profit (loss) from continuing operations**	**28,588,304**	**39,064,749**
260.	Taxes on income from continuing operations	(15,430,704)	(25,089,321)
270.	**After-tax profit (loss) from continuing operations**	**13,157,600**	**13,975,428**
290.	**Net income (loss) for the year**	**13,157,600**	**13,975,428**

(*) Reference is made to Part A – "Accounting Policies" of the Notes to the Financial Statements for further details about the restatement of comparable P&L data as at 31.12.2007

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Balance as at 31.12 .2006	Changes in opening balance	Balance as at as at 01.01.2007	Result Allocation previous year		Changes for the period	Shareholders' Equity Transactions during the year						Net profit (loss) for the period as at 31/12/2007	Shareholders' equity as at 31.12.2007
				Reserves	Dividends and other	Change in Reserves	Issue of new Shares	Purchase of own Shares	Distribution Extraordinary Dividends	Change in shareholders' equity Instruments	Derivatives on own shares	Stock Options		
Shareholders' equity														
a) ordinary shares	287,965,745		287,965,745											287,965,745
b) other shares														
Share premium	-		-											-
Reserves:	(19,831,673)		(19,831,673)	10,707,682										(9,123,991)
a) from profits	3,799,374		3,799,374	10,707,682										14,507,056
b) other	(23,631,047)		(23,631,047)											(23,631,047)
Valuation reserves:	695,200		695,200											695,200
a) available for sale														
b) cash flow hedging														
b) other														
Special revaluation laws	695,200		695,200											695.200
Equity instruments	-		-											-
Own shares	-		-											-
Profit (loss) for the period	10,707,682		10,707,682	(10,707,682)									13,975,428	13,975,428
Shareholders' equity	279,536,954		279,536,954										13,975,428	293,512,382

	Balance as at 31.12.2007	Changes in opening balance	Balance as at 01.01. 2008	Result Allocation previous year		Changes for the period	Shareholders' Equity Transactions during the year						Net profit (loss) for the period as at 31/12/2008	Shareholders' equity Net as at 31.12.2008
				Reserves	Dividends and other	Change in Reserves	Issue of new Shares	Purchase of own Shares	Distribution Extraordinary Dividends	Change in shareholders' equity Instruments	Derivatives on own Shares	Stock Options		
Shareholders' equity														
a) ordinary shares	287,965,745		287,965,745											287,965,745
b) other shares														
Share premium	-		-											-
Reserves:	(9,123,991)		(9,123,991)	13,975,428										4,851,437
a) from profits	14,507,056		14,507,056	13,975,428										28,482,484
b) other	(23,631,047)		(23,631,047)											(23,631,047)
Valuation reserves:	695,200		695,200											695,200
a) available for sale														
b) cash flow hedging														
b) other														
Special revaluation laws	695,200		695,200											695.200
Equity instruments	-		-											-
Own shares	-		-											-
Profit (loss) for the period	13,975,428		13,975,428	(13,975,428)										13,157,600
Shareholders' equity	293,512,382		293,512,382											306,669,982

CASH FLOW STATEMENT - Direct Method

A. OPERATING ACTIVITIES	Amount	
	31.12.2008	**31.12.2007**
1. Operations	**73,094,816**	**73,744,378**
- Profit (loss) for the year (+/-):	13,157,600	13,975,428
-capital gains/losses on financial assets held for trading and on assets/liabilities at *fair value* (+/-)		
-capital gains/losses on hedging transactions (+/-)		
-net writedowns/write-backs due to impairment (+/-)	48,103,651	32,799,726
-net writedowns/write-backs on tangible and intangible assets (+/-)	1,212,901	992,144
-net provisions for risks and charges and other income/expenses (+/-)	(5,076,329)	678,383
-tax not paid (+)	15,430,704	25,089,321
-net writedowns / writebacks to groups of assets being sold after tax (+/-)		
-other adjustments (+/-)	266,289	209,376
2. Cash flow generated (absorbed) by financial assets	**(1,975,479,958)**	**(554,986,750)**
-financial assets held for trading		
-financial assets designated at *fair value*		
-financial assets available for sale		(5,000)
-loans to banks: on demand	(1,495,425,780)	(46,249)
-loans to banks: other receivables	(114,305,312)	(9,854,245)
-loans to customers	(348,819,684)	(569,045,193)
-other assets	(16,929,182)	23,963,937
3. Cash flow generated (absorbed) by financial liabilities	**1,903,217,519**	**501,290,835**
-due to banks: on demand	(222,312,823)	43,172,410
-due to banks: other payables	43,862,649	1,373,026,448
-due to customers	2,158,061,016	(901,067,226)
-securities issued	(12,026,301)	(11,986,355)
-trading financial liabilities		
-financial assets designated at *fair value*		
-other liabilities	(64,367,022)	(1,854,442)
Net cash flow generated (absorbed) by operating activities	**832,377**	**20,048,463**
B. INVESTMENT ACTIVITIES		
1. Cash flow generated by		
-sale of equity investments		
-dividends collected on equity investments		
-sale of financial assets held to maturity		
-sale of tangible fixed assets		
-sale of intangible fixed assets		
-transfers of undertaking		
2. Cash flow absorbed by	**(832,519)**	**(20,118,165)**
-purchase of shareholdings		(19,800,000)
-purchase of financial assets held to maturity		
-purchases of tangible fixed assets	(832,519)	(318,165)
-purchase of intangible fixed assets		
-purchase of undertakings		
Net cash flow generated (absorbed) by investment activities	**(832,519)**	**(20,118,165)**
C. FUNDING ACTIVITIES		
-issue/purchase of treasury shares		
-issue/purchase of equity instruments		
-distribution of dividends and other		
Net cash flow generated (absorbed) by funding activities		
NET CASH FLOW GENERATED (ABSORBED) DURING THE YEAR	**(142)**	**(69,702)**

RECONCILIATION

Entries	Amount	
	31.12.2008	**31.12.2007**
Cash and cash equivalents at the beginning of the year	565	70,267
Total net cash flow generated/absorbed during the year	(142)	(69,702)
Cash and cash equivalents: effect of change in exchange rates		
Cash and cash equivalents at the end of the year	**423**	**565**

NOTES TO THE FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

INTRODUCTION

The accounting principles adopted for the drawing up of the Financial Statements as at 31.12.2008 are consistent with those used by the Parent Company and were not affected by any substantial modifications as compared with the previous financial year.
However, it should be noted that, further to clarifying instructions issued by the Bank of Italy towards the end of February 2008 concerning the accounting of assets under construction and awaiting to be leased, it was decided, pursuant to IAS 8, that the effects of such interpreting approach be applied not only to the accounting situation as at 31 December 2008 but also to the corresponding reclassification of comparative data contained in such accounts.
In detail, this clarification entailed posting of assets under construction and awaiting lease to account 60 "Due from banks" or 70 “Due from customers” when formal and explicit agreements provide for the substantial transfer of all risks to the lessee, even in the course of construction. Therefore, the initial posting and later assessment rules described for the "Due from banks" and "Due from customers" accounts shall apply to the above-mentioned operations.

Pursuant to the previous interpretation of the accounting provisions, the operations in question were conventionally classified as "Tangible assets for functional use".
The credit risk assessment and later valuation of the operations at issue were previously carried out by the bank through appropriate provisions to "reserves for risks and charges".

It is further noted that, partially in the light of recent interpretations, the entry “Tangible assets for functional use" includes assets under construction and awaiting lease for which the afore-mentioned risks are retained by the lessor. No such assets are to be reported as at 31.12.2008.

On the basis of the above, the retroactive application (“restatement”) of this different classification principle (which has been adopted in this financial year for the first time), made it necessary to reclassify last year's accounts as reported below. No P&L effect was caused as the valuation criteria used in the past were homogeneous with the ones applied according to the new classification of transactions in question.

(in € 000s)

	31.12.2007 pre- "restatement"	"restatement"	"restatement"	31.12.2007 post- "restatement "
Due from customers	4,906,859	371,433	(5,715)	5,272,577
Tangible fixed assets	378,775	(371,433)		7,342
Provisions for risks and charges: *b) other provisions*	(14,970)		5,715	(9,255)

(in € 000s)

	31,12,2007 pre- "restatement"	"restatement"	31,12,2007 post- "restatement"
Writedowns / writebacks due to impairment of: *a) receivables*	(27,085)	(5,715)	(32,800)
Net provisions for risks and charges	(417)	5,715	5,298

A1 - GENERAL INFORMATION

Section 1 - Statement of conformity with International Accounting Principles

Pursuant to Legislative Decree no. 38 of 28 February 2005, the Company's financial statements have been prepared in accordance with the international accounting principles issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as ratified by the European Commission pursuant to EEC Regulation no. 1606 of 19 July 2002.

The application of the international accounting principles was also effected with reference to the IASB "Framework for the Preparation and Presentation of Financial Statements" (the *Framework*).
In the absence of an accounting principle or an interpretation specifically applicable to a transaction, other event or circumstance, the Company's senior management had to use its own judgment in developing and applying an accounting principle in order to provide disclosure that:

- is significant, for the purposes of the economic decisions made by the users;
- is reliable, so that the financial statements:
  - accurately represents the Company's capital, financial position, results and cash flows;
  - reflects the economic substance of the transactions, other events and circumstances, and not merely their legal form;
  - is neutral, namely free of bias;
  - is conservative;
  - is complete with regard to all material aspects.

In exercising the judgment described, the Company's senior management referred to, and considered, the applicability of the following sources, in decreasing order of importance:

- the provisions and guidance contained in the Principles and Interpretations dealing with similar or related cases;
- the definitions, reporting criteria and measurement concepts contained in the Framework for the accounting of assets, liabilities, revenues and expenses.

In expressing a judgment, the Company's senior management may also consider:

- the provisions most recently issued by other entities responsible for ratifying accounting principles which are using a conceptually similar Framework for developing the accounting principles;
- other accounting literature;
- consolidated practices of the banking industry.

Pursuant to Article 5 of Law Decree no. 38 of 28 February 2005, whenever, in exceptional cases, the application of a provision required by the international accounting principles was not compatible with the objective of providing a true and accurate representation of the balance sheet, financial position or results, such provision was not applied. The notes to the financial statements provide explanations for any exceptions to the international accounting principles and illustrate the effects thereof on the representation of the balance sheet, financial position and economic results.
In the case of non-consolidated financial statements, any profits arising from an exception are recorded in a reserve that may be distributed only to the extent of the actual amount recovered.

Section 2 - General principles for the preparation of the financial statements

From the standpoint of submission and valuation, the non-consolidated financial statements have been prepared in accordance with the international accounting principles (IAS/IFRS) issued by the *International Accounting Standard Board* (IASB) and the interpretations thereof issued by the *International Financial Reporting Interpretations Committee* (IFRIC), as ratified by the European Union, as well as the provisions of Bank of Italy's

Circular Letter no. 262 of 22 December 2005 governing the format and rules for the preparation of bank financial statements.

The non-consolidated financial statements consist of the balance sheet, the profit and loss statement, the statement of changes in shareholders' equity, the cash flow statement and the notes to the financial statements and are supplemented by a Directors' Report on the Company's business and operating performance.
The non-consolidated financial statements have been prepared with clarity, and provide a true and accurate representation of the Company's capital, financial position and economic result for the period.

If the disclosures required by the international accounting principles or by the provisions contained in the Bank of Italy's Circular Letter no. 262 of 22 December 2005 are not sufficient to provide a true, accurate, meaningful, reliable, comparable and understandable representation of the Company's capital, financial position and economic results, then supplemental information needed therefor is provided in the Notes to the Financial Statements.

The balance sheet and profit and loss statement consist of numbered accounts, sub-accounts marked by letters, and additional details. The accounts, sub-accounts and additional details constitute the financial statement accounts.
A prior-year balance for each balance-sheet and profit-and-loss account has also been reported. Should the account balances for the two years not be comparable, the account balance for the preceding year has been restated. The lack of comparability and the restatement or impossibility of a restatement are pointed out and discussed in the Notes to the Financial Statements.
Except where admitted or required by the international accounting principles or by the provisions of the Bank of Italy Circular Letter no. 262 of 22 December 2005, the offsetting of assets and liabilities and the offsetting of revenues and expenses are not permitted.
Balance-sheet and profit-and-loss accounts with a zero balance both as at the date of the financial statements and as at the date of the financial statements for the prior period are not reported. Should it be possible to book a specific asset or a specific liability to more than one balance-sheet account, an explanation of its referability to accounts other than the account to which it is booked is provided in the Notes to the Financial Statements, if such an explanation is necessary for the purpose of understanding the Financial Statements. Revenues are reported in the profit and loss statement and in the notes to the financial statements without any sign, whereas expenses are indicated between parentheses.

In accordance with the provisions of Article 5 of Law Decree no. 38 of 28 February 2005, the financial statements were prepared by using the Euro as the accounting currency: the financial statements are presented in units of Euros, with the exception of the Notes to the Financial Statements whose amounts are reported in thousands of Euros. The financial statements have been prepared with the prospect of the Company remaining a going concern, in accordance with the matching principle, and in respect of the principle of the importance and significance of information, and the principle of the prevalence of substance over form. The financial statements have also been prepared in a manner so as to facilitate consistency with future presentations. Accounts whose nature or purpose is different have been presented separately, unless the related amounts are deemed irrelevant.

Section 3 - Events subsequent to the close of the accounting period

The international accounting principle IAS 10 “Events after the Reporting Period” expressly governs the treatment of favourable and unfavourable events occurring in the period comprised between the reference date of the financial statements and the date on which the publication of the financial statements is authorized by the Board of Directors. This principle draws a distinction between events that call for an adjustment of the financial statement accounts and events that do not require any adjustments but call for the need for disclosure if the events in question are deemed significant or relevant.

After the financial statements reporting date, no events occurred that required adjustments to the financial statement data, pursuant to IAS 10. Non-adjusting events reflecting circumstances that occurred after the reporting date should be disclosed as part of the Notes to the Financial Statements, section 3, if they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions.

Section 4 - Other matters

This section needs to illustrate additional information about other items, including, without limitation, the reasons underlying the addition of new accounts, the information referenced in IAS 1, Paragraph 116, and the information referenced in IAS 8, Paragraph 28, Letters a), b), c), d), e) and h), Paragraph 29, Letters a), b), and e), Paragraphs 30, 31, 39, 40 and Paragraph 49, Letters a), e) and d). The Company has no other specific information to disclose, apart from the valuations provided in these financial statements and the principles evidenced below.

Among principles and amendments to the accounting principles approved in 2008, consideration should be given to the amendment of IAS 39 and IFRS 7 - *Reclassification of financial assets (amendments to IAS 39 "Financial instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures")* issued on 13 October 2008 by the International Accounting Standards Board and ratified by the European Commission with Regulation no. 1004/2008 on 15 October 2008. The amendment responds to the need for alignment with the U.S. principles in order to reestablish equal-footing conditions with overseas financial institutions. These amendments have removed some reclassification impediments; in particular, amendments to IAS 39 concern financial assets other than derivatives classified in "financial assets held for trading" and "available-for-sale financial assets" portfolios. In this connection, two cases should be distinguished:

1. reclassifications from the "financial assets held for trading" portfolio to other financial instrument portfolios ("financing activities and trade receivables", "financial assets held for sale" and "financial assets held to maturity"); reclassifications are therefore admitted only if there is no longer the intention to manage the financial instrument for trading purposes or if the instrument is considered not to qualify or fulfill the requirements for trading. In particular two possible cases apply: a) reclassifications admitted only under "rare circumstances": in this connection, the International Accounting Standards Board made it clear that the market conditions in the third quarter of 2008 were an example of "rare circumstances"; b) reclassifications admitted at any time provided that, upon initial classification, the financial instrument originally qualified for a potential alternative classification as "financing activities and trade receivables" and provided that, after transfer, the entity intends and is able to maintain it within such new portfolio for a duration that tends to exceed the short term;
2. reclassifications from "assets available for sale" to "financing activities and trade receivables" if the entity intends and is able to maintain the financial asset for a duration exceeding the short term.

Conversely, the inadmissibility of reclassifications into the "Financial assets held for trading" portfolio persists.

Reclassifications are made at the fair value of the financial asset as at the date of reclassification; profits and losses previously accounted for may not be written back. The fair value as at the date of reclassification thus becomes the new cost or amortized cost of the financial asset.
For instruments from the "Financial assets available for sale" portfolio, the amount accounted for as shareholders' equity reserve is reversed to the profit and loss account through the actual interest rate, in the case of debt instruments.

The amendments to the principle have been effective as of 1 July 2008 on condition that portfolio transfers are made by 31 October 2008; reclassifications are not made retrospectively, i.e. redetermining the effects of the previous years. Reclassifications made as of 1 November 2008 produce effects that come after the actual transfer.
The bank did not avail itself of this amendment, as it was not affected by the afore-mentioned reclassifications.

Finally, it is noted that, on 27 November 2008, the IASB issued an amendment supplementing the afore-mentioned modification, *Reclassification of financial assets – Effective Date and Transition (amendments to IAS 39 "Financial instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures").* This additional amendment clarifies that all reclassifications made after 31 October 2008 are effective as of the reclassification date. The amendment has not yet been approved the European Commission.

A2 - MAIN ITEMS OF THE ACCOUNTS

Accounting principles

The accounting principles adopted with reference to the main balance-sheet accounts of both assets and liabilities for the preparation of the financial statements as at 31 December 2008 are described below.

1. Financial assets held for trading

The account is not included in these financial statements.

2. Financial assets available for sale

a) criteria for recognition
Financial assets represented by debt or equity securities are initially booked at the settlement date, whereas receivables are initially booked as of the disbursement date.
Upon initial recognition, the assets are reported at their fair value which normally corresponds to the price paid, inclusive of transaction costs or income directly attributable to the instrument. If recognition occurs as a result of reclassification from assets held to maturity, the value at which the assets are booked is represented by the fair value as of the date of the transfer. In the case of debt securities, any difference between the initial value and the reimbursement value is accounted for over the life of the security with the use of the amortized cost method.

b) criteria for classification
This category includes non-derivative financial assets which are not classified as receivables, financial assets stated at fair value whose gains or losses accrued to the profit and loss statement or financial assets held to maturity.
In particular, this account comprises equity investments, including strategic equity investments, not held for trading purposes and not qualifiable as controlled equity investments, cross shareholdings, or jointly controlled equity investments, and bond securities not for trading. Such investments may be sold for any reason, including for liquidity needs or as a result of changes in interest rates, exchange rates or share prices.

c) criteria for measurement
After initial recognition, the financial assets available for sale continue to be measured at fair value, with recognition in profit and loss of interest accrued on the computation of the assets' amortized cost and exchange-rate effects. With the exception of losses due to impairment, the profits/losses arising from changes in fair value net of fiscal effects are booked to a specific net equity reserve. Changes in exchange rates in relation to capital instruments are accrued to a specific shareholders' equity reserve.
Equity securities whose fair value cannot be determined in a reliable manner are carried at cost, adjusted for any losses due to impairment.
The testing for objective evidence of impairment of value is done at the closing date of each annual or other periodic report. Any writedowns recognized as a result of the impairment test are booked to the profit and loss statement as an operating expense. Should the reasons for impairment no longer apply after the writedown is booked, the writeback of the asset value is accrued to shareholders' equity in the case of equity instruments and to profit and loss in the case of bond securities.

d) criteria for derecognition
The financial assets are derecognised from the balance sheet when the contractual rights to the cash flows derived from the assets expire or when the financial asset is sold and virtually all of the risks and benefits in relation thereto are transferred.
Securities received as part of a transaction that contractually provides for their subsequent sale and the securities delivered as part of a transaction that contractually provides for their subsequent repurchase are respectively not booked to or derecognised from the balance sheet. As a result, in the case of securities purchased with an agreement to resell, the amount paid is booked as a receivable from

customers or banks, whereas in the case of securities sold with an agreement to repurchase, the liability is booked as part of due to banks or customer, or among other liabilities.

e) criteria for the reporting of income and expenses

At the time of sale or exchange with other financial instruments or upon recognition of a writedown following an *impairment* test, the fair value results accrued to the reserve for assets available for sale are reversed to profit and loss:

- to Account "100 – Gains (losses) on disposal or repurchase of: b) financial assets available for sale" in the event of disposal;
- to Account "130 - Writedowns and write-backs due to impairment of: b) financial assets available for sale" in the event of impairment.

Should the reasons for impairment no longer apply after the writedown is booked, writebacks are made. Such writebacks are taken to profit and loss in the case of receivables or debt securities and to equity in the case of equity instruments.

3. Financial assets held to maturity

The account is not included in these financial statements.

4. Loans and receivables

a) criteria for recognition

Recognition in the financial statements occurs as follows:

- receivables:
  - are recognised on the date of disbursement to the borrower;
  - when the creditor acquires a right to the payment of the contractually agreed sums.
- Debt securities are recognised:
  - upon settlement date.

The initial value is determined on the basis of the fair value of the financial instrument (which is normally equal to the amount disbursed or price of underwriting), inclusive of the expenses/income directly related to the individual instruments and determinable as of the transaction date, even if such expenses/income are settled at a later date. The book value excludes expenses that, even in the presence of the afore-mentioned characteristics, are to be reimbursed by the debtor or may be construed as normal internal expenses of an administrative nature.

The Company does not enter into any repurchase agreements with the obligation of a future resale for which the amount paid would have to be reported in the financial statements as receivables.

b) criteria for classification

Receivables include loans to customers and loans to banks, whether disbursed directly or resulting from the purchase of receivables from third parties, which provide for fixed or determinable payments, which are not traded in an active market, and which are not originally classified as financial assets available for sale or fair-value designated financial assets, whose gains and losses accrue to the profit and loss statement.

In addition, loans and receivables include commercial receivables, repurchase agreements and securities acquired by underwriting or private placement, with fixed or determinable payments, which are not traded in active markets, as well as receivables arising from financial leasing transactions. The latter include leasing transactions in assets under construction and awaiting lease when formal and explicit agreements provide for the substantial transfer of all risks to the lessee, even in the course of construction.

c) criteria for measurement and reporting of income and expenses

After initial recognition, receivables are measured at amortized cost, which is equal to the first recognition value decreased/increased by repayment of principal, writedowns/writebacks and the amortization (calculated with the effective interest rate method) of the difference between the amount disbursed and the amount reimbursable at maturity, typically related to the expenses/income attributed directly to the individual amount receivable. The effective interest rate is the rate that equates the present value of the future flows of principal and interest on the receivable with the amount disbursed, inclusive of the expenses/income attributed to the receivable. The economic effect of the expenses and income is thus distributed over the residual life of the receivable.

The amortized cost method is not used for short-term receivables, for which the application of discounting would only have a negligible effect. The same applies to the valuation of receivables without a specific maturity date or receivables subject to revocation.
The Company uses Bank of Italy directives as a reference point for classifying impaired exposures under different risk categories (non-performing, watchlist, restructured receivables and past-due positions) and integrates them with internal provisions that set automatic criteria and rules for the transition of receivables form one risk class to another.
The classification is independently done by the offices involved, with the exception of receivables that have been past-due or in excess of credit limits for more than 180 days which are detected automatically.
Depending on the level of impairment, receivables are analyzed either individually or collectively with a view to computing the adjustments to be made to their book values.
Non-performing, watchlist and restructured receivables are analyzed individually, whereas performing receivables and positions involving country risk or amounts past due and/or in excess of credit limits for more than 180 days are analyzed on a batch basis.
In the case of individually analyzed positions, the amount of the valuation adjustment for each receivable is equal to the difference between the book value as at the measurement date (amortized cost) and the actual value of the expected future cash flows as calculated by applying the original effective interest rate.
The expected cash flows take into account the timing anticipated for recovery, the estimated realizable value of any guarantees, and the estimated expenses to be sustained for the recovery of the credit.
The valuation adjustments are booked to the profit and loss statement to Account 130 - Writedowns and write-backs due to impairment of: a) receivables". The portion of the adjustment related to the discounting of the cash flows is accrued over time as a writeback in the profit and loss statement and is based on the effective interest rate.
Should the quality of the impaired receivable improve to the point that there is reasonable certainty of the timely recovery of principal and interest, the original value of the receivable may be reinstated in future periods to the extent that the reasons causing the adjustment diminish or disappear and provided that such improvement is objectively related to an event occurring after the adjustment is booked. The writeback is booked to profit and loss and may not exceed the amortized cost at which the receivable would have been reported in the absence of prior adjustments.

Receivables for which objective evidence of impairment has not been individually identified are analyzed on a collective basis. Such valuation, which is developed on the basis of a risk management model, is done for homogeneous categories of receivables in terms of credit risk; related loss percentages are estimated by taking into account historical series based on observable elements as at the measurement date which make it possible to estimate the value of the underlying loss for each category of receivables.
The model for this type of measurement entails the following phases:

- segmentation of the receivables portfolio by:
  - customer segments (turnover);
  - economic sectors of activity;
  - geographic location
- computation of the rate of loss for the individual portfolio segments, using the Company's historical experience as a reference.

The valuation adjustments computed on a batch (collective) basis are accrued to the profit and loss statement. At the closing of each annual report or other periodic reports, any additional writedowns or writebacks are recalculated differentially with reference to the entire portfolio of performing receivables as at the same date.

d) criteria for derecognition

Receivables sold are eliminated from the financial statements only if the sale entails the substantial transfer of all risks and benefits related to the receivables. Conversely, if all of the risks and benefits related to the receivables are retained, the receivables continue to be booked as assets, even if the ownership of the receivables has juridically been transferred.
Should it be impossible to ascertain the substantial transfer of the risks and benefits, the receivables are eliminated from the financial statements when control over them is no longer maintained. If such control is maintained, even in part, the receivables continue to be posted as assets to the extent of the residual control, as measured by the exposure to the changes in value of the receivables sold and to the changes in the cash flows of the receivables themselves.

Finally, receivables sold are derecognised from the balance sheet whenever the Company no longer has the contractual rights to receive the related cash flows, with the simultaneous assumption of an obligation to pay such flows, and only such flows, to third parties.

5. Financial assets stated at *fair value*

The account is not included in these financial statements.

6. Hedging

The accounts "Hedging derivatives" and "Value adjustment to financial assets hedged for general purposes" are not included in these financial statements.

7. Equity investments

a) criteria for recognition

The account includes equity investments held in subsidiary companies, affiliate companies and joint ventures; the investments are initially recognised at purchase cost, increased by any expenses directly attributable thereto.

b) criteria for classification

For the purposes of classification in this account, subsidiary companies are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activity. This occurs when the Company directly and/or indirectly holds more than one-half of the voting rights, or in the presence of other 'de facto' control conditions, such as the power to appoint the majority of directors.
Jointly controlled companies are companies that exist by virtue of contractual agreements, shareholder agreements or agreements of another nature providing for joint management of the company's activity and appointment of the company's directors.
Affiliate companies are those in which the Company holds 20% or more of the voting rights, and companies over which the Company exercises significant influence, because of special legal relationships (including, for example, the Company's participation in a shareholder agreement).
The classification of equity investments is made regardless of their legal status and the computation of voting rights includes any potential voting rights currently exercisable.

c) criteria for measurement and reporting of income and expenses

Equity investments in subsidiaries, affiliates and jointly controlled companies are recognised at cost. The book values are tested for impairment at each balance-sheet or other periodic report date.
In the presence of evidence of value impairment of an equity investment, an estimate is made of the recoverable value of the investment which is the higher of the fair value, net of selling costs, and the value in use. The value in use is the actual value of the future cash flows that the investment will be able to generate, including the final value realizable upon disposal.
Should the recoverable value be less than the book value, the difference is accrued to profit and loss in Account "210 - Profit (Loss) of equity investments".
Should the reasons for the impairment of value no longer be valid as a result of an event occurring subsequent to the recognition of the impairment, the recovery of value is recognized through a writeback provision accrued to the same account of the profit and loss statement.
The profit related to the equity investments is booked to profit and loss only to the extent of the dividends paid by the company in which the investment is held, after the date of acquisition of the investment. The dividends paid in excess of earnings generated after the date of acquisition of the investment are considered as liquidation of the investment, and are deducted from the investment's carrying value.

d) criteria for derecognition

Financial assets are derecognised upon expiry of the contractual rights over the financial flows arising from the assets, or when the financial assets are sold, with all of the risks and benefits related thereto being substantially transferred.

8. Fixed assets

a) criteria for recognition

Fixed assets are initially booked at cost. Cost includes the purchase price of the assets, as well as any ancillary charges directly imputable to their purchase and their placement into use.
Non-recurring expenditures for maintenance which involve an increase in future economic benefit are booked as an increase in the value of the assets, while expenses for ordinary maintenance are booked to the profit and loss statement. Financial charges are accounted for as provided by IAS 23, and are thus recognised at cost in the financial year in which they are sustained.

b) criteria for classification

Fixed assets include land, operating properties, investment properties, systems, furnishings and fixtures, and equipment of any type.
Properties used in the business are properties owned by the Company and used in production and in the supply of services or for administrative purposes, whereas investment properties are those owned by the Company for the purpose of collecting rents and/or held for appreciation of capital invested.
The account also includes (i) assets, if any, leased by the Company under financial lease contracts, though the legal ownership of such assets remains vested with the lessor, and (ii) leasehold improvements to third party assets when they can be traced to identifiable and separable fixed assets, from which future economic benefits are expected. With regard to properties, the land and buildings constitute separate assets for accounting purposes, and are reported separately as at the acquisition date.
At the end of 2008, there were no assets in use under leasing contracts.
Fixed assets for functional purposes conventionally include assets to be leased as well as assets under construction and awaiting lease when no substantial transfer of all risks to the lessee occurs. These transactions are not reported in these financial statements.

c) criteria for measurement and reporting of income and expenses

Fixed assets, including properties not for operating purposes, are valued at cost, and stated net of accumulated depreciation and any impairment of value.
The assets are depreciated on a straight-line basis over their useful lives, with the exception of: (i) land and works of art which have an indefinite life and are not subject to depreciation, and (ii) assets awaiting lease and assets under construction that are eventually to be leased.
The useful life of the fixed assets subject to depreciation is periodically reviewed, and in the event of any adjustments to the initial estimate, a change is also made in the related depreciation rate. The depreciation rates and the resulting useful life of the main asset categories are reported in specific sections of the notes to the financial statements.
An impairment test is effected at each balance-sheet or other periodic report date in order to look for any indications that an asset may have experienced a loss of value.
Should there be indications of impairment of value, a comparison is made between the book value of the asset and the asset's recoverable value, which is the lower of fair value, net of any selling expenses, and the value in use, which is the present value of the future cash flows generated by the asset. Any valuation adjustments are accrued to the profit and loss statement in Account 170 – Net writedowns / writebacks to fixed assets. The periodic depreciation charges are booked to the same account.
Should the reasons for the recognition of the impairment no longer be valid, the recovery of value is booked through a writeback, provided that the resulting asset value is no greater than the value at which the asset would have been carried, net of depreciation, in the absence of the afore-mentioned impairment losses.

d) criteria for derecognition

Fixed assets are eliminated from the balance sheet upon their disposal or whenever the assets are permanently withdrawn from use and no future economic benefit is expected therefrom.

9. Intangible assets

a) criteria for recognition

Intangible assets are non-monetary, identifiable and non-physical assets, owned for the purpose of being used over more than one year or indefinitely. The assets are recognised at cost, adjusted for any ancillary charges. Intangible assets are booked only if it is probable that they will generate future economic benefits and if the cost of the assets may be calculated in a reliable manner. Otherwise, the cost of the intangible asset is booked to profit and loss in the year in which it was sustained. Goodwill is booked as an asset when it arises as a result of a business aggregation, in accordance with the criteria for the determination of goodwill provided by IFRS 3, which provide that goodwill is the excess of the cost sustained for the transaction over the net fair value of the assets and liabilities of the companies or undertakings acquired.
Should the cost sustained be less than the fair value of the assets and liabilities acquired, the difference (badwill) is directly accrued to the profit and loss statement.

b) criteria for classification, measurement and reporting of income and expenses

The cost of intangible assets is amortized on a straight-line basis over the relative useful life. Assets with an indefinite useful life are not amortized, but shall instead be tested periodically to verify the adequacy of the carrying value. Intangible assets originated by internally developed software or software acquired from third parties are amortized on a straight-line basis on the basis of their useful life, starting from the date on which their development is completed and the assets are placed into service. Should there be evidence of impairment of value as of the balance-sheet or other periodic report date, an estimate is made of the recoverable value of the asset. The impaired value amount booked to the profit and loss statement is equal to the difference between the book value and the recoverable value.
Goodwill is not subject to amortization, but to a periodic test to verify the 'firmness' of the book value, which is to be effected at least once a year, and more frequently, in the event of indications of impairment. Cash flow-generating units have been identified for the purpose of allocating the individual amounts of goodwill.
The writedown amount is determined on the basis of the difference between the goodwill book value and its recoverable value, if lower. The recoverable value is equal to the greater of the fair value of the cash flow-generating unit, net of any selling expenses, and the cash flow-generating unit's value in use, which is represented by the sum of the actual value of the cash flows estimated for the years of operation of the cash-generating unit and the value of the cash-generating unit upon its disposal as at the end of its useful life. Any impairment-related valuation adjustments to intangible assets are booked to the profit and loss statement to "Account 180 - Writedowns / writebacks to intangible assets". Periodic amortization is also booked to the same account. Accounting of any future writebacks is not admitted.

c) criteria for derecognition

Intangible assets are derecognised from the balance sheet upon disposal and whenever no future economic benefits are expected therefrom.

10. Non-current assets held for sale

The account is not included in these financial statements.

11. Current and deferred tax

a) criteria for recognition

Current and deferred taxes are calculated in accordance with Italian tax regulations by applying the applicable tax rates in accordance with the matching principle and thus consistently with the recognition of the revenues and expenses which are the basis for taxation.

Income taxes are accrued to the profit and loss statement, with the exception of taxes in relation to items charged or credited directly to shareholders' equity.
The provision for income taxes is determined on the basis of a prudential estimate of the current, prepaid and deferred tax obligations.

The current tax provision is the net balance between current tax liabilities and current tax assets, with the latter represented by prepayments and other credits for taxes withheld or tax credits whose reimbursement has been requested from the tax authorities. Tax credits transferred as a guarantee of debt are also booked to the account.
Deferred tax assets and deferred tax liabilities are computed with reference to the timing differences (without time limits) between (i) the value of assets and liabilities pursuant to the Italian Civil Code and (ii) the corresponding values of the same assets and liabilities for fiscal purposes. Such amounts are computed by applying the balance sheet liability method
Deferred tax assets are booked only to the extent of the probability of their recovery, which is evaluated on the basis of the capacity of the company or group of companies (if the option of a consolidated tax return is exercised) to generate positive taxable income on a continuous basis in future periods. Deferred tax liabilities are entered in the financial statements, with the only exception of the revaluation reserve for the building used for functional purposes (qualifying for tax suspension), as it may be reasonably maintained that conditions for effecting transactions that would lead to future taxation do not apply.
Deferred tax assets have been offset against deferred tax liabilities, in relation to the specific tax and the time horizon by which the relative amounts will be settled.
In financial years in which the deductible temporary differences are greater than the taxable temporary differences, the related deferred taxes are reported in the balance sheet as deferred tax assets. Conversely, in financial years in which the taxable temporary differences are greater than the deductible temporary differences, related deferred taxes are reported in the balance sheet as deferred tax liabilities.

b) criteria for classification and measurement

Deferred tax assets and deferred tax liabilities are recomputed on a regular basis, so as to take into account any changes occurring in the applicable regulations or tax rates, as well as any different subjective situations for the companies of the Group. The balances of the tax accounts are also adjusted in order to address charges that could arise as a result of tax ascertainments notified or from disputes with tax authorities.
With the Company participating in the MPS Group's national consolidated income tax return, agreements have been executed with the holding company governing the offsetting flows related to the transfer of tax income and tax losses. These flows are determined by applying the corporate income tax rate in effect to the taxable income. In the case of tax losses, the offsetting flow, calculated as indicated above, goes from the holding company to the Company on condition, and to the extent, that the Company, in the event of its nonparticipation in the consolidated income tax return, would have been able to use the losses over the five-year period provided for by the law. The offsetting flows computed in this manner are booked as payables and receivables with the consolidating entity, classified as other liabilities and other assets, and offset by an entry to Account 260 - Tax expense (income) related to profit or loss from continuing operations.

c) criteria for reporting of income and expenses

Should the deferred tax assets and deferred tax liabilities regard amounts flowing through the profit and loss statement, the entries are offset against the income tax provision. Instead, should the deferred tax assets and deferred tax liabilities regard transactions booked directly to the shareholders' equity accounts, without any of the related amounts flowing through the profit and loss statement (e.g. valuations of financial instruments available for sale or of derivatives to hedge financial flows), the entries are offset to shareholders' equity, and the specific reserves, when provided.

12. Provisions for risks and charges

The provisions to the reserve for risks and charges are made only when:

- the reporting entity has an actual obligation (legal or implicit) that is the result of a past event;
- it is probable that economic resources designed for producing economic benefits will be used in order to fulfill the obligation;
- a reliable estimate of the amount needed to meet the obligation is possible.

Whenever the timing of the obligation is significant, the provisions are to be discounted.

The provision to the reserve flows through the profit and loss statement. Interest expense accrued on the portion of the reserve that has been discounted also flows through the profit and loss statement.

No provisions are set aside to cover liabilities that are only potential and not probable; a description of the nature of such liabilities is provided in the notes to the financial statements unless the probability of using resources is remote or negligible.

The balance sheet contains only the Sub-account "120 - Provisions for risks and charges: b) other provisions". Such sub-account includes provisions against losses assumed to be incurred on legal disputes, including from revocatory actions; amounts estimated for the settlement of customer claims; and other outlays estimated to cover legal or implicit obligations existing as at the close of the accounting period. Should the provisions be measured analytically, the amounts set aside shall be used directly for covering the charges actually sustained.

13. Liabilities and securities issued

a) criteria for recognition

The initial recognition of these financial liabilities occurs upon receipt of sums collected or upon issuance of debt securities.
Liabilities are initially booked at their fair value, which is normally equal to the amount collected or the issue price, increased by any additional income/expense directly attributable to the funding or issuing transaction and not reimbursed by the creditors. Normal internal expenses of an administrative nature are excluded. The fair value of financial liabilities issued at conditions other than market conditions is calculated by means of a special estimate, and the difference with respect to the consideration received is booked directly to profit and loss, only when the conditions provided by IAS 39 have been met.

b) criteria for classification

Entries reported as Due to banks, Due to customers and Securities issued are inclusive of various types of funding, including funding through the interbank market, customers and bond securities, net of any repurchases.
All securities not hedged through derivatives are classified as securities issued. Any derivatives, if present, would be classified as liabilities stated at fair value. Floating-rate securities covered by a cash-flow hedge are an exception inasmuch as they are classified as securities issued even though they are hedged by derivatives; the Company's balance sheet does not contain any such securities. The account also includes payables booked by the lessee on financial leasing transactions signed. The Company's balance sheet does not contain any such payables.

c) criteria for measurement and reporting of income and expenses

After they are initially booked, the financial liabilities are valued at their amortized cost, using the effective interest method.
As an exception, short-term liabilities continue to be carried at the value of the amount collected, when the time effect is negligible.
Should the requirements provided by IAS 39 be met in the case of structured instruments, the embedded derivative is separated from the host contract and reported at fair value as a trading asset or liability. In this last case, the host contract is carried at amortized cost. These transactions are not included in these financial statements.

d) criteria for derecognition

The financial liabilities are derecognised from the balance sheet when they have come to maturity or been extinguished. Cancellation also occurs upon the repurchase of previously issued securities. The difference between the book value of liabilities and the amount paid for the purchase is booked to the profit and loss statement.
The reissue of the Company's own securities after their repurchase is considered a new issue, with the liability booked at the new price, without any profit and loss effect.
In accordance with the provisions of IAS 32, the potential commitment to acquire own shares for effect of the issuance of put options is booked as a financial liability with an offsetting entry reducing shareholders' equity for the value of the amount of the contractually established reimbursement. As at 31.12.2008 there were no put options sold on the Company's own shares.

14. Financial liabilities held for trading

The account is not included in these financial statements.

15. Financial liabilities designated at *fair value*

The account is not included in these financial statements.

16. Foreign currency transactions

a) criteria for recognition

Upon initial recognition, the transactions denominated in foreign currency are booked at the exchange rate effective as at the transaction date.

b) criteria for classification, measurement, derecognition and reporting of income and expenses

At each balance-sheet or other periodic accounting date, the financial statement account balances arising from transactions in foreign currency are measured as follows:

- monetary items are translated at the closing rate of the period;
- non-monetary items recognised at historical cost in a foreign currency are translated using the exchange rate in effect at the date of the transaction;
- non-monetary items that are measured at fair value in a foreign currency are translated at the closing date rate.

Exchange rate differences arising from the settlement of monetary items or from the conversion of monetary items at rates other than those used for their initial conversion or their conversion for the purpose of the prior-period financial statements are booked to the profit and loss statement during the period in which they arise

When a gain or loss related to a non-monetary item is booked to shareholders' equity, the exchange rate difference with regard to this item is also booked to equity. Conversely, when a gain or loss is booked to the profit and loss statement, the related exchange rate difference is also booked to profit and loss.

17. Other information

▪ Cash and cash equivalents

The account includes all legal tender currencies, including foreign bank notes and coins and unrestricted deposits with the central bank of the country or countries in which the Company runs its companies or branches. The account is booked at face value. The face value of foreign currencies is converted into Euros at the exchange rate effective at year end.

▪ Other assets

The account includes assets not attributable to the other items of the balance sheet assets, including, without limitation, the following:

a) accrued income and prepayments other than the amounts capitalized for the related financial assets;

b) inventories of goods as defined by IAS 2;

c) improvements and expenditures sustained with respect to third-party properties other than improvements and expenditures that can be booked to fixed assets, and therefore, improvements and expenditures that are not independently identifiable and separable.
Such improvements and expenditures are booked as other assets in consideration of the fact that the company using the assets has control over the assets by virtue of the rental contract and may enjoy future economic benefits from the assets.
The costs are accrued to the profit and loss statement in Account "190 - Other operating income (expense)", based on the shorter of the period in which the improvements and expenditures can be used and the residual term of the contract.

d) advances to the suppliers of assets to be leased under financial leases.

▪ Share-based payments

The stock-granting plan in effect provides for the purchase and assignment to employees on an annual basis of a certain number of shares of Banca Monte dei Paschi di Siena S.p.A., equivalent in value to the amount paid as part of the company bonus.

The cost of the shares is reported as part of personnel expenses, in accordance with the matching principle.

▪ Dividends and recognition of revenues and expenses

Revenues are booked as realized, or in the case of: the sale of products or goods, when it is probable that the future benefits will be received and such benefits can be quantified in a reliable manner; services, when the services are rendered.

More specifically:

- interest is booked *pro-rata temporis* on the basis of contractual interest rate or the effective interest rate in the event of application of the amortized cost;
- interest on past-due amounts is booked to the profit and loss statement only upon its actual collection;
- dividends are booked to the profit and loss statement at the time when their distribution is approved, and thus when the right to the related payments accrues ;
- commissions for services are accrued during the period in which the services are rendered, based on the existence of contractual agreements;
- revenues from trading or from issuance of financial instruments, as determined by the difference between the transaction price and the fair value of the instrument, are booked to the profit and loss statement upon reporting of the transaction if the fair value can be determined with reference to parameters or recent transactions observable on the same market in which the instrument is traded; otherwise, they are distributed over time, taking into account the duration and nature of the instrument.
- Expenditures are booked to profit and loss during the periods in which the related revenues are booked. Expenditures that cannot be associated with income are booked immediately to the profit and loss statement.

▪ Provision for staff severance pay

The staff severance pay is to be construed as a post-employment defined-benefit plan whose recognition in the balance sheet requires an estimate of its actuarial value. The estimate is computed with the use of the projected unit credit method, which provides for the projection of future outlays as based on analyses of historical data, the demographic curve and the discounting of the related flows using a market interest rate.

The cost accrued during the year for servicing the plan is booked to the profit and loss statement to the Account 150 a) " Personnel expenses", and is the net of: contributions paid; contributions not yet booked in relation to prior years; expected revenues on the assets to service the plan; financial charges; and actuarial profits/losses. The actuarial profits/losses, which are represented by the difference between the book value of the liabilities and the present value of the obligation at the end of the period, are computed on the basis of the corridor method, namely, as the excess of cumulative actuarial gains/losses, as at the close of the prior period, with respect to the greater of 10% of the actual value of the plan benefits and 10% of the fair value of the assets to service the plan. The excess is also related to the expected average term of employment for the plan participants. As a result of reforms contained in Legislative Decree no. 252 of 5 December 2005 covering retirement plans to supplement state pensions, the amounts accrued to the staff severance pay reserve through 31 December 2006 remain with the Company, whereas the amounts accrued to the staff severance pay reserve as from 1 January 2007 may, at the employees' discretion, be transferred to supplemental pension funds or maintained with the Company. In the latter case, the Company is compelled to transfer the accrued amounts to a Treasury Fund managed by the Italian Social Security Administration (INPS). Additional details on the reform impact on the 2007 financial statements are reviewed in the notes to the financial statements, Section 11 of the liabilities, under Account 110 - Provision for staff severance pay.

▪ Other liabilities

The account includes liabilities not attributable to other liabilities in the balance sheet including, without limitation, the following:

a) payment agreements which need to be classified as payables pursuant to IFRS 2;
b) payables related to the payment of supplies of goods and services;
c) accrued liabilities and deferred income other than accrued liabilities and deferred income to be capitalized on pertinent financial liabilities;

d) deferred revenues awaiting final allocation inasmuch as they arise from advances invoiced to customers and relate to financial leases signed but not yet in effect;

e) amounts collected and to be booked to the accounts of factoring assignors.

Pursuant to Paragraph 108 of IAS 1 (Presentation of financial statements), following is some additional information with reference to the basic measurement criteria used for the preparation of the financial statements.

- <u>Fair Value</u>

The fair value is the price at which an asset may be traded or a liability may be settled, in an arm's length transaction between knowledgeable and independent parties.
The fair value for financial instruments traded on active markets is determined through the use of prices sourced from the financial markets; the fair value of other financial instruments is determined through the use of internal measurement models for the other financial instruments.

- <u>Methods of determination of the amortized cost</u>

The amortized cost of a financial asset or liability is the value initially recognised to the financial asset or liability less principal payments, as increased or decreased by total amortization (calculated using the effective interest method) on the differences between the initial value and the value at maturity, and net of any lasting impairment losses.

The effective interest rate is the rate that equals (i) the present value of the contractual flows of future cash payments or collections up to the maturity date or next repricing date, with (ii) the net book value of the financial asset or liability. For the calculation of the present value, the effective interest rate is applied to the flow of future collections or payments estimated over the entire useful life of the financial asset or liability - or for a shorter period in the presence of certain conditions (for example, the revision of market interest rates).

In cases in which it is not possible to estimate the cash flows or expected life in a reliable manner, the Company uses the cash flows contractually envisaged for the entire contractual term.

Subsequent to initial recognition, the amortized cost allows for the allocation of revenues and costs decreasing or increasing the value of the instrument along its entire expected useful life through the amortization process. The computation of the amortized cost varies depending on whether the financial asset/liability being valued is a fixed- or floating-rate instrument.
In the case of fixed-rate instruments, the future cash flows are quantified on the basis of the interest rate known during the term of financing. In the case of financial assets/liabilities with floating rates, whose variability is not known in advance (since, for example, it is not linked to an index), the cash flows are computed on the basis of the most recent known rate. At each repricing date, the amortization plan and the actual rate of return with respect to the useful life of the instrument (i.e. until the maturity date) are recomputed. The resulting adjustment is then booked as income or a cost to the profit and loss statement.
Receivables, financial assets held to maturity, financial assets available for sale, liabilities and securities issued are all valued on the basis of amortized cost.

Financial assets and liabilities traded at market conditions are initially recognised at their fair value, which normally corresponds to the amount disbursed or paid inclusive -in the case of instruments valued at amortized cost- of transaction costs and commissions directly attributable to the assets and liabilities (such as fees and commissions paid to agents, consultants, intermediaries and dealers), as well as contributions withheld by regulatory bodies and securities exchanges, taxes, and transfer charges. Such costs, which must be directly related to the individual financial asset or liability, have an impact on the original effective return, and make the effective interest rate associated with the transaction different from the contractual interest rate. The computation of amortized cost excludes costs that the Company would have to incur regardless of the transaction (for example, administrative costs, costs of office supplies, communications), which, though specifically attributable to the transaction, are part of normal financing procedures (for example, activities carried out for the purpose of loan disbursement).

With specific reference to receivables, the lump-sum reimbursement of expenses sustained by the Company for providing a service do not need to be booked as a decrease in the cost of loan disbursement but, considering such reimbursement as other operating income, the related expenditures need to be booked to their own account in the profit and loss statement.

- <u>Methods of determination of losses due to impairment</u>

Financial assets

At each balance-sheet date, the financial assets not booked as financial assets held for trading or assets stated at fair value are tested for impairment in order to verify if there is any objective evidence to suggest that the carrying value of the assets will not be fully recoverable.

A financial asset is impaired and an impairment loss must be recognized if and only if there is objective evidence of a reduction of future cash flows vis-à-vis those originally estimated, as a result of one or more specific events occurring after the asset is initially recognised; the loss needs to be quantified in a reliable manner and correlated to current events.

The reduction of value may also be caused not by one separate event alone, but by the combined effect of different events.

The objective evidence that a financial asset or a group of financial assets has experienced a reduction of value embodies observable data or data that become known in relation to the following events:

(a) significant financial difficulties of the issuer or the debtor;

(b) contractual infringement, for example, default or failure to pay interest or principal;

(c) the granting to the beneficiary of relief that the Company has taken into consideration primarily for economic or legal reasons in relation to the beneficiary's financial difficulties and that the Company would otherwise not grant;

(d) reasonable probability that the beneficiary will declare bankruptcy or enter into other financial restructuring processes;

(e) the disappearance of an active market for the financial asset as a result of financial difficulties. However, the disappearance of an active market due to the fact that the financial instruments of an issuer are no longer publicly traded is no evidence of impairment;

(f) detectable data that indicate the existence of a sizeable decrease in the future cash flows estimated for a group of financial assets at the time when those assets are initially booked, even though the decrease may not yet be identified with the individual financial assets within the group, including therein:

  - unfavourable changes in the status of the payments of the beneficiaries within the group; or
  - local or national economic conditions which are correlated to defaults in relation to the assets within the Group.

The objective evidence of impairment of value for investment in an instrument representative of capital includes information about important changes with an adverse effect that may have occurred in the technological, market, business, or legal environment in which the issuer operates and is indicative of the fact that the cost of the investment may not be recovered.

The impairment test is done on an analytical basis with respect to financial assets that give objective evidence of impairment and on a collective basis with respect to financial assets for which such objective evidence does not exist or for which the individual analytical valuation did not give rise to a valuation adjustment. The collective valuation is based on the identification of homogeneous risk classes of financial assets with reference to the debtor/issuer characteristics, economic sector, geographic area, the presence of guarantees, if any, and other significant factors.

Amounts receivable from customers and banks are individually analyzed whenever they are classified as nonperforming, watchlist or restructured receivables as per the Bank of Italy definitions. The amount of the loss is equal to the difference between the book value of the receivable at the date of the valuation (amortized cost) and the present value of the expected future cash flows, calculated by applying the original effective interest rate. The expected cash flows take into account the timing anticipated for recovery, the estimated realizable value of any guarantees, and the estimated expenses to be sustained for the recovery of the credit. The amount of the loss is booked to the profit and loss statement to Account 130 - Net impairment writedowns / writebacks to: a) receivables".

The process of individually analyzing doubtful receivables involves the need for the definition of plans for recovering each position, so as to determine the cash flows deemed recoverable. In this respect, with the valuation process adopted by the Company, thresholds have been identified in terms of amounts of receivables, under which plans for recovering the exposures are defined on an automated basis. These thresholds are set in relation to ranges of large numbers of positions with an exposure that is relatively limited as a percentage of the total.

Receivables not analyzed individually to detect objective evidence of impairment are valued on a collective basis. Such valuation occurs for categories of receivables that are homogeneous in terms of credit risk and which are indicative of the debtor's capacity to repay the sums due as per the contractual terms. The segmentation drivers used include: sector of business activity, geographic location and customer segments (turnover); on the basis of this last variable, the main segments of the portfolio are:

- Retail
- Small and Medium Enterprise Retail
- Small and Medium Enterprise Corporate
- Corporate
- Large Corporate
- Banks
- Other

The loss rate is determined for each segment by identifying the greatest synergies possible (to the extent allowed by the various regulations) using the approach envisaged for regulatory purposes by the provisions of the New Capital Accord known as Basel II. In particular, the amount of the impairment for the period of any form of financing belonging to a specific homogeneous class is equal to the difference between the book value and the recoverable amount as of the valuation date, with the latter amount computed by using the parameters of the calculation model that are provided for by the new supervisory provisions, namely, the probability of default (PD) and loss given default (LGD). The one-year time horizon used for valuing the probability of default is considered sufficient for approximating the incurred loss provided for by the international accounting principles, i.e. the loss based on current events that have not yet been considered by the Company in its review of the risk standing of a specific customer.
Should the amount of the impairment loss decrease in a future period and should the decrease be objectively related to an event occurring following the writedown (for example, an improvement in the debtor's solvency), the previously booked impairment loss is reversed. The amount of the reversal is booked to the profit and loss statement to Account 130) - Net impairment writedowns / writebacks.

▪ Equity investments

The impairment process entails the computation of the recoverable amount, which is the greater of the fair value net of selling costs, and the value in use. The value in use is the present value of the financial flows arising from the impaired asset; it reflects the estimate of the financial flows expected from the asset, the estimate of possible changes in the amount and/or in the timing of the financial flows, the financial value over time, the price for remunerating the risk on the asset and other factors that can influence the pricing, on the part of market dealers, of the financial flows expected from the asset.

▪ Other non-financial assets

The fixed and intangible assets with a limited useful life are subject to an impairment test in the presence of any indication that the book value of the asset may not be recovered. The recoverable value is computed with reference to (i) the fair value of the fixed or intangible asset, net of the charges for disposal or (ii) the value in use if determinable and if it is above fair value.
The fair value of immovables is predominantly determined on the basis of an appraisal. The appraisal is periodically revised whenever there is a change in the trend of the real estate market suggesting that the previously prepared estimates are no longer valid. The impairment of value is recognized only when the fair value net of selling costs or the value in use are below the book value for a continuous period of three years. In the case of other fixed assets and intangible assets (excluding goodwill), it is assumed that the book value normally corresponds to the value in use, inasmuch determined by a depreciation/amortization process estimated on the basis of the actual contribution of the assets to the productive process and considering the extremely random nature of the computation of fair value. The two values diverge, giving rise to impairment, in the event of damages, the shutdown of the productive process or other similar, non-recurring circumstances.

PART B - INFORMATION ON THE BALANCE SHEET

ASSETS

SECTION 1 – CASH AND CASH EQUIVALENTS – ACCOUNT 10

1.1 Cash and cash equivalents: breakdown

	Total as at 31.12.2008	Total as at 31.12.2007
a) Cash	-	1
b) Unrestricted deposits with central banks		
Total	**-**	**1**

SECTION 4 – FINANCIAL ASSETS AVAILABLE FOR SALE – ACCOUNT 40

4.1 Financial assets available for sale: product breakdown

Account/Amount	Total as at 31.12.2008		Total as at 31.12.2007	
	Listed	Unlisted	Listed	Unlisted
1. Debt securities				
1.1 Structured securities				
1.2 Other debt securities				
2. Equity instruments				
2.1. Designated at fair value				
2.2. Carried at cost		5		5
3. Units of entities for collective investment of savings (OICR)				
4. Loans				
5. Impaired assets				
6. Assets sold but not derecognised				
Total		**5**		**5**

4.2 Financial assets available for sale: breakdown by borrowers/issuers

Account/Amount	Total as at 31.12.2008	Total as at 31.12.2007
1. Debt securities		
a) Governments and central banks		
b) Other public entities		
c) Banks		
d) Other issuers		
2. Equity instruments	**5**	**5**
a) Banks		
b) Other issuers:		
- insurance companies		
- financial companies		
- non-financial companies		
- other	*5*	*5*
3. Units of entities for collective investment of savings (OICR)		
4. Loans		
a) Governments and central banks		
b) Other public entities		
c) Banks		
d) Other entities		
5. Impaired assets		
a) Governments and central banks		
b) Other public entities		
c) Banks		
d) Other entities		
6. Assets sold but not derecognised		
a) Governments and central banks		
b) Other public entities		
c) Banks		
d) Other entities		
Total	**5**	**5**

SECTION 6 – DUE FROM BANKS – ACCOUNT 60

6.1 Due from banks: product breakdown

Transactions / Amounts		Total as at 31.12.2008	Total as at 31.12.2007
A.	**Due from central banks**		
1.	Restricted deposits		
2.	Mandatory reserves		
3.	Repurchase agreements		
4.	Other		
B.	**Due from banks**	**1,622,466**	**12,735**
1.	Current accounts and unrestricted deposits	1,498,307	2,881
2.	Restricted deposits		
3.	Other loans:	124,159	9,854
	3.1 Repurchase agreements		
	3.2 Financial leasing		
	3.3 Other	*124,159*	*9,854*
4.	Debt securities		
	4.1 Structured securities		
	4.2 Other debt securities		
5.	Impaired assets		
6.	Assets sold but not derecognised		
Total (book value)		**1,622,466**	**12,735**
Total (*fair value*)		**1,622,466**	**12,735**

SECTION 7 – DUE FROM CUSTOMERS – ACCOUNT 70

7.1 Due from customers: product breakdown

Transactions / Amounts		Total as at 31.12.2008	Total as at 31.12.2007
1.	Current accounts		
2.	Repurchase agreements		
3.	Mortgages		
4.	Credit cards, personal loans and fifth-of-salary backed loans		
5.	Financial leases	3,708,198	3,545,679
6.	Factoring	1,154,697	1,165,200
7.	Other transactions	421,942	365,725
8.	Debt securities		
	7.1 Structured securities		
	7.2 Other debt securities		
9.	Impaired assets	288,456	195,973
10.	Assets sold but not derecognised		
Total (book value)		**5.573.293**	**5,272,577**
Total (*fair value*)		**5,606,374**	**5,043,395**

The impaired assets include non-performing and watchlist receivables, and positions that have been *past due* for more than 180 days in accordance with Bank of Italy definitions. The detail of such account is provided in Part E of the notes to the financial statements – Credit quality.

The account "Other Transactions" as at 31.12.2007 includes 371,433-worth transactions in assets under construction and awaiting lease, net of value adjustments (for an amount of 5,715) as a consequence of the restatement following the clarifying instructions issued by the Bank of Italy in February 2008 according to which such transactions should be classified as receivables (and not as tangible fixed assets for instrumental purposes) when formal and explicit agreements provide for the substantial transfer of all risks to the lessee. Additional information about these restaments is provided in the Notes to the Financial Statements - Section A - Accounting Policies.

7.2 Due from customers: breakdown by borrowers/issuers

	Transactions / Amounts	Total as at 31.12.2008	Total as at 31.12.2007
1.	**Debt securities**		
a)	Governments		
b)	Other public entities		
c)	Other issuers		
	- non-financial companies		
	- financial companies		
	- insurance companies		
	- other		
2.	**Loans to:**	**5,284,837**	**5,076,604**
a)	Governments	12,350	20,305
b)	Other public entities	44,962	48,225
c)	Other entities	5,227,525	5,008,074
	- non-financial companies	*5,066,223*	*4,707,495*
	- financial companies	*38,919*	*33,325*
	- insurance companies	*3*	*1,377*
	- other	*122,380*	*265,877*
3.	**Impaired assets:**	**288,456**	**195,973**
a)	Governments		
b)	Other public entities		
c)	Other entities	288,456	195,973
	- non-financial companies	*283,810*	*192,895*
	- financial companies	*1,035*	*516*
	- insurance companies	*1,077*	*-*
	- other	*2,534*	*2,562*
4.	**Assets sold but not derecognised**		
a)	Governments		
b)	Other public entities		
c)	Other entities		
	- non-financial companies		
	- financial companies		
	- insurance companies		
	- other		
	Total	**5,573,293**	**5,272,577**

The account "Loans to: c) other - Non-financial companies" for an amount of 4,707,495 as at 31.12.2007 includes 371,433-worth leasing transactions in assets under construction and awaiting lease, net of value

adjustments (for an amount of 5,715) as a consequence of the restatement following the clarifying instructions issued by the Bank of Italy in February 2008 according to which such transactions should be classified as receivables (and not as tangible fixed assets for instrumental purposes) when formal and explicit agreements provide for the substantial transfer of all risks to the lessee. Additional information about these restatements is provided in the Notes to the Financial Statements - Section A - Accounting Policies.

7.4 Financial leases

7.4 a Due from customers: reconciliation of minimum lease payments receivable

Account /Amount	31.12.2008				31.12.2007			
	Explicit lease receivables	Minimum lease payments receivable	including secured value:	Present value of minimum lease payments receivable	Explicit lease receivables	Minimum lease payments receivable	including secured value:	Present value of minimum lease payments receivable
Up to 1 year	120,138	892,993	22,708	721,644	136,152	859,636	24,714	710,426
1 to 5 years		2,141,394	172,256	1,731,994		2,061,747	155,798	1,718,165
Over 5 years		1,716,040	480,181	1,374,006		1,399,429	454,269	1,172,421
Indefinite duration	210,597	430,776		430,776	161,960	365,718		
Total	**330,735**	**5,181,203**	**675,145**	**4,258,420**	**298,112**	**4,686,530**	**634,781**	**3,601,012**
Deferred financial income		(922,783)				(719,800)		
Reserve for losses on receivables	(10,481)	(112,683)			(97,170)	(90,681)		
Balance-sheet receivables	**223,254**	**4,145,737**	**675,145**	**4,258,420**	**200,942**	**3,876,049**	**634,781**	**3,601,012**

7.4.b Potential financial lease payments reported as income during the year

	Total as at 31.12.2008	Total as at 31.12.2007
Settlement of index-linked financial lease payments	44,070	42,161

The settlement of financial lease payments was booked in the 2008 and 2007 financial statements under interest income.

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7.4.c General description of significant financial leases

The financial leasing activity in 2008 may be summarized as follows:

Segment	Performing Lease Receivables as at 31/12/2008	
	Amount	%
REAL ESTATE	2,506,987	60,7
CAPITAL GOODS	1,181,217	28,6
MOTOR VEHICLES	231,287	5,6
AIRCRAFT, WATERCRAFT	210,637	5,1
TOTAL	**4,130,128**	**100,00**

The bulk of credit disbursements is to real estate, with related receivables accounting for over 60% of performing receivables.
The most significant contracts include:
- a leaseback transaction in the original amount of €38 million, whose residual balance is €27.9 million. The transaction has a term of 10 years, quarterly instalments, an index-linked interest rate, and is related to an industrial real estate complex built in the Province of Bergamo; the advance amounted to 7%, while the redemption option is equal to 30%;
- a contract in the original amount of €29 million, whose residual balance is €24 million. The transaction has a term of 15 years, monthly instalments, an index-linked interest rate, and is related to a hotel complex situated in the Province of Milan; the advance amounted to 10%, while the redemption option is equal to 41%;
- a contract in the original amount of €27.5 million, whose residual balance is €23.4 million. The transaction has a term of 18 years, monthly instalments, an index-linked interest rate, and is related to a real estate complex in Venice; the advance amounted to 15%, while the redemption option is equal to 30%;

Capital goods leases account for 28.6% of performing lease receivables.
The most significant contracts include:
- The supply of electronic material to a Florence-based company. The transaction covered an original amount of €25.1 million, none of which was advanced; the residual balance is €17.1 million. The transaction has a term of four years, a fixed interest rate, and annual instalments. The redemption option is equal to €1.00.
- a contract relating to an aeolic park in the province of Foggia in the original amount of €15 million, whose residual balance is €12.9 million. The transaction has a term of 8 years, monthly instalments and an index-linked interest rate; the advance amounted to 1%, and the redemption option is equal to 1%;

Though accounting for 5.6% of total performing receivables, the credit exposure to the vehicles segment is distributed over a large base of customers, and thus does not include any transactions of significant amounts.
The aircraft / watercraft segment represents 5.1% of total performing receivables, with one significant position covering an original amount of €14.9 million and a residual balance of 7.7 million. The transaction, which covers two cruise boats for a Messina-based customer, has a term of seven years, monthly instalments and an index-linked interest rate; the advance was equal to 20%, while redemption is 5%.

SECTION 10 – EQUITY INVESTMENTS – ACCOUNT 100

10.1 Equity investments in subsidiary companies, jointly controlled companies or companies under significant influence: information on investment relationships

	Company Name	Registered Office	% Held	% of voting rights
A.	Companies under exclusive control			
	MPS Commerciale Leasing Spa	Siena	100.00	100.00
B.	Companies under joint control			
	MPS Group Operating Consortium	Siena	0.03	0.03
C.	Companies under significant influence			

Equity investments in subsidiary companies, jointly controlled companies and companies under significant influence are valued at cost. The column indicating the percentage of votes available highlights the actual percentage of the votes that can be exercised at the ordinary shareholders' meetings, regardless of the actual percentage of capital held in each company.

Though owning a controlling interest, the Company does not handle the preparation of the consolidated financial statements inasmuch as it is an intermediary controlling shareholder and thus, under prevailing regulations, is not required to prepare such statements.

10.2 Equity investments in subsidiary companies, jointly controlled companies or companies under significant influence: accounting information

Company Name	Total assets	Total revenues	Net profit (Loss)	Shareholders' equity	Book value	Fair Value
A. Companies under exclusive control						
MPS Commerciale Leasing Spa	139,817	28,750	(1,471)	23,458	25,000	X
B. Companies under joint control						
MPS Group Operating Consortium	287,300	399,404		129,871	39	X
C. Companies under significant influence						
Total	427,117	428,154	(1,471)	153,329	25,039	

The data indicated above refer to the financial statements as at 31.12.2007.

10.3 Equity investments: annual changes

		Total 31.12.2008	**Total 31.12.2007**
A.	**Opening balance**	**25,039**	**5,239**
B.	**Increases**		**19,800**
B.1	Purchases		19,800
B.2	Writebacks		
B.3	Revaluation		
B.4	Other changes		
C.	**Decreases**		
C.1	Disposals		
C.2	Writedowns		
C.3	Other changes		
D.	**Closing balance**	**25,039**	**25,039**
E.	**Total revaluation**		
F.	**Total writedowns**		

The purchases for € 19,800 as at 31.12.2007 refer to the share capital increase underwritten and paid in favour of the subsidiary, MPS Commerciale Leasing, which was carried out for the purpose of strengthening the capital ratios in view of the planned development of the company's activity.

SECTION 11 – FIXED ASSETS – ACCOUNT 110

11.1 Fixed assets: Breakdown of fixed assets carried at cost

	Asset / Amount	Total as at 31.12.2008	Total as at 31.12.2007
A.	**Assets for operational use**		
	1.1 owned	**7,815**	**7,342**
	a) land	4,200	4,200
	b) buildings	2,649	2,807
	c) furniture and furnishings	965	333
	d) electronic systems		
	e) other	1	2
	1.2 Leased		
	a) land		
	b) buildings		
	c) furniture and furnishings		
	d) electronic systems		
	e) other		
	Total A	**7,815**	**7,342**
	Assets held for investment		
	2.1 owned		
	a) land		
	b) buildings		
	2.2 Leased		
	a) land		
B.	b) buildings		
	Total B		
	Total (A+B)	**7,815**	**7,342**

The account "Assets for operational use 1.1. owned e) other" for an amount of 2 as at 31.12.2007 was deducted of 371,433-worth transactions in assets under construction and awaiting lease as a consequence of the restatement following the clarifying instructions issued by the Bank of Italy in February 2008 according to which such transactions should be classified as receivables (and not as tangible fixed assets for instrumental purposes) when formal and explicit agreements provide for the substantial transfer of all risks to the lessee. Additional information about these restatements is provided in the Notes to the Financial Statements - Section A - Accounting Policies.

11.3 Fixed assets for operational use: annual changes

		Land	Buildings	Furniture and furnishings	Electronic systems	Other	**Total**
A.	**Gross opening balance**	**4,200**	**5,328**	**1,618**	**669**	**237**	**12,052**
A.1	Total net decreases in value	-	2,521	1,285	669	235	**4,710**
A.2	**Net opening balance**	**4,200**	**2,807**	**333**	**-**	**2**	**7,342**
B.	**Increases:**	**-**	**-**	**832**	**-**	**-**	**832**
B.1	Purchases			832			832
B.2	Capitalized expenditure on improvements						
B.3	Writebacks						
B.4	Increases in fair value booked to:						
	a) shareholders' equity						
	b) profit and loss						
B.5	Positive exchange rate differences						
B.6	Transfers from properties held for investment						
B.7	Other changes						
C.	**Decreases:**	**-**	**158**	**209**	**48**	**1**	**416**
C.1	Disposals			9	48		**57**
C.2	Depreciation		158	200		1	359
C.3	Impairment losses booked to:						
	a) shareholders' equity						
	b) profit and loss						
C.4	Decreases in fair value booked to:						
	a) shareholders' equity						
	b) profit and loss						
C.5	Negative exchange rate differences						
C.6	Transfers to:						
	a) fixed assets held for investment						
	b) assets available for sale						
C.7	Other changes						
D.	**Net closing balance**	**4,200**	**2,649**	**965**	**-**	**1**	**7,815**
D.1	Total net decreases in value		2,679	1,476	621	236	5,012
D.2	**Gross closing balance**	**4,200**	**5,328**	**2,441**	**621**	**237**	**12,827**
E.	Carried at cost						

All fixed assets are booked at cost.
The land and buildings columns separately report amounts that jointly represent the value of the Company's only building.
The total decreases in value shown in points A.1 and D.1 refer to accumulated depreciation.
There are no figures provided for Sub-account E - Carried at cost since the same are only to be provided, pursuant to Bank of Italy instructions, when the balance-sheet assets are stated at *fair value.*

11.6 Fixed assets: depreciation rates

Main categories of fixed assets	**%**
Buildings	3
Furniture, furnishings and equipment	15
Electronic systems	20
Motor vehicles	25

SECTION 12 – INTANGIBLE ASSETS – ACCOUNT 120

12.1 Intangible fixed assets: breakdown by type of asset

Asset / Amount		Total as at 31.12.2008		Total as at 31.12.2007	
		Limited life	Unlimited life	Limited life	Unlimited life
A.1	Goodwill	X	-	X	854
A.2	Other intangible assets				
A.2.1	Assets carried at cost:				
	a) Internally generated intangible assets				
	b) other assets				
A.2.2	Assets carried at fair value:				
	a) Internally generated intangible assets				
	b) other assets				
	Total		**-**		**854**

12.2 Intangible fixed assets: annual changes

		Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
			Limited life	Unlimited life	Limited life	Unlimited life	
A.	**Opening balance**	**3,641**					**3,641**
A.1	Total net decreases in value	2,787					2,787
A.2	**Net opening balance**	**854**					**854**
B.	**Increases**						
B.1	Purchases						
B.2	Increases in internally generated intangible assets	X					
B.3	Writebacks	X					
B.4	Increases in fair value booked to:						
	- shareholders' equity	X					
	- profit and loss	X					
B.5	Positive exchange rate differences						
B.6	Other changes						
C.	**Decreases**	**854**					**854**
C.1	Disposals						
C.2	Writedowns						
	- Depreciation	X					
	- Writedowns						
	+ shareholders' equity						
	+ profit and loss	854					854
C.3	Decreases in fair value booked to:						
	- shareholders' equity	X					
	- profit and loss	X					
C.4	Transfers to non-current assets held for sale						
C.5	Negative exchange rate differences						
C.6	Other changes						
D.	**Net closing balance**	**-**					**-**
D.1	Total net reduction in value	3,641					3,641
E.	**Gross closing balance**	**3,641**					**3,641**
F.	Carried at cost						

The goodwill arising from the merger deficit consequent to the acquisition of the former Merchant Leasing & Factoring S.p.A. in 2002 was tested for *impairment.* For this purpose the value in use was recomputed by identifying, as a *cash generating unit*, the portfolio of leasing and factoring contracts acquired as part of the merger mentioned above. The net financial flows of the cash-generating unit were then estimated, using a discount rate consistent with the guidelines provided by paragraphs 55, 56 and 57 of IAS 36. The estimated value in use, while taking account of the natural decay of the assumptions under which the value was acquired, entailed the entire depreciation of the carried value, as is explained in more detail in Section 16.1 - Parte C of the Notes to the Financial Statement.

SECTION 13 – TAX ASSETS AND LIABILITIES – ACCOUNT 130 (ASSETS) AND ACCOUNT 80 (LIABILITIES)

13.1 Deferred tax assets: breakdown

	Total as at 31.12.2008	Total as at 31.12.2007
Receivables:	35,422	28,672
Other financial instruments		
Goodwill	562	352
Multiannual charges	1	1
Fixed assets		
Reserves for risks and charges	2,670	4,838
Corporate entertainment expenses	26	41
Personnel-related charges	111	96
Tax losses		
Unused tax credit to be deducted		
Other	624	660
Gross deferred tax assets	**39,416**	**34,660**
Offsetting with deferred tax liabilities		
Net deferred tax assets	**39,416**	**34,660**

13.2 Deferred tax liabilities: breakdown

	Total as at 31.12.2008	Total as at 31.12.2007
Capital gains to be divided into instalments		
Goodwill		
Fixed assets	99	100
Financial instruments		
Personnel-related charges	36	38
Other		
Gross deferred tax liabilities	**135**	**138**
Offsetting with deferred tax assets		
Net deferred tax liabilities	**135**	**138**

13.3 Changes in deferred tax assets (with offsetting entry to the profit and loss statement)

		Total as at 31.12.2008	Total as at 31.12.2007
1.	**Opening balance**	**34,660**	**42,237**
2.	**Increases**	**9,762**	**4,927**
2.1	Deferred tax assets arising during the year	9,762	4,927
	a) relating to previous years		
	b) due to change in accounting principles		
	c) writebacks		
	d) other	*9,762*	*4,927*
2.2	New taxes or increases in tax rates		
2.3	Other increases		
3.	**Decreases**	**5,006**	**12,504**
3.1	Deferred tax assets derecognised during the year	4,284	6,628
	a) reversals	*4,284*	*6,628*
	b) writedowns of non-recoverable items		
	c) change in accounting principles		
3.2	Reduction in tax rates		5,876
3.3	Other decreases	722	
4.	**Closing balance**	**39,416**	**34,660**

13.4 Change in deferred tax liabilities (with offsetting entry to the profit and loss statement)

		Totale al 31.12.2008	Totale al 31.12.2007
1.	**Importo iniziale**	**138**	**367**
2.	**Increases**		
2.1	Deferred tax liabilities arising during the year		
	a) relating to previous years		
	b) due to change in accounting principles		
	b) other		
2.2	New taxes or increases in tax rates		
2.3	Other increases		
3.	**Decreases**	**3**	**229**
3.1	Deferred tax liabilities derecognised during the year	3	180
	a) reversals	*3*	*180*
	b) due to change in accounting principles		
	b) other		
3.2	Reduction in tax rates		49
3.3	Other decreases		
4.	**Closing balance**	**135**	**138**

13.7 Current tax assets

	Totale al 31.12.2008	Totale al 31.12.2007
Prepayments of corporate income tax (IRES)		
Prepayments of regional tax on productivity (IRAP)	4,458	3,814
Other receivables and withholdings	203	3,877
Gross current tax assets	**4,661**	**7,691**
Offsetting with current tax liabilities	4,458	3,814
Net current tax assets	**203**	**3,877**

13.8 Current tax liabilities

	Total as at 31.12.2008			Total as at 31.12.2007		
	Third Parties (Consolidated Tax Return)	own		Third Parties (Consolidated Tax Return)	Propri	
		Booked to Shareholders' Equity	Booked to Profit and Loss Statement		Booked to Shareholders' Equity	Booked to Profit and Loss Statement
Corporate income tax (IRES) payables						
Regional productivity tax (IRAP) payables			4,590			4,564
Other current income tax liabilities						
Gross current tax liabilities	-	-	**4,590**	**-**	**-**	**4,564**
Offsetting with current tax assets	4,458			3,814		
Net current tax liabilities	**132**			**750**		

SECTION 15 – OTHER ASSETS – ACCOUNT 150

15.1 Other assets - breakdown

Transactions / Amounts	**Total as at 31.12.2008**	**Total as at 31.12.2007**
Items undergoing processing	15,034	12,800
Supplier advances	5,899	6,992
Receivables for Consolidated Tax Return		0
Accrued income not referable to a specific account	294	22
Prepaid expenses not referable to a specific account	2,170	1,950
Other	2,303	2,867
Total	**25,700**	**24,631**

LIABILITIES AND SHAREHOLDERS' EQUITY

SECTION 1 – DUE TO BANKS – ACCOUNT 10

1.1 Due to banks: product breakdown

	Transactions / Amounts	Total as at 31.12.2008	Total as at 31.12.2007
1.	**Due to central banks**		
2.	**Due to banks**	**4,512,508**	**4,690,958**
2.1	Current accounts and unrestricted deposits	3,738	226,051
2.2	Restricted deposits	3,804,567	3,767,483
2.3	Loans	704,203	697,424
	2.3.1 Financial leasing		
	2.3.2 Other	*704,203*	*697,424*
2.4	Liabilities for commitments to repurchase own equity instruments		
2.5	Liabilities against assets sold but not derecognised		
	2.5.1 reverse repurchase agreements		
	2.5.2 other		
2.6	other liabilities		
	Total	**4,512,508**	**4,690,958**
	Fair Value	**4,512,508**	**4,690,958**

The amounts due to banks are all valued at cost or amortized cost, inasmuch as there are no amounts covered by specific *fair value* hedges.

SECTION 2 – DUE TO CUSTOMERS – ACCOUNT 20

2.1 Due to customers: product breakdown

	Transactions / Amounts	Total as at 31.12.2008	Total as at 31.12.2007
1.	Current accounts and unrestricted deposits		
2.	Restricted deposits		
3.	Third-party funds under custody		
4.	Loans	2,154,512	
	4.1 Financial leasing		
	4.2 Other	2,154,512	
5.	Liabilities for commitments to repurchase own equity instruments		
6.	Liabilities against assets sold but not derecognised		
	6.1 Reverse repurchase agreements		
	6.2 other		
7.	other liabilities	20,199	16,650
Total		**2,174,711**	**16,650**
Fair Value		**2,174,711**	**16,650**

The amounts due to banks are all valued at cost or amortized cost, inasmuch as there are no amounts covered by specific *fair value* hedges.

Account 4.2 "Loans - Other" entirely refers to loan transactions with MPS Ireland Ltd carried out in compliance with Group Liquidity Policy provisions.

Account 7. Other liabilities refers to subsidies received for subsidized leases to the benefit of the lessees.

SECTION 3 – SECURITIES ISSUED – ACCOUNT 30

3.1 Securities issued: product breakdown

Type of securities / Amounts	Total as at 31.12.2008		Total as at 31.12.2007	
	Book value	Fair Value	Book value	Fair Value
A. Listed securities				
1. Bonds				
1.1 structured				
1.2 other				
2. Other securities				
2.1 structured				
2.2 other				
B. Unlisted securities	**72,061**		**84,087**	
1. Bonds	72,061		84,087	
1.1 structured				
1.2 other	*72,061*		*84,087*	
2. Other securities				
2.1 structured				
2.2 other				
Total	**72.061**		**84,087**	

3.2 Securities issued: subordinated securities

Type of securities	Issue Date	Maturity Date	Currency	Interest Rate	Book Balance
Bond Loan IT0003401186	30/12/02	30/12/09	EUR	floating	12,002
Bond Loan IT0003595300	22/12/03	22/12/13	EUR	floating	60,059
Total					**72,061**

SECTION 8 – TAX ASSETS – ACCOUNT 80

See Section 13 of the assets.

SECTION 10 – OTHER LIABILITIES – ACCOUNT 100

10.1 Other liabilities: Breakdown

Transactions / Amounts	Total as at 31.12.2008	Total as at 31.12.2007
Due to tax authorities	1,366	887
Due to holding company for consolidated income tax return	5,660	3,996
Other amounts due to employees	5,364	813
Payables in relation to the payment of supplies of goods and services;	20,608	43,462
Revenues awaiting final allocation	84,813	78,770
Items undergoing processing	38,044	47,415
Items in transit between branches	14,204	27,304
Collections awaiting allocation	14,184	55,599
Accrued liabilities not referable to a specific account	1,327	2,703
Accrued liabilities not referable to a specific account	31	
Other	31,958	24,876
Total	**217,559**	**285,825**

SECTION 11 – STAFF SEVERANCE INDEMNITY RESERVE – ACCOUNT 110

11.1 Staff severance pay: annual changes

		Total as at 31.12.2008		Total as at 31.12.2007	
A.	**Opening balance**		**546**		**418**
B.	**Increases**		**25**		**209**
B.1	Provision for the year	*25*		*24*	
B.2	Other increases			*185*	
C.	**Decreases**		**116**		**81**
C.1	Settlements	*116*		*81*	
C.2	Other decreases				
D.	**Closing balance**		**455**		**546**

The provision for the year refers entirely to interest accrued during the year in relation to the time value of money. Line B.2 "Other increases" as at 31.12.2007 reflects the extraordinary impact of the application of the reforms contained in Legislative Decree no. 252 of 5 December 2005 covering retirement plans to supplement state pensions, which went into effect on 1 January 2007 and govern the allocation of the staff severance pay reserve.

11.2 Provision for staff severance pay: other information

In consideration of the fact that the provision for staff severance pay is a post-employment defined-benefit plan for the purposes of the international accounting principles, the changes in the actuarial valuations are detailed below.
The balance of the provision for staff severance pay according to the provisions of Article 2120 of the Italian Civil Code would amount to 586.

11.2.1 Annual changesin use of Staff Severance Pay provision

	Total as at 31.12.2008 Provision for Staff Severance Pay	Total as at 31.12.2007 Provision for Staff Severance Pay
Opening balance	**537**	**418**
A. Increases	**101**	**209**
1. Cost in relation to employment service in current period		
2. Financial charges	25	24
3 Actuarial losses	76	
4. Other increases		185
B. Decreases	**116**	**90**
1. Benefits paid	116	81
2 Actuarial profits		9
3. Other decreases		
Closing balance	**522**	**537**

The table shows the changes in the provision for staff severance pay during the year that is to be construed as a defined benefit plan under international accounting principles. The closing balance represents the theoretical pre-tax liability referable to the provision, taking into account the profits and losses not booked on the back of the application of the corridor method.

11.2.2 Reconciliations of present values of severance pay reserves to present value of plan assets and to assets and liabilities recognized in the balance sheet

	Total as at 31.12.2008
Present value of funded defined obligations (+)	522
Fair value of plan assets (-)	X
Status of the provision for severance pay	522
Actuarial gains accumulated and not booked (+)	9
Actuarial losses accumulated and not booked (-)	76
Assets recognized in the Balance Sheet	X
Liabilities recognized in the Balance Sheet	**455**

The table allows for reconciliation between the present value of the reserves as shown in an appraisal prepared by an independent actuary and the present value of the balance-sheet liabilities. On the back of the application of the corridor method, the actuarial gains and losses are booked to the balance sheet only when they exceed the greater of 10% of the present value of the defined-benefit obligation and 10% of the *fair value* of the assets, if any, available to service the plan.

11.2.3 Description of main actuarial assumptions for staff severance indemnity reserve

Main actuarial assumptions / Percentages	31.12.2008	31.12.2007
Discount rate	3.92%	4.95%
Expected rate of salary / wage increases	2.78%	1.8%

SECTION 12 – RESERVES FOR RISKS AND CHARGES – ACCOUNT 120

12.1 Provisions for risks and charges: breakdown

Account/Amount		Total as at 31.12.2008		Total as at 31.12.2007
1. Company pension funds				
2. Other provisions for risks and charges		9,708		9,255
2.1 legal disputes		1,085		1,124
2.2 personnel expenses				
2.3 other		8,623		8,131
2.3.1 provisions for contingent liabilities on revocation of payments in bankruptcies and other charges	*8,510*		*7,896*	
2.3.2 Leasing agents' customer indemnity reserves	*113*		*235*	
Total		**9,708**		**9,255**

12.2 Provisions for risks and charges: annual changes

			Other provisions
A.	**Opening balance**		**9,255**
B.	**Increases**		**1,134**
B0.1	Provision for the year	*1,134*	
B0.2	Changes due to the time value of money		
B0.3	Changes due to changes in the discount rate		
B0.4	Other increases		
C.	**Decreases**		**681**
C0.1	Use during the year	*495*	
C0.2	Changes due to changes in the discount rate		
C0.3	Other decreases	*186*	
D.	**Closing balance**		**9,708**

The opening balance is net of 5,715 in relation to the use of the reserves for risks and charges established on 31.12.2007 in view of potential and probable risks connected with leasing transactions in assets under construction which was zeroed and offset to the profit and loss statement under net valuation adjustments to tangible fixed assets following the clarifying instructions issued by the Bank of Italy in February 2008 according to which such transactions should be classified as receivables (and not as tangible fixed assets) when formal and explicit agreements provide for the substantial transfer of all risks to the lessee. Conversely such receivables were carried according to IAS 39 by making writedowns and writebacks as appropriate. See also comments in following table - 8.1 Net valuation adjustments to receivables due to impairment: breakdown - Section 8 Part C.

Account C.1 "Use during the year" for an amount of 495 concerns allocations written off due to discontinuation of the reasons which had caused recogntition.

Account C.3 "Other decreases" for an amount of 186 refers to the direct use of the fund for disbursements.

SECTION 14 – SHAREHOLDERS' EQUITY – ACCOUNTS 130, 150, 160, 170, 180, 190 AND 200

14.1 Shareholders' equity: breakdown

Account/Amount		Total as at 31.12.2008	Total as at 31.12.2007
1.	Share capital	287,966	287,966
2.	Share premium		
3.	Reserves	4,851	(9,124)
4.	(Own shares)		
5.	Valuation reserves	695	695
6.	Equity instruments		
7.	Profit (loss) for the year	13,158	13,975
Total		**306,670**	**293,512**

14.2 Share capital: breakdown

Account/Type	Total as at 31.12.2008				Total as at 31.12.2007			
	Par value per share	Par value of unencumbered shares	Par value of encumbered shares		Par value per share	Par value of unencumbered shares	Par value of encumbered shares	
			Paid	Not Paid			Paid	Not Paid
Ordinary shares	1.00	287,966			1.00	287,966		
Preferred shares								
Saving shares								
Total capital		287,966				287,966		

14.5 Earnings reserves: other information

Account/Amount		Total as at 31.12.2008	Total as at 31.12.2007
1.	Legal reserve	1,246	547
2.	Extraordinary reserve	21,910	10,394
3.	Prior-year losses carried forward	-	(1,760)
4.	Unrestricted earnings reserves	3,926	3,926
5.	Restricted earnings reserves	1,400	1,400
6.	Other reserves	(23,631)	(23,631)
Total		**4.851**	**(9,124)**

"Other reserves" with a negative balance of 23,631 were booked as a consequence of the initial application of the international accounting principles (IAS/IFRS).

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14.3 Share capital - number of shares Annual changes

	Account/Type	**Ordinary**	**Other**
A.	**Shares outstanding as at the start of the period**		
	- fully paid	287,965,745	
	- not fully paid		
A.1	Own shares (-)		
B.2	**Shares outstanding: opening balance**	**287,965,745**	
B.	**Increases**		
B.1	New issues		
	- against payment		
	- business combinations		
	- bonds converted		
	- warrants exercised		
	- other		
	- without payment:		
	- to employees		
	- to directors		
	- other		
B.2	Sale of own shares		
B.3	Other changes		
C.	**Decreases**		
C.1	Cancellation		
C.2	Purchase of own shares		
C.3	Sale of undertakings		
C.4	Other changes		
D.	**Shares outstanding: closing balance**	**287,965,745**	
D.1	Own shares (+)		
D.2	Shares outstanding as at the end of the year		
	- fully paid	287,965,745	
	- not fully paid		

14.7 Valuation reserves: breakdown

Account/Amount	**Total as at 31.12.2008**	**Total as at 31.12.2007**
1. Financial assets available for sale		
2. Tangible fixed assets		
3. Intangibles		
4. Hedges of foreign investments		
5. Cash-flow hedges		
6. Exchange differences		
7. Non-current assets held for sale		
8. Special revaluation laws	695	695
Total	**695**	**695**

The reserve in relation to the special revaluation laws was established pursuant to the provisions of Law 266/2005.

14.8 Valuation reserves: annual changes

	Financial assets available for sale	Tangible fixed assets	Intangible fixed assets	Hedges of foreign investments	Cash flow hedges	Exchange differences	Non-current assets held for sale	Special revaluation laws
A. Opening balance								**695**
B. Increases								
B.1 Increases in fair value								
B0.2 Other changes								
C. Decreases								
C.1 Decreases in fair value								
C.2 Other changes								
D. Closing balance								**695**

OTHER INFORMATION

1. Guarantees issued and commitments

Transactions	Total as at 31.12.2008	Total as at 31.12.2007
1) Financial guarantees issued a) Banks b) Customers		
2) Commercial guarantees issued a) Banks b) Customers		
3) Irrevocable commitments to disburse funds	180,401	37,645
a) Banks		
i) certain usage		
i) uncertain usage		
b) Customers		
i) certain usage	175,401	37,645
i) uncertain usage	5,000	
4) Underlying commitments for credit derivatives: sales of protection		
5) Assets pledged to guarantee third-party obligations		
6) Other commitments		
Total	**180,401**	**37,645**

The irrevocable commitments to disburse funds for certain usage refer to the portion of invoices acquired without recourse in factoring transactions that has not been advanced.

PART C - INFORMATION ON THE PROFIT AND LOSS STATEMENT

SECTION 1 – INTEREST – ACCOUNTS 10 AND 20

1.1 Interest income and similar revenues: breakdown

Account/Type	Unimpaired financial assets		Impaired financial assets	Other assets	**Total as at 31.12.2008**	**Total as at 31.12.2007**
	Debt securities	Loans				
1. Financial assets held for trading						
2. Financial assets available for sale						
3. Financial assets held to maturity						
4. Due from banks		3,598		1,627	**5,225**	**1.326**
5. Due from customers		324,480	7,153	669	**332,302**	**276.324**
6. Financial assets at fair value						
7. Hedging derivatives	X	X	X			
8. Financial assets sold but not derecognised						
9. Other assets	X	X	X			
Total		**328.078**	**7,153**	**2,296**	**337,527**	**277,650**

The "impaired financial assets" column shows the interest paid on such assets calculated according to the effective interest rate for the assets valued at amortized cost and the interest on past-due amounts that has actually been collected. The accrued interest on past-due amounts written down to zero (inasmuch as they are deemed non-recoverable) is included in the interest margin only when actually collected.

1.3 Interest income and similar revenues: other information

1.3.1 Interest earned on financial assets denominated in foreign currency

Account/Amount	**Total as at 31.12.2008**	**Total as at 31.12.2007**
Interest earned on financial assets denominated in foreign currency	33	36

1.3.2 Interest earned on financial lease transactions

Account/Amount	**Total as at 31.12.2008**	**Total as at 31.12.2007**
Interest earned on financial lease transactions	240,679	209,285

1.4 Interest expense and similar charges: breakdown

Account/Type	Payables:	Securities	Other liabilities	**Total as at 31.12.2008**	**Total as at 31.12.2007**
1. Due to banks	178,559		30,502	209,061	1.
2. Due to customers	28,175			28,175	2.
3. Securities issued		4,908		4,908	3.
4. Financial liabilities held for trading					4.
5. Financial liabilities stated at fair value					5.
6. Financial liabilities against assets sold but not derecognised					6.
7. Other liabilities					7.
8. Hedging derivatives					8.
Total	**206.734**	**4,908**	**30,502**	**242,144**	**189,606**

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on liabilities denominated in foreign currency

Account/Amount	**Total as at 31.12.2008**	**Total as at 31.12.2007**
Interest expense on financial liabilities denominated in foreign currency	24	28

SECTION 2 – FEES AND COMMISSIONS – ACCOUNTS 40 AND 50

2.1 Commissions earned: breakdown

Type of services/ Amount	**Total as at 31.12.2008**	**Total as at 31.12.2007**
a) Guarantees issued		
b) Credit derivatives		
c) Management, trading and advisory services:	55	21
1. trading of financial instruments		
2. trading of foreign currencies	*55*	
3. asset management		
3.1 individual accounts		
3.2.collective investment funds		
4. custody and administration of securities		
5. depository bank		
6. placement of securities		
7. collection of orders		
8. advisory services		
9. distribution of third-party services	-	21
9.1. asset management		
9.1.1 individual accounts		
9.1.2 collective investment funds		
9.2 insurance products		
9.3 other products		*21*
d) collection and payment services		
e) Servicing of securitizations		
f) Factoring transaction services	19,951	18,225
g) Tax collection		
h) other services	6,406	7,414
1. commissions on leasing transactions	*6,405*	*7,317*
2. other	*1*	*97*
Total	**26,412**	**25,660**

2.2 Commissions earned: by product/service distribution channel

Channel / Amount	Total as at 31.12.2008	Total as at 31.12.2007
a) through own branches:		
1. asset management		
2. placement of securities		
3. distribution of third-party products and services		
b) off-site distribution:		
1. asset management		
2. placement of securities		
3. distribution of third-party products and services		
c) other distribution channels:	**-**	**21**
1. asset management		
2. placement of securities		
3. distribution of third-party products and services	-	21

2.3 Fee and commission expense: breakdown

Type of services/ Amount	Total as at 31.12.2008		Total as at 31.12.2007	
a) Guarantees received		1,897		1,511
b) credit derivatives				
c) management, trading and advisory services:				
1. trading of financial instruments				
2. trading of foreign currencies				
3. Asset management:				
3.1 own portfolio				
3.2 third-party portfolio				
4. custody and administration of securities				
5. placement of financial instruments				
6. off-site marketing of financial instruments, products and				
d) collection and payment services				
e) other services		16,382		16,813
1. leasing brokerage commissions	*5,736*		*6,467*	
2. factoring brokerage commissions	*9,315*		*8,264*	
3. commissions paid to banks	*194*		*543*	
4. commissions for credit recovery services	*1,048*		*1,443*	
5. other	*89*		*96*	
Total		**18,279**		**18,324**

The 1,897 of commissions paid for guarantees received include €/000 1,858 of commissions paid to the holding company against the guarantee for solvency of debtors assigned which was undertaken as part of an extraordinary joint transaction entailing the definitive, non-recourse purchase of a significant amount of receivables, and € 39 €/000 of commissions paid on guarantees related to value-added tax credits whose reimbursement has already been requested.

SECTION 4 – NET PROFIT (LOSS) FROM TRADING – ACCOUNT 80

4.1 Net profit (loss) from trading: breakdown

Transactions / P&L items	Capital Gains (A)	Trading Profit (B)	Capital Losses (C)	Trading Losses (D)	Net Profit (Loss) [(A+B) - (C+D)]
1. Financial assets held for trading 1.1 Debt securities 1.2 Equity instruments 1.3 Units of entities for collective investment of savings (OICR) 1.4 Loans 1.5 Other					
2. Financial liabilities held for trading: 2.1 Debt securities 2.2 Other					
3. Other financial assets and liabilities: exchange differences	X	X	X	X	54
4. Derivatives 4.1 Financial derivatives - on debt securities and interest rates - on equity instruments and share indices - on currency and gold - other 4.2 Credit derivatives	X	X	X	X	
Total					**54**

SECTION 8 – NET WRITEDOWNS / WRITEBACKS DUE TO IMPAIRMENT – ACCOUNT 130

8.1 Net writedowns due to impairment of receivables: breakdown

Transactions / P&L items	Writedowns (1)			Writebacks (2)				Total as at 31.12.2008 (1) – (2)	Total as at 31.12.2007
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Loans to banks			234					234	-
B. Loans to customers	15,655	38,773	3,000	3,909	2,202		3,447	47,870	32,800
C. Total	**15,655**	**38,773**	**3,234**	**3,909**	**2,202**		**3,447**	**48,104**	**32,800**

Legend
A = From interest; B = Other recoveries

SECTION 9 – ADMINISTRATIVE EXPENSES – ACCOUNT 150

9.1 Personnel expenses: breakdown

Type of Expense / Amount		Total as at 31.12.2008	Total as at 31.12.2007
1) Employees				
a) salaries and wages		3,712		3.559
b) social-welfare charges		1,032		969
c) severance pay				
d) social security expenses				
e) provision for staff severance pay		25		209
f) pension fund and similar obligations:				
- defined contribution				
- defined-benefit				
g) contributions to external pension funds:		323		278
- defined contribution	*323*		*278*	
- defined-benefit				
h) costs related to share-based payments		210		195
i) other employee benefits		190		140
2) Other personnel		12,728		12.079
3) Directors		317		338
Total		**18.537**		**17,767**

The personnel expenses also include t costs sustained for employees of other MPS Group companies seconded with the Company, and exclude the costs of Company employees seconded with other MPS Group companies, thereby making it possible to show the actual cost of the Company's work force.
The provision for the staff severance pay as at 31.12.2007 includes interest accrued in relation to the time value of money (24), whereas the remaining 185 refers to the extraordinary charge arising from the application of the reforms contained in Legislative Decree no. 252 of 5 December 2005 covering retirement plans to supplement state pensions, which went into effect on 1 January 2007 and govern the allocation of the staff severance pay.
The expenses for share-based payments refer to charges for the stock-granting plan of the holding company to employees.
The other employee benefits include: 86 for meal allowances; 40 for staff insurance; 32 for voluntary retirement incentives; 4 for refunding of job missions and transfers; and 28 for other non-recurring charges.

9.2 Average number of employees by category

Category / Average Number		Total as at 31.12.2008		Total as at 31.12.2007
Employees:				
a) senior managers		1		1
b) middle managers		25		19
- including: third- and fourth-level middle managers	*13*		*12*	
c) remaining staff		45		46
Other personnel		112		110
Total		**183**		**176**

9.3 Defined-benefit company pension funds: Total cost

		Total as at 31.12.2008		Total as at 31.12.2007	
		Defined-benefit company pension funds	Provision for Staff Severance Pay	Defined-benefit company pension funds	Provision for Staff Severance Pay
1.	Social security cost in relation to employment service for current period (+)				
2.	Financial charges (+)		25		24
3.	Expected return on plan assets (-)				
4.	Expected return on reimbursement claims carried as assets (-)				
5.	Actuarial gains (losses) (±)				
6.	Social security cost in relation to past employment service (+)		(116)		(81)
7.	Gains/losses on curtailments and settlements				
8.	Effect of recognition of assets				
	Total		**(91)**		**(57)**

9.4 Other employee benefits

The Company has no other employee benefits for which the supplemental disclosures required by Paragraphs 131, 141 and 142 of IAS 19 would need to be supplied.

9.5 Other administrative expenses: breakdown

Type of Expense / Amount	Total as at 31.12.2008	Total as at 31.12.2007
Expenses for services supplied by MPS Group companies and entities	4,009	4,438
Remuneration of external professionals	2,454	2,110
Third-party data processing	775	560
Rentals	518	507
Postage	567	630
Telephone, telefax and telegraph	236	303
Reports and surveys	326	316
Stamp duties	381	351
Indirect taxes and duties	102	111
Property rentals	594	406
Maintenance of movable and immovable properties (used in the business)	108	55
Advertising	964	273
Transportation	188	178
Membership dues	210	165
Corporate entertainment expenses	221	255
Utilities	120	112
Security services	70	64
Reimbursement of employee car and travel expenses	170	124
Cleaning service contracts	71	74
Printing and stationery	107	100
Subscriptions and publications	23	21
Insurance		
Municipal immovable property tax	18	18
Other	382	411
Total	**12,614**	**11,582**

SECTION 10 – NET PROVISIONS FOR RISKS AND CHARGES – ACCOUNT 160

10.1 Net provisions for risks and charges: breakdown

Account/Amount	Total as at 31.12.2008			Total as at 31.12.2007		
	Damage Claims and Revocation of Payments in Bankruptcies	Legal Disputes	Other	Damage Claims and Revocation of Payments in Bankruptcies	Legal Disputes	Other
Provisions for the year	857	277		2,047	239	
Use during the year	(227)	(269)	(5,715)	(1,404)	(203)	(5,976)
Total	**630**	**8**	**(5,715)**	**643**	**36**	**(5,976)**

With regard to "Use during the year - Other" for an amount of 5,715, reference is made to the comment relating to the previous table - 12.2 Provisions for Risks and Charges: annual changes - Section 12 Part B of the Liabilities. With respect to the corresponding item as at 31.12.2007 for an amount of 5,976 resulting from the restatement, reference is made to the explanations provided in the Introduction to Part A - Accounting Policies.

SECTION 11 – NET WRITEDOWNS / WRITEBACKS ON FIXED ASSETS – ACCOUNT 170

11.1 Net valuation adjustments to fixed assets: breakdown

Asset / P&L item	Depreciation (a)	Impairment losses (b)	Writebacks (c)	Net Profit (a+b-c)	Net Profit (Loss)
				Total as at 31.12.2008	Total as at 31.12.2007
A. Tangible fixed assets					
A.1 Owned	359			359	260
- for functional use	*359*			*359*	260
- held for investment					
A.2 Leased					
- for functional use					
- held for investment					
Total	**359**			**359**	**260**

SECTION 13 – OTHER OPERATING INCOME (EXPENSE) – ACCOUNT 190

13.1 Other operating expenses: breakdown

Account/Amount	Total as at 31.12.2008	Total as at 31.12.2007
Contingent liabilities not referable to a specific account	243	1,062
Capital losses on disposal of assets under financial lease	101	228
Insurance of assets under financial lease	2,376	2,318
Appraisals and advisory services related to financial lease transactions	1,506	698
Legal expenses for leasing-related disputes	1,978	2,052
Property tax on assets to be leased	1,112	817
Charges for transfer of ownership of assets under fin. lease	1,737	1,491
Other	8	17
Total	**9,061**	**8,683**

13.2 Other operating income: breakdown

Account/Amount	Total as at 31.12.2008	Total as at 31.12.2007
Contingent assets not referable to a specific account	369	689
Capital gains on disposal of assets under financial lease	2,021	3,427
Recovery of leasing expenses	5,196	4,729
Recovery of factoring expenses	196	220
Recovery of taxes	1,245	826
Other	443	195
Total	**9,470**	**10,086**

SECTION 16 – WRITEDOWNS ON GOODWILL – ACCOUNT 230

16.1 Writedowns on goodwill: breakdown

Account/Amount	Total as at 31.12.2008	Total as at 31.12.2007
Writedowns on goodwill	854	732

The disclosure of the following information is required by IAS 36:

Account/Amount	Total as at 31.12.2008	Total as at 31.12.2007
Book value of goodwill	0	854

1. Introduction

The goodwill booked upon recognition of the merger deficit at the time of the acquisition of subsidiary Merchant Leasing & Factoring S.p.A. in 2002, and classified under intangible assets, was tested for *impairment* as at 31.12.2007, in order to verify if the recoverable value exceeded the book value, in which case the book value would continue to be maintained, or if the recoverable value were to be less than the book value, in which case a corresponding writedown would be required. The estimate of the recoverable value of the goodwill - considering the impossibility of determining the *fair value* of the goodwill due to the lack of an active market therefor - entailed the computation of the value in use, which was obtained by discounting the net cash flows generated by the group of assets to which the goodwill is associated. In this regard, it was necessary to identify the cash-generating assets, and to compute and discount the income flows, thus obtaining a value in use in accordance with the guidelines set out by IAS 36.
Upon initial application of the international IAS/IFRS accounting principles in the 2005 financial statements, the cash-generating activity connected with the goodwill was identified as the portfolio of contracts acquired with the acquisition of the aforementioned subsidiary, subdivided into financial lease contracts and factoring contracts.

Below is information on the method adopted for the computation of the net cash flows; such method was used upon first-time IAS/IFRS application, with the consent of the holding company's internal audit staff.

2. Method for the computation of future net cash flows from leasing contracts

2.1. Identification of cash-generating assets

The assets capable of generating future income on a stand-alone basis to which the goodwill is associated have been identified as the leasing contracts acquired with the acquisition of Merchant Leasing & Factoring. In particular, all contracts in effect as at 31 December 2008 were considered, with the exception of non-performing contracts.

2.2 Calculation of total banking income

The total banking income was calculated after grouping together the income flows generated by the contracts according to the year in which the contract instalments come due (the contracts with the longest terms expire in 2023). This yielded an annual net income flow from which overheads could be deducted. The total banking income was calculated as the difference between the interest income generated by the contracts as of the due date of each instalment and the interest expense sustained for funding. The calculation does not take into account any insurance costs or fees to be paid to the network inasmuch as such amounts are debited to the customer over the term of the contract and do not have an impact on the profit and loss statement. In particular, interest income was computed for each contract, applying the nominal internal rate on the contract (sum of the base interest rate and the spread) to the numbers derived by multiplying the residual capital as of the due date of each instalment by the days remaining until the due date of the next instalment. The interest expense was

instead obtained by multiplying the numbers as defined above by an interest rate figured as the sum of the base rate and a credit spread; the rate represents the average cost of *funding* per type of product (aircraft / watercraft, real estate, capital goods and motor vehicles) incurred for hedging liquidity risk (the product type provides a good approximation of the term of the contract, with which a varying credit spread is associated).

2.3. Allocation of overheads

The overheads (personnel expenses, administrative expenses and charges for the depreciation of capital goods) to be deducted from total banking income generated by the leasing contracts were calculated by applying to average receivables generated by the contracts a percentage computed as the ratio of overhead costs for the leasing product for the years from 2003 to 2008 to total lease receivables, with the contract acquisition expenses excluded from the computation. Overheads are attributable to both acquisition and management activities; therefore, considering the portfolio was acquired by third parties, a decision was made to exclude the expenses portion attributable to acquisition activity.

The overhead costs were estimated by using the personnel employed in the leasing segment as the *cost driver*, dividing the cost of the personnel between the cost of the personnel dedicated to the management activity and cost of the personnel dedicated to acquisition activity. The calculations yielded a ratio of overheads to total lease receivables of 0.57% for 2003, 0.63% for 2004, 0.64% for 2005, 0.56% for 2006, 0.53% in 2007 and 0.83% for 2008. The weighted average of the 2003-2008 period (0.57%) has been used for future years, with 0.37% considered as acquisition expenses and 0.20% considered as management expenses Therefore, the overhead costs deducted from total banking income for each year amounted to 0.20% of average receivables.

2.4 Determination of the cost of credit

The cost of credit is defined as the losses presumed to occur for non-recoverability of the credit over the term of the contract. The estimate should be based on historical series compiled over the years and a future projection thereof. However, considering MPS Leasing & Factoring was set up in December 2001 (with first year end at 31 December 2002) and given the absence of prior data, the historical series is limited to information about writedowns taken during the years from 2003 to 2008. For the years of 2005, 2006, 2007 and 2008, the IAS data were considered, including the discounting of doubtful receivables subject to an individual *impairment test* and the collective provisions taken against performing receivables. Such data yields a cost of credit of the average receivables generated by the leasing contracts equal to 1.88% for 2004, 0.82% for 2005 and 0.08% for 2006. In 2007 the writebacks were equal to 0.16% of the average receivables, whereas in 2008 depreciations were taken for 0.80%.
Considering that average receivables are mainly real estate leases (98% in 2009 and 99% in 2010) which entail less risk, the decision was made to apply a more conservative writedown percentage equal to 0.50% of the annual average future receivables balance until 2016, lowering it to 0.30% for the residual term of the portfolio.

2.5 Determination of net cash flows

Once the percentage of overhead costs is determined and the cost of credit against annual average future receivables is calculated, it is possible to calculate the absolute amount of such costs to be deducted from total banking income, thereby obtaining the pre-tax income for future years. The future annual net income is then obtained by applying a 52.99% *tax rate* equivalent to the rate used for the computation of operating profitability in the 2009 budget.

3. <u>Method of determination of net future cash flows from factoring contracts acquired</u>

The method adopted for factoring contracts acquired upon acquisition of Merchant Leasing & Factoring S.p.A. is similar to that described for the leasing contracts, i.e. identification of the contracts to be used in the analysis, calculation of total banking income and estimation of overhead costs and the cost of credit, using the same criteria as those adopted for the leasing contracts. However, the method of determination of the total banking income deserves further insight inasmuch as the procedure is not the same as the method used for the leasing contracts, being the factoring product and methods of margin determination different.

3.1 Determination of total banking income from factoring contracts

The net total banking income for the factoring contracts was calculated as the algebraic sum of the gross total banking income and the intermediation expenses (commission paid for the relationships managed by the shareholder banks and rebates of commissions for relationships referred by other partner banks).
The gross total banking income was calculated for the years from 2003 to 2008 as the sum of commissions earned and the interest margin accrued on the transactions in effect during the respective periods. For the later years, the aggregate was calculated by applying a lapse factor to the prior year's margin. This value was computed by considering the trend of the total banking income over the 2003-2007 period, also taking into account the qualitative/quantitative evaluation of the volumes produced by the relationships still active.
The application of a lapse factor was also decided on the basis of the particulars of the product, with the strong correlation between the contract *origination* and current operating profitability tending to become less pronounced over time. The lapse factor as a percentage of gross total banking income that was deemed consistent with the business trends is 10% per annum.
Intermediation expenses were computed as a ratio of gross total banking income for the years from 2003 to 2008. The transfer price for the relationships currently managed by the partner banks was 17.9% for 2003, 17.2% for 2004, 18.3% for 2005, 21.3% for 2006, 22.3% in 2007 and 20.1% for 2008. A decision was made to use a rate of 20% for future years.
The same method was used for the refunds paid to other partner banks on commissions applied to customers. The percentage of gross total banking income was equal to 0.61% in 2003, 0.83% in 2004 and in 2005, 1.27% in 2006, and 1.69% in 2007 and 1.89% in 2008; a rate of 1.83% was decided for future years.
The future financial flows were projected out through 2023, thereby aligning the projection with the final maturity date in the lease portfolio.

3.2 Determination of net cash flows

The annual net total banking income figures were reduced by overhead costs and the cost of credit, thereby producing (as in the case of the leasing contracts) the net earnings flows to be discounted.
The assumptions used for the overhead costs and cost of credit for the leasing portfolio were also used for the factoring contracts. The ratio of the overhead expenses to total factoring receivables was 1.16% for 2003, 0.95% for 2004, 1.05% for 2005, 1.33% for 2006 and 1.09% in 2007 and 0.83% in 2008. The weighted average for the 2003-2008 period (1.04%) was used for future periods, with 0.51% related to acquisition costs and 0.53% to operating costs. Therefore, the overhead costs deducted from total banking income for each year amounted to 0.53% of average receivables
With reference to the cost of credit, the data for the 2003-2008 period indicates that a significant reduction in the writedowns was registered in 2005 in comparison with prior years. Writedowns were back on the rise in 2006, writebacks were booked in 2007 and writedowns were booked again in 2008. The cost of credit totalled 4.87% of the average receivables generated from the factoring business of the former Merchant Leasing & Factoring S.p.A. for the year of 2004; the figure dropped to 0.38% for 2005 and then rose to 2.35% in 2006; in 2007, the writebacks came to 1.43% of average receivables and in 2008 writedowns equalled 1.86%. The Company elected to prudentially apply a rate of 1.75% of the annual average receivables for the years from 2009 to 2013, lowering it to 1.50% for the 2014-2018 period and down to 1.25% for the remaining years.

4. Discounting of expected results and calculation of the value of use of goodwill

Having computed the financial flows for the assets to which the goodwill is associated, such flows were then discounted on the basis of a rate deemed appropriate on the basis of the provisions of IAS 36.

The international accounting principle establishes that the rate to be used for discounting expected cash flows must be a rate that reflects the result required by a hypothetical investor who might be in a position to invest in an asset that produces the same cash flows as those that are generated by the asset being valued, over the same time and with the same risk. The Capital Asset Pricing Model (CAPM) was used for the discounting; according to the CAPM, the return expected on a financial asset is equal to the risk-free rate (e.g. return on government securities) marked up by a market risk premium weighted by beta (which indicates the extent to which the return on the asset reacts to the fluctuations of the market itself).

Upon the indication of the holding company, a discount rate of 8.88% was applied, while the cost of *equity* (Ke) is derived from the following calculation:

Risk-free rate	4.38%
Market risk premium	5.00%
Beta (European figure for a finance-leasing company)	0.90

The *impairment test* which took account of the natural decay of the assumptions which had motivated the goodwill posting, entailed a consequent total writedown of its residual value by € 854,000.

SECTION 18 – TAX EXPENSE (INCOME) RELATED TO PROFIT FROM CONTINUING OPERATIONS – ACCOUNT 260

18.1 Tax expense (income) related to profit from continuing operations: breakdown

Account/Amount	Total as at 31.12.2008	Total as at 31.12.2007
1. Current tax (-)	(20,190)	(17,742)
2. Adjustments to current tax of prior years (+/-)		
3. Reduction of current tax for the year (+)		
4. Changes to deferred tax assets (+/-)	4,756	(7,576)
5. Changes to deferred tax liabilities (+/-)	3	229
6. Tax expense for the year (-) (-1+/-2 +3+/-4+/-5)	**(15,431)**	**(25,089)**

18.2 Reconciliation of theoretical tax charge to actual tax charge

	Total as at 31.12.2008		Total as at 31.12.2007	
	Corporate income tax (IRES)	Regional tax on productivity (IRAP)	Corporat e income tax (IRES)	Regional tax on productivity (IRAP)
Pre-tax profit (loss) from continuing operations	28,588	28,588	39,065	39,065
Amounts not relevant		57,291		45,055
Pre-tax profit (loss)	**28,588**	**85,879**	**39,065**	**84,120**
Tax rate	27,50%	4,82%	33,00%	5,25%
Theoretical tax rate	**7,862**	**4,139**	**12,891**	**4,416**
Permanent differences	2,277	431	1,815	141
- Non-deductible interest payable	*1,997*	*350*		
- Other non-deductible charges	*280*	*81*	*1,815*	*141*
Differences for prepaid / deferred taxes written-off	(4,267)	(13)	(6,445)	(3)
Differences for prepaid / deferred taxes arisen	9,728	34	4,775	152
Change in differences for prepaid / deferred taxes	(5,461)	701	1,670	(149)
Writedowns / writebacks of deferred tax assets and previously unrecognised deferred tax assets				
Effects of change of tax rate in relation to deferred taxes			5,772	54
Other				
Income taxes for the year	**10,139**	**5,292**	**20,478**	**4,611**
including:				
Taxes on income from continuing operations	10,139	5,292	20,478	4,611
Taxes on the income of groups of assets held for sale				

PART D – SEGMENT REPORTING

For segment reporting, see the report on operating performance.

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

SECTION 1 - CREDIT RISK

QUALITATIVE INFORMATION

1. General information

Upon coming into effect of the Basel II Accord on 1 January 2008, Leasing & Factoring adopted the standardized approach for calculating capital requirements for credit risk. Nevertheless, from an operational management perspective, the Company adheres to the broad-based value creation and management programme managed by the Parent Company's Planning function and therefore, through the Parent Company's Risk Management service, the calculation is based on economic capital and expected loss logics that are in line with the metrics envisaged for the other banks of the MPS Group.

2. Credit risk management policies

2.1. Organizational aspects

There are three operating levels for the disbursement, management and control of credit within the Company:
- Level 1 is concentrated at the head office, credit and credit management department, which receives guidance and strategic management guidelines from the Credit Policies and Control area within the bank holding company;
- Level 2 is positioned at the Company's representative offices, and acts as a support to the territorial network thus streamlining the credit disbursement process;
- Level 3 is concentrated within the network of the MPS Group commercial banks through the Aggregates and Territorial Areas within the main departments assigned to controlling credit risk.

Specifically, the credit department:
- defines the policies for developing the credit portfolio and tackles the policies for managing credit quality as per the guidelines provided by the Credit Policies and Control Area of the bank holding company;
- pursues, with the support of the Credit Policies and Control Area and other departments of the bank holding company, the optimization of portfolio quality by minimizing the total cost of credit risk through:
    a. participation in the development of credit systems and processes (disbursement, monitoring and recovery) at the level of the MPS Group;
    b. the adoption of credit-risk measurement systems (PD, LGD, EAD) in the credit process;
    c. contribution to managing the process of monitoring the Group's major risks;
- approves transactions within its sphere of competence or proposes transactions to the relevant bodies, expressing an opinion thereon.

In essence, the credit department represents the specific area charged with the disbursement of credit, whereas Credit Management is responsible for monitoring and control; both areas carry out their responsibilities through well-defined sub-units which are organized with a system of discretional decision-making limits as decided by the Company's governing bodies.

All of the structures involved deal with credit disbursement/management and credit risk monitoring within the framework of their defined responsibilities, on the basis of approaches depending on customer segmentation and customer risk. The structures involved use appropriate procedures (based on the Group's internal rating system which is usually calculated by the "rating bank") in order to assess creditworthiness, start the approval process, track relationships over time and pre-detect any irregularities that may arise.

The trend of all irregularities, including receivables rated as watchlist receivables according to the Supervisory instructions, are tracked as a whole by both the MPS Group's head office functions and the Bank's internal departments.
The management of receivables classified as non-performing and their recovery is delegated by the Company to the MPS Group's credit recovery company (MPS Gestione Crediti Banca S.p.A.).

2.2. Management, measurement and control systems

Since 2006, the MPS Group has been working on the restructuring of credit disbursement, monitoring and control processes with the primary objective of boosting effectiveness and efficiency, also by using the new metrics introduced by the new capital accord (Basel II). In this regard, aware of the options available under the new "Basel Accord on capital requirements - first pillar, credit risks", the holding company's Board of Directors approved the adoption and consequent development and validation (by the Bank of Italy) of the Advanced Internal Rating-Based Approach (AIRB) with respect to credit risk.

In June 2006, in line with the time-plan for validation of the internal rating system approved by the Bank of Italy, the MPS Group started the "experience period" for the corporate customers of Banca Monte dei Paschi, Banca Toscana, Banca Agricola Mantovana and MPS Banca per l'Impresa. Thereafter, in June 2007, in conformity with regulatory requirements, the Group began the experience period for retail customers of the same companies. The path to establish the Advanced Internal Rating-Based Approach was completed in 2008 with validation by the Bank of Italy. Subsequently, gradual extension is envisaged so as to include the consumer credit company, Consum.it, and Banca MPS Leasing & Factoring. However, considering that 70% of the latter Company's customers are customers of the MPS Group, the Company is already using the rating assigned to such customers by the other banks of the Group as the basis for credit scoring. With the adoption of the advanced approach by MPS Leasing & Factoring, all of the banks of the MPS Group will be using a single process for assessing creditworthiness, disbursing credit and monitoring exposure to risk in a manner compliant with the new metrics and the new principles introduced by Bank of Italy's supervisory regulations.

The changes to the group rating are also used to track the trend of customer risk and prepare any related corrective measures

Similarly, the bank holding company's credit policies and control area periodically distributes the lists of shared customers whose administrative classifications are not in line across the Group; the distribution is aimed at removing any scoring differences and at deciding upon and undertaking corrective actions. The same occurs for any positions flagged by the commercial banks whenever there is a negative trend in credit risk.

The management of anomalous positions is concentrated within special units of the Company, which carry out their responsibility by interfacing with similar units at the holding company and network banks and by working directly with the customer.

Data regarding the trend and development of credit risk are continuously assessed by the Risk Management and Credit Management departments via specific and periodic reports supplied by the bank holding company.

2.2.1 Assessment and disbursement processes

The credit processes used are specialized by lines of business, with the objective of increasing the level of efficiency for each segment (leasing and factoring) and optimizing the use of the resources employed in the management / monitoring phases; this makes it possible to achieve the proper balance between the marketing thrust and credit management effectiveness.

The counterparty's credit rating at group level, which can directly be extracted from the "loans and guarantees" procedure in the Company's information system, is the main factor driving credit decisions. The rating is therefore both a guide and an easy-to-use support in assessing creditworthiness as the extent of credit facilities increases. Other aspects of the credit approval process include: financial statement analysis, a review of data supplied by the chambers of commerce, surveys of immovable properties, data from the automated interbank risk service, and other information.

In addition, considering the specific nature of the credit facilities, the other activities outlined below are also carried out:
- Leasing transactions -
a) review of the consistency of prices for the purchase of assets leased;
b) assessment of fungibility and potential maketability of the asset in the event of repossession as a result of the customer's default (the so-called "guarantee effect" of the leased asset);
c) review of the user's capacity to repay the debt, with an evaluation of a business plan for facilities of a large amount;
d) review of the financial lease amortization plan in light of the transaction's characteristics and the evaluation of the impact of the plan on the profitability of the lease;

e) review of the technical risk of the transaction in terms of the Company's potential liability (Machinery Directive, healthcare equipment, liability for accidents at construction sites, etc.);
f) in the case of real estate leases under construction, the technical evaluation of the project, the metric computation, town planning aspects, an assessment of safety and security during the construction phase, and all of the other factors mentioned above.

- Factoring transactions:
a) assessment of the assigned debtors' capacity to repay the debt;
b) technical review of the transaction with the means of payment and the guarantees that are to be transferred to the factoring company;
c) in the case of definitive purchase of receivables, a review of payment terms and transaction profitability.

The rating used is based on an evaluation of customer data (statistical rating) and on an assessment of the customer relationship with the commercial bank ("behavioural trend" procedure). Should MPS Leasing & Factoring report any leasing or factoring product-related anomalies to the relationship manager of the commercial bank with which the customer is shared, such anomalies are weighed in the rating review.

2.3 Risk mitigation techniques

As a risk mitigation technique, the banking group usually requires collaterals. Normally this applies to transactions with durations longer then short term. However, in the specific case of leasing transactions, where assets remain the property of the lessor, asset re-marketability is the main guarantee, and thus such aspect is thoroughly analyzed in the initial assessment. As a result of this specific aspect provided for in the Basel II Accord, the weighting of lease transactions in terms of capital absorption is less than other types of medium/long-term transactions.

In the case of factoring, it is the assigned debtor's capacity to repay the debt that indirectly represents a guarantee to mitigate the risk on the credit granted as well as the ownership of the receivable that passes on to the factoring company upon formal factoring of the credit; here too, the technical and formal aspects of the credit facility contribute to mitigating the credit risk. Despite this, unsecured guarantees are often procured from individuals (guarantees) and sometimes from companies (guarantees and binding patronage letters).

3. Analysis of Economic Capital

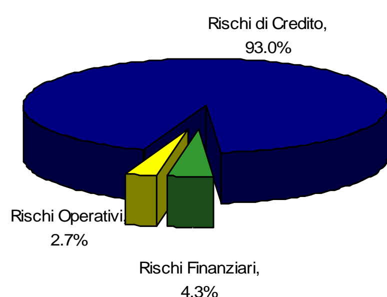
The Risk Management Area of the bank holding company has periodically calculated the Economic Capital for each individual type of risk using mostly internal measurement models. These models were specifically developed for individual risk factors and are essentially based on methods aimed at computing the maximum potential loss as given by a one-year time interval and confidence interval compatible with the level of probability of default assigned to the MPS Group by the rating agencies. The Economic capital is defined as the minimum amount of capital resources necessary to cover economic losses due to the occurrence of unexpected events generated by different types of risk.

Major risks included in the scope of measurement refer to: a) credit risk (inclusive of counterparty risk, issuer risk and concentration risk) b) market risks on the Trading Book, c) interest-rate risk on the Banking Book (ALM), d) operational risk, e) equity risk, defined as the risk of losses originated by the equity investments portfolio.

In consideration of their being “individually” significant pursuant to existing regulations and international *best practices*, Value-at-Risk (VaR) measurements for each risk factors are determined by adopting *holding periods* and confidence intervals that are differentiated by risk factors, in compliance with the recommendations set forth in the latest Supervisory Instructions for Banks issued by the Bank of Italy. The Total Economic Capital is computed by measuring all individual risk factors: these measures are made homogeneous in terms both of timeframe (annual *holding period*) and of confidence interval, which is pre-selected in line with the rating assigned to the MPS Group by the rating agencies, and are subject to "intra-risk” and “inter-risk” diversification processes.

The final output highlights the overall Internal Capital differentiated by legal Entity, Business Unit and Area of Responsibility, and is periodically monitored and published in a report prepared by the Risk Management Area of the parent company. In addition, the same measurement is done – at a centralized level – for the individual legal entities and reviewed with the corporate bodies of each of these entities via the preparation of special reports adapted to the specific lines of business of the banks included in the scope of consolidation.

Capitale Economico Diversificato
(esclusa operatività infragruppo)
MPS Leasing & Factoring - 31 dicembre 2008



As at 31 December 2008, approximately 93% of the Economic Capital of MPS Leasing & Factoring is attributable to credit risk (including counterparty, issuer and concentration risk) while another 2.7% is traceable back to operational risks. The operating capital to cover financial risks (represented by the Banking book rate risk only) is equal to approximately 4.3% of the total Economic Capital. The contribution of equity risk is negligible.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 IMPAIRED AND UNIMPAIRED LOANS: AMOUNTS, WRITEDOWNS, CHANGES, BREAKDOWN BY BUSINESS ACITIVY AND GEOGRAPHIC AREA

A.1.1 Breakdown of financial assets by portfolio and by credit quality (book values)

Portfolio/quality	Non-performing receivables	Watchlist receivables	Restructured receivables	Past-due	Country Risk	Other assets	Total
1. Financial assets held for trading							1.
2. Financial assets available for sale						5	2.
3. Financial assets held to maturity							3.
4. Due from banks						1,622,466	4.
5. Due from customers	83,521	127,048	928	76,959		5,284,837	5.
6. Financial assets at fair value							6.
7. Financial assets held for sale							7.
8. Hedging derivatives							8.
TOTAL 31.12.2008	**83.521**	**127,048**	**928**	**76,959**		**6,907,308**	**7,195,764**
TOTAL 31.12.2007	**60.368**	**81,556**	**-**	**54,049**		**5,089,344**	**5,285,317**

The table shows the breakdown of the different portfolios of financial assets by credit quality, pursuant to the definitions provided by the Bank of Italy and adopted for the purpose of the financial statements.
The amounts shown are book values, net of any doubtful amounts.

A.1.2 Breakdown of financial assets by portfolio and credit quality (Gross and net values)

Portfolio/quality	Impaired assets				Other assets			Total (net exposure)
	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure	Gross exposure	Portfolio writedowns	Net exposure	
1. Financial assets held for trading					X	X		
2. Financial assets available for sale					5		5	5
3. Financial assets held to maturity								
4. Due from banks					1,622,701	(235)	1,622,466	1.622.466
5. Due from customers	531,341	(242,885)		288,456	5,311,803	(26,966)	5,284,837	5.573.293
6. Financial assets at fair value					X	X		
7. Financial assets held for sale								
8. Hedging derivatives					X	X		
TOTAL as at 31.12.2008	**531.341**	**(242,885)**		**288,456**	**6,934,509**	**(27,201)**	**6,907,308**	**7,195,764**
TOTAL as at 31.12.2007	**413.610**	**(217,637)**		**195,973**	**5,120,809**	**(31,465)**	**5,089,344**	**5,285,317**

A.1.3 On- and off-balance sheet exposure to banks: gross and net values

	Type of exposure/ Amount	Gross exposure	Specific writedowns	Portfolio adjustments	Net exposure
A.	***BALANCE-SHEET EXPOSURE***				***A.***
a)	Non-performing receivables				a)
b)	Watchlist receivables				b)
c)	Restructured positions				c)
d)	Past-due				d)
e)	Country Risk		X		e)
f)	Other assets	1,622,701	X	(235)	f)
TOTAL A		1,622,701	0	(235)	1,622,466
B.	***OFF-BALANCE SHEET EXPOSURE***				***B.***
a)	Impaired				a)
b)	Other		X		b)
TOTAL B					

A.1.4 Balance-sheet exposure to banks: change in gross impaired receivables and positions subject to Country Risk

No risk factors exist, nor did any risk factors emerge in 2008, in relation to the aforementioned receivables.

A.1.5 Balance-sheet exposure to banks: change in overall impairments.

No risk factors exist, nor did any risk factors emerge in 2008, in relation to the aforementioned receivables.

A.1.6 On and off-balance-sheet exposure to customers: gross and net values

	Type of exposure/ Amount	Gross exposure	Specific writedowns	Portfolio adjustments	Net exposure
A.	***BALANCE-SHEET EXPOSURE***				***A.***
a)	Non-performing receivables	291,307	(207,786)		a)
b)	Watchlist receivables	158,741	(31,693)		b)
c)	Restructured positions	1,328	(400)		c)
d)	Past-due	79,965	(3,006)		d)
e)	Country Risk	0	X		e)
f)	Other assets	5,311,803	X	(26,966)	f)
TOTAL A		**5,843,144**	**(242,885)**	**(26,966)**	**5,573,293**
B.	***OFF-BALANCE SHEET EXPOSURE***				***B.***
a)	Impaired				a)
b)	Other	175,401	X		b)
TOTAL B		**175,401**			**175,401**

A.1.7 Balance-sheet exposure to customers: change in gross impaired exposures subject to country risk

	Source / Categories	Non-performing receivables	Watchlist receivables	Restructured positions	Past-due	Country Risk
A.	***Gross exposure, opening balance***	**239,604**	**114,217**	**0**	**59,789**	
	- including: exposures sold but not derecognised					
B.	***Increases***	**81,202**	**142,590**	**2,593**	**68,596**	
B.1	Transfers from performing receivables	22,808	122,668	2,593	60,277	
B.2	transfers from other impaired receivables	51,328	7,181		188	
B.3	other increases	7,066	12,741		8,131	
C.	***Decreases***	**29,499**	**98,066**	**1,265**	**48,420**	
C.1	transfers to performing receivables		738		14,630	
C.2	write-offs	7,596	14,729		207	
C.3	collections	21,903	35,173	1,265	22,311	
C.4	amounts realized upon disposal of positions					
C.5	Transfers to other impaired receivables		47,426		11,272	
C.6	other decreases					
D.	***Gross exposure, closing balance***	**291,307**	**158,741**	**1,328**	**79,965**	
	- including: exposures sold but not derecognised					

A.1.8 Balance-sheet exposures to customers: changes in overall impairment

	Source / Categories	Non-performing receivables	Watchlist receivables	Restructured positions	Past-due	Country Risk
A.	***Opening balance of total writedowns***	**179,237**	**32,661**	**0**	**5,739**	
	- including: exposures sold but not derecognised					
B.	***Increases***	**42,869**	**35,929**	**400**	**2,533**	
B.1	Writedowns	24,088	35,929	400	2,533	
B.2	Transfers from other impaired receivables	18,781				
B.3	Other increases					
C.	***Decreases***	**14,320**	**36,897**		**5,266**	
C.1	Writebacks from assessments	3,388	2,391		5,059	
C.2	Writebacks from recoveries	365	57			
C.3	Write-offs	7,596	14,729		207	
C.4	Transfers to other impaired receivables		18,781			
C.5	Other decreases					
C.6	Interest accrued	2,971	939			
D.	***Closing balance of total writedowns***	**207,786**	**31,693**	**400**	**3,006**	
	- including: exposures sold but not derecognised					

A.2 CLASSIFICATION OF EXPOSURE BY EXTERNAL AND INTERNAL RATINGS

A.2.1	*Breakdown of on- and off-balance-sheet exposures by external rating classes*

Exposures	External rating classes						Unrated	**Total**
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	lower than B-		
A. Balance-sheet exposure		1,502,171	3,487	3	5		5,690,093	7,195,759
B. Commitments to disburse funds							175,401	175,401
Total		1,502,171	3,487	3	5		5,865,494	7,371,160

The external rating classes adopted to compile the table are those used by Standard & Poor's. The exposures considered are those booked in the previous tables A.1.3 (exposures to banks) and A.1.6 (exposures to customers). In the presence of more than one agency rating, the criteria used for rating selection are those of the Bank of Italy (where two ratings are available, the most prudential rating is assigned; where three or more ratings are available, the second is selected). In order to guarantee the significance of information, internal 'decodification' tables have been used to convert different rating agencies classifications into the one adopted by Standard & Poor's.

A.2.1.a. Breakdown of on- and off-balance sheet exposure related to securitized assets not derecognised by external rating classes

These exposures are not included in these financial statements.

A.2.2 Breakdown of on- and off-balance sheet exposures by internal rating classes

There are no internal ratings applied to balance-sheet and off-balance-sheet positions.

A.2.2.a *Breakdown of on-and off-balance-sheet exposure related to securitized assets not derecognised: by internal rating classes*

These exposures are not included in these financial statements.

A.3 BREAKDOWN OF SECURED EXPOSURE BY TYPE OF SECURITY

A.3.1 Secured balance-sheet exposure to banks and customers

	Value of Exposure	Real guarantees (1)			Personal guarantees (2)								**Total (1)+(2)**
					Credit derivatives				Unsecured signature loans				
		Immovables	Securities	Other assets	Governments	Other public entities	Banks	Other entities	Governments	Other public entities	Banks	Other entities	
Exposure to banks													
1. secured:													
1.1 totally secured													
1.2 partially secured													
Exposure to customers:													
2. secured:													
2.1 totally secured	1,546,844	1,041	268	762						30	1,596	1,522,310	1,526,007
2.2 partially secured	109,785	170	850	170							2,177	70,854	74,221

The table shows the amounts of the fully secured or partially secured balance-sheet exposure to banks and customers.

The balances thus do not correspond with total balance-sheet exposures inasmuch as the unsecured positions are excluded. As far as personal guarantees are concerned, the economic sectors to which the guarantees belong (unsecured signature loans) are identified by referring to the classification criteria set out in the Bank of Italy's publication "Classification of customers by sectors and groups of economic activity". The column headed "Value of Exposure" indicates the amount of the net exposure. The columns headed “Real guarantees” and “Personal guarantees” provide the “*fair value*” of the guarantees estimated as of the date of reference of the financial statements, or in absence of such information, the contractual value of the same.

A.3.2 Secured off-balance-sheet exposure to banks and customers

There are no secured off-balance-sheet positions.

A.3.3 Secured impaired balance-sheet exposure to banks and customers

	Value of Exposure	Secured Amount	Guarantees (Fair Value)																Total	Excess of Fair Value over Guaranteed Value
			Real guarantees			Personal guarantees														
						Credit derivatives						Unsecured signature loans								
			Immovables	Securities	Other assets	Governments and Central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities	Governments and Central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities		
1. Secured exposure to banks:																					
1.1 > 150%																					
1.2 100% - 150%																					
1.3 50% - 100%																					
1.4 < 50%																					
2. Secured exposure to customers:																					
2.1 > 150%	10,412	10,412	188															2,583	7,641	10,412	76,719
2.2 100% - 150%	6,573	6,573	424															3,292	2,856	6,572	1,858
2.3 50% - 100%	63,495	63,215	141	15	23											1,082		26,339	35,498	63,098	2,102
2.4 < 50%	4,327	2,078	140															57	1,964	2,161	2,161

The table shows the amount of the fully or partially secured impaired balance-sheet exposure to banks and customers. The balances thus do not correspond with total balance-sheet exposures inasmuch as the unsecured positions are excluded. As far as the personal guarantees are concerned, the economic sectors to which the guarantees (unsecured signature credits) belong are identified by referring to the classification criteria set out in the Bank of Italy's publication "Classification of customers by sectors and groups of economic activity".
The percentage of coverage of the guarantees received, which is necessary for classifying the exposure in the different accounts, is computed as the ratio of the contractually secured amount to gross exposure valued according to the measurement criteria established by the Bank of Italy.

The columns headed "Real guarantees" and "Personal guarantees" provide the "*fair value*" of the guarantees estimated as at the date of reference of the financial statements or, in the absence of such information, the secured amount.
The column headed "Excess of *fair value* over Guaranteed Exposure" shows the amount of the positive difference between the *fair value* of the guarantee and the secured amount in relation thereto.

DISTRIBUTION AND CONCENTRATION OF CREDIT

B0.1 Breakdown of on- and off-balance-sheet exposure to customers by segment

	Governments and Central banks				Other public entities				Financial companies			
	Gross exposure	Specific writedowns	Portfolio adjustments	Net exposure	Gross exposure	Specific writedowns	Portfolio adjustments	Net exposure	Gross exposure	Specific writedowns	Portfolio adjustments	Net exposure
A. Balance-sheet exposure												
A.1 Non-performing receivables									1,049	(748)		301
A.2 Watchlist receivables									571	(114)		457
A.3 Restructured positions												
A.4 Past-due									288	(11)		277
A.5 Other exposures	12,414		(64)	12,350	45,191		(229)	44,962	39,118		(199)	38,919
TOTAL	12,414		(64)	12,350	45,191		(229)	44,962	41,026	(873)	(199)	39,954
2. Off-balance-sheet exposure												
B.1 Non-performing receivables												
B.2 Watchlist receivables												
B.3 Restructured positions												
B.4 Past-due												
B.5 Other exposures												
TOTAL												
TOTAL as at 31.12.2008	12,414		(64)	12,350	45,191		(229)	44,962	41,026	(873)	(199)	39,954
TOTAL as at 31.12.2007	20,434		(129)	20,305	48,449		(224)	48,225	34,629	(635)	(153)	33,841

	Insurance companies				Non-financial companies				Other entities			
	Gross exposure	Specific writedowns	Portfolio adjustments	Net exposure	Gross exposure	Specific writedowns	Portfolio adjustments	Net exposure	Gross exposure	Specific writedowns	Portfolio adjustments	Net exposure
A. Balance-sheet exposure												
A.1 Non-performing receivables	1,092	(779)		313	286,599	(204,428)		82,171	2,567	(1,831)		736
A.2 Watchlist receivables	595	(119)		476	156,176	(31,181)		124,995	1,399	(279)		1,120
A.3 Restructured positions					1,328	(400)		928				
A.4 Past-due	299	(11)		288	78,673	(2,957)		75,716	705	(27)		678
A.5 Other exposures	3			3	5,092,089		(25,866)	5,066,223	122,988		(608)	122,380
TOTAL	1,989	(909)		1,080	5,614,865	(238,966)	(25,866)	5,350,033	127,659	(2,137)	(608)	124,914
2. Off-balance-sheet exposure												
B.1 Non-performing receivables												
B.2 Watchlist receivables												
B.3 Restructured positions												
B.4 Past-due												
B.5 Other exposures												
TOTAL												
TOTAL as at 31.12.2008	1,989	(909)		1,080	5,614,865	(238,966)	(25,866)	5,350,033	127,659	(2,137)	(608)	124,914
TOTAL as at 31.12.2007	1,385		8	1,377	5,183,871	(244,680)	(38,801)	4,900,390	275,255	(3,249)	(567)	268,439

The balance-sheet exposure reported in the table refers to the positions on the balance sheet, gross or net of doubtful amounts, whereas the off-balance sheet transactions, if any, would include all of the financial transactions other than cash transactions (guarantees issues, commitments, derivatives) that entail the assumption of credit risk, as valued according to the measurement criteria established by the Bank of Italy. The breakdown by economic segment of the borrowers and ordering parties is based on the classification criteria established by the Bank of Italy.

B.2 Breakdown of loans to resident non-financial companies

Business sector		
a)	Other marketable services	234,759
b)	Commercial services, recoveries and repairs	704,549
c)	Building and public works	474,609
d)	Metal products	248,762
e)	Textile, leather, footwear and apparel products	167,367
f)	Other sectors	3,519,059
	TOTAL	**5,349,105**

The balance-sheet exposures reported in the table refer to positions on the balance sheet. The breakdown by business segment is done according to the classification criteria established by the Bank of Italy.

B.3 Breakdown of balance-sheet and off-balance-sheet exposure to customers by geographic area

Exposure / Geographic Areas		ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
		Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A.	**Balance-sheet exposure**										
A.1	Non-performing receivables	291,279	83,502	28	19						
A.2	Watchlist receivables	158,741	127,048								
A.3	Restructured positions	1,328	928								
A.4	Past-due	79,943	76,938	22	21						
A.5	Other exposures	5,308,541	5,281,576	3,261	3,261	1	1				
	TOTAL	**5,839,832**	**5,569,992**	**3,311**	**3,301**	**1**	**1**				
B.	**Off-balance sheet exposure**										
A.1	Non-performing receivables										
A.2	Watchlist receivables										
A.3	Other impaired assets										
A.4	Other exposures										
	TOTAL	**-**	**-**	**-**	**-**	**-**	**-**				
	TOTAL as at 31.12.2008	**5,839,832**	**5,569,992**	**3,311**	**3,301**	**1**	**1**				
	TOTAL as at 31.12.2007	**5,594,540**	**5,268,490**	**3,588**	**3,549**	**540**	**538**				

The balance-sheet exposure reported in the table refers to the positions on the balance sheet, gross or net of doubtful amounts, whereas the off-balance sheet transactions, if any, would include all of the financial transactions other than cash transactions (guarantees issued, commitments, derivatives) that entail the assumption of credit risk, as valued according to the measurement criteria established by the Bank of Italy.
The values are reported gross and net of doubtful amounts.
The positions have been distributed among the various geographic areas on the basis of the counterparty's state of residence.

B.4 Breakdown of balance-sheet and off-balance-sheet exposure to banks by geographic area

Exposure / Geographic Areas		ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
		Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A.	**Balance-sheet exposure**										
A.1	Non-performing receivables										
A.2	Watchlist receivables										
A.3	Restructured positions										
A.4	Past-due										
A.5	Other exposures	1,622,700	1,622,466								
	TOTAL	**1,622,700**	**1,622,466**								
B.	**Off-balance sheet exposure**										
A.1	Non-performing receivables										
A.2	Watchlist receivables										
A.3	Other impaired assets										
A.4	Other exposures										
	TOTAL	**-**	**-**								
	TOTAL 31.12.2008	**1,622,700**	**1,622,466**								
	TOTAL 31.12.2007	**12,735**	**12,735**								

The balance-sheet exposure reported in the table refers to the positions on the balance sheet, whereas the off-balance sheet transactions, if any, would include all of the financial transactions other than cash transactions (guarantees issued, commitments, derivatives) that entail the assumption of credit risk, as valued according to the measurement criteria established by the Bank of Italy.
The values are reported gross and net of doubtful amounts.
The positions have been distributed among the various geographic areas on the basis of the counterparty's state of residence.

B.5 Large exposures (as defined by Supervisory instructions)

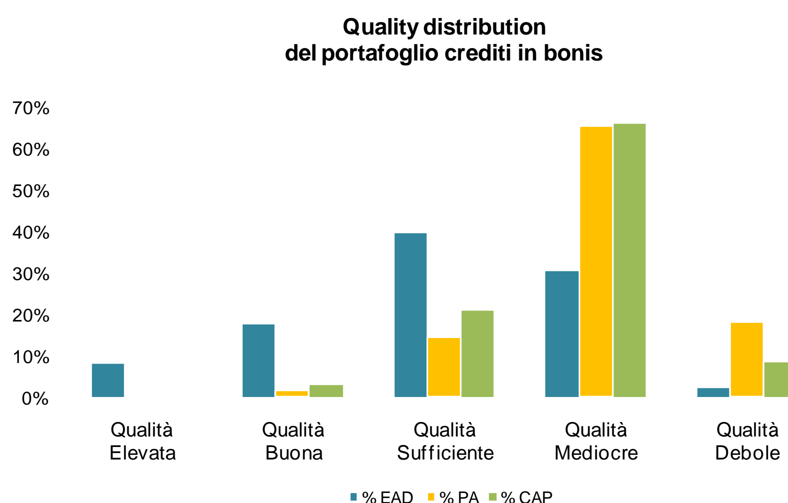
a)	Amount	145,911
b)	Number	1

The table shows the amount and number of positions which constitute large exposures of banks on a non-consolidated basis according to Supervisory regulations in effect.

D. CREDIT RISK MEASUREMENT MODELS

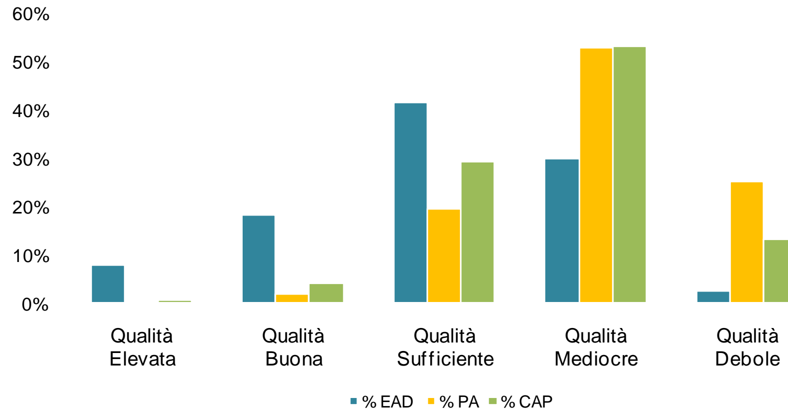
Credit risk is analyzed by using the Credit Portfolio Model developed internally by the holding company which outputs the traditional risk measures (expected loss, unexpected loss, inter-risk diversified economic capital) with a one-year time horizon and confidence interval calibrated to the official rating assigned to the Group. Input is manyfold: probability of default, LGD rates, number and types of collaterals in support of the credit facility, internal EAD coefficients, correlation matrix. In particular, as to the probability of default in 2008 the Supervisory Authorities approved the internal PD and LGD estimation models for corporate and retail clients of the MPS banks, Banca Toscana, Banca Agricola Mantovana (merged into MPS in September) and MPS Capital Services. Since over 90% of MPS Leasing & Factoring clients are clients of the afore-mentioned legal entities as well, these probabilities of default are used in the Credit Portfolio Model for the estimation of individual risk measures. Conversely, as mandated by the Bank of Italy's Circular Letter no. 263 of December 2006, the LGD parameters are based on the historic evidence of recoveries / costs incurred in relation to MPS Leasing & Factoring positions which transitioned to a default state over the previous years. These estimations, which are subject to periodic revisions, will be submitted to the Supervisory Authorities for approval over the next few years, as is provided for in the Montepaschi Group's roll-out plan. The correlation matrix is based on internal Group estimates and is used to make periodic finetunings aimed at introducing more advanced measurement methods. The matrix enables the quantification of the diversification/concentration component of individual portfolio positions. In line with practices commonly adopted by other banks, the Economic Capital calculation logic is based on Credit-VaR metrics. The portfolio model generates detailed measures for the individual positions: it enables the identification of a time-related pattern of credit risk according to different options of aggregation of the analyzed variables by legal entity, type of customer, geographic area, economic area of activity, rating class, continental area. It also enables the identification of the absorbed capital component with indication of the impact of diversification as compared with building-block logic. The Credit Portfolio Model also provides additional indications as to the "what-if" analysis of a number of discriminating variables such as the probabilities of default, LGD rates, value tend of guarantees and margins available on credit lines so as to quantify Expected Loss and Economic Capital levels if the underlying events (both hypothetical and historical) should occur.

The graph below highlights the credit quality breakdown of the MPS Leasing & Factoring credit portfolio. The representation analysis highlights that approximately 70% of exposures at risk are disbursed to high, good and sufficient quality borrowers. It is noted that the afore-mentioned exposures include amounts due from banks, governmental agencies and non-regulated financial and banking intermediaries. In accordance with the portfolio model - even though a specific programme for the implementation of internal ratings is not contemplated in the short run for the purpose of the Supervisory Authorities' approval- these exposures are in any case assigned a credit standing based on official ratings, if available, or internally determined values, as appropriate.

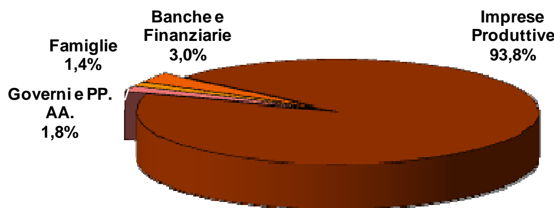


The graph below highlights the breakdown of credit quality with a focus on Corporate and Retail portfolios only, as approved by the Supervisory Authorities for Basel II purposes (internal rating models). Significantly, high, good and sufficient quality exposures as at 31 December 2008 account for approx. 68% of total exposures.

Quality distribution del portafoglio crediti in bonis
Segmenti Corporate e Retail



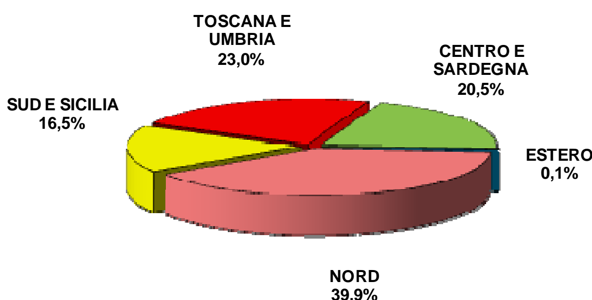
Esposizione a Rischio
(esclusa operatività intragruppo)
MP Leasing & Factoring - 31 dicembre 2008



Analysis conducted at the end of December 2008 shows that MP Leasing & Factoring exposures at risk are mainly with clients classified as "Manufacturing Companies" (93.8% of total disbursements) whereas residual exposures are registered with macro-segments such as "Banks and financial companies" (3%), “Households” (1.4%) and “Governments and Public Administration” (1.8%).

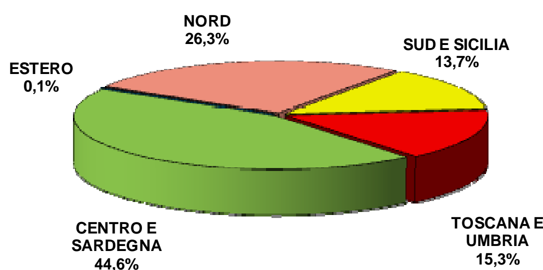
Risk measurements highlight that approx. 70% of Expected Loss and Economic Capital are attributable to the "Manufacturing companies" client segment

Esposizione a Rischio
(esclusa operatività intragruppo)
MP Leasing & Factoring - 31 dicembre 2008



An analysis of the geographic distribution of MPS Leasing & Factoring clients reveals that exposures at risk are mainly concentrated in the Northern regions (39.9%) followed by Tuscany and Umbria (23%), Central Italy and Sardinia (20.5%), South and Sicily (16.5%). Foreign countries only account for a residual 0.1%.

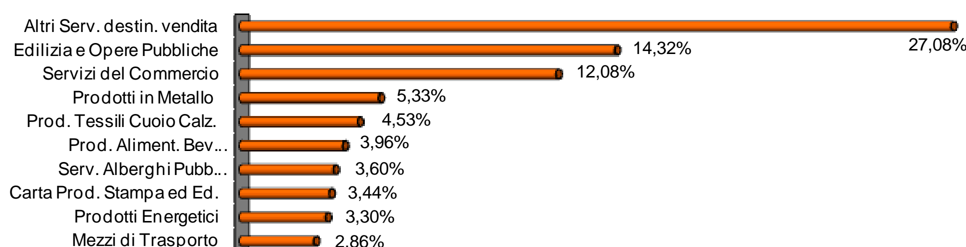
Misure di rischio %
(Perdita Attesa + Capitale Economico)
- situazione al 31 dicembre 2008 -



Overall risk measures (Expected Loss + Economic Capital) are mainly accounted for by the concentration of loans in Central Italy and Sardinia (44.6%). Northern Italy (26.3%), Tuscany and Umbria (15.3%) and South and Sicily (13.7%) follow, whereas the contribution to risk measures by foreign customers is marginal (0.1%).

Finally, an analysis of exposures in the 10 top ranking sectors by economic activity according to the Bank of Italy's classification – accounting for approximately 80% of loans as a whole - highlights that the highest risk measure absorption is mainly to be accounted for by the following sectors: "Other marketable services" (27.08%), "Building and Public Works" (14.32%) and "Commercial Services" (12.08%), which together make up approximately 54% of the overall risk measures. "Metal Products", "Textile products, Leather and Footwear" and "Food, beverage and tobacco products" follow: together, they account for 13.81% of total Expected Loss and Economic Capital.

Misure di Rischio % (Perdita Attesa + Capitale Economico)
- situazione al 31 dicembre 2008 -



SECTION 2 – MARKET RISK

2.1 INTEREST-RATE RISK - REGULATORY TRADING PORTFOLIO

Qualitative and quantitative information

This item is not reported in the financial statements.

2.2 INTEREST-RATE RISK - BANKING PORTFOLIO

Qualitative Information

A. Interest-rate risk: general information, operational procedures and measurement methods

In accordance with the international *best practices*, the Banking Book identifies all of the Company's business transactions related to the transformation of the maturities of balance-sheet assets and liabilities, treasury transactions, and hedging derivatives in relation thereto. The definition of the Banking Book's perimeter (in alignment with that for the regulatory banking portfolio) and the definition of the process for centralizing ALM are set out in a resolution passed by the Board of Directors of the bank holding company in September 2007 and referenced "Centralization of Asset and Liability Management and operational limits with respect to interest-rate and liquidity risk on the Group's Banking Book".

The strategic and operational decisions made with respect to the Banking Book by the Finance and Liquidity Committee are monitored by the holding company's Risk Committee and are based on the measurement of interest-rate risk from a “total return” perspective. Such decisions are aimed at minimizing the volatility of the expected interest margin during the current financial year (12 months) or, in other words, at minimizing the volatility of the total economic value to changes in the rate structures.

The analysis of the change of the interest margin at risk and the analysis of the change of the economic value of the banking book's assets and liabilities are developed by looking at the extent to which potential shifts in interest rates (25, 100 and 200 basis points, the last of which is contemplated by the second pillar of Basel II) may affect Tier I capital and consolidated regulatory capital in percentage terms.

In the last quarter of 2008, the Montepaschi Group further added to the rate risk measures a behavioural model which also takes account of the so-called loan *prepayment risk*. The loan prepayment rates and, in particular, those for residential mortgage loans have become potentially more unstable as a consequence of a number of concomitant factors such as the increasing volatility of the rate curve in the wake of the international crisis. The Treasury and Capital Management Area of the Group has responsibility for managing the MPS Leasing and Factoring interest-rate and liquidity risk at a centralized level.

The Treasury and Capital Management Area includes a Centralized Treasury Service that manages the Group's short-term interest-rate risk and liquidity risk. The Group Balance Sheet Management service manages the Group's structural rate risk and maturity transformation risk (structural liquidity), monitoring and managing hedging (with the various accounting models that can be used). The service is also a single point of reference in governing the definition of internal rates within the Group's network (BMPS and other Group companies) for all transactions in Euros and foreign currencies with maturities exceeding the short term. It also submits to the Finance and Liquidity Committee the proposed economic conditions for Group companies to access funds. The Treasury and Capital Management Area manages the Group's *funding* needs, proposing new bond issues and centrally managing the administrative issues in relation to the Group's bond issues.

Quantitative information

2. Banking book: internal models and other sensitivity analysis methods

At the end of 2008, a sensitivity analysis of MPS Leasing & Factoring revealed it is exposed to interest-rate risk in the event of an increase in market interest rates. However, the extent of the economic value at risk is perfectly compatible with both Tier I and regulatory capital and well below the "alert threshold" level set (at 20% for 200 bp rate shocks) by the New Capital Accord (Basel 2)

MPS Leasing & Factoring	31/12/08	
Risk indicators in the event of a (+/-) 100 bps shift	**+100 bps**	**-100 bps**
Net interest income at risk / net interest income upon final balance	1.96%	1.94%
Economic value at risk / Tier I	4.66%	5.26%
Economic value at risk / Regulatory Capital	3.76%	4.24%

PRICE RISK - REGULATORY TRADING PORTFOLIO

QUALITATIVE AND QUANTITATIVE INFORMATION

This item is not reported in these Financial Statements.

2.4 PRICE RISK - BANKING BOOK

QUALITATIVE AND QUANTITATIVE INFORMATION

The Company is not exposed to price risk inasmuch as it does not hold any: equity investments in outside companies (namely, companies that are not consolidated fully or proportionally); investments in entities for collective investment of savings (OICR); or derivatives of any type.
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2.5 EXCHANGE RATE RISK

QUALITATIVE AND QUANTITATIVE INFORMATION

The assets and liabilities denominated in foreign currency are generally balanced, without any significant exposure to exchange rate risk.

2.6 DERIVATIVE INSTRUMENTS

A. FINANCIAL DERIVATIVES

B. CREDIT DERIVATIVES

No financial derivatives or credit derivatives are reported in the financial statements

SECTION 3 - LIQUIDITY RISK

QUALITATIVE INFORMATION

A. Liquidity risk: general information, operational procedures and measurement methods

The Montepaschi Group structurally deals with liquidity risk issues with a formal *policy* for the management of this type of risk, also in view of *compliance* with the provisions set out in the second Pillar of Basel II. The organizational and operational *framework* provides for:

- a liquidity policy that requires the Group's liquidity scope and governance model be concentrated within the Treasury and Capital Management area, and that defines the short- and medium-/long-term organizational model, the construction of the net financial position (maturity ladder) and limits for the short and medium/long term. A stress test policy that is part of the "liquidity policy" is to be used for simulating the effects of stress conditions and for coming up with appropriate corrective actions;
- a contingency plan that addresses the question of managing liquidity in the midst of anomalous conditions, defining the risk indicators and the organizational processes needed for dealing with crisis situations.

The overall structural liquidity profile is monitored by quantifying the mismatches of cash flows coming due, by settlement date. Optional items have models for representation consistent with those used for interest-rate risk.

A special focus has been placed on the planning of funding at a Group level (Funding Plan). Such effort is headed and coordinated by Treasury and Capital Management (in collaboration with the Planning area), which:

- submits for approval to the Finance and Liquidity Committee the plan for market transactions that are functional to the fulfilment of the business plan objectives and capital management needs;
- coordinates access to the national and international, short- and long-term capital markets for all of the Group's banks, as well as access to ECB refinancing transactions and centralized management of mandatory reserves;
- develops projections about future liquidity, simulating different market scenarios.

QUANTITATIVE INFORMATION

1. Time breakdown by contractual residual maturity of financial assets and liabilities

Currency: EUR

Account / Maturity	on demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Maturity Unspecified
Balance-sheet assets										
A.5 Loans										
- banks	1,492,701	8,443	1,411	2,769	14,482	49,491	37,421	10,143		
- customers	660,089	926,315	18,004	55,959	211,398	178,592	308,787	1,643,967	1,281,726	288,456
Balance-sheet liabilities										
B.1 Deposits										
- banks	3,245	3,102,419	700,102			20,056		349,736	334,187	
- customers				8,510				1,483,000	663,000	
B.2 Debt securities				61			24,000	48,000		
B.3 Other liabilities		725		516	1,305	2,049	2,999	11,909	29	891

Currency: JPY

Account / Maturity	on demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years
Balance-sheet assets									
A.5 Loans									
- banks									
- customers									
Balance-sheet liabilities									
B.1 Deposits									
- banks	147				2,046				

Currency: USD

Account / Maturity	on demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years
Balance-sheet assets									
A.5 Loans									
- banks	5,605								
- customers									
Balance-sheet liabilities									
B.1 Deposits									
- banks	203								

Currency: GBP

Account / Maturity	on demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years
Balance-sheet liabilities									
B.1 Deposits									
- banks	69								

Currency: CHF

Account / Maturity	on demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years
Balance-sheet liabilities									
B.1 Deposits									
- banks	73								

2. Breakdown of financial liabilities by business sector

Exposure/Counterparties	Governments and Central banks	Other public entities	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Due to customers			2,154,512		20,199	
2. Securities issued			63,254			8,807
3. Financial liabilities held for trading						
4. Financial liabilities at fair value						
Total 31.12.2008			2,217,766		20,199	8,807
Total 31.12.2007			62,191		16,421	22,125

3. Breakdown of financial liabilities by geographic area

Exposure/Counterparties	Italy	Other European Countries	America	Asia	Rest of the world
1. Due to customers	20,199	2,154,512			
2. Due to banks	4,053,824	458,684			
3. Securities issued	10,965	61,096			
4. Financial liabilities held for trading					
5. Financial liabilities at fair value					
Total 31.12.2008	4,084,988	2,674,292			
Total 31.12.2007	4,338,680	453,016			

SECTION 4 - OPERATIONAL RISK

QUALITATIVE INFORMATION

A. Operational risk: general information, operational procedures and measurement methods

By Administrative Provision dated 12 June 2008, the Montepaschi Group received the authorization from the Bank of Italy to use internal models to determine the capital requirements necessary for credit and operational risks.

The adoption of the advanced model (AMA) calls for an organizational and cultural rearrangement of the banks, which are necessarily required to:

1. adopt an internal organization defining the roles of the corporate bodies and functions involved in the operational risk management process;
2. establish a control function for data gathering and storing, requirement calculation, risk profile assessment and reporting;
3. verify the management system quality and its adequacy as to regulatory norms on an ongoing basis;
4. delegate the internal auditing body to conduct periodic checks on the operational risk management system;
5. make sure over time that the system is actually used in the management of business (use test).

For this purpose, the Montepaschi Group has adopted an integrated system for operational risk management, i.e. an internal framework built around a governance model that involves all companies fitting within the AMA model scope of application. The system defines the standards, methods, and instruments that make it possible to measure the exposure at risk and the effects of the measures to mitigate risk by each area of business.

The advanced measurement approach has been developed so as to allow for a well-balanced combination of all principal information or data sources whether qualitative or quantitative (LDA-Scenario mixed model).

The quantitative component (Loss Distribution Approach) is based on the collection, analysis and statistical modeling of internal and external historical loss data (supplied by the DIPO consortium (DIPO = it. Database Italiano Perdite Operative = eng. Italian Database of Operating Losses).

The qualitative component is focused on the self-assessment of the risk profile of each company in the scope, and is based on the identification of significant scenarios.

To the Framework, it is the Group Operational Risk Management (ORM) function that is in charge of operational risk control. Besides calculating the capital requirement for covering the operational risks of all companies in the AMA scope, this function uses the various model components (internal data, external data, context and control factors, qualitative analysis) to support the Top Management decision making process with a view to creating value through retention, mitigation and transfer of detected risks.

During the different processes of the operational risk management system, the Company's involvement is ensured in all of the following phases: in the phase of loss-related data collection (quantitative source), during the identification of processes and risks to be assessed, in the course of the assessment of such risks by the process managers, in the identification of potential mitigation plans, in the sharing of potential prospective scenarios with the Parent Company's central functions and during the determination of the technical/economic feasibility and priorities of the initiatives aimed at mitigating the operational risk.

The implementation of actions scheduled and compliance with objectives and deadlines defined are monitored at centralized level in collaboration with the internal function in charge of operational risks. The Group Framework also envisages that specific reports summarizing and analyzing the different aspects of the bank's operational risk should be periodically submitted to both Parent Company's ORM and Top Management in order to ensure timely information.

From an organizational perspective, the Company has set up a local Operational Risk function which deals with the various phases of the operational risk management process in close coordination with the holding company's ORM unit.

QUANTITATIVE INFORMATION

The various types of events according to the New Basel Accord classification are defined below:

Internal fraud: losses owing to unauthorised activity, fraud, embezzlement or violation of laws, regulations or business directives that involve at least one internal member of the bank;

External fraud: losses owing to fraud, embezzlement or violation of laws by subjects external to the bank;

Employment practices and workplace safety: losses arising from actions in breach of employment, health and workplace safety laws or agreements, from personal injury compensation payments or from cases of discrimination or failure to apply equal treatment;

Customers, products and professional practices: losses arising from non-fulfilment of professional obligations towards clients or from the nature or characteristics of the products or services provided;

Damages to material goods: losses arising from external events, including natural disasters, acts of terrorism and vandalism;

Business disruption and system failures: losses owing to business disruption and system failures or interruptions;

Process management, execution and delivery: losses owing to operational or process management shortfalls, as well as losses arising from transactions with commercial counterparties, sellers and suppliers.

Almost all of the operational risk events recorded by the Company fall within the "Process management, execution and delivery" category. Such events generally refer to minor tax sanctions.

PART F – INFORMATION ON SHAREHOLDERS' EQUITY

SECTION 1 – SHAREHOLDERS' EQUITY

Regulatory capital totalled Eur 375 million, with approximately 81%t of the balance represented by Tier I capital.

Risk-weighted assets amounted to € 4,720 million and thus required capital to cover credit risk (8% on a standalone basis) which, reduced by 25% in the case of banks belonging to banking groups, stood at Eur 283 million. The Company thus has Eur 91.7 million of regulatory capital in excess of the amount required, thereby allowing for increased investment of up to € 1,529 million

The Company thus had a *Tier 1 ratio* (Tier I capital to risk-weighted assets) of 6.40%, and a *Total capital ratio* (regulatory capital to risk-weighted assets) of 7.94%.

With reference to the Company's internal organization, the Planning, Management Control and Risk Management area ensures the periodic measurement and monitoring of credit risks, market risks, and exchange rate risks, in accordance with the methods and procedures indicated by the regulatory authorities. The afore-mentioned area also evaluates risk levels and assists senior management with the formulation of appropriate strategies for risk management and optimized allocation of capital, in line with the evolution of risk/return indicators.

SECTION 2 –SHAREHOLDERS' EQUITY AND REGULATORY RATIOS

2.1 Regulatory capital

A. Qualitative Information

Regulatory capital as at 31 December 2008 was calculated on the basis of existing Supervisory rules and regulations.

1. Tier I

Tier 1 is the sum of the following components:

(+) Capital
(+) Share premium
(+) Reserves
(+) Non-innovative capital instruments
(+) Innovative capital instruments
(+) Net income for the period
(+) Prudential filters (increases in Tier I capital)
    Fair Value Option: changes in own credit standing
    Reimbursable shares
    Capital resources under forward purchase commitments allowable as part of Tier I capital computation
    Other positive filters
(-) Own shares
(-) Goodwill
(-) Other intangible assets
(-) Loss for the period *(and prior years)*
(-) Other deductions:
    Writedowns on receivables
    Regulatory value adjustments in relation to the "regulatory trading portfolio"
    other
(-) Prudential filters (decreases in Tier I capital)
    Fair Value Option: changes in own credit standing

Negative reserves against securities available for sale:
a) Equity securities and units of entities for collective investment of savings (OICR)
b) debt securities
Net capital gain accumulated on fixed assets
Capital resources under forward purchase commitments not allowed as part of Tier I capital computation
Other negative filters
(-) Elements to be deducted
Holdings in banks and financial institutions in excess of 10% of the capital of the company in which the stake is held:
Shareholdings
Non-innovative capital instruments
Innovative capital instruments
Hybrid capital instruments
subordinated instruments
Holdings in banks and financial institutions for less than 10% of the capital of the company in which the stake is held:
Shareholdings
Non-innovative capital instruments
Innovative capital instruments
Hybrid capital instruments
subordinated instruments
Equity investments in insurance companies:
equity investments
subordinated instruments
Surplus of expected losses over total value adjustments
Deductions arising from securitizations
Deductions in relation to settlement risk on non-DVP transactions

2. Tier II

Tier 2 is the sum of the following components:

(+) Valuation reserves:
a) Fixed assets :
- Special revaluation laws
- Fixed assets for functional use:
b) Securities available for sale:
- Equity securities and units of entities for collective investment of savings (OICR)
- Debt securities
(+) Non-innovative capital instruments not counted in Tier I capital
(+) Innovative capital instruments not counted in Tier I capital
(+) Hybrid capital instruments
(+) Tier 2 subordinated liabilities
(+) Surplus of overall value adjustments over total expected losses
(+) Net gains on equity investments
(+) Other positive items
(+) Prudential filters (increases in Tier II capital)
Net capital gain accumulated on fixed assets
Capital resources under forward purchase commitments allowable as part of Tier II capital computation
Other positive filters
(-) Net capital losses on equity investments
(-) Receivables
(-) Other
(-) Prudential filters (decreases in Tier II capital)

Portion of valuation reserve for fixed assets for functional use not allowed in computation
Portion of positive reserves against securities available for sale not allowed in computation:
- Equity securities and units of entities for collective investment of savings (OICR)
- Debt securities
Tier II subordinated liabilities and hybrid capital instruments covered by forward purchase commitments not allowed as part of Tier II capital
Other negative filters
(-) Elements to be deducted
Holdings in banks and financial institutions in excess of 10% of the capital of the company in which the stake is held:
Shareholdings
Non-innovative capital instruments
Innovative capital instruments
Hybrid capital instruments
subordinated instruments
Holdings in banks and financial institutions for less than 10% of the capital of the company in which the stake is held:
Shareholdings
Non-innovative capital instruments
Innovative capital instruments
Hybrid capital instruments
subordinated instruments
Equity investments in insurance companies:
equity investments
subordinated instruments
Surplus of expected losses over total value adjustments
Deductions arising from securitizations
Deductions in relation to settlement risk on non-DVP transactions
(-) Items to be deducted from Tier I and Tier II:
Equity investments in insurance companies:
equity investments
subordinated instruments

3. Tier III

Tier 3 is the sum of the following components:

(+) Tier II subordinated liabilities not counted in Tier II
(+) Tier III subordinated liabilities
(-) Prudential filters: deductions from Tier III capital:
-Tier II and III subordinated liabilities covered by forward purchase commitments not counted in Tier III capital

4. Other information

(+) Tier II subordinated liabilities not counted in Tier II or Tier III
(+) Tier III subordinated loans not counted in Tier III capital
Valuation reserves covering cash flows:
Debt securities available for sale:
(+) positive reserve
(-) negative reserve
Equity securities available for sale:
(+) positive reserve
(-) negative reserve
other:
(+) positive reserve
(-) negative reserve

B. Quantitative information

		Total as at 31.12.2008	Total as at 31.12.2007
A.	**Tier I before prudential filters**	302,231	291,963
B.	Tier I prudential filters		
B.1	Positive IAS/IFRS prudential filters (+)		
B.2	- Negative IAS/IFRS prudential filters (-)		
C.	**Tier I capital gross of items to be deducted (A+B)**	302,231	291,963
D.	**Items to be deducted from Tier I capital**		
E.	**Total Tier I (C-D)**	302,231	291,963
F.	**Tier II before prudential filters**	72,695	84,695
G.	Tier II prudential filters:		
G.1	- Positive IAS/IFRS prudential filters (+)		
G.2	- Negative IAS/IFRS prudential filters (-)		
H.	**Tier 2 capital gross of items to be deducted (F + G)**	72,695	84,695
J.	**Items to be deducted from Tier II**		
L.	**Total Tier II (H-I)**	72,695	84,695
M.	Items to be deducted from Tier I and Tier II		
N.	Capital for regulatory purposes (E+L-M)	374,926	376,658
O.	Tier III		
F.	**Regulatory capital inclusive of TIER III (N+O)**	374,926	376,658

	Total as at 31.12.2008	Total as at 31.12.2007 Pro-forma
A. Capital for regulatory purposes		
A. 1 Tier I	302,231	291,963
A. 2 Tier II	72,695	84,695
A. 3 Items to be deducted		
A. 4 Tier III		
A. 5 Capital for regulatory purposes	**374,926**	**376,658**
B. Prudential supervisory requirements		
B. 1 Credit risk	364,059	340,058
B. 2 Market risk		
including:		
- risks of trading portfolio		
- exchange rate risks		
B. 3 Tier III subordinated debt		
B. 4 Other prudential requirements		
B. 5 Operational Risk	13,506	13,938
B. 6 Total prudential requirements	**377,565**	**353,996**
B. 7 25% reduction for banks belonging to banking groups	(94,391)	(88,499)
Capital surplus	**91,752**	**111,161**
C. Risk assets and capital adequacy		
C. 1 Risk-weighted assets (**)	**4,719,571**	**4,424,950**
Credit risk	*4,550,742*	*4,250,731*
Market risk		
Operational risk	*168,829*	*174,219*
C. 2 Tier 1 capital / Risk-weighted assets	**6.40%**	**6.60%**
C. 3 Capital for regulatory purposes / Risk-weighted assets	**7.94%**	**8.51%**

(**) Total capital required for regulatory purposes multiplied by the reciprocal value of the minimum capital adequacy ratio (8%) for credit risk.

Since the new Basel 2 criteria became effective in 2008, the 2007 data was reliably estimated on the basis of the same criteria to compare the financial years on a like-for-like basis.

It is further specified that the sum of the capital requirements to cover credit, counterparty, market and operational risk exceeds the *floor* level set forth by the Supervisory instructions.

2.2 Capital adequacy

A. Qualitative Information

From the standpoint of capital adequacy, the overall surplus of capital ratios illustrated in Section 1 (Capital for regulatory purposes) allows for a prospective business expansion in line with the growth forecasts set out in the Company's three-year strategic plan.

B. Quantitative information

Category/Amount	Non-Weighted amounts		Weighted amounts/requirements	
	Total as at 31.12.2008	Total as at 31.12.2007 Pro-forma	Total as at 31.12.2008	Total as at 31.12.2007 Pro-forma
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized Approach	10,716,875	7,788,170	4,550,742	4,250,731
2 Internal rating-based (IRB) approach				
2.1.Foundation				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			273,045	255,044
B.2 Market risk				
1. Standardized Approach				
1. Internal models				
2. Concentration risk				
B.3 Operational Risk				
1. Foundation				10,454
2. Standardized Approach			10,129	
3. Advanced				
B.4 Other prudential requirements				
B.5 Total Capital Requirements (B1+B2+B3+B4)			283,174	265,498
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			4,719,571	4,424,950
C.2 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)			6.40%	6.60%
C.3 Capital for regulatory purposes including Tier III / risk-weighted assets (Total capital ratio)			7.94%	8.51%

It is noted that the calculation of total capital requirements also considered the 25% reduction for banks belonging to banking groups.
Additionally, the sum of the capital requirements to cover credit, counterparty, market and operational risk exceeds the *floor* level set forth by the Supervisory instructions.

Possibility of utilization and distribution of reserves

The changes in the shareholders' equity accounts are reported in the statement of changes in shareholders' equity.

Pursuant to art. 2427 no. 7 bis of the Italian Civil Code, the shareholders' equity items are reported with indication of their sources of origin, possibilities of use and distribution.

	Amount	Possibilities of use			Amount distributable	Use in prior year	
						for loss coverage	other reasons
Earnings reserves							
Legal reserve	1,246		B.		-		
Extraordinary reserve	21,910	A.	B.	C.	21,910		
Valuation reserves							
Revaluation reserve under Law 266/05	695	A.	B.	C.	(*) 695		
Loss carried forward	0						
IAS reserves							
Reserve (Paragraph 5, Article 7 of Law Decree no. 38 of 2005)	5,326	A.	B.	C.	3,926		
Reserve (Paragraph 7, Article 7 of Law Decree no. 38 of 2005)	(23,631)						
Total	4,851						

Legend: A = for capital increases; B = for coverage of losses; C = for distribution to shareholders.

(*) The valuation reserve established pursuant to Law no. 266 of 2005 may be distributed only as specified by the provisions of Paragraphs 2 and 3 of Article 2445 of the Italian Civil Code.

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PART H – TRANSACTIONS WITH RELATED PARTIES

1. Details of directors and senior managers remuneration

Account/Amount	Directors	Statutory Auditors	Senior Managers and Executives with Strategic Responsibility	Total 31.12.2008
Short-term benefits	395	102	927	1,424
Post-retirement benefits			50	50
Other long-term benefits				
Termination benefits				
Share-based payments				
Total	395	102	977	1,474

2. Details of transactions with related parties

2.a Controlling, controlled and jointly controlling companies

Account/Amount	Controlling	Controlled	Jointly Controlling	Other related parties	Total
Total financial assets	1,507,587		863		1,508,450
Total other assets	44	357			401
Total financial liabilities	4,049,861		2,008		4,051,869
Total other liabilities	12,994	592	1,153		14,739
Total interest income	1,125				1,125
Total interest expense	189,051		155		189,206
Total commissions earned					
Total commission expense	14,342		1,345		15,687
Total other revenues	165	624			789
Total other costs	10,155		1,685		11,840
Guarantees issued		5,000			5,000
Guarantees received	22,818				22,818

All transactions with related parties are carried out in the Company's interest and at normal market conditions.

PART I – SHARE-BASED PAYMENTS

A. Qualitative Information

1. Description of share-based payment agreements

The Company's stock-granting program is essentially an employee incentive plan, designed to ensure personnel engagement in the achievement of corporate objectives.

The stock-granting program is an important instrument for increasing employee participation in the planning and execution of the MPS Group's strategies, linking a portion of employee remuneration to overall results and to the creation of value for shareholders.

For this reason, the decision was made, in agreement with trade unions, to pay part of the company's bonus to the employees linking it to the overall results by the granting of stock of the Banca Monte dei Paschi di Siena S.p.a.

In 2007, a provision of € 195,000 was booked to profit and loss for shares to be assigned in the first half of 2009.

The estimated cost of the shares to be assigned in 2008 (€ 210,000) was booked to profit and loss for the year; the shares in relation thereto are to be assigned in 2010.

DISCLOSURE OF FEES FOR INDIPENDENT AUDIT FIRMS AND OTHER ENTITIES RELATING THERETO

Pursuant to art. 149 *duodecies* of the Consob Issuers Regulations no. 11971/99 as amended, the table below shows detail on the fees paid to the independent audit firm Reconta Ernst & Young Spa engaged for the independent audit pursuant to Legislative Decree no. 58/98, and to entities that are part of the network to which the independent audit firm belongs.

(in € 000s)

Type of services	Service provider	**31.12.2008**	**31.12.2007**
		Remuneration	Remuneration
Audit	Reconta Ernst & Young Spa	128	103
Certification	Reconta Ernst & Young Spa	2	2
Tax advisory services			
Other services			
Total		130	105

It is noted that auditing services include remuneration for auditing of the financial statements, verification of the regular bookkeeping and correct recording of management facts in the accounting entries, and auditing of the half year report.

Certification includes remuneration of independent auditors for services related to the verification and endorsement of tax return statements.

PARENT COMPANY OR EU-BASED BANK WITH CONTROLLING INTEREST

Company Name

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

Registered Office

Piazza Salimbeni, 3 – Siena

Registered in the Siena Companies Register under no.

Register of Banks no. 5274 Cod. 1030.6

Register of Bank Groups no. 1030.6

Member of the Interbank Deposit Protection Fund

Parent company financial statements as at 31.12.2007

(disclosure of accounts with reference to the management and coordination activity as required by Article 2497 bis, Paragraph 4, Italian Civil Code)

BALANCE SHEET *(in € mln)*

ASSETS		LIABILITIES AND SHAREHOLDERS' EQUITY	
Cash	425	Payables:	
Receivables:		a) Due to customers	48,149
a) Due from customers	61,762	b) Due to banks	16,068
b) Due from banks	32,931	Securities issued	32,130
Financial assets held for trading	14,282	Financial liabilities held for trading	3,064
Equity investments	8,006	Financial liabilities designated at *fair value*	10,585
Fixed and intangible assets	1,031	Other liabilities	3,733
Other assets	2,953	SHAREHOLDERS' EQUITY	7,661
Total assets	**121,390**	**Total liabilities & shareholders' equity**	**121,390**

PROFIT AND LOSS STATEMENT

(in € mln)

Interest income:	1,454
Net fees and commissions	795
Net dividends and other income from financial transactions	799
Total banking income	2,626
Net writedowns / writebacks on receivables and other financial assets	(313)
Net profit (loss) from financial transactions	2,312
Operating expenses	(1,867)
Taxes on income from continuing operations	132
Profit for the period	**638**

EXHIBITS

REPORT OF THE BOARD OF STATUTORY AUDITORS

Report of the Board of Statutory Auditors to the Shareholders' Meeting convened for the approval of the MPS Leasing and Factoring S.p.A. financial statements as at 31 December 2008, prepared pursuant to Article 2429, par. 2, of the Italian Civil Code.

Shareholders,

This report provides a summary review of the oversight activity of the Board of Statutory Auditors with respect the Company's administration during 2008, pursuant to: the provisions of the Italian Civil Code; Law Decree no. 385 of 1993; the applicable provisions of Law Decree no. 58/1998; the Company's by-laws; and directives issued by public authorities exercising supervision and control activities.

The code of conduct recommended by the Italian National Councils of Accountants and Commercial Appraisers for the Boards was also taken into account.

Following are the comments on the activities carried out by the Board of Statutory Auditors in 2008. The Board was appointed by the Shareholders' Meeting on 17 April 2008. Data and information disclosed in this report refers to the full financial year.

We took part in two Shareholders' meetings and 20 meetings of the Board of Directors which were held in accordance with the provisions of the Company's by-laws and the laws and regulations which govern the meeting operations and formalities, and we can affirm that the actions covered by the resolutions approved are in conformity with the law and the Company's by-laws and are not manifestly imprudent or risky and do not entail any potential conflict of interest.

We examined in advance the matters discussed in such meetings and, when deemed necessary, we analyzed such matters further, including by requesting additional information from the Company's officers or the areas responsible, so as to adequately carry out the auditing functions with respect to the principles of proper business conduct.

The Statutory Auditors obtained from the Directors all of the information about the activities carried out and the most significant business transactions. We were also informed about the general trend of operations and its foreseeable evolution. We can affirm that the transactions effected are conformity with the law and the Company's bylaws, and are not in contrast with the resolutions approved by the shareholders.

During the meetings of the Board of Directors in 2008, the Board of Statutory Auditors issued 9 opinions of the type referenced in Article 136 of Law Decree no. 385 of 1993. The Board of Statutory Auditors held 8 meetings during 2008.

In implementing the work plan established at the outset of the year which was aimed at gathering information about the adequacy of the organizational structure, internal controls system, administrative and accounting system, as well as about the reliability of the latter for representing management facts in a proper manner, the Board of Statutory Auditors effected visits to and fact-finding verifications at the Company's head offices and a number of local representative offices. On these occasions, the Board of Statutory Auditors also held meetings with the managers of the departments audited, obtaining additional information, data and operating plans, and examining corporate documents.

This review did not yield any significant findings or data that would need to be highlighted in this report: The results of this activity, which was usually carried out with the assistance of the Internal Controls staff, were documented in the Board of Statutory Auditors' register of meetings and resolutions and copied to the Chairman of the Board of Directors and the General Manager.

We regularly interacted with the Internal Controls staff, receiving from such office the operational assistance necessary for the execution of the audit work referenced above. We also obtained reports containing the results of the audits carried out by the Internal Controls staff during the year. With such activities, we were able to evaluate the reliability and efficiency of the internal controls system adopted by the Company.

With specific regard to the Company's accounting and administrative system, we determined the adequacy thereof on the basis of testing directly carried out by the Board of Statutory Auditors as indicated above, at the Administration and Budgeting office, and through the periodic exchange of information, as contemplated by Article 2409-septies of the Civil Code, with Reconta Ernst & Young, the firm which has been engaged for the audit of the Company's financial statements. During 2008, the independent audit firm did not report any misconduct under Article 155, Paragraph 2 of the afore-mentioned Law Decree no. 58 of 1998.

The draft of the financial statements as at 31 December 2008 that was approved by the Board of Directors' meeting held on 12 March 2009 has been prepared in accordance with the international accounting principles and meets the requirements, in terms of form and substance, that are provided for by the general and specific regulations of reference currently in effect. It is also noted that the financial statements and the notes to the financial statements were prepared in accordance with the instructions contained in the Bank of Italy Circular Letter no. 262 of 22 December 2005.

In preparing the financial statements, the Directors did not -to our knowledge- make any exceptions to the provisions of the law, as provided for by Article 2423, Paragraph 4 of the Italian Civil Code.

With our mandate not covering the analytical control of the content of the financial statements, we reviewed the general structure of the statements and their general conformity with the law with regard to the preparation and structure. In this regard, we do not have any particular findings to report.

With regard to the report prepared by the independent audit firm in accordance with Articles 156 and 165 of Law Decree no. 58 of 24 February 1998, it is noted that the report was issued with an unqualified opinion. The report of the independent auditors also reveals that the essential details on the holding company have been disclosed, as required by law, in the notes to the financial statement and that the opinion by Reconta Ernst & Young does not extend to such details.

With the favourable opinion expressed by the Board of Statutory Auditors, the Company confirmed the engagement of Reconta Ernst & Young S.p.A.in 2008 for the auditing of the financial statements package as at 31 December 2007, 2008, 2009 and 2010, as per the instructions received from the Parent Company's statutory auditors.

Pursuant to Article 2389, Paragraph 4 of the Italian Civil Code, the Board of Statutory Auditors also expressed its favourable opinion as to the approval of the remuneration of directors serving as Chairman and Deputy Chairman.

The Board of Statutory Auditors likewise acknowledges it did not receive during the course of its work any of the claims referenced in Article 2408 of the Italian Civil Code that would have had to be reported to the regulatory authorities or mentioned in this report.

In consideration of the results of the activity carried out by the auditors as summarized in the report accompanying the financial statements, the Board of Statutory Auditors has not detected any reasons to impede the approval of the Financial Statements presented by the Directors and drawn up with reference to the year ending 31 December 2008.

Siena, 2 April 2009.

THE BOARD OF STATUTORY AUDITORS

Dr. Leonardo Pizzichi - Chairman

Rag. Paolo Paolucci - Standing Auditor

Dr. Brunella Vaselli - Standing Auditor

INDEPENDENT AUDITORS' REPORT

AUDITORS' REPORT

Independent Auditors' Reports pursuant to art. 156 of legislative decree no. 58 of 24 February 1998

To the Shareholders
of MPS Leasing and Factoring S.p.A.

1. We have audited the financial statements of MPS Leasing and Factoring S.p.A., as of and for the year ended 31 December 2008, comprising the balance sheet, the statement of income, changes in shareholder's equity and cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Italian legislative decree no. 38/2005 is the responsibility of the MPS Leasing and Factoring S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was made in accordance with the auditing standards and procedures recommended by Consob (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated 26 March 2008.

3. In our opinion, the financial statements of MPS Leasing and Factoring S.p.A. at 31 December 2008 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Italian legislative decree no. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the result of operations, the changes in shareholder's equity and the cash flows of MPS Leasing and Factoring S.p.A. for the year then ended.

4. As required by the law, the company disclosed the key figures from the latest financial statements of Banca Monte dei Paschi di Siena S.p.A., the company that exercises direction and coordination over it, in the notes to its own consolidated financial statements. Our opinion on the consolidated financial statements of MPS Leasing and Factoring S.p.A. as at 31 December 2008 does not extend to such data.

5. The management of MPS Leasing and Factoring S.p.A.is responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Report on Operations with the financial statements as required by art. 156, paragraph 4-bis, letter d) of the legislative decree 58/98. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the Report on Operations is consistent with the financial statements of MPS Leasing and Factoring S.p.A. as at 31 December 2008.

Florence, Italy
2 April 2009

Reconta Ernst & Young SpA

Signed by Giuseppe Miele

(Partner)

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RELAZIONE DELLA SOCIETÀ DI REVISIONE
ai sensi dell'art. 156 e dell'art. 165 del D. Lgs. 24.2.1998, n. 58

Agli Azionisti della
MPS Leasing & Factoring S.p.A.

1. Abbiamo svolto la revisione contabile del bilancio d'esercizio, costituito dallo stato patrimoniale, dal conto economico, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario e dalla relativa nota integrativa, della MPS Leasing & Factoring S.p.A. chiuso al 31 dicembre 2008. La responsabilità della redazione del bilancio in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005, compete agli amministratori della MPS Leasing & Factoring S.p.A.. È nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile.

2. Il nostro esame è stato condotto secondo i principi e i criteri per la revisione contabile raccomandati dalla CONSOB. In conformità ai predetti principi e criteri, la revisione è stata pianificata e svolta al fine di acquisire ogni elemento necessario per accertare se il bilancio d'esercizio sia viziato da errori significativi e se risulti, nel suo complesso, attendibile. Il procedimento di revisione comprende l'esame, sulla base di verifiche a campione, degli elementi probativi a supporto dei saldi e delle informazioni contenuti nel bilancio, nonché la valutazione dell'adeguatezza e della correttezza dei criteri contabili utilizzati e della ragionevolezza delle stime effettuate dagli amministratori. Riteniamo che il lavoro svolto fornisca una ragionevole base per l'espressione del nostro giudizio professionale.

   Per il giudizio relativo al bilancio dell'esercizio precedente, i cui dati sono presentati ai fini comparativi, si fa riferimento alla relazione da noi emessa in data 26 marzo 2008.

3. A nostro giudizio, il bilancio d'esercizio della MPS Leasing & Factoring S.p.A. al 31 dicembre 2008 è conforme agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria, il risultato economico, le variazioni del patrimonio netto ed i flussi di cassa della MPS Leasing & Factoring S.p.A. per l'esercizio chiuso a tale data.

4. La Società, come richiesto dalla legge, ha inserito nella nota integrativa i dati essenziali dell'ultimo bilancio della Banca Monte dei Paschi di Siena S.p.A., società che esercita attività di direzione e coordinamento. Il nostro giudizio sul bilancio della MPS Leasing & Factoring S.p.A. al 31 dicembre 2008 non si estende a tali dati.

Reconta Ernst & Young S.p.A.
Sede Legale: 00196 Roma - Via G.D. Romagnosi, 18/A
Capitale Sociale € 1.402.500,00 i.v.
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Iscritta all'Albo Speciale delle società di revisione Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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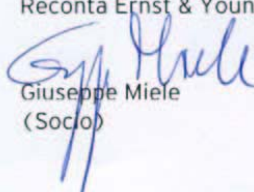
5. La responsabilità della redazione della relazione sulla gestione, in conformità a quanto previsto dalle norme di legge e dai regolamenti, compete agli amministratori della MPS Leasing & Factoring S.p.A.. È di nostra competenza l'espressione del giudizio sulla coerenza della relazione sulla gestione con il bilancio, come richiesto dall'art. 156, comma 4-bis, lettera d), del D. Lgs. n. 58/1998. A tal fine, abbiamo svolto le procedure indicate dal principio di revisione n. 001 emanato dal Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili e raccomandato dalla CONSOB. A nostro giudizio, la relazione sulla gestione è coerente con il bilancio d'esercizio della MPS Leasing & Factoring S.p.A. al 31 dicembre 2008.

Firenze, 2 aprile 2009

Reconta Ernst & Young S.p.A.



Giuseppe Miele
(Socio)

2

RESOLUTIONS OF THE SHAREHOLDERS' MEETING

At the first session of the ordinary meeting held on 23 April 2009, the shareholders resolved to:

ITEM 1 ON THE MEETING AGENDA

approve the Financial Statements for 2008, consisting of the Balance Sheet, the Profit and Loss Statement, the Statement of Changes in Shareholders' Equity, the Cash flow Statement and the Notes to the Financial Statements, as well as the Report on Operations, when considered individually and as a whole, and to allocate the 2008 net profit as follows:

Net profit for the period:	13,157,600.42
Allocation to:	
- Legal reserve	657,880.00
- Extraordinary reserve	8,756,165.73
	3,743,554.69
Allocation to Capital:	
- to the 287,965,745 ordinary shares (par value 287,965,745, value per share 1.00)	
equal to EUR 0.013 per share	3,743,554.69