



ENGLISH VERSION



Financial Statement of the Board of Directors

Before proceeding to examine the activities and the results achieved by our Bank during the year 2009, we believe it may be appropriate to provide a brief outline of the most significant events that have taken place in the institutional and corporate organisation of the Enterprise, together with an analysis of the major aspects of the economic situation and credit system conditions in which the Bank's operations have been conducted.

SIGNIFICANT EVENTS IN THE INSTITUTIONAL AND CORPORATE FIELDS

Among the most significant events which occurred in the institutional and corporate fields during 2009, we may recall the following:

RENEWAL OF APPOINTMENTS IN THE GOVERNING BODIES OF CERTAIN CONTROLLED/ PARTICIPATED COMPANIES.

In its meeting of last April 10th, the Board of Directors proceeded to designate its candidates for the governing bodies of some of the Bank's controlled or participated companies, which were to be renewed at the expiry of their mandate.

The companies involved in the renewal of their governing bodies, together with the candidates proposed, are as follows:

LA ROCCA IMMOBILIARE SpA: Board of Directors (with a reduction in the number of board members from 9 to 3): Bruni Roberto, Giacomelli Speranza, Panchetti Denio; Board of Auditors: Falorni Floriano, Carugi Mauro, Ricci Claudio, permanent auditors; Melai Massimo and Petrucci Stefano, substitute auditors;

SAN MINIATO PREVIDENZA SpA: Board of Directors: Gabrieli Alessandro, Maffei Giuliano, subsequently replaced by Mazzantini Alfonso, Lastrucci Angela; Board of Auditors: Carli Maltinti Carlo; Parentini Ivano, substitute auditor, subsequently replaced by Quagliotti Sandro;

VEGAGEST SGR SpA: Board of Directors: Giuliani Piergiorgio, Brotini Carlo, Arisi Massimo. Following the deliberation of the Ordinary Assembly of December 17th 2009, reducing the number of members of the Board of Directors from 11 to 9, Giuliani Piergiorgio e Brotini Carlo were proposed as candidates by the Board of Directors of the Bank in their meeting of December 11th, 2009).

CASSA DI RISPARMIO DI VOLTERRA SpA: Board of Directors: Vivaldi Pier Giovanni, Banti Massimo.



FACTS CONCERNING COMPANIES IN THE GROUP

Following the strategies contained in the Industrial Plan and the indications of the Bank of Italy regarding the need to adopt a new policy of participations, in the month of January 2009, at the end of a competitive selection process, the Board of Directors chose Mediobanca – Banca di Credito Finanziario SpA as the advisor to be entrusted with the mandate for the sale of certain important shareholdings, including Banca Sintesi, Banco di Lucca, Cassa di Risparmio di Volterra and Vegagest Sgr.

On June 26th, 2009, at the end of a period of negotiation, a contract was signed for the transfer of Banca Sintesi to the company Intermedia; this contract was conditionally suspended in view of the fact that in order to be completed, the transfer had to wait until the Bank of Italy granted the necessary authorisation to the buyer. A negative response was received from the Vigilance Authority in the month of November, 2009, and consequently the planned transfer did not go ahead.

In the month of September, the Board of Directors of Banca Sintesi gave its approval to a project for a reduction in the capital stock due to losses, and a simultaneous increase in the same, to be paid up, with the related proposal to modify Art. 5 of the Statute. On December 18th, the Board of Directors of the Cassa di Risparmio di San Miniato SpA deliberated the Bank's participation in the project to increase the capital stock, calculating the payment of € 2,520,000.00 for financing to the account of a future increase in capital stock, for which the Bank of Italy gave its approval on December 23rd, 2009.

On July 17th, 2009, within the scope of the on-going action to achieve a structural rationalisation of the Group shareholdings, the Board of Directors deliberated the inception of the procedure of amalgamation by incorporation of the company La Rocca Immobiliare SpA into the Cassa di Risparmio di San Miniato SpA. The aim of the amalgamation was to eliminate repeated controls, improve the management of resources and obtain a greater efficiency, thus reducing overall costs and consequently streamlining procedures of governance, administration and control of the Group. Following the operation of incorporation, however, the Parent Company maintains at its disposal a structure that can boast a significant technical competence, acquired over many years, in the field of the maintenance and management of real estate instrumental for the exercise of the banking activity of the incorporating company. After obtaining the necessary authorisation from the Vigilance Authority on November 6th, the amalgamation operation was deliberated by an Extraordinary Assembly of the two companies, and was completed by the signing of the Act of Amalgamation on December 23rd, 2009, with juridical effects starting as of December 30th, 2009. With reference to the patrimonial situations on September 30th, 2009, the incorporation entailed the nullification of the shares held by the incorporating company in the incorporated company, with the substitution of the assets and liabilities of the latter.

MODIFICATIONS IN THE FIELD OF GOVERNANCE

The first six months saw the implementation of the activities planned for the “redefinition of Governance and the organisational structures” within the scope of the master plan prepared for the realisation of the Industrial Plan, in accordance with the vigilance instructions of the Bank of Italy. Particular attention was dedicated to the redefinition of the model of company and organisational governance, proceeding, where necessary, to the preparation of new Regulations. This activity was concluded on June 30th, 2009, with the approval by the Board of Directors, and the favourable opinion expressed by the Board of Auditors, of the Model of Company Governance and related Regulations. The Extraordinary and Ordinary Shareholders' Meeting, convened on July 20th, approved the proposals to modify the Statute as a result of the adoption of the new model of governance, as well as the formalities connected with the approval of the policies of remuneration.

In the same meeting of June 30th, 2009, the Board of Directors decided to assign to the Executive Committee certain functions that had been carried out by the Board itself. The delegated functions, with the



indication of the relative limitations, came into force on July 1st, 2009, and regard the following topics:

- Lending
- Multiyear contracts
- Active judicial controversies
- Transactions regarding credit positions and passive legal controversies
- Shareholdings

INTERNATIONAL ECONOMY

The data recently published by the E.C.B. confirm that the expansion of economic activity in the Euro area continued towards the end of 2009. However, some of the factors that sustain the growth of the GDP in real terms are of a temporary nature. Overall, analysts expect a moderate rate of expansion of the economy of the area in 2010, recognising that the recovery process will probably prove to be discontinuous, and that prospects remain uncertain. The entire world economy is rallying; this upturn is confirmed by all the indicators, but the bases of the new cycle are still fragile. Many of the critical features at the basis of the past recession have not been solved. The normalisation of economic policies, both monetary and fiscal, is a necessary, but very delicate step, and exposes the world economy to the risk of a new slow-down in the second half of the year.

In the United States, with the improvement in the economic conditions, growth became positive in the third quarter of 2009. The third estimate of the Bureau of Economic Analysis indicates an increase in the GDP in real terms for the same quarter equal to 2.2% on a yearly basis, compared with 2.8% of the previous estimate. The recovery of activity was stimulated mainly by the increase in consumer spending, by the robust recovery, both in investments in house building and in exports, and by the less pronounced rate of de-accumulation of goods. The incentives adopted by the Government provided temporary support for demand, particularly as regards the motor vehicle and housing sectors. At the same time, growth in the GDP was curbed by the sharp rise in imports and by the drop in investments in non-housing structures. As regards prices, inflation over the twelve months, as measured by the Consumer Price Index (CPI) rose to 1.8% in November, which was the first positive variation since February 2009. On December 16th, the Federal Open Market Committee (FOMC) decided to maintain the target rate for Federal Funds unchanged in an interval between zero and 0.25%.

In Japan, economic activity is recovering. In particular, the Tankan investigation carried out by the Bank of Japan in December revealed an improvement in the confidence of manufacturing enterprises in recent months. However, prospects for capital expenditure are less favourable, because enterprises seem to be cautious about medium-term trends. On the basis of the second preliminary estimate of the Cabinet Office, published in December, the GDP growth rate in real terms in the third quarter of 2009, compared with the previous period, dropped sharply (from 1.2% to 0.3%). This was mainly a reflection of the significant drop in the investments of enterprises and, to a lesser extent, in reserve stocks, whereas private consumption recorded a slight rise. Price indexes continued to drop in November, due to the high level of unused manufacturing capacity. Twelve-month inflation as measured by the CPI was equal to -1.9%. In its meeting of December 18th, the Bank of Japan decided to maintain unchanged at 0.1% the target for the call rate on overnight deposits not guaranteed by collateral security.

In the United Kingdom, the economic situation is gradually improving. Growth in the GDP in real terms in the third quarter of 2009 rose slightly (to -0.2%, compared with the initial estimate of -0.3%), in a context in which rises in the building sector were partly counterbalanced by drops in the service sector. Trend indicators show that the GDP in real terms may have become positive again in the fourth quarter.



In December, house prices increased for the fifth month running, by 1.4% over the previous month, but they still remained slightly lower than one year before. Inflation over the twelve months, as measured by the harmonised consumer price index (HCPI), was higher than operators expected in November (1.9%, compared with 1.5% in October), partly reflecting the weakness of the British pound. In their meeting of December 9th and 10th, the Monetary Policy Committee of the Bank of England decided unanimously to maintain the reference interest rate at 0.5%, and to continue with the implementation of the strategy of quantitative easing by means of purchases of assets. Furthermore it introduced a new measure by virtue of which the Bank of England will offer to sell corporate bonds within the scope of the Corporate Bond Secondary Market Scheme. In their meeting of January 7th, the Monetary Policy Committee maintained these policies unchanged.

In the emerging countries of Asia, the economy continued to rally, stimulated both by the current expansionary monetary and fiscal policies and by the increase in the estimates of assets, partly deriving from the inflow of foreign capital. Furthermore, the most recent statistics about the labour market indicate that in various countries the rate of unemployment, which had been growing since the fourth quarter of 2008, has started to drop. In addition to this, the recovery of foreign trade has continued. Inflation is gradually increasing, even if the rates of variation of consumer prices on a yearly basis remain low in most of the countries. The main exception is represented by India, where inflation (wholesale) was equal to 4.8% in November. In China, economic growth remained vigorous in the last quarter of 2009. As a result of the vast number of infrastructure projects initiated thanks to the tax package, and the favourable prospects for the real estate sector, fixed investments increased by 32% between January and November 2009, compared with the same period of one year before. In the presence of a continuing expansion of consumption, the robust domestic demand has contributed to an increase in imports, while the recovery in exports has remained moderate. Consequently, the trade surplus dropped by one third in 2009 compared with the previous year. In November, the rate of variation of consumer prices became slightly positive for the first time since the beginning of 2009. At the end of November, the stock of loans was still 34% higher than one year before, but the most recent monthly statistics show that the growth in lending has started to ease off.

In Latin America, economic activity continues to show signs of improvement in most of the countries. In Brazil, industrial production increased by 5.1% (compared with the corresponding period) in November, after dropping by 3.1% in October. Inflation over the twelve months, as measured by the CPI, was equal to 4.2% in November, 0.1% higher than the previous month. In Argentina, the economy accelerated in November, and industrial production rose by 4% with respect to the corresponding period, compared with 1.4% of the previous month. Inflation, as measured by the CPI, went up still further, to 7.1%, from 6.5% in October. In Mexico, economic activity remained weak, even if it showed some signs of improvement, and in November industrial production went down by 1.7% with respect to the corresponding period (compared with a drop of 5.0% in October). At the same time, inflation continued to fall, and in December it went down to 3.6% on a yearly basis, from 3.9% in November.

As regards the countries of the Euro area, the GDP of the area in real terms increased by 0.4% in the third quarter of 2009, after a slight contraction in the previous quarter. The most recent figures continue to indicate an improvement in economic activity in the last few months of 2009. The area benefited from the trading stock cycle and the recovery in exports, as well as the significant ongoing macroeconomic incentives and the steps taken to favour the recovery of the financial system. However, as the level of domestic demand remains modest, and various supporting factors are of a temporary nature, the forecast is uncertain. Analysing the most recent figures published, the economy of the area is likely to grow at a moderate rate during 2010, and the process of recovery will probably be discontinuous. The economy of the area will probably be affected by the process of balance adjustment in the financial and non-financial sectors, both inside and outside the



area. According to the preliminary Eurostat estimate, inflation in the Euro area in December, as measured by the HCPI, recorded a further increase, rising to 0.9% from 0.5% in November. The rate of inflation growth in December was in line with expectations, and mainly reflected the dynamics observed a year ago in the international quotations of energy products. Short-term inflation trends continue to be markedly influenced by the basic uptrend effects connected with past variations in the prices of food and energy products. At the same time, the fundamentals of the economy, such as the modest demand and the lower growth of labour costs, are expected to affect the dynamics of inflation. Overall, inflation is expected to remain at levels close to 1% at the beginning of 2010, and to remain moderate in the medium term, as a result of the slow recovery of demand inside and outside the Euro area, thus sustaining the buying power of families in the Euro area. It is important to underline that expectations for medium- and long-term inflation remain firmly pegged, in line with the target of the ECB to maintain inflation rates at levels lower than, but close to, 2% in the medium run. Risks for inflation prospects remain substantially balanced.

In various EU countries that do not belong to the Euro area, the economic situation seems to have become stable in recent months. In Sweden the GDP in real terms grew by 0.2% (compared with the previous period) in the third quarter of 2009, a rate slightly lower than the 0.3% of the second quarter. In Denmark, it rose by 0.6% after the sharp drop (of 2.3%) in the second quarter, which reflected mainly one-off factors. In December, inflation as measured by the HCPI, rose to 2.8% in Sweden and to 1.2% in Denmark. On December 11th, the Danmarks Nationalbank cut the main reference rate by 0.05%, to 1.2%. In the main member states of the EU situated in Central and Eastern Europe, recent indicators show a slight improvement in economic activity. In the third quarter, the rate of variation of the GDP in real terms with respect to the previous period was slightly less negative than in the second quarter in Hungary and Rumania (respectively -1.8% and -0.6%), whereas it was positive in Poland and the Czech Republic (0.5% and 0.8%). Trend indicators generally foresee a further improvement in the economic situation in most of the member states of the EU situated in Central and Oriental Europe. In particular, the indicators connected with exports and manufacturing have improved considerably, while those linked with domestic demand reveal a more conflicting scenario. In most of the economies, inflation as measured by the HCPI, increased slightly in December, to 0.5% and 4.7% (on a yearly basis) in the Czech Republic and Rumania, respectively. In Poland it remained unchanged at 3.8%. In the second half of December, the Česká Národní Banka and the Magyar Nemzeti Bank both cut the main reference rate by 25 basis points, to 1% and 6.25%, respectively. At the beginning of January, the Banca Națională României reduced its reference rate by 50 basis points, to 7.5%.

Official interest rates. In the meeting of January 15th, on the basis of the usual economic and monetary analysis, the Board of Directors of the ECB decided to leave reference interest rates unchanged. The present level of interest rates continues to be considered adequate. Considering all the information and analyses that became available after the meeting of December 3rd, 2009, the ECB judged that the evolution of prices will remain moderate for the period of time that is significant for monetary policy.

Interest rates of the money market. In December 2009 and January 2010 the slope of the curve of money market yields increased slightly following the moderate drop in short-term interest rates. The trend reflected the persistence of conditions of abundant liquidity in the Euro area, in particular following the allotment, half way through December, of the last longer-term refinancing operation at one year programmed. This was conducted by means of an fixed-rate auction procedure with full allotment of the sum, and the rate was fixed at the mean bottom offering rate of the main refinancing operations conducted during the duration of the operation. The Eurosystem also continued to make definitive purchases of secured bonds within the scope of the programme started on July 6th, 2009.



Nominal and real returns of long-term government bonds. Between the end of November 2009 and the beginning of January 2010, the returns of long-term government bonds in the Euro area increased slightly, partly as a result of further improvements in the macroeconomic prospects. There was a more marked increase in the returns of U.S. long-term government bonds, probably influenced not only by improvements in the macroeconomic situation, but also by fears regarding the potential impact on returns of the sharp increase in the effective offer of U.S. bonds. Inflation expectations, which for the Euro area derive from index-linked bonds, showed a slight increase, which, however, would seem to be attributable mainly to non-fundamental factors of demand, which influenced the market of index-linked bonds in the period under consideration. In December and at the beginning of January, the differentials of returns on corporate bonds in the Euro area continued to fall for all the categories of loan merit.

Share prices. In December 2009 and at the beginning of January 2010 the rise in share prices continued in the Euro area and in the United States; at the same time, the implicit volatility of share markets fell sharply on both sides of the Atlantic. On the whole, prices were sustained by the generally positive news about economic activity divulged in the main markets, the upward adjustments of expected profits in the period under examination, and a further consolidation of the risk propensity at the beginning of 2010. In the Euro area, the expected growth of profits per share over a period of 12 months improved still further in December as a result of the upward adjustment of expectations for the financial and non-financial sectors. Share prices in the Euro area (measured by the Dow Jones Euro Stoxx index) and in the United States (measured by the Standard & Poor's 500 index) increased respectively by 6.8% and 4.6% between the end of November 2009 and January 13th, 2010. An even more marked increase, equal to about 15%, was recorded in the same period by share prices in Japan (measured by the Nikkei 225 index), following the significant drop in previous months.

THE NATIONAL ECONOMY

The GDP in Italy resumed its growth in the summer (0.6% on the previous quarter) after five consecutive quarters in which it fell, and appears to have continued to expand in the last part of 2009, albeit at a lower rate. In spite of the continuous improvement in confidence, enterprises still hesitate to increase production in the presence of an uncertain consolidation of orders. The partial recovery of industrial activity recorded in the third quarter, from the very low levels touched in the second quarter, did not continue in the autumn months. The unadjusted index of industrial production showed a mean drop of 17.4% in 2009 compared with the previous year, the worst result since 1991. Among the various sectors, the biggest decline was in the production of steel and engineering (-28.1%), machinery (-28.7%) and means of transport (-25.2%). On the contrary, the most limited fall was in the field of foodstuffs (-1.6%), and the only sector that saw an increase in production was pharmaceuticals, with a rise of +2.8%.

Also the recovery of exports which started last summer was attenuated in October and November, according to the data that are available. However foreign sales are expected to accelerate gradually during the present year, at a mean rate close to 3%, which, however, is about 1% lower than the expected expansion of world trade. During the last few years, the loss of price competitiveness of Italian goods has reflected both the appreciation of the Euro and the higher increase in labour unit costs compared with competitors, due mainly to the stagnation of productivity. In spite of the recovery in the third quarter of 2009, a weakness remains in the dynamics of consumption and private investments.

Consumption is negatively affected by the situation in the labour market. The drop in the number people employed leads to a fall in the income available to families, while the uncertain prospects tend to limit the propensity to spend.

Last November, the rate of unemployment went up to 8.3%, 2.4% higher than the minimum of April 2007. However, for a more complete evaluation of the level of utilisation of available manpower, it is necessary



to add to the “unemployed” those workers who receive wage supplementation, and the “discouraged”, or in other words, those who do not actively look for a job and are therefore excluded from official unemployment figures, even if they have the same probability of finding one. It is calculated that in the second quarter of 2009, on the basis of this broad definition, the level of unused manpower was more than 10%, almost 3% higher than the rate of unemployment. In the presence of a large unused potential of productive capacity, also the spending of enterprises on instrumental goods may be considered modest. Consumer inflation, which had practically touched zero last summer, went up in the autumn months, reaching 1% on a yearly basis in December. The basic component, which excludes food and energy products, levelled off at a figure slightly below 1.5%.

In 2009 the net indebtedness of public administrations is believed to have risen above 5% of the GDP, from 2.7% in 2008; this increase in the deficit is significantly lower than results expected for the Euro area. The incidence of the public debt on the product will probably rise by about ten points. The effects of the worsening of the trend scenario on the public deficit were attenuated by the drop in the spending on interest. Measures aiming to reduce the social costs of the crisis and stimulate demand, which are altogether estimated to be in the order of 1% of the GDP, found their coverage in the reduction of previous allocations and the introduction of one-off substitute taxes. As well as the extension of the measures already adopted, the finance bill for 2010 includes some increases in current spending. Coverage for the measures is, also in this case, mainly obtained by reductions in previous allocations and temporary interventions on revenue, which should have limited repercussions on economic activity, above all the tax shield, whose effects on the deficit have largely been shifted to the current year, by means of a reduction in the rate of the advance income tax payment due at the end of 2009. All in all, the manoeuvre leaves the budget balance unchanged, and determines a net increase, both in revenue and in expenditure, of 0.2% of the GDP.

REGIONAL AND LOCAL ECONOMY

Tuscany had already started to suffer the crisis in 2008, above all because it keenly felt the effects of the slow-down in world trade. Exports of goods and services went down in real terms by more than 8% (compared with 3.7% for domestic trade) and this was the main cause of the worse trend of the Tuscan economy compared with Italy in general. In the course of 2009, things got worse, as confirmed by the few variables for which direct surveys exist: industrial production and craftwork sales fell by between 15% and 20%; also foreign sales of goods fell in an equally significant manner, especially in the first half of the year, and there was a drop in foreign tourist spending.

Returning to the particularly negative dynamics of production, they were influenced above all by the trend of exports of goods, which further declined compared with a year, 2008, which, as we have recalled, had already been particularly negative. Data for the first six months show a sharp drop in foreign sales in practically all sectors, both the more traditional ones which had been in difficulty for years, and those of steel and engineering and means of transport, which, on the contrary, had witnessed an interesting growth.

The last figures published, which refer to the third quarter, seem to attenuate the seriously negative situation of the first part of the year, confirming that the lowest point of the crisis that involved also the economy of Tuscany, had passed. Some data may summarise a situation which can be considered, admittedly with a forced interpretation, as an anticipation of a “change of intonation” of the economic trend: the value of exports, for example, diminished by 7.3% (but the loss was –16.9% in the first six months), industrial production declined by 15.5% (but the average of the first six months was almost 20% lower), retail sales dropped by 3.7% (but between January and March, the fall had been 5.3%). After the free fall that available indicators depicted, between the end of 2008 and the beginning of 2009, as a result of the effects of the financial turmoil on the real economy, and after the phase of progressive stabilisation of the decline with the arrival of the summer months, the second half of 2009 thus appears to be characterised by figures that are still decidedly negative, but with a gradual mitigation. Inasmuch as tendential variations record the



turning-points of the economic cycle with a delay of a few months, this would substantially seem to indicate a gradual stop in the decline on the basis of a strict analysis of the trend. Furthermore, partial comfort derives from the fact that the situation of Tuscany does not appear to be worse than that of the rest of the country, on the basis of various indicators.

The generalised fall in demand affects all sectors, even if the ones that feel the consequences most heavily are those that are more open to international markets, seeing that it is above all exports that have suffered the most conspicuous negative effects. All the manufacturing industry has recorded a sharp drop in the volumes produced, with particularly serious effects in the steel and engineering sector. Actually, while it is true that the worldwide crisis started with a contraction in consumption, it is also true, however, that the resulting drop in investments, and in particular investments in new machinery, was even more serious. Thus, both on the international level and on the domestic front, it is the demand for instrumental goods that dropped most sharply. After years of uninterrupted growth, the building sector clearly felt the crisis, with a decline in production that will probably continue into 2010, partly as a result of the redimensioning of the real estate bubble. The services sector generally feels the consequences of negative economic trends like the present one less intensely, and also suffers their effects with a certain delay; we find confirmation of this also in 2009, when the results achieved by the services sector are far less negative than those of industry, even if the decline in production has only few precedents.

Thus there was a generalised fall in the volumes of production, which extended also to sectors which are generally less sensitive to cyclical events in the economy. The effects of this fall had repercussions also on the demand for labour, which dropped in the course of 2009, according to estimates, by almost 40,000 units; adding these to the losses of 2008, and to the more than 10,000 calculated for 2010, this leads to a loss of more than 60,000 labour units compared with the all-time maximum of 2007. The drop is generalised, and also involves the services sector, where there are significant losses also in the public sector, above all due to the non-renewal of some forms of flexible labour. In the third quarter, the Istat continuous assessment of labour forces recorded a loss of 31,000 jobs for Tuscany, compared with the previous year (with a drop of 1.9% in relative terms), and a parallel increase of 1.4% in the rate of unemployment (which rose to 5.6%). In industry, the survey carried out on manufacturing enterprises with at least 10 workers shows that the reduction in employment levels (-5.3% in tendential terms) is still decidedly more moderate than the contraction in production and sales, thus determining an "apparent" decline in labour productivity (measured in terms of sales revenue per worker) of 10.6%. We can clearly see the role played in this context by the wage supplementation fund; its sharp rise in the period under consideration (overall, recourse to the fund passed from slightly more than 2 million hours authorised in III 2008 to almost 10 million in III 2009) allows us to estimate the "real" variation in labour productivity as the more limited level of -4.3%.

Thanks to the positive trend of pharmaceutical industries, the large production units show more limited consequences, with a decline in production below double figures (-6.1%) and a vigorous growth in orders. Small-sized industries were affected more than others (production -17.3%), whereas medium-sized industries show slightly more moderate contractions (-15.0%).

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After this concise introduction of a general nature, it may be useful to go on to analyse briefly the economic evolution that characterised, during the course of the year, the branches of activity that are typical of the provinces of the area where the Bank operates.

Compared with the general picture, it is interesting to observe in greater detail the data provided by the Irpet - Unioncamere Toscana survey of the regional trend by dimensions of enterprises, sectors of activity and provinces, updated to the third quarter 2009. The crisis that is involving the regional system of production seems to be slowing down. Levels of activity, however, in line with the expectations expressed by entrepreneurs in the last quarter, remain at an all-time low. Only the sectors of foodstuffs (-5.1%) and



woodwork and furniture (–17.6%) record an increase in the rate of decline of production; for all the other sectors, however, large drops are still found. Only the pharmaceutical industry presents an increase in production, which is actually quite sizeable (+26.2%).

An examination of the economic situation by provinces shows that the drop in exports in the third quarter of 2009 reveals fairly different dynamics at the territorial level. Positive variations are found for Massa Carrara (14.7%), Grosseto (6.4%) and Arezzo (5.9%), whereas falls significantly higher than the regional average persist for the provinces of Siena (–43.1%) and Livorno (–27.6%).

The crisis afflicting the regional system of production seems to spare only the province of Grosseto, which is stable at the levels of one year ago. Losses are limited below double figures for Arezzo, Lucca and Siena, whereas the drop in production for Livorno and Firenze is still considerable.

Also the decline in retail sales involves all the provinces of Tuscany, albeit with a differing level of intensity. The greatest contractions are those of Pistoia, Arezzo, Pisa and Prato, whereas the reduction was only 2.7% for Livorno.

THE BANKING SYSTEM

After seeing an increase of 13% in 2008, **overall funding** grew by about 6% in 2009. The tendential variation of the total funding at the end of December was 8.8%. The growth rate of bonds grew more slowly than in 2008: +14.5% in 2009. Foreign funding showed a slight drop in 2009 (–3.2%).

As regards bank interest rates, it may be observed that the **interest rate on deposits in Euros applied to families and non-financial enterprises** showed a decline in the last few months, in line with the levels of the ECB and with the trend of interbank market conditions : in December 2009, in particular, it was equal to 0.69%, 1.30 basis points below the value of the previous year (1.99% in December 2008). **The average rate of bank funding from customers** (which includes the yield of deposits, bonds and swap operations in Euros applied to the category of families and non-financial enterprises) was 2.20% in December 2009. Compared with December 2008, there was a reduction in this rate of 110 basis points.

The tendential growth rate of the **total of lending to families and enterprises** was 1.5% at the end of 2009. Loans for periods of more than one year appeared to be more lively, with an increase of 2.5% in 2009, whereas short-term loans finished the year with a decline of 4.1%. Lending to enterprises in Italy suffered a first setback in September, with a rate of variation on a yearly basis that was negative for the first time (–0.2%), though this performance was better than that of the Euro area (–0.4%). An inversion of this trend is expected already starting from the first half of the year, and this should lead to a growth in lending to enterprises in 2010. Lending to families grew by 3.5% in 2009, stimulated by house purchase loans (+4.2%), and it is expected that there will be a consolidation of the growth in family financing. The limited liveliness of consumption, according to the ABI, should lead to a substantial stability of consumer credit.

On the basis of ten-day reports for December 2009, the **weighted average interest rate on the total of loans to families and non-financial enterprises** calculated by the Italian Banking Association diminished, in line with the indications of the European Central Bank, and with the trend of conditions on the interbanking market, ending up at 3.77%; this is 5 basis points below the figure for the previous month, and 227 basis points below the level of December 2008.

The serious nature of the recession is giving an alarming new impetus to the increase in **bank overdue debts**: net of devaluation, they grew by 34% in 2009. The ABI estimates a protraction of 27% in 2010 and 9% in 2011. In proportion to lending, net overdue debts are likely to show a progressive, gradual worsening (1.6%), arriving at 2.1% in 2011, a level that is almost 1% higher than in 2008 (1.2%). Also in Tuscany, the regional figure for the ratio net overdue debts/total lending at the end of 2009 presents a deterioration of 1.2% compared with the previous year.

In the third quarter of 2009, as in the previous quarter, the **net collection of common investment funds** in Italy was positive (6.9 billion, compared with 1.0 billion in the previous quarter). The afflux of resources



included both foreign funds (4.9 billion) and, for the first time for four years, funds set up under Italian law (2.0 billion). Among the latter, in particular, the net collection grew sharply for bond funds and monetary funds (1.9 and 1.0 billion, respectively), while it remained limited for equity funds (0.2 billion); balanced funds, flexible funds and speculative funds, on the other hand, continued to record net reimbursements. As in the previous quarter, the mean yield of Italian harmonised common investment funds was positive (3.4%): the highest yields were achieved by equity funds and balanced funds (13.2% and 5.9%, respectively), and the lowest by monetary funds and bond funds (0.5% and 1.8%, respectively). Also **patrimonial managements**, for the first time since the third quarter of 2007, showed a net influx of funds in the period under examination (22.7 billion); their mean yield in the quarter was estimated to be equal to 2.2%. As a result of the manoeuvre to force capital illegally detained abroad to emerge, the dimensions of the private market should expand, with a more lively growth of savings management products with a higher added value, with positive repercussions for unit profits. In the sector of **insurance products**, there has been a reorganisation in favour of the unit-linked products, whose growth may reach significant levels in the next two years.

After a reduction of 54% in 2008, the **net bank profit** suffered a further cut of 45% in 2009; for 2010, on the contrary, an inversion of this trend is expected, with a growth of 8.6%. The critical phase is expected to be further overcome in 2011, when there could be a rebound that would bring the net profit back to a level practically identical to that of 2008, even if values were to remain sensibly lower than those before the crisis. In this context, the **return on equity** would pass from 4.4% in 2008 to 2.4% in 2009-10, to level off at 3.6% in 2011. The **interest margin**, which showed a contraction of 5.6% in 2009, is expected to rise by 1.3% and 5.3% respectively in 2010 and 2011. As regards the **intermediation margin**, which showed a drop of 7.7% in 2008 and a further drop of 0.8% in 2009, there should be, according to the ABI, a recovery of 3.6% in 2010 and in the order of 7% in 2011. The **net management rate** should show more pronounced growth rates (-0.4% in 2009; +7.3% in 2010 and +13.9% in 2011), thanks to a dynamics of operational costs which, considering the general context which is not brilliant, should prove to be relatively contained (-1% in 2009, +1.4% in 2010 and +2.7% in 2011).

NORMATIVE INNOVATIONS

Among the measures for the support of the real economy, law N° 2/2009 contemplates the financial strengthening of Confidi (through the refinancing of the Guarantee Fund) and the amplification of operational spaces of the Deposits and Loans Fund. Furthermore, the law cancels the passivity rule and modifies the rule of neutralisation, within the scope of the regulation of takeover bids; it also provides for the reduction of the period of amortisation of start-up deriving from mergers, from 18 to 9 years, with the consequent increase in the deductible quota both for the purposes of income tax and IRAP (Regional Tax on Productive Activities). During its passage through Parliament, an amendment was inserted abolishing the maximum overdraft commissions on bank current accounts if the balance remains debited to the customer for less than thirty consecutive days, or for uses in the absence of lines of credit. Pre-existing contracts were to be adjusted within 150 days of the date when the law came into force (January 29th, 2009). As regards commissions on the placement of funds at the disposal of current account holders, independently of their actual use, certain conditions of application are contemplated: at least an annual statement, the faculty to recede from contracts, and the express renewal of clauses. With the more recent "anti-crisis" decree, the legislator again intervened, establishing that all-inclusive commissions for the remuneration of the service of placement of funds at a customer's disposal cannot go above 0.5% of the sum of the loan per quarter.

Again in law N° 2/2009, it was established for variable-rate first house loans, underwritten or renegotiated by individuals up to October 31st, 2008, that the sum of the instalment must be equal to the lower between the sum calculated by applying an interest rate of 4% and the sum obtained on the basis of the interest rate indicated in the contract at the time of its stipulation. Any surplus is attributed to the State in the form of a tax credit for banks. Furthermore, from January 1st, 2009, banks must offer their customers



the possibility to contract loans also at an index-linked rate linked to the main refinancing rate of the ECB.

In January, the Basle Committee announced a series of proposals aiming to strengthen the regulation and vigilance of banks operating on the international level. The modifications intend to guarantee that the risks connected with activities of negotiation are better coordinated with patrimonial requisites, risk management practices and the information given to the public. The new rules will aim to improve the quality of capital, and to limit excesses in the use of the financial leverage, partly through the introduction of a leverage ratio, as well as the general revision of the notion of vigilance patrimony. This set of regulations, contained in two drafts published in the month of December 2009, will be the subject of a detailed impact study in 2010, and will be introduced with the necessary gradation, in order not to interfere with the economic recovery. The new “Basle 2” should start working to the full at the end of 2012.

On February 25th, approval was given to the ministerial decree implementing art. 12 of the Decree Law 185/2008, which introduces the so-called “Tremonti bonds”. The Treasury can therefore underwrite, until the end of the year, financial instruments without right of vote issued by quoted banks, convertible into ordinary shares, callable at any moment by the issuing bank, and calculable in the vigilance patrimony (Core Tier 1). Issuing banks must undertake commitments about the levels and conditions of loans to be guaranteed to small- and medium-sized enterprises and families, and about consistent dividend policies with an adequate patrimonialisation, and they must adopt a code of ethics on the subject of the remuneration of company directors. The law also provides for the institution of controls in the Prefectural offices, with the function of monitoring the use of funds collected through the bonds.

In March, the Consob sent out a communication, adopted after a long consultancy process, regarding the duties of correctness and transparency in the retail distribution of non-liquid financial products (bank bonds, insurance products, spin-offs). The communication recommends that intermediaries should provide customers with information about the correct value and the costs of the product distributed, as well as presenting comparisons with simple well-known products. Furthermore, the document defines in detail measures to determine the price of non-liquid products, based on the use of recognised methods widespread on the market, in line with those adopted for the assessment of the intermediary’s portfolio. The need is underlined for a detailed knowledge of customers’ preferences, with particular regard to investments.

The Bank of Italy, first among the authorities of the leading countries, introduced already last year, within the scope of bank governance regulations, a specific discipline regarding pay formulas. In April the relative principles were issued by the Financial Stability Board. First of all, it is necessary to provide for an adequate balance between the fixed part of the variable part of remuneration; furthermore, the latter is to be connected with the earnings actually received, in a medium/long-term perspective, bearing in mind the relative risks. Particular prudence should be adopted to safeguard the integrity and the status in the bank of the function of control; the company organs, and first of all, the shareholders’ assembly, must be involved in the definition of remuneration policies and in the control of their implementation.

The ABI was in favour of the agreement about the reform of contractual aspects of January 22nd, 2009, in the context of a united trades union in our sector. Furthermore, the model of union relations already adopted by the bank workers’ contract was largely borrowed from the above-mentioned inter-confederation agreement. It is now necessary to define with the category trade unions a Protocol of Implementation, as has happened in other sectors.

An important agreement was signed on December 16th between the trade union organisations and the ABI, regarding the solidarity fund of the sector. Among the various innovations, the agreement introduces a third emergency section, thus completing the existing architecture composed of an ordinary section (wage supplementation and training) and an extraordinary section (early retirement). The emergency section safeguards workers of both sexes who, as a result of reasons of age, the structural nature of the company crisis, or the impossibility of recourse to infra-group mobility, do not possess the coverage of the ordinary or extraordinary sections.

With the publication, on June 24th, 2009 in the Gazzetta Ufficiale, of the Bank of Italy regulations



setting up the figure of the financial banking arbitrator, the procedure started for the concrete implementation of art. 128-bis of the financial consolidation act. The financial banking arbitrator is a system for the out-of-court solution of controversies regarding banking and financial operations and services. Controversies over operations dating back to before January 1st 2007 cannot be submitted to this figure, and neither can claims for damages in excess of €100,000. Each panel of judges is composed of five members, of whom three, including the President, are chosen by the Bank of Italy, one is appointed by the associations of intermediaries, and one by the associations representing the customers. It began its operations on October 15th, 2009, following the appointment by the Bank of Italy of the members of the three panels based in Milan, Rome and Naples.

On July 29th, the Bank of Italy issued new regulations about the transparency of banking services and the correctness of relationships with customers. The use of concise indicators for current accounts will allow customers to compare the costs of the various offers available on the market; the end-of-the-year statement will contain a specific invitation to customers to verify – at the bank or by Internet – the convenience of existing current accounts; the cost of loans will be made more comprehensible, enabling customers to calculate in advance, and compare, overdraft costs. The new regulations take care in particular of weaker customers: standardised documents with different levels of reading; costs of services clearly indicated; a “simple current account” for basic customers, with a fixed annual charge; an all-inclusive end-of-the-year statement; practical guides to explain to customers how to choose their current account or loan. It is expected to come into force in January 2010.

As of the month of August, the new vigilance instructions for the control of mean overall effective interest rates, aiming to stop usury, contemplate the inclusion of all the customer charges connected with the supply of loans, including costs previously excluded, such as maximum overdraft commissions, where still applicable, commitment fees, and certain insurance and mediation expenses. For some categories of operations, the explicit inclusion of these new charges has a significant effect, determining higher threshold rates compared with the past, more representative of the economic conditions applied to customers.

EC law for 2008 contains a delegation to the Government for the overall reform of the discipline regulating relationships between banks and customers. The numerous legislative measures of the last few years can be inserted into an organic structure that clearly affirms the principles that safeguard customers, fills gaps in regulations, avoids unjustifiably different treatment on similar questions and strengthens the system of sanctions.

The third Italian tax shield has been operative since September 15th, 2009; this was introduced by the anti-crisis Decree Law n° 78 of July 2009, corrected by Decree Law n° 103 of August 3rd, 2009 and definitively converted into Law n° 141 of October 3rd, 2009. As will be seen also in the sections below, among the cases in point admitted by the Tax Shield 3, the Bank opted for the management of case studies regarding the repatriation of financial assets.

As of November 2nd, with their participation in the protocol for the supply of services of 450 banks, seven Italian branch banks out of ten will be able to activate the direct Sepa debit, allowing enterprises and consumers to domicile on their accounts payments in Euros in favour of any beneficiary situated in the Sepa area, which includes 27 member states of the European Union as well as Iceland, Liechtenstein, Norway, Switzerland and Monaco. The procedure will become compulsory as of November 1st, 2010, as required by community regulations. The third and last instrument of Sepa payment will thus become available, after the introduction in January 2008 of Sepa transfers and Sepa payments with a credit card. Compared with today, European consumers will need a single banking account, from which they can order transfers and pre-authorised debits in Euros at any point in the area, with the same ease with which they make national payments. At the same time, enterprises will be able to carry out all their financial transactions in Euros in a centralised manner from a single bank account, using the instruments of Sepa payment.

There are still some fiscal and procedural problems in the normative panorama concerning the banking system, which have been waiting to be tackled for years.



The first one is connected with the protection of enterprises in difficulty: the failure to recognise the full deductibility of value adjustments on credits is unparalleled on the international scene, and has had important pro-cyclic effects, making the distribution of loans more costly during periods of economic crisis. Measures were introduced in the anti-crisis Decree Law, raising the ceiling for the incremental flow of credit. This is a signal which, though not very incisive in the short term, denotes an interesting change of course. In this connection, more decisive measures are desirable and necessary, aiming to close the gap between the fiscal treatment of credits and balance results, thus avoiding the creation of elevated fiscal assets for anticipated taxes; these would prospectively be subtracted by the new regulations from the vigilance patrimony, consequently increasing the obstacles for the expansion of credit.

A further aspect is VAT treatment for the supply of infra-group services. The abolition of the exemption regime determines concern, not only due to the greater costs. Organisational choices alternative to the universal bank are penalised from the functional point of view and that of territorial organisation. The solution would be to introduce, also in our system, the group VAT regime that is already in force in most countries of the Union.

Another decisive factor is the realisation of the project for a telematic civil trial, to which banks have contributed, also financially, ever since the signing in 2006 of the Agreement Protocol with the Ministry of Justice. The first positive results of the Bankruptcy Reform can be seen, in the direction of a reorganisation of enterprises. However, it is necessary to proceed to the consequent modification of bankruptcy offences, introducing an adequate safeguard, also from the penal point of view, for measures in favour of enterprises going through a crisis; it is also necessary to complete the reform by disciplining the crisis of subjects that cannot go bankrupt (small enterprises and consumer families), measures that are important above all in a phase of economic crisis. Lastly, it is urgent to equate agreements aiming to reach a negotiated solution of crises to official liquidation procedures, and to recognise the full fiscal deductibility of losses on credits that accrue within the scope of such agreements, so as to further motivate them.

NORMATIVE ACTIVITY WITHIN THE ENTERPRISE

In a year characterised, as we have seen, by an elevated dynamism of the normative scenario, the various measures have been taken into account, with the consequent management of the relative repercussions on company operativity and a profound commitment on the part of the structure. We will therefore list the main measures involved, referring those who desire a more detailed comment on the single aspects to the parts of the report dealing with the specific subjects:

- Company Governance
- Government Decree 231/2001 Organisational Model
- Money-Laundering Prevention
- Financial Banking Arbitrator
- New Transparency Regulations
- System administrators (Measure of the Privacy Guarantor)
- D.L. 185/2008 Anti-crisis Decree
- Tax shield
- Microcircuit

EVOLUTION OF STRATEGIES, COMPANY POLICY AND MANAGEMENT PERFORMANCE

As regards the banking sector, Italian banks continue to show a substantial resistance, even though they are paying for the effects of the economic crisis, with a significant contraction in terms of the revenue



account: as regards net profits, which were halved in 2008, the ABI estimates a reduction of about 45% in 2009, and even if there is a slight inversion of the trend in 2010, profits will still remain far from pre-crisis levels. The growth trend of overdue debts is confirmed: +34% is the estimate for 2009. Italian banks have continued to censure their support for families and enterprises, in spite of the serious consequences of the international economic crisis, the growth of overdue debts and the further drop in profits. Even in the presence of a slow-down in the dynamics of lending, the developments of the lending trend have proved to be relatively positive in the last year and a half, if compared to the serious drop in economic activity.

During the course of 2009, our Bank felt not only the negative effects of the general market context, but also the positive effects of the process of change that directors and management prompted, by realising a new strategic plan giving directions for the growth of the Bank, in line with the two indivisible principles of maintenance of autonomy and the consolidation of the dimensions of a regional Bank.

If we wish to reconstruct a summary of the most significant elements that have characterised company policy during this last year, the following facts are particularly significant:

- the support and protection of the sales network, oriented towards the various market segments, with the adoption of the new distributional model;
- the attention dedicated to efficiency on the front of costs and human resources, closely connected with a more complete valorisation and motivation of staff through courses of professional training and new incentive systems;
- the monitoring and the reduction of risks, with the use of more effective instruments for evaluation and control, among which the adoption of the ICAAP model on patrimonial adequacy is particularly significant;
- the boost in commercial policies and communication, especially with campaigns targeting private customers and small- and medium-sized enterprises;
- the enlargement and the improvement of innovative channels, such as Internet banking and phone-banking, and electronic encashment and payment services;
- the development in the field of bank insurance, with the commercialisation of the products of the company San Miniato Previdenza, created together with our partner, Società Cattolica di Assicurazione, who are the owners of a share parcel of our Bank equal to 25%;
- the implementation of a new policy of rationalisation of shareholdings, as indicated in the strategic aims of the Industrial Plan.

From the operational point of view, the Bank achieved a growth in lending volumes, thanks to the maintenance of good growth performances in the components of medium- and long-term aggregates for families and enterprises, whereas short-term credit, though influenced by the difficult economic conditions of enterprises, showed a fairly limited decline. There was a growth in the dynamics of contentious credit, linked with the difficulties of the economic situation, which, even net of prudential devaluation, reached higher levels than those at the end of the previous year.

Direct funding displayed a particularly positive trend, with a more sustained growth in the sight deposit sector, thanks to the excellent performance of current accounts, while the trend of the dynamics of maturity deposits (bonds and certificates of deposit) and swap operations was more contained.

Positive results were achieved by indirect funding, with a moderate increase in the administered sector and a more significant recovery in the sector of savings management, which was influenced during this year by the recovery of confidence of financial markets, and particularly on the common investment funds market, characterised the year before at the system level by a sharp contraction in demand and by important decisions to leave the sector. In our Bank, patrimonial managements recorded a good performance compared with the values of the previous year, even in the presence of a renewed commercial effort dedicated to the sector of "Private" managements. The total of insurance products placed with our customers reached important levels, representing a valid alternative for the savings investment of families.



An analysis of the margins of economic accounts shows an annual decline in the margin of interest, determined by a more sustained dynamics reducing the absolute value of active interest, compared with that of passive interest. The increase in mean volumes mediated with customers did not make it possible to recover the erosion of the margin due to the reduction in the interest rate scissors on an annual basis. In the component of active interest deriving from the securities portfolio, there was a sharp decrease, due to the reduction in volumes and to the drop in interest rates. The effects of the dynamics of portfolio productivity are partly compensated by the positive result of the net treasury position, which, on the contrary, had generated costs chargeable to the economic account in the year 2008.

The intermediation margin closed at higher values than the previous year, showing in detail a growth of net commissions. This growth was essentially generated by the greater income deriving from the new commission structure for financing, which made it possible to absorb the reduction in the commissions deriving from activities in the sector of common investment funds, collection of orders and other collection and payment services. Overall, the figure at the end of 2009 shows a positive trend of items referring to dividends, activities of negotiation of securities, exchanges and spin-offs, and assignments of financial assets and liabilities.

On the costs front, there was a limited increase in administrative expenses, essentially due to higher staff expenses, while the other general expenses show a significant reduction, in accordance with the aims of the Industrial Plan. The net financial management result grew compared with the previous year as a result of lower net value adjustments due to deterioration of credits, which, however, were decidedly higher in 2009 than the historical trend of write-offs, and in particular as a result of the actual losses recorded in the last few years, and above all of lower value adjustments of other financial assets available for sale. In particular, this latter component of an extraordinary nature had negatively conditioned the economic result of 2008 and referred to the allocation to the economic account of the devaluation of the shareholding in the company Eutelia.

The net result for the period, discounting the necessary appropriations of taxes in full compliance with tax regulations, was 8.1 million Euros, with a significant recovery of profitability compared with the previous period, which had closed with a loss of about 8 million Euros. The reason for this loss could mainly be attributed to the presence in the result at the end of 2008 of the postings of an extraordinary nature, referring to the higher net value adjustments due to deterioration of credits, and in particular to the devaluation of the shareholding in Eutelia SpA, which affected the pre-tax result to the tune of 5.1 million Euros, and the net result for 4.9 million Euros.

The development of the “real bank” during the past year had to face up to the deterioration of regional economic activity, thus influencing both the dynamics of the customer patrimony and the number of current accounts, which all the same showed increases, respectively, of 0.8% and 4.5%. Positive results were also recorded for the sales of credit and debit cards, and for operations carried out by means of ATM and POS. The trend of commercial flows linked with working with enterprises, which are directly affected by the trend cycle of certain traditional sectors of the economic districts of our customers’ territory (hides-leather-shoes-textiles-glass-clothing) understandably suffered a slowdown compared with the average of previous years. Lastly, significant results were achieved by online channels with customers, both on the front of phone banking, and on that of Internet banking, especially in the corporate segment, with a considerable growth also in the directory transactions managed with the help of these innovative instruments of direct banking.

Let us now pass on to a brief illustration of the most significant areas of company activities, with the help of a series of tables in which, unless otherwise specified, results are expressed in thousands of Euros.

There follows a comment on the most significant variations and dynamics of patrimonial masses, compared with the previous accounting period.



COLLECTION

The amount of the overall collection (direct and indirect) from customers, at the end of the year, reached 4,754 million Euros, with a recovery of 396 million Euros with respect to December 31st, 2008, equal to +9.08%. This result was significantly influenced by the positive dynamics of indirect collection, as a consequence of the recovery of confidence and in prices of finance markets, and of the growth in the stock of direct collection, which was positively affected by the good performance of forms of sight funds and short-term funds, which are preferred by savers in this situation, compared with maturity funds, in particular certificates of deposit and bonds.

The above-described evolution witnessed a differentiated dynamics among its components and separate technical forms, as we may see in greater detail in the following table:

In particular, from the qualitative and quantitative point of view, the data indicate that the most important elements are the following:

- The aggregate “Direct collection from customers” shows a total value at the end of the accounting period of about 2,530 million Euros, with an increase of about 221 million Euros (in absolute value) and 9.58% with respect to December 31st, 2008.
- The item “Current Account Deposits and other Free Deposits” reached the level of 1,288 million Euros (the result at the end of 2008 was 992 million Euros), with an increase of 29.85% compared with December 31st, 2008. The robust growth in stock was undoubtedly influenced by the behaviour of savers in the second half of the year, seeing that they used the current account not only as a service instrument for encashment and payment but also as a deposit of liquidity, in a phase of all-time low levels of interest rates on investments.
- “Certificates of Deposit” registered a total of 185,321 thousand Euros (the value reached at the end of 2008 was 211,337 thousand), with a decrease in their total of 26,016 thousand Euros in absolute value, and +12.31%, compared with December 31st, 2008, due to the customers’ choice, at the time of maturity, to maintain higher levels of liquidity, not investing in maturity products, as a result of expectations linked to the low levels of rates of remuneration.
- It may also be pointed out that during the past year, customers’ preferences confirmed a decided orientation towards the short-term component, which represented more than 98% of the entire stock at the end of the year.
- The year 2009 was characterised by the continuous decrease in short-term interest rates, which led customers to abandon investments on variable-rate bonds in favour of short- and medium-term fixed-rate products. The offers of bonds during the year thus concentrated mainly on short- and medium-term fixed-rate bonds, which were able to satisfy the need shown by customers to obtain nominal rates higher than 2%.

In 2009 direct maturity collection by means of debenture loans showed a slow-down, due to the above-mentioned phenomenon of customers’ propensity to maintain a greater liquidity on current accounts, with the result that the aggregate in nominal values passed from 1,057.7 million Euros at the end of 2008 to 1,000.1 million Euros at the end of 2009, a decrease on an annual basis of 5.45%, with a reduction of the variable-rate type equal to 19.16%, and in increase of the fixed-rate type of 14.10%. The mean duration of the entire mass of bonds was about 2 years, and this was adequately covered by the rate risk. Furthermore, during the course of 2009, the Institute had recourse to the offer of subordinate liabilities for a total of 35 million Euros, offering two fixed-rate instruments, and obtaining an excellent response from customers, who underwrote the two loans in their entirety.

The aggregate Swap Operations recorded a substantial stability in point value, equal to about 33.5 million Euros in absolute value (+2.86% on December 2008), in line with the strategies of the bank to stabilise the collection of liquidity from customers, and at the same time not increasing the collateral securities tied



up in these operations.

From the point of view of the distribution of collection by sectors of economic activity, the central role of consumer families (+60.49%) and private social institutions appears to be evident (together they represent almost two thirds of deposits); it is necessary to underline that products such as bonds, which are essentially aimed at this segment of customers, have been excluded from this calculation; during the last year, the weight of the component enterprises and producer families increased (+6.10%), whereas that of financial companies (-0.16%) and public administrations (-0.64%) decreased slightly.

As regards "Indirect Collection" during 2009, the trend of the exchange value of stocks showed a positive trend, with a more marked tendency to growth in the second half of the year, with the progressive attenuation of the high degree of volatility recorded at the beginning of the year on finance markets. At the end of the year, the aggregate total registered an increase equal to 174,465 thousand Euros in absolute value, and 8.51%, compared with December 31, 2008. This recovery took place both in the component of administered savings, which had been penalised the previous year by the drop in the common investment funds sector, and in that of patrimonial management.

In detail, the trend of indirect collection exhibits a increased dynamics both in the managed (+15.96% compared with December 2008) and in the administered (+3.43% compared with December 2008) sectors. A return was also seen in customers' direct investment in shares (+18.46%), which is an indication of a recovery of confidence on the part of savers, after the fears raised by the serious crisis that had previously shaken the markets.

The Patrimonial Management item shows an increase in the equivalent value invested, compared with the values of the previous year (+16.20% compared with the end of the previous year), whereas the total of managed patrimonies, which also includes liquid availability, records an increase in the order of 13.74%. A positive trend was recorded, after a long period of difficulty, also in the sector of Common Investment Funds, where the value of the quotas administered on behalf of customers went up by 3.76% compared with December 2008, in line with the general trend shown at the system level, in spite of the fact that the net collection of Carismi/Vegagest Funds had not yet recovered a plus sign at the end of the year.

At the same time, during the course of the year, there was the phenomenon of a return to direct investment by customers, including institutional ones, who privileged diversifications of their portfolio, with a greater prevalence in the administered component of types of securities characterised by a more prudent risk/return profile, such as gilt-edged securities and corporate bonds.

It can be seen from the subdivision by type of savings that the quota of indirect collection of customers orientated towards managed savings increased with respect to administered savings, representing, overall, 43.3% of the total of the aggregate, against 56.7% (at the end of the previous year, this quota was 40.5%, against 59.5%). The collecting activity of the Bank was also carried out in the insurance sector, receiving a further boost from the marketing of policies distributed by the participated company San Miniato Previdenza and by other leading insurance companies that operate on the national market, especially Cattolica Assicurazione. At the end of the year, the insurance component registered a premium collection stock of about 264 million Euros, with an increase of almost 50 million Euros compared with the end of the previous year, equal to +23.05% .

In order to evaluate more precisely the Bank's operating performance in the context of the "Provision" and "Liquidity Management" aggregates, it may be convenient, at this point, to extend our analysis to the interbanking deposit market.

At the end of December, the treasury balance of our Bank showed a positive imbalance of liquidity in Euros and other currencies of about 144 million Euros, compared with a net position recorded at the end of 2008 that was positive for about 80 million Euros. The variation in the treasury imbalance during the accounting period was the result of the movements in the most significant postings of assets and liabilities.



The most significant postings that positively modified the monetary basis of the Bank were the following:

- the monetary basis contribution of the increase in direct collection for a total of about 221 million Euros.

The postings that determined a negative modification of the monetary basis of the Bank were:

- the use of funds to support the increase in lending to customers for a total of about 106 million Euros.
- the increase in the securities portfolio for about 44 million Euros, after we had carried out a partial liquidation in 2008, in order to redress the interbank state of indebtedness.

Our Bank was a borrower on the interbank market for the first half of the year 2008, but the trend changed completely in the second half, thanks to incisive action on direct collection, which gave positive results in the position of liquidity for the whole of 2009. Of course, this relaxed situation decidedly lowered the risk on the liquidity market, which is monitored all the same by the risk indicators of the Contingency Funding Plan, approved by the Board of Directors already in the month of September 2008. This situation guarantees a continuity in financing for enterprises, as it does not depend for the availability of funds on contingent situations of the interbank market.

At the operational and organisational level, in line with European regulations, the Bank already in the year 2008 used the sophisticated platform of Target2, the new system of payments in Euros for real-time regulation of transactions of important amounts in Central Bank currencies.

ECONOMIC INVESTMENTS

At the end of 2009, the “Lending to Customers” aggregate, based on the end-of-the-period surveys reached a total of 2,202 million Euros (the technical subdivision of credits towards customers and other connected data, expressed in accounting values, emerges from the supplementary note, compiled in accordance with the criteria laid down by current legislation), with an increase of 4.55% compared with December 31st, 2008.

The evolution of the aggregate during the year 2008 was characterised by a decline in the short-term segment which involved both current account overdrafts (–6.19%) and advances on invoices and documents (–1.63%), which, above all in the second half of the year, suffered from the weakness of the general economic picture in the territory served by the Bank, while the medium- and long-term sector again registered a performance of growth (+6.21%), about 2% above the growth at the systemic level. If we consider the average yearly data, overall lending grew by 4.84% compared with the previous year.

All this confirms the strategic role played by our Bank, which essentially aims to provide economic and financial support for the regional productive system and to satisfy the financial needs of families, who showed that they continue to appreciate in particular the loans offered by the Bank. The economic situation of 2009 was particularly difficult and complicated, but in spite of this, we succeeded, sometimes by anticipating decisions subsequently taken by the entire banking system, in taking initiatives and offering products that allowed enterprises and families to cope better with the lack of orders and the loss of jobs.

In order to complete the informational picture of lending, it is necessary to point out that the financial support provided to economic operators in the Bank’s area of operations was granted not only in the form of cash credits, but also through endorsement credits. At the end of the accounting period, the total of the latter reached a level of about 76.9 Euros, which was about 17 million, or –18.2%, lower than December 2008, in many cases connected with the enterprises’ trends of overseas sales.

The data indicated confirm that the Bank’s credit policy, also during the course of the last accounting period, aimed to achieve a balanced division of lending between the various economic and social sectors and the commodity sectors that characterise the Bank’s territory of operations, thus confirming the considerable weight assumed by the consumer family component, which accounts for almost 27.4% of the total credit



granted, thanks to the confirmation of the positive trend of mortgage loans, whereas almost 66% of credit, equal to two thirds of the total, was represented by lending to productive realities in the territory.

In order to complete the analysis of the intermediation activities, we believe it may also be useful to give a brief description of the financing operations mediated with specialised companies, or assisted by guarantees of Credit Trusts, which in 2009 maintained important levels, both as regards the overall number of files and the amounts financed. In particular, operations were privileged in agricultural credit, in leasing and in credit assisted by Credit Trusts, granted through the various types of technical forms.

As regards the initiatives taken by our Bank during 2009, which saw us play a leading role in the regional economic scenario, with significant social results recognised by the various interlocutors involved, we will dwell for a moment on the most important ones:

- Agreement of collaboration with the Tuscany Regional Government to help enterprises to have access to two new Guarantee Funds managed by Fidi Toscana: the Guarantee Fund for investments, with an endowment of 33 million Euros, which covers up to 80% of the investment with a maximum guaranteed sum of 500 thousand Euros, and the Guarantee Fund for liquidity, with an endowment of 15 million Euros, which covers up to 60% (raised to 80% for small- and medium-sized enterprises of women or young people) of the sum requested, with a maximum of 500 thousand Euros..
- Institution of a fund with an endowment of 10 million Euros for workers receiving wage supplementation in our region, accepting solicitations to finance the advance of the wage supplementation fund, received first from the category associations and the local administrators of the leather-working district, historically our reference area, and subsequently from the Tuscany Regional Government itself, via the labour councillor's office. This operation was destined for enterprises, but involves also workers and their families.
- Agreement of collaboration with the Province of Pisa for interventions in support of workers receiving ordinary or extraordinary wage supplementation. In the district of Santa Croce, the Municipalities and category associations joined the Province in participating together in the initiative with their own resources in the form of contributions to the financing granted by the Bank.
- Agreements with certain Municipalities of Tuscany for subsidised financing in favour of suppliers who claim credits from the municipal administrations, advancing the value of the supplies, on the issue of a certificate by the Municipality. This agreement, contemplated by a Government Decree Law, makes it possible to overcome the limitations on payments imposed by the Pact of Stability on municipal balances, which create serious problems for many local enterprises, especially the medium- and small-sized ones.
- Loans fund of 2 million Euros for the firms of the Sieve valley who need liquidity in order to pay local rates and taxes. The fund is a concrete instrument that was born from a proposal that emerged at the anti-crisis discussion table of that territory, and small- and medium-sized enterprises will be able to have access to it thanks to the collaboration of the Confictur Consortium and our Bank.
- Anti-crisis agreement with the Tuscany branch of the National Consortium of Artisans in order to favour the concession of financing to artisan enterprises (45,000 members of the Consortium), and to "manage" members' possible situations of crisis together.
- Agreement with the Diocese of San Miniato and the Fondazione Cassa di Risparmio di San Miniato for the institution of a microcredit fund to support families facing a temporary situation of hardship partly as a result of the loss of jobs. This guarantee fund has an overall availability of 500 thousand Euros, underwritten for 100 thousand Euros in equal parts by the Diocese and the Foundation, and for 400 thousand Euros by our Bank. The "hope loans", for a maximum of 3,000, or 5,000 Euros in special cases, will be distributed by the Carismi branch offices, on the recommendation of the Caritas and the Listening Centres, with the assistance of Carismi technicians.



MANAGEMENT OF CREDIT TREND MONITORING

Within the scope of the restructuring of the Bank's organisational model, a series of organic modifications were introduced, which have overall determined a substantial revision of governance of the lending process. In particular, among the main normative novelties introduced in 2009, there was an updating of the Credit Regulations that govern, at a high level, the modus operandi of central and peripheral organisational units in the single phases of the lending process, partly in the light of the process of self-evaluation of patrimonial adequacy (ICAAP) as regards the overall management of credit risks.

In management terms, the whole of the credit/commercial division has been clearly alerted to the themes of asset quality. A series of interventions have been realised, with the aim of strengthening the safeguard of credit quality, among which the most important are:

- The creation of a clear awareness in the commercial network as regards targets in the field of credit quality, partly through the insertion of parameters linked with persistent overrunning and the incidence of stranded items and overdue debts on the credit portfolio in the new rewards system of the commercial network;
- Constant prompting of Areas and branch offices with the aim of carrying out a systematic verification of bad credit positions;
- Close monitoring of anomalous positions by the Risk Control Department and deliberation by the Management Committee of all the changes of status of positions from "in bonis" to "stranded/overdue debts", partly for a precise safeguard of the correct level of appropriation of funds.

The process of credit portfolio trend monitoring defined by the Bank is based on the survey of anomalous phenomena which may occur in the course of the lending relationship set up between the Bank and its customers. These anomalies have been defined on the basis of the deviation measured between the value of risk considered acceptable by the Bank (risk threshold) and the values expressed by relationships in the period taken into consideration.

The aim of the activity of credit risk control and management is therefore represented by the constant verification of the persistence of the economic, financial and patrimonial conditions of borrowers and their guarantors, taken as the analytical basis at the moment of the concession of the loans themselves. This is the context in which the activity of improving the efficiency of the credit portfolio monitoring process is set, with the aim of obtaining a better safeguard of the credit quality of the in bonis portfolio.

The process provides that the anomalies of the single relationships which refer to the same credit position should be controlled on a daily/weekly/monthly basis, both by the network structures and by the General Management (Credit Management and Risk Control Department), using the information procedures that support the monitoring process.

The positions, selected on the basis of the category of anomaly, seriousness of the anomaly and amount, are subjected to an administrative examination by the relevant network structure; this first analysis consists of identifying the reasons that have determined the anomaly, and subsequently taking into examination the qualitative aspects of the borrower, in order to clarify the financial, economic and patrimonial difficulties of the borrower, and thus arrive at a classification of the positions examined in the risk categories defined both at the company level (e.g. positions under scrutiny and overdue management) and by the existing Vigilance regulations (e.g. orthodox overdue and objective stranded items).

In support of the activity of trend monitoring, a procedure has been made operative which makes it possible – on a weekly basis – to detect the first anomalies requiring network intervention that occur for customers; this procedure is still being implemented, in order to broaden the set of anomalies to be processed.



ANALYSIS OF CREDIT QUALITY AND CREDIT RISK

As regards the quality of the credit portfolio, it may be observed that in the financial year 2008, in spite of the constant control exercised over lending risks, the extremely negative trend of the economic situation led to a growth of “contentious” credit, thus influencing the ratio of deteriorated credit during the year under examination, with respect to the development of lending, causing the incidence of overdue and stranded debts on the overall total of credits towards customers to rise for the second year running, after ten years of constant drops.

The above-mentioned highly negative trend of the economic situation, and above all the uncertainties that still exist about its extent and duration, have led the Board of Directors to maintain the level of the prudent appreciation of protection for deteriorated credit. This led us to post decidedly higher net value adjustments due to the deterioration of credit in 2009 than the trend of devaluations in the last few years.

During the course of 2009, these passed on to become practical overdue debts for 32,985 thousand Euros, and debts were collected for 10,487 thousand, while gross losses were equal to 5,473 thousand Euros. The balance of overdue-payment disputes at December 31st, 2007, before value adjustments, was equal to 153,695 thousand Euros (+12.5%), of which 139,720 thousand Euros referred to capital, and 13,975 thousand to interest, while the presumable realisation value of these credits (that is to say, net of devaluation for 94,845 thousand Euros) was equal to 56,850 thousand Euros. The incidence ratio of “net” overdue debts compared with “gross” overdue debts, which indicates an important qualitative profile of contentious credit, stood at 37.0%, while the adjustment funds coverage ratio is equal to 63.0%.

As regards “stranded” items, corresponding to item 70 in the balance of credits towards customers, they amounted at the end of the accounting period to 67,591 thousand Euros, before devaluation, with an increase of 4.3% compared with 2008 values, while net exposure amounted to 56,496 thousand Euros. 62.2% of stranded items are represented by loan guaranteed by a mortgage. Compared with the total of the aggregate, only 0.1% corresponded to operating strandings, 91.8% to return strandings, and 8.1% to pre-dispute items. At the end of the accounting period, devaluations weigh on the stranded items of credit towards customers for 11,095 thousand Euros. During the course of 2009, the activity of monitoring and control of risky positions continued, and as usual, we proceeded to devalue each single position analysed by relevant central structures, together with the branch involved. It should be underlined that during the year, the percentage weight of strandings on items higher than 500 thousand Euros increased in terms of overall amounts from 55.14% to 58.32% at the end of the accounting period, while the sums included in the brackets lower than 125 thousand Euros decreased, especially in the range from 50 to 125 thousand Euros (from 14.34% to 10.76%).

As regards the amounts, the new items were equal to 98.1 million euros, of which 87.0 million Euros from “in bonis” credits and 11.1 million Euros from other categories of doubtful credit. 39.6 million Euros of stranded items passed to overdue debts or other categories of doubtful debts. The gross stranding percentage on live credits was 3.3% at the end of the year, and the trend of the return “in bonis” reached higher levels than the previous year (38.7 million Euros in absolute value, equal to 22.9% of gross initial exposure, plus the year’s new items), whereas the trend of passages to overdue debts and other categories of doubtful debts was lower than in 2008 (39.6 million euros, equal to 23.4% of gross initial exposure plus the new items). In all, 502 positions passed to overdue debts in the year 2009. Restructured exposures for a net total of 16,514 thousand Euros are included in the balance as of December 31st, 2009, with specific value adjustments equal to 2,620 thousand Euros.

For a more complete and correct reading of the actual coverage index, it should be remembered that 66% of the balance value of deteriorated assets is represented by loans backed up by a mortgage guarantee, and thus the effective coverage of the loss risk is undoubtedly higher than the indicator, which was calculated exclusively as the ratio between devaluation funds for doubtful outcomes and credits at risk.

Among the innovations which came into force on January 1st, 2005, there was the modification of the



notion of “doubtful credits”, with the insertion of information relating to “more than 180 days overdue and/or overrunning exposures”. In this connection, it may be observed that the amount of these exposures towards customers on December 31st, 2009 was 33,937 thousand Euros (+82.7% compared with the value at the end of 2008), with specific value adjustments for 1,069 thousand Euros.

As regards the incidence of overdue debts on total lending, it should be underlined that the relationship between the two values, expressed net of devaluation, stood at 2.58%, with an increase compared with the previous accounting period, when this indicator was equal to 2.22%, while the gross indicator passed from 6,16% to 6.62%.

The following graph shows the ten-year trend of aggregates (gross and net), and indicates the positive results obtained for credit quality in the period, which have only been partly interrupted in the last two years as a result of the economic difficulties recorded at the systemic level.

ANALYSIS OF OTHER RISKS AND EXPENDITURE

As regards the provisions of Decree Law N° 394 of December 29th, 2000, referring to non-soft fixed-rate loans, the Bank has always respected the regulations in force on every occasion, and in particular those concerning usury. The typology of our loans has always allowed a perfect correspondence to regulations, and consequently there are no particular effects to be reported, as regards the income of the year ending on December 31st, 2009.

Analogously with evaluations made following the sentence of the Constitutional Court N° 425 of October 9th, 2000, declaring illegitimate Art. 25, comma 3, of Government Decree N° 344 of August 4th, 1999, concerning interest on accrued interest (compounding), only one new suit was filed during the accounting period 2009, for € 23,723. No further new requests from customers to refund interest on interest have been received.

On the front of the events linked with default bonds, there was a further increase in the number of legal disputes promoted by customers during the past year: 6 introductory acts of civil judgement were notified, mainly presented before the Tribunals of Pisa and Florence. Even if the trend should tend to diminish as a result of the forthcoming, or in some cases, supervened statutory limitation of the right to take action to obtain the reimbursement of investments in securities, above all in the case of the Argentinian Republic, the continuation of these kinds of controversies is presumably linked to the currently favourable orientation of sentences towards customers. However, some sentences of the opposite tendency have been pronounced, as occurred for the Bank in the course of 2009, by the judges of merit, and more generally, an attitude of openness has been shown by the Court of Cassation, also in a plenary session. Some of the cases pending in 2009 have been defined by means of a compromise settlement in the court of first instance.

INCOME STATEMENT

As usual, the remarks on the economic results of the accounting period are accompanied by the representation of a comparative graduated account, which makes it possible to understand the fundamental lines of evolution of economic management, and, by means of the indication of intermediate results, the various levels of the formation of the management performance.

A comparison with the similar values referring to the year 2008, calculated in accordance with the IAS/IFRS standards, also allows us to point out the data related to the area where the period profits formed, and the variations compared with the previous accounting period. If necessary, these data can be examined in greater detail, by having recourse to the more detailed information contained in the relevant tables of the Supplementary Note.

An analysis of the main income margins shows that:



- **The interest margin** was 76.7 million Euros, with a decrease of 4.9% compared with the previous year, as a result of a more sustained diminishing dynamics of the absolute value of active interest compared with the decrease of passive interest. The increase in mean volumes mediated with customers did not allow the recovery of the erosion of the margin due to the reduction in the interest rate scissors on an annual basis. The component of active interest referring to the securities portfolio showed a sharp reduction, determined both by the reduction in volumes and by the drop in yield rates. The effects of the dynamics of portfolio profitability are partly offset by the positive result of the net treasury position, which on the contrary had generated costs for the income statement in 2008.
- **The intermediation margin**, as defined by the new IAS/IFRS standards, closed at 114.1 million Euros, a higher level than the previous year (+10.5%), with an increase in net commissions (+29.8%). This increase was essentially generated by the higher revenue from the new commissions structure on financing, which made it possible to absorb the reduction in the sector of Common Investment Funds, collection of orders and other services of encashment and payment. The results for the end of 2009 see an overall positive trend in the items dividends, securities negotiation activities, and exchanges and derivatives, determined essentially by higher negotiation profits and recovery of value on securities, as a result of the progressive passing of the serious crisis on financial markets and the debenture market in the last part of 2008. The positive trend of profits from the assignment of financial assets and liabilities should also be underlined, just as the contribution of the net result of financial assets and liabilities evaluated at their fair value is also positive.
- **The net result of financial management** rose from 72.9 million Euros to 97.4 million Euros (+33.6% compared with 2008), as a result both of the lower net value adjustments for credit deterioration, even if these were decidedly higher in 2009 than the trend of devaluations, and in particular that of the effective losses recorded in the last few years, and of the lower adjustments of other financial assets available for sale. In particular, this latter component of an extraordinary nature had negatively conditioned the income statement of 2008, and referred to the allocation to the economic account of the devaluation of the shareholding in the company Eutelia, to the tune of 5.1 million Euros.
- **The pre-tax result of current operational activity** is positive, and is equal to about 15 million Euros, seeing that also on the costs front, there was a limited increase in administrative expenses, essentially due to higher staff expenses, also as a result of the incorporation of the employees of La Rocca Immobiliare SpA, whereas the other general expenses show a significant reduction (-7.5%) in accordance with the aims of a greater efficiency contemplated in the Industrial Plan.
- **The net result**, after discounting all the necessary appropriations of taxes, in full observance of tax legislation, was 8.1 million Euros, with a significant recovery of profitability compared with the previous year, which had closed with a loss of about 8 million Euros. The reason for that loss was attributable mainly to the presence, in the 2008 end-of-the-year result, of postings of an exceptional nature which had regarded both the net value adjustments due to credit deterioration, and, in particular, the devaluation of the shareholding in Eutelia, which weighed on the 2008 pre-tax result for 5.1 million Euros, and on the net result for 4.9 million Euros.

EVOLUTION OF INTEREST RATES AND SPREAD

In the first meetings of its Board in 2010, on January 14th, February 4th and March 4th, the European Central Bank left its policy rate unchanged at the all-time low of 1%. In December 2008, the official rate was 2.50%, but in four successive manoeuvres between January and May 2009 (two of 0.50% and two of 0.25%), the ECB reduced it to the present level. At the same time, it maintained the interest rate on operations of margin refinancing stable at 1.75%, and the rate on overnight deposits at 0.25%. Confirming that the present level of interest rates in Euroland appears to be appropriate at the moment, the ECB underlined that the economy of the Euro area is improving. In particular, for the whole of 2010, the ECB expects a positive mean



growth, even if moderate and unequal among different countries, which could be characterised by increases and declines of the GDP on a quarterly basis. Uncertainties remain, therefore, about prospects, especially as regards the prices of oil and irregular movements of the markets, linked to global imbalances. At the same time, the ECB will continue to drain excess liquidity, when necessary, reserving the right to communicate further novelties about the “exit strategy” that will be followed in the next few months. The mean Euribor rate at three months in the month of December 2009 was 0.71% (–258 basis points compared with December 2008). The average of the first half of January 2010 for this rate was 0.69%, just 3 basis points below the average of December, the lowest level since the introduction of the Euro. The rate for contracts of interest rate swaps at 10 years was 3.54% on average in the first ten days of January 2010 (3.48% on average in December 2009). The differential between the swap rate at 10 years and the Euribor rate at 3 months was positive on average in December 2009 (+277 basis points), with a considerable increase compared with the +120 basis points of the average of December 2008.

This dynamics of market rates reflected on the level of yield rates and banking costs. For our Bank, there was a reduction on an annual basis of the scissors of relationships with customers (0.13), which was due to the more marked reduction in the spread of rates in the sight and short-term components (–0.64), compared with the increase in the spread of operativity of the medium- and long-term maturity sector (+0.51), a segment that traditionally presents lower spreads than short-term intermediation.

FINANCIAL INTERMEDIATION

The real economic structure, above all as regards the more industrialised economies, continued to suffer the consequences of the crisis triggered off by the so-called “sub-prime loans”. The abundant liquidity, together with the low rates along the yield curve, and the public policies of support, were however sufficient elements to stabilise the global economic situation, and to create the conditions, thanks to the resistance of consumption and the reduction in reserves, for a significant recovery, which is expected in the coming months. Beyond the general trends, the economic scenario has, however, accentuated some of the irregular, distorting dynamics that have characterised recent years, and emergent countries, in particular those in Asia, displayed growth rates similar to pre-crisis levels already at the end of the year.

Financial markets were characterised by a substantial reduction in volatility and in spreads on credit, and by a gradual return to the assumption of positions of risk, both on stock markets and on currency markets, where currencies with a higher yield were privileged by investors. Inflation remained substantially limited in industrialised countries and this trend persisted, in spite of the abundant liquidity and the price rise of the main raw materials, base metals and oil included. The U.S. dollar tendentially weakened, passing from 1.25 against the Euro in February to 1.50 in November 2009. The key rates on Federal Funds remained compressed in the range between 0% and 0.25%, while the ECB, acting with its usual delay with respect to the trend, brought the refinancing rate to 1.0% only in May 2009.

At the company level, the generalised risks of liquidity that had weighed on banking enterprises have gradually been overcome, and there has been a general, albeit moderate return to operating profits, together with an improvement in the indexes of patrimonialisation.

THE BANK'S PORTFOLIO

In this context, the management of the Bank's own portfolio tended in all cases to contain the risk profile. The investment opportunities that presented themselves on the credit market were seized, privileging supranational, governmental and domestic financial issues with a variable coupon. Among the Common Investment Funds, our attention was concentrated exclusively on cases where it was possible to have a direct knowledge, or directly influence the quality and composition of the assets possessed. No positions



have been underwritten on the stock market or in the segment of derivatives, either of credit or of interest rates. No investments were made in foreign currency securities.

The rapid fall in interest rates following the problems of the financial system, continued also in the course of 2009, provoking phases of difficulty from which the variable coupon segment did not remain immune. The bond portfolio was used, also as collateral for activities with customers, for guarantees and for operations of refinancing with the European Central Bank.

The evaluation of the portfolio risk is expressed in terms of VAR, and in the Administration Regulations there is a maximum daily VAR limit for postings of assets and liabilities of negotiation. This daily limit was fixed at 2.0 million Euros up to the beginning of June, 2009. During the second half of the accounting period, seeing the increase in volatility of finance markets, and the strategies of risk policy elaborated by the Board of Directors, this limit was reduced 1.2 million Euros. The V.A.R. of the trading portfolio in daily dealings constantly remained within these limits.

As regards more specifically the composition of the Bank's securities portfolio, it may be observed that the equivalent value in the statement of December 31st, 2009, amounts to 247.4 million Euros, with an increase of 21.61% compared with the end of the previous year.

A detailed analysis of the components reveals that this variation is the result of the increases of positions in the various investment sectors, going from the Government bonds sector (+1.32%), in particular stimulated by investments in the typology Other securities, to the O.I.C.R. quota sector (+56.91%). Also investments in the Debt Securities sector increased, in particular ordinary bonds (+31.56%), while the share component shows an accentuated decline because of the increase in volatility of markets during the year, though it already represented a marginal quota of the entire portfolio (< 0.4%). The moderate growth in financial investments is the consequence of equalisation strategies of the bank's patrimonial components, which had already led at the end of 2008 to the absorption of the treasury deficit, and to the reduction of the portfolio quota used as collateral for swap operations with customers.

The composition of the portfolio by item of patrimonial assets is summarised in the following table, and shows the clear prevalence of financial assets detained for negotiation, which represent almost 80% of the entire investment portfolio. The amount of financial assets detained until maturity (8.45% of the portfolio total) largely derives from the reclassification in the year 2008 of certain variable-rate bonds quoted on foreign markets and issued by residents, for an overall total of the nominal value of 21,000 thousand Euros. This reclassification from the negotiation portfolio (held for trading) to the portfolio detained until maturity (held to maturity) was authorised by a deliberation of the Board of Directors, following the modifications introduced in the IAS 39 international accounting principle, determined by the "singular conditions of lack of liquidity" of markets, caused by the international finance crisis.

THE BANK'S OWN SHARES IN THE PORTFOLIO

Among the liabilities of the statement, some of our own shares were deducted from the net patrimony, for a total of 5,387,586 Euros. This sum, corresponding to 229.604 shares of the nominal value of 8.00 Euros each, is the result of negotiations on the secondary market set up in our company. The increase in disinvestments by shareholders in the course of 2009 is to be evaluated in the context of the exceptional conditions of the economic situation, which penalised financial investments as a result of savers' propensity to prefer liquid availability in order to cope with possible family or company needs. The activity of negotiation carried out during the financial period determined a profit equal to 283 Euros, allocated to reserves.

FINANCIAL INTERMEDIATION WITH CUSTOMERS

In the **sector of Property Management**, at the end of 2009, the total assets (including liquidity and investments in Bank-managed collection products) was equal to 646,556 thousand Euros, with an increase



of 13.74% compared with the year 2008.

At the end of the year, the equivalent value managed was subdivided as follows:

- Property managements registered in the name of institutional customers: 33.69%
- Property managements registered in the name of private/retail customers: 66.31%.

During 2009, on average, the values of the masses managed by the Bank increased as a result of various concomitant factors, which can be summed up as follows:

- **Growth of financial markets:** in the course of 2009, the financial markets contributed to an important degree in the appreciation of almost all investment assets. Stock markets benefited from a progressive return of confidence, bearing in mind the measures adopted by governments and various institutions to support the economy. The abundant liquidity, the fiscal incentives, the gradually improving corporate results and the maintenance of interest rates at all-time low levels allowed the return of investors, also to the more assets, with consequent upward boosts. Bond markets and monetary markets were sustained by the expansionary policies of the central banks, and by expectations of a lasting persistence of low interest rates.
- **Performance:** the growth of financial assets, together with a management activity that mixed strategic and tactical choices, aiming to optimise the efficiency of portfolios, determined positive results in all the management lines offered by the Bank, which in many cases went beyond their own reference benchmark, with the effect of increasing the value of the masses managed.
- **Growth of masses invested in managed savings:** the institutional component, in particular, grew above all in the masses invested in the “Carismi” separate management organised by our network. Furthermore, especially in the last few months of the year, also the flows from the private component increased.

The **activities destined for Private Customers** were particularly significant in 2009, with reference, above all, to two factors that characterised the year:

- the difficult phase that finance markets went through,
- the application of the new organisational model implementing the Industrial Plan.

With particular reference to the latter aspect, in direct coordination with the activity of savings management, an activity of support for the network of Private Managers was assigned to the new Department “Managed Savings and Private Support” at the beginning of 2009, following the changes that took place in the company organisation.

Consequently, in the course of the year, this activity was reorganised and reinterpreted, with the aim of providing the above-mentioned Managers, people specialised in relationships with private customers and territorially distributed in the main areas or branch offices of the Bank, with a constant reference point of the technical/financial kind, backed up by weekly meetings.

The main aim, in the course of 2009, in a particularly delicate situation of financial markets, was to make Private Managers share directly in the management choices, contextualised within the trends of the various asset classes. The direct contact that has been set up has determined the creation of specific synergies increasingly aimed at satisfying the requirements of private customers. Among the activities in support of customer relationships in the private segment, we included, during 2009, a convention called “Carismi financial philosophy”, the aim of which was to substantiate the company mission, particularly with reference to this customer segment, intensify opportunities for contact and favour the exchange of information.

As in previous years, the **activity of Securities Negotiation** mainly aimed to favour the placement and the negotiation of CRSM debenture loans. The secondary market of CRSM bonds managed by our Bank structures thus played an important role in guaranteeing a rapid disinvestment for customers at prices in line with issuing prices, thus contributing to the creation of confidence, and an increase in the presence of



CRSM products in customers' portfolios. Considerable effort was dedicated to the analysis of the new third-level CONSOB regulations, which entailed first of all the revision of the pricing policy referring to the criteria of evaluation of the prices of CRSM issues, and which laid the basis for operational and organisational variations that have been, or are presently being, implemented.

Furthermore, the activity of compliance in investment services carried out by the Bank structures took the form of a complete revision of all company policies referring to the application of the MIFID directive. Likewise, there was an active participation in the various working groups organised by our outsourcer, CSE. The importance of collaboration between operational structures and the Compliance Officer is fundamental in order to define the orientations to be given to internal regulations, in the respect of the new precepts of law.

As regards activity in the field of offers to purchase, there were no important placements on the Italian stock market in 2009, but we took part in 14 offers to purchase, and in the placement with the public of the new ENI bonds, providing full support for our customers. We also participated in the offer of exchange of Alitalia shares and bonds organised by the Ministry of Transport, to safeguard customers who possessed them.

In the course of 2009, following the declaration of default in 2008 by the companies of Lehman Brothers Holdings Inc. (LBHI), and the crisis of certain Icelandic banks, including Glitnir, Landsbanki and Kaupthing, our Bank offered its customers who possessed securities involved in the default a service of assistance in order to be included in the bankruptcy procedure. The service, which was free of charge, saw the involvement of specialised structures of the Head Office, and consisted of the necessary legal and administrative support linked with clearing systems, the control of the legitimate right to present an application for inclusion among the liabilities, the acquisition of block numbers by depositors, and the compilation and subsequent presentation of the application for inclusion among the liabilities.

In order to guarantee that our customers can take advantage of tax concessions on income from the United States, the Cassa di Risparmio di San Miniato SpA in due time obtained from the U.S. financial administration the status of "Qualified Intermediary", a status which allows foreign banks that operate on the American market on their own account or on behalf of their customers to choose to apply a concessional tax rate. In accordance with the regulations governing this service, the Bank sent its annual declaration in the course of 2009 to the Department of the Treasury - Internal Revenue Service. During 2009 our Bank also obtained an important "certificate of conformity", satisfying the requisites of an external revision by the company Reconta Ernst & Young of Rome, who certified to the Department of the Treasury - Internal Revenue Service di Washington (Revenue Procedure 2002-55 phase 1) the conformity to the requisites laid down to maintain the status of "Qualified Intermediary".

As regards the **securitised reserve policy**, the Bank continued to issue debenture loans, being able to count on a good demand from customers, partly in the context of the dynamics of interest rates during the course of the year, in particular on gilt-edged securities. The Bank followed this policy within the scope of the authorisation of the publication of the Basic Prospectus for the year 2009, issued by the Consob on June 17th, 2009 in note n° 9056775. The Prospectus covered the programmes for the issue of variable-rate, fixed-rate, mixed, step-up, and zero coupon bonds, including, for some of them, also the subordination clause and some simple types of structured bonds, index-linked, mainly, to interest rates.

The bearish interventions of central banks on interest rates, together with those of governments in favour of the banking sector, progressively calmed down interbank market rates, bringing them to all-time low levels. Together with the development of expectations of a lasting monetary policy of expansion, this progressively reduced the implicit appeal of variable-rate instruments, which were exchanged on equal terms at maturity, above all in the second half of the year, with fixed-rate instruments.

Given this scenario, the bank's offer of bonds was mainly represented by fixed-rate rather than variable-rate short-term debentures. In detail, in the course of 2009, fixed-rate bonds amounted to 49.75.% of the entire stock of Carismi debenture loans, and a figure of 497.5 million Euros, with an increase, compared with the end of the previous year, of 14.10%. The incidence of classic and structured variable-rate bonds was



equal to 50.25%, for a total of 502.6 million Euros, with a decrease of 19.16% compared with the end of last year. The mean duration of the entire mass of bonds is about 2 years. During the course of 2009, the Bank had recourse to the offer of subordinate liabilities for a total of 2 fixed-rate issues, underwritten on December 31st for 35 million Euros of nominal value.

SHAREHOLDINGS

In this paragraph, we would like to summarise the Parent Company's initiatives during 2009 regarding a shareholding portfolio whose importance, in terms of quantity and quality, is the result of the implementation of the company strategies contained in the Industrial Plan, which contemplate a quantitative reduction and a simplification of management by the end of 2010. As regards the strategies contained in the Industrial Plan, referring to the disinvestment of strategically important shareholdings, The Board of Directors selected Banca Akros in December 2009 as a suitable subject to take on the role of advisor in the disinvestment of the Bank's shareholding patrimony, in particular as regards the search for parties interested in the purchase of the shareholdings in BancaSintesi SpA and Vegagest SpA, conferring on the General Manager the mandate to set up appropriate contractual negotiations. Detailed information about individual shareholdings and the financial relationships with participated companies may be found in the specific analysis contained in the Supplementary Note and in the table included in the Balance Sheet Enclosures. It may be underlined that on December 31st, 2009, the total of company shareholdings, net of adjustments for 1,658 thousand Euros, reached an overall value of 120,440 thousand Euros, after taking into consideration value adjustments/recoveries for fair value evaluations for a pre-tax total of 768 thousand Euros, to be allocated to the net patrimony reserve.

Lastly, we shall illustrate the main operations (which are also quantitatively included in the specific section of the Supplementary Note) regarding the shareholdings portfolio of the Bank during the accounting period. It should be remembered that company policy in this sector mainly aimed to disinvest shareholdings which are no longer considered strategic, or else to take part in operations of increases in capital of companies of the Group or existing enterprises, operating above all in the territory of Tuscany in the field of innovative services for enterprises and for the regional economic network. The most significant events regarding shareholdings for the period that coincides with the financial year 2009 are the following:

SHAREHOLDINGS IN ENTERPRISES OF THE GROUP

La Rocca Immobiliare SpA

At the beginning of 2009, the shareholding in this controlled company was 99.190%. On June 30th, 2009 within the scope of the progressive action of structural rationalisation of the Group shareholdings, the Board of Directors decided to start up the procedure of incorporation of the company La Rocca Immobiliare SpA into the Cassa di Risparmio di San Miniato SpA. For the purpose of simplifying the merger procedure, the quota held by the the Fondazione Cassa di Risparmio di San Miniato, equal to 0.81%, for an amount equal to 550,000 Euros, was purchased in the month of November. After obtaining the necessary authorisation from the Vigilance Authority, the amalgamation operation was deliberated by an Extraordinary Assembly of the two companies, and was completed by the signing of the Act of Amalgamation on December 23rd, 2009, with juridical effects starting as of December 30th, 2009, and the elimination of the accounting value of the shareholding, for a total of 21,622,997 Euros.

BancaSintesi SpA - Milano

On June 26th, 2009, at the end of a period of negotiation, a contract was signed for the transfer of Banca Sintesi to the company Intermedia; this contract was conditionally suspended in view of the fact that



in order to be completed, the transfer had to wait until the Bank of Italy granted the necessary authorisation to the buyer. A negative response was received from the Vigilance Authority in the month of November, 2009, and consequently the planned transfer did not go ahead. In the month of June, there was a reduction in the capital stock, from € 14,000,000 to € 7,840,000 for compensation of the losses that had accrued until June 30th, 2008, by transformation of the nominal unit value of each share from € 0.50 to € 0.28. In the month of December, the communication arrived from the Bank of Italy of the authorisation for a further reduction in capital stock from € 7,840,000 to € 5,040,000 for compensation of the losses that had accrued in the second half of 2008 and the first half of 2009, by transformation of the nominal unit value of each share from € 0.28 to € 0.18, with a simultaneous increase to € 7,560,000 by means of the issue of 13,999,995 new shares of the nominal value of 0.18 Euros each. The Parent Company made a payment of € 2,520,000, for the account of a future increase in capital stock, declaring its willingness to underwrite, besides its own quota, any quota not underwritten. In the month of March 2010, the increase in capital stock was concluded with the effective underwriting by our Bank of a sum equal to 2,205,570 Euros, and the quota of profit-sharing passed to 84.55%. The advisor designated is taking charge of the disinvestment.

San Genesio Immobiliare SpA – San Miniato (PI)

In the month of June, the Parent Company made a payment on a reserve account, not available for coverage of losses and/or future increases in capital, of 5,000,000 Euros.

SHAREHOLDINGS IN OTHER ENTERPRISES

Citypost SpA - Pisa

In the month of January, we participated in the increase in capital stock from € 858,579 to € 2,558,579, by underwriting 107,219 shares of the nominal value of 1.00 Euro each, on equal terms, for a sum equal to € 107,219. The following operations were realised in the month of June: 1) a reduction in the capital stock from € 1,820,798 to € 660,310, for compensation of the residual losses of the financial year 2008 (€ 1,160,488), by the annulment of 102,854 shares of the nominal value of 1.00 Euro each. 2) participation in the increase in capital stock from € 660,310 to € 1,460,310, by underwriting 70,904 shares of the nominal value of 1.00 Euro each, on equal terms, for an equivalent value of € 70,904.

Car Sharing Firenze Srl - Firenze

In the month of February, we proceeded to disinvest the sharing, following the zeroing of the capital stock for compensation of the loss found up to September 30th, 2008. The Bank decided not to participate in the coverage of residual losses or in the proposed reintegration of the capital stock. The shareholding was completely devalued as of December 31st, 2008.

Energetic SpA - Ponsacco (Pi)

In the month of March, we participated in the increase in capital stock from € 514,000 to € 1,360,000, by underwriting 7,242 shares of the nominal value of 10 Euros each, on equal terms, for the sum of € 72,420.

Centrale dei Bilanci Srl - Torino

In the month of March we proceeded to disinvest the sharing, following the assignment of 83,333 quotas to the company Gemma 4 srl of Milan at the overall price of € 1,479,397 (of which € 44,888 encashed in June 2009 – closing of the operation). The shareholding presented a balance value of € 130,521, and thus a capital gain of € 1.348,876 was achieved.

Novasim SpA - Roma

In the month of April, we participated in the increase in capital stock from € 1,157,895 to € 1,357,895,



by underwriting 23,054 shares of the nominal value of 1.00 Euro each, for a total of € 23,054. In the month of December, we participated in the increase in capital stock from € 1,350,000 to € 1,550,000 by underwriting 24,001 shares of the nominal value of € 1,00, for an amount equal to € 24,001.

Promo Design Scrl - Calenzano (FI)

In the month of May, payment was made by shareholders to cover losses of the financial periods 2007 and 2008. For our Bank, the sum amounted to € 1,436.

Società Infrastrutture Toscane SpA (FI)

In the month of May, payment was made for another 15% of the value of the shares underwritten for a total of € 450,000. The disbursement was equal to € 67,500.

C.S.E. Consorzio Servizi Bancari S.c.r.l. - San Lazzaro di Savena (BO)

The month of June saw the gratuitous increase in capital stock from € 10,000,000 to € 30,000,000, realised in proportion to the shareholdings held by the single shareholders.

SI Holding SpA - Roma

In the month of June, we disinvested the sharing, following the assignment of 65,100 shares, 64,560 of which to the Istituto Centrale delle Banche Popolari Italiane for an equivalent value of € 264,012 and 540 to Mediolanum SpA for an equivalent value of € 2,208. The sum registered in the balance was € 32,236, and thus a capital gain of € 233,984 was achieved.

Fidi Toscana SpA - Firenze

In the month of July, we participated in the increase in capital stock from € 87,230,000 to € 98,729,956 by underwriting 3,291 shares of the nominal value of 52 Euros each, on equal terms, for an equivalent value of € 171,132.

San Miniato Previdenza SpA - San Miniato

In the month of September, our Bank accepted the proposal of the participated company to proceed to pay the sum of € 1,020,000 on capital account, as the 34% quota (our present quota of sharing) of an expected overall recapitalisation of € 3,000,000, in order to endow the company with further financial means, with respect to the capital stock, available to raise the solvency ratio, bearing in mind also future processes of development.

Futura Invest SpA - Milano

In the month of October, we disinvested the sharing, following the assignment to the company of the 1,418,120 shares held at the overall price of € 4,163,000, compared with a balance value of € 4,189,622, thus posting a capital loss equal to € 26,622.

Cassa di Risparmio di Volterra SpA - Volterra

In the month of October, we participated in the increase in capital stock from € 36,152,200 to € 45,190,250, the first tranche of the planned four-year operation, by underwriting 3,500 shares of the nominal value of € 516.46 each, on equal terms, for an equivalent value of € 1,807,610.

Axioma SpA - Cinisello Balsamo (MI)

In the month of November, we disinvested the sharing following the assignment of the 2,753 shares held, for an equivalent value of € 16,000. The amount registered in the balance was € 14,398, and thus a capital gain of € 1,602 was achieved.



Centrale Rischi Finanziaria SpA - Bologna

In the month of December, we disinvested the sharing by exercising the put option, for which the three-year period started on May 1st, 2008, with the consequent sale of the 10,350 shares to the company itself. The amount registered in the balance was € 7,636 and thus a capital gain of € 113,080 was achieved.

Revet SpA – Empoli (FI)

In the month of December, we disinvested the sharing, following the assignment to the company of the 20,700 shares held at the overall price of € 100,000, compared with a balance value of € 101,865. A capital loss of € 1,865 was thus registered.

Bianco di Carrara SpA - Carrara

In the month of December we disinvested the sharing, following the sale to the company Technotiles SpA of the 5,000 shares held, at the overall price of € 50,000, equal to the balance value of the shareholding, without achieving any profit or loss for the income statement.

Banco di Lucca e del Tirreno SpA - Lucca

In the month of December, we attributed to the cost of the sharing the sum paid to the Law Firm Stancanelli - Cecchi for the assistance they gave in negotiations with the Cassa di Risparmio di Ravenna SpA about the hypothesis of assignment following the closure of the arbitration procedure brought by our Bank before the National and International Chamber of Commerce of Milan against the shareholders of the Banco di Lucca who participated in the paracorporate agreement underwritten on March 16th, 2006. The increase in the balance value of the shareholding thus amounts to € 15,147. During the same month, the preliminary contracts of sale were signed with the former partner-signatories of the pact, and with the Cassa di Risparmio di Ravenna, the present majority partner, with the simultaneous definition of all the pending relationships with the Banco di Lucca e del Tirreno SpA and its shareholders, including those subjected to arbitration, and the extinction of the convertible securitised loan underwritten by our Bank in 2004. The hypothesis of assignment was subjected to the clause of suspension pending receipt of the opinion of the Vigilance Authority within the terms of law, after which the assignment can be completed.

OVERSEAS DEPARTMENT

In line with the evolution of the economic context in which the Bank operates, the effectiveness of the Overseas Department, while guaranteeing a positive contribution as regards profitability, displayed a decline in volumes connected with import- and export-linked commercial operations, as a result of difficulties in some of the driving sectors for exports, such as textiles, leather and hides, and shoes. In this field, precise strategic approaches and constant monitoring of economic conditions applied to services for customers made it possible to contain the impact of on profitability, despite the lower operational volumes.

The level of operational volumes, including payments, transfers, remittances with documents, documentary credits, guarantees, advances/financing in foreign currencies and forward transactions, calculated at the end of the year, amounted to a total flow of 1,028,203 thousand Euros, of which commercial operations for 237,315 thousand Euros and movements of capital for 790,888 thousand Euros. A comparison of the overall result with that of the previous year shows a decrease of 40.22%, and also results for the commercial component show a decrease of 38.45%.

§ On December 31st, figures for the totals of current advances and financing were as follows: Import/Export Advances/Financing in Euros: € 49.6 million, with a decrease of 7.5 million Euros compared with the previous year; Import/Export Advances/Financing in other currencies: € 4.5 million Euros, with a decrease of 0.8 million Euros compared with the value at the end of 2008.



TERRITORIAL ORGANISATION AND COMMERCIAL NETWORK

As of December 31st, 2009, there were 88 bank offices, branches and sub-branches.

Continuing in the strategy of consolidation of the territory of operations, in order to reinforce the dimensions of a regional bank, starting from the last quarter of 2008, following the outlines indicated by the Industrial Plan, we proceeded to an organisational and structural strengthening of the sales network, above all for the branches most recently opened. The Bank aimed to consolidate its trademark in the various provinces of Tuscany, furthering the activity of reorganisation of the network structures into a lower number of Territorial Groups, which passed from 7 to 3, in order to reduce even further the number of intermediate structures between the Head Office and the branch offices, and to increase the resources dedicated to commercial activity and customer relations. The process of simplification and the improvement of efficiency of the Distributive Model continued with the implementation of the new distributive model. The organisation of the commercial network is geared to satisfying the requirement of maximising commercial protection, by means of a distributive model based on clear, distinct responsibilities for the commercial results of branch offices, territorial areas and the relative structures of the Head Office. At the beginning of February 2009, this complex operation had been fully implemented.

MARKETING AND COMMERCIAL DEVELOPMENT

The year 2009 saw a series of initiatives of marketing and commercial development centred around the implementation of the Bank's Industrial Plan.

The main initiatives launched/repeated for products in 2009 were:

- Carismi Life Card
- "Cessione del quinto" (Assignment of 20%) loans
- Lifelong loans
- Advance wage supplementation for workers/enterprises
- Skip the instalment
- Rationalisation of package accounts offer
- Rationalisation of loans offer

For each launch/repetition, evaluations were made of the customer target, the activity of internal communication and the training of the sales network.

The main promotional initiatives were:

- IO LEONARDO, TU VINCI!
- May, the mothers' month
- CARISMI and YOU WIN
- It's the present that counts

Each promotional campaign always included:

1. one or more products promoted
2. a fixed temporal validity
3. the use of the Marketing Information System for monitoring
4. communication activities:
 - sales points – posters and bills placed in windows and inside branch offices
 - internet site and ATM
 - direct communication with customers (newsletters with quarterly statements, specific mailing lists and an outbound campaign on lists of selected names)
 - internal support (intranet, screen savers, pop-ups).



The following is a detailed illustration of specific information about the main commercial initiatives in 2009:

CARISMI LIFE CARD

Aim: to give customers a sure instrument of payment for everyday shopping.

Characteristics: The Carismi Life card is a double-technology debit card, which combines the domestic Bancomat/PagoBANCOMAT circuit with V PAY, the VISA debit circuit. The Carismi Life card guarantees a high standard of safety (only one PIN for withdrawals and payments on the Pagobancomat and V PAY circuits) and control (on all transactions carried out on both circuits, the available balance of the current account is verified).

Customer target: the Carismi Life card can be issued to physical individuals, single proprietorships and professionals.

“CESSIONE DEL QUINTO” (ASSIGNMENT OF 20%) LOANS

Aim: to satisfy the need for liquidity for subjects who might otherwise find difficulty in gaining access to a personal loan, or for subjects who present recurring cases of overrunning or are late on payment of instalments of personal loans.

Characteristics: personal loan for a maximum of 10 years, but repayable at any moment, involving reimbursement by means of the assignment of 20% of the wages/pension. The product is managed by an agreement with the external company Pitagora SpA.

Customer target: the product is reserved for employees of Public Administrations, employees of private enterprises and pensioners.

LIFELONG LOANS

Aim: to complete the offer range with a product destined for the “second youth”. The life loan can be requested to satisfy the liquidity requirements of the applicant or of a family member.

Characteristics: medium- and long-term financing with the annual capitalisation of interest and expenses, and the integral reimbursement in one payment at maturity, backed up by a first-degree mortgage on residential real estate. The loan has a “lifelong” duration, or to be more precise, the contract has a duration of thirty years, with automatic renewal at its expiry, until the death of the borrower (or until the death of the surviving borrower if the financing is registered in the name of two borrowers). The financing does not entail any periodic instalments: expenses and interest are compounded annually and are to be reimbursed together with the capital loaned in a single payment on expiry. The product is managed by an agreement with the external company Euvis SpA.

Customer target: the product is reserved for individuals aged at least 65, who are the owners of a quota of the building where they live.

ADVANCE WAGE SUPPLEMENTATION FOR WORKERS AND ENTERPRISES

Aim: to help enterprises and families who are going through a period of difficulty due to the effects of the present economic crisis.

Characteristics: for enterprises, the financing is granted on the basis of the number of employees admitted to the Wage Supplementation Scheme, and in any case for a maximum sum of 300,000 Euros and for a maximum period of 12 months. For private customers, a financing of 700 Euros per month is granted for a maximum of 6 months.



Customer target: enterprises and private customers who have started the procedure for an application to the Wage Supplementation Fund.

SKIP THE INSTALMENT

Aim: to help enterprises and families who are going through a period of difficulty due to the effects of the present economic crisis.

Characteristics: the Bank grants the suspension of existing financing instalments in accordance with the following conditions:

- **Enterprises:** suspension of payment of the capital quota of instalments referring to financing (chirography/mortgage) contracted by companies/bodies for a maximum period of 9 months.
- **Individuals in a state of temporary economic difficulty:** suspension of payment of the total amount of instalments (capital quota + interest quota) referring to mortgage loans contracted by individuals in a state of need, for a maximum period of 12 months, or suspension of payment of the capital quota referring to mortgage loans contracted by individuals in a state of need, for a maximum period of 12 months.
- **Individuals in a state of temporary economic difficulty that cannot be documented:** suspension of payment of the capital quota of instalments referring to mortgage loans contracted by individuals for a maximum period of 12 months.

Customer target: enterprises and private individuals.

In the last quarter of 2009, the Bank adhered to the system agreement for the suspension of financings (ABI-MEF Agreement).

RATIONALISATION OF PACKAGE ACCOUNTS OFFER

Aim: to respond to the requirements of each customer target in possession of Carismi for you package accounts, by limiting the credit risk for the Bank.

Characteristics: the new aspects of the credit card offer for the package accounts line include the introduction of the new Carismi Life card on all the lines of Carismi for you current accounts, the elimination of the multifunction modality on Cartasì credit cards, the introduction of the Classic Individual Cartasì for the lines of Carismi for you Large and Extralarge current accounts, and the introduction of Cartasì Gold and Cartasì Platinum as alternatives to Cartasì Classic for the Personal e Private lines of Carismi for you current accounts.

Customer target: private individuals who possess the “Carismi for you” line of package current accounts.

RATIONALISATION OF MORTGAGE OFFER

Aim: to rationalise the mortgage offer, by selecting a range of products that satisfy the various requirements of customers and to introduce a minimum floor rate, in order to maintain the levels of interest rates in line with the risk strategy and price strategy of the Bank.

Characteristics: the introduction on all modular-rate and variable-rate loans of a minimum interest rate (floor rate) to be taken into account both during the issuing phase and during the entire amortisation of the loan, if the nominal rate of the operation proves to be lower than this floor rate.

Customer target: enterprises and private individuals.



IO LEONARDO, TU VINCI!

Aim: to acquire new current account customers, while rewarding and creating a lasting relationship with present customers.

Characteristics: current account holders who introduce new customers were rewarded with points for the IO LEONARDO, TU VINCI scheme! The points gave access to a rich catalogue of prizes, and the new current account holders not only had access to a series of advantages of their current accounts, but also participated in the extraction of a FIAT 500.

Customer target: private individuals who are current account holders.

MAY, THE MOTHERS' MONTH

Aim: to create lasting ties with customer families.

Characteristics: in consideration of the traditional attention reserved to ladies/mothers, in the month of May 2009, a special incentive was launched to open savings books reserved for babies and children from 0 to 14 years, with a gift both for the mother and for the child at the moment when the new relationship was created.

Customer target: families.

CARISMI AND YOU WIN

Aim: traffic building and the acquisition of new customers (private individuals/tradespeople).

Characteristics: the "Carismi and you win" initiative (presented at Pisa and Pontedera) aimed to give greater visibility to our Bank trademark, and to generate traffic in our branch offices. The mechanism was that of giving a "scratch and win" coupon to people who made purchases in shops that had an arrangement with the Bank, and the (certain) coupon prize was collected in our branch offices.

Customer target: private individuals and tradespeople.

IT'S THE PRESENT THAT COUNTS

Aim: to increase the number of "young" customers and create lasting ties with families.

Characteristics: the promotion was reserved for babies/children who are holders of the Carismi Future Children savings book; they receive "present points" every time they make a deposit (1 point every 10 €). On reaching one of the five prize goals (40, 90, 150, 220 and 300 points), it is possible to choose one of the six presents proposed.

Customer target: families.

In the course of 2009, thanks to its incisive commercial and marketing policies aiming to achieve maximum customer retention, and to the campaigns and activities aiming to conquer new customer segments, our Bank succeeded in increasing its number of customers, in spite of the negative economic situation and the keen competitiveness of the market. The number of customers, which had gone down during 2008, started to grow again in the course of 2009 by 1.002 units (+0.8%), arriving at a total number of 124,156, and closing the year with positive results both in the retail segment and in the corporate one.

The above-mentioned commercial campaigns launched during 2009, especially the one called "Io Leonardo, Tu Vinci", determined positive effects, helping us to increase the number of current accounts opened by customers, the total of which grew by 4.6% compared with December 31st, 2008, with significant increases both in the segment of private individuals and in that of enterprises.

The year 2009 saw the continuation of bank activity in telematic services, with particular reference to



ATM positions, POS points at tradespeople's premises and debit card and credit card issue, in confirmation of the increasing importance of electronics in the system of payments.. The dynamics of the number of POS in the most recent period showed a decrease, partly because of the cancellation from the records of positions that are no longer licensed or no longer operative.

On the occasion of the 2009 edition of Lineapelle, held at the Bologna Trade Fair, our Bank inaugurated a new reception space, with a Bancomat counter, at the disposal of all visitors and exhibitors to the Trade Fairs in Bologna, which will be operative during all the trade fair exhibitions, particularly those in which enterprises and operators of our reference territory take part.

Lastly, during 2009, the difficult choice was taken to revoke our participation in the Patti Chiari project. After choosing to take part in the new initiative called "30 commitments for quality", our company took the decision to annul its participation in the Project. The Cassa di Risparmio di San Miniato had adhered to the Patti Chiari project with conviction, dedication and enthusiasm in 2006, and in the following years made important investments to guarantee the constant and total respect of the protocols that this entailed. The change of opinion that developed in the course of 2009 is motivated, above all, by the recognition that, following certain regrettable episodes reported also by the national press, the driving force behind the project had been considerably scaled down, and the significant effort in commercial and organisational terms had been translated, also in customers' perception, into an appreciable competitive advantage over many rivals who did not adhere to the Patti Chiari initiative. It was underlined in this context that the attention and the safeguard of the transparency and quality of services to customers will be maintained and intensified, in an attempt not to disperse the improvements and greater structural efficiency acquired thanks to the activities connected with the Patti Chiari project.

Among the services offered by the Cassa di Risparmio di San Miniato SpA, there is also that of acting as a treasury for public bodies. This service involves the totality of operations connected with the financial management of the public body managed, and in particular, the collection of receipts and the payment of expenses on behalf of the Body itself, together with the administration of securities, and all connected obligations, which are required by law, by the statute or by regulations. During the course of 2009, the Bank secured the management of 5 new treasuries, including 4 schools and 1 municipality, which brought the number of public bodies presently managed to 65 (9 municipalities, 32 schools, 24 Funds and the Tuscany Regional Government, in a pool together with other banks). During the course of the year, an important revision was also carried out in the organisation of the process of the Public Body Treasury, which led to the obtainment of the ISO 9001:2008 certificate on December 16th, 2009. This certificate was obtained by successfully passing an audit conducted by the CERTIQUALITY Institute of Quality Certification. The certification process involved inspection visits, both to the Head Office, which manages the whole Public Body Treasury sector, and the external service CARICESE, and some of the 25 branch offices which currently run a Treasury service. On that occasion, specific personnel training was also supplied, both in the classroom and online.

INNOVATIVE CHANNELS

The positive trend for the so-called "Direct Banking" services was confirmed also in 2009. The growth continues to regard both the number of users, and the number of operations; the reasons for this phenomenon are linked to the characteristics of this kind of channel: comfort, simplicity of use and convenience.

CARISMI ON LINE

Carismi On Line is the service for private customers, giving access to basic information and banking services; it can be used indifferently by two channels: internet and the telephone.



The year 2009 saw the conclusion of the plan for the total conversion of previous products to the “Carismi OnLINE” product, which guarantees by means of a token (a one-to-one password generator - Carismi Pass) the “maximum security” for users. Furthermore, the connection to “CartaSi” has been activated, thus allowing CartaSi holders to visualise the movements recorded on the credit card, and to verify the residual balance.

CARISMI TRADING

The Carismi Trading service makes it possible to operate on financial markets with the support of a team of specialists; it is destined for customers interested in operating on Italian and foreign markets.

A drop in orders may be observed in 2009, due mainly to the extremely high level of volatility of markets, which caused many savers to shy away from the riskier direct investments, in favour of safer, albeit less profitable, forms of investment, while waiting for markets to settle down after the turbulence generated by the serious crisis that began at the end of 2008.

The main activity of the Carismi team has been that of supporting customers, and representing a reference point for savers in a period of great fluctuation.

CORPORATE WEB BANKING

Corporate Web Banking is our service dedicated to medium- and large-sized enterprises, which makes it possible to satisfy all needs (both to obtain information and to give instructions) linked with the management of relationships with the entire Banking System, thus saving time and diminishing operational costs. Even if the number of users remained stable in 2009, an extremely large number of operations were carried out.

The innovations introduced with the “*Carismi On line*” product were accompanied by a substantial information campaign, directed first of all at the staff of branch offices, and by various promotional initiatives dedicated to customers.

THE TECHNOLOGICAL AND ORGANISATIONAL SECTOR

At the beginning of 2009, the two structures that were in charge, respectively, of organisation and the technological infrastructure merged into a single structure: Organisation and ICT Management. The new management made it possible to achieve a sensible reduction in the number of resources employed, and an even better integrated and more effective planning approach. The action of the entire structure concentrated on the achievement of the aims set by the Industrial Plan, an improvement in the efficiency of the operational processes, the updating of the Information System and the technological equipment, and the rationalisation of costs. Overall, the action was particularly incisive, because it benefited both from the above-mentioned new organisational arrangement and a lower pressure from normative and systemic innovations.

EVOLUTION OF THE ORGANISATIONAL STRUCTURE AND THE DISTRIBUTIVE MODEL

In line with the indications of the Industrial Plan 2008-2010, at the beginning of 2009 the New Organisational Model (both of the Head Office and of the network) was adopted.

In this connection, in line with the new model of governance and the company aims of a commercial relaunch and containment of costs, the Organisation and ICT Management was actively involved in the definition and the coordination of the activities to implement the organisational arrangements regarding:

- the revision of the organisational structure of the Head Office;
 - the revision of the Distributive Model.
-



As regards the organisational arrangement of the Head Office, the interventions on the structure aimed to strengthen the system of controls, develop the capacity for commercial development, reinforce the safeguard on company costs, increase operational efficiency by means of a reduction in hierarchical members, and eliminate the duplication of functions and operational complexities.

In this context, the main organisational interventions carried out concern the following points:

- rationalisation and streamlining of the Head Office structure, with a sensible reduction in the total number of members (from 54 to 39) and top management members (from 16 to 6);
- a greater distinction/specialisation in company functions, with the functions of “orientation, governance and control” placed in the Staff of the General Manager and the structures of “functioning and support” and “business” organised into two distinct Divisions under the General Manager;
- a reduction in the Committees (from 4 to 1) with the creation of a single Management Committee, with fixed presences and participation by invitation for subjects of managers’ specific competence;
- enhancement of corporate bodies for the functions attributed to them, and in particular, of the Management Committee in the field of orientation and governance, risk assumption policy, management policy, financial assets policy and management, commercial policy, new products, compliance policy and management and Basle II;
- strengthening of the second-level control functions (Risk Control and Compliance), with the aim of guaranteeing a better structures safeguard on significant risks;
- strengthening of the internal revision department, for which direct reference to the Board of Directors is contemplated, with the aim of guaranteeing a strong safeguard and a continuous impulse for the improvement of the system of internal controls;
- strengthening of the marketing and commercial functions, with the aim of guaranteeing a strong commercial impulse and support for the commercial development of the Bank;
- strengthening of the purchasing department with the aim of guaranteeing, in close collaboration with the planning and cost management function, a strong and constant safeguard for company costs;
- rationalisation of the organisational function, by means of the reintegration into it of the activities of planning of technological resources and strengthening of the separation from the back office department(see following point);
- creation of a single central organisational safeguard (Centralised Activities and B.O. Management) incorporating all the centralised back office functions (Encashment, payments, various services, securities, central cash department) to which any other activities of the kind currently performed by the network or by other Head Office structures can be progressively conveyed;
- a greater separation between the functions that carry out activities of operativeness and management, control and direct safeguard of customers.

In terms of human resources, the new organisational model has also made it possible to obtain an important strengthening of the branch offices of the commercial network, and to reduce the ratio between employees of the Head Office and the Network.

Furthermore, in the course of the year, further subsequent revisions have been made of the organisational arrangement of the Head Office, including the following interventions:

- institution of the new Treasury and Overseas Department and the Financial Services Management, with the aim of increasing the horizontal specialisation, and creating a greater separation between the management of the Bank portfolio and that of third parties and the assignment of the activity of issuing our debenture loans to the new function;
- institution of the new Real Estate and Technical Services Management with the function of managing the real estate patrimony belonging to, or managed by, the Bank, and the safeguard of regulations regarding safety, prevention and protection in work places (Government Decree n° 81 of 2008), in the context of the incorporation of the company La Rocca Immobiliare SpA into the Parent Company.



As regards the Distributive Model of the Commercial Network, the interventions on the organisational structure have aimed to simplify and strengthen the capacity of safeguard and commercial development, and can be summarised in the following points:

- reduction in the number of territorial areas from 7 to 3, with the revision of the distribution of branch offices in the new territorial areas;
- connotation of territorial areas with a light profile, and streamlined structures concentrating on the commercial development and coordination of branch offices, with a reduced management and administration activity, and collaboration with the centralised department for the safeguard of credit quality;
- centralisation within the Credit Management of the powers of proxy currently attributed to the territorial areas; in order to support the greater workloads and guarantee an efficient management for the Network, the Credit Management has been enlarged, with the insertion of new extra figures of authorisation;
- simplification and strengthening of levels of responsibility for commercial results, supervised respectively by the Commercial Activities Development Manager (at the Bank level), the Territorial Area Manager (at the Area level) and the Director (at the branch office level);
- revision of the authorisation procedure for exceptions regarding conditions, with the assignment to Commercial Activities Development Manager of a central role in decisions concerning the management of requests for exceptions regarding economic conditions and the centralisation of reimbursement management;
- centrality of the branch office in the responsibility for, and safeguard of customers: the Director represents the first level of responsibility in the management of the relationship for all customer segments;
- search for maximum flexibility at all levels, by means of the streamlining of Area structures, and a reduction in the fractionalisation and differentiation of Roles at the branch office level;
- maintenance of the logic of the assignment of portfolios on all targets (excluding the Family segment), to favour the quality of relationships with the most demanding and up-to-date customers and an awareness of commercial activity staff responsibilities;
- a new management model in the Private segment; together with the organisational model, this is coordinated by the Commercial Activities Development Manager and directly guaranteed by the Commercial Network in the persons of the Private Managers placed in the Territorial Areas and branch offices (on the basis of the numbers of customers).

Furthermore, the new separation between the financial products management structure and Private customer management reduces a potential risk of conflicts of interests, and allows the spread of a greater financial culture throughout the Commercial Network.

ORGANISATION OF THE BANKING GROUP

In line with the indications of the Industrial Plan 2008-2010, the activity of revision and updating of the internal regulations system continued in the course of 2009, under the coordination of the Organisation and ICT Management.

In particular, the main interventions regarded the following points:

- **Revision of the Group Regulations and the Parent Company's General Regulations**

Rationalisation of the system of internal regulation sources and discipline of company and Group communication, with the revision and formalisation of the operational process of the issue and publication of normative and informative communications. And the formalisation of a standard format for the compilation of normative communications, in line with the methodology of process modelling.



- **Gradual adaptation of the Process Regulations**

Intervention aiming to rationalise and update the regulations governing the execution of the main decisional processes, and risk management processes within the Group. In the course of the year, the Process Regulations considered to be top priority have been revised and updated. The activity will be concluded in the course of 2010.

ACTIVITIES CONNECTED WITH RISK MANAGEMENT

Particular attention was dedicated to the questions linked with Risk Management. The effectiveness of this activity was guaranteed first of all by the structures most directly involved (Risk Control Function, General and Legal Affairs Function, Compliance-Shareholdings-Legal Disputes Department, and Auditing Department) in which the company has made important investments, both in terms of resources and competences. In this context, the Organisation and ICT Management was involved in the running of the following major projects:

- **Safeguard against the risk of non-conformity**

The process of conformity risk management has been regulated, with the publication of the new Compliance Regulations which implement a generalised management model presided over by the Compliance Officer.

In this context the Organisation Management has been involved in the gradual implementation of the compliance process, and in particular in the formalisation of legal inventory management model. The process of implementation will continue during the current year.

- **Safeguard against the risk of money laundering**

The new information application GIANOS 3D has been activated: this is necessary to give full execution to the new norms contemplated by the Government Decree n° 231 of 2007, which incorporated community directive 2005/60/CE, better known as "Directive III" on the subject of Money Laundering and the fight against international terrorism.

In this case, in order to make the norms and operational instructions as accessible and clear as possible, the regulations regarding this complex and delicate subject have been completely revised and rationalised, and a single text has been produced substituting all the previous communications and directives. Lastly, still as regards the subject of money laundering, a wide-ranging training activity has been organised, involving all the Network Personnel of the CRSM and the other Companies in the Group (Banca Sintesi and Fiducia) by means of on-line and classroom training, during which ample space was dedicated also to the instructions for the correct use of the above-mentioned new application.

- **Safeguard against risks of crimes as per Government Decree n° 231/01**

The Organisation and ICT Management collaborated with the other company departments responsible for helping the Vigilance Organism in the process of protection and updating of Organisational Model 231, both for the Parent Company Cassa di Risparmio di San Miniato SpA and for the other companies in the Group.

In particular, the updating regarded the adaptation of the model and of information flows to the new crime risks introduced – successively – during the course of the year, and to the above-mentioned modifications of the organisational arrangement that took place during the year.

- **Updating of the Business Continuity Plan and the Programmatic Document on Security**

We carried out the updating of the Business Continuity Plan and the Programmatic Document on Security for all the companies in the Group.



ADHESION TO SYSTEM INITIATIVES

The Cassa di Risparmio di San Miniato has always been sensitive to the System initiatives that concentrate on transparency, quality of service the creation of relationships as constructive and long-lasting as possible. During 2009, this orientation led the Bank to promote directly, or to adhere to system initiatives in support of private subjects and/or economic activities, aiming to facilitate the overcoming of the difficult economic situation.

We may recall the following initiatives that have been put into effect:

- **ABI-MEF Convention**

At the beginning of 2009, the technical and contractual apparatus was developed in order to offer customers the chance to suspend payment of the capital instalments/quotas of financings. This made it possible to implement, starting from the month of April 2009, the initiative known as “Skip the instalment”, for the concession of the above-mentioned suspensions to enterprises and private individuals who are in specific conditions. The initiative, which enjoyed considerable popularity with customers, continued with the adhesion of Carismi to the ABI-MEF Convention of August 3rd, 2009, for the concession of suspensions to enterprises, which represented a natural continuation of the activity already undertaken autonomously. At the end of the year, the offer was amplified, with the possibility of prolonging previously granted suspensions for a further period of time.

- **Fund for the Family – Microcredit**

In August 2009, a Convention was signed with the Diocese of San Miniato for the constitution of a Guarantee Fund supporting operations of Microcredit to Families. The procedural implementations necessary for the realisation of the operational process were fulfilled.

IMPLEMENTATION OF EXTERNAL NORMATIVE REGULATIONS

Also the year 2009 was characterised by an elevated dynamism of the normative scenario. We may recall the following major interventions of an organisational nature:

- **Company governance**

The Organisation and ICT Management took part in the activities connected with the Company Governance Project, in accordance with the Vigilance Directives of the Bank of Italy of March 4th, 2008, in which the Vigilance Authority indicates the essential characteristics that company governance must present for the purposes of a sound, prudent management of the banking enterprise.

- **Microcircuit**

The adaptation of all the ATM and POS machines was completed during 2009, in line with the deadlines contemplated by the system; furthermore in February 2009, the commercialisation was started of the new Carismi Life card, which can be used on both Bancomat/Pagobancomat and VPAY circuits, as a substitute for the Carismi Card, which could be used on Bancomat/Pagobancomat and Visa Electron circuits.

The new card is characterised by elevated standards of security, both for the Bank and for the user; besides benefiting from the protection against cloning guaranteed by the microcircuit technology and the cryptographic algorithms used, it has been supplied with all the available devices to limit the risks of fraudulent use.

Thanks to OLI (On Line Issuer) methodology, controls of the validity of the card are carried out directly in the archives of our Bank, and this allows real-time verification of the availability of the amounts on the holder’s current account. The modality of operation has made it possible to raise the ceilings for the use of single cards; with the Carismi card, these were necessarily more contained due to the risks involved.

Furthermore, Carismi Life can be used only with the physical presence both of the card and of the



holder (it is not possible, for example, to carry out operations via internet); in particular, the holder is always identified by means of the typing of the PIN, so as to eliminate the fraudulent uses made possible by the falsification of the holder's signature.

- **Financial Banking Arbitrator**

The Organisation and ICT Management collaborated in the adaptation of Group operativity to the new regulations on the management of the Financial Banking Arbitrator, defining his responsibilities, his roles and the organisational processes involved in claim management.

- **New Transparency Regulations**

On July 29th, 2009, the new regulations about the transparency of operations and banking services came into force. These provided that bank should carry out a profound revision of contracts and operational processes by January 1st, 2010. The Organisation and ICT Management was involved in the project planning and the implementation of the adaptation interventions adopted. For this purpose, we found particularly useful the application made available by CSE, and adopted by our Bank, for the automatic production of contracts referring to the opening of the most common products (Streamserve). This made it possible to intervene in a generalised, centralised manner, thus markedly reducing the times, costs and risks of substituting forms. However, the effort expended made it possible to respect the requirements of the new regulations within the time limit.

- **System Administrators**

All the interventions necessary to guarantee respect of the measures taken by the Privacy Guarantor on November 27th, 2008 and June 25th, 2009 have been made: the personnel responsible both for the activation of necessary technical functions and for the preservation of access logs of the administrators themselves has been appointed.

- **Government Decree 185/2008 Anti-crisis Decree**

All the procedural adaptations required to conform to the provisions of Government Decree 185/2008 – the so-called anti-crisis decree – converted into Law 2/2009, have been made.

- **Tax shield**

Our Bank decided to offer its customers the possibility of carrying out the repatriation of capital held abroad, taking advantage of the facilitations of the Tax Shield provisions. The Organisation and ICT Management collaborated in the project, by defining the responsibilities, roles and organisational processes involved in the repatriation management, and activating the functions made available by the CSE information system.

INTERVENTIONS IN ORGANISATIONAL PROCESSES

In the course of 2009, work was started on the rationalisation and improvement in efficiency of the whole lending process. The organisational interventions carried out during the course of the year concentrated on the sub-process of credit concession, and regarded:

- the revision of the process, with the introduction of scoring for all the technical forms of lending typical of the Private segment;
- the introduction of the new Electronic Credit Procedure (with a web interface), which makes it possible to increase the efficiency of the operational management of lending, at both the central and the peripheral levels;
- the revision of contracts referring to credit opening;
- mapping and formalisation of the sub-process of credit concession and updating of safeguard controls;
- rationalisation of the norms by means of the compilation and publication of a single text regarding the process of credit concession, containing all the instructions of an operational character.



Furthermore, in this context, the Credit Regulations have been updated and integrated. The activity in question was organised in the context of the so-called "Credit Site". The procedure will continue into 2010, with the aim of reaching the following results:

- updating and mapping of the other credit sub-processes, such as perfection and disbursement, operational management of credit, and irregular credit management;
- determination of areas of improvement and realisation of the necessary interventions for their pursuit;
- adoption of work flow instruments, allowing us to improve operational efficiency considerably, and to reduce the use and circulation of paper documents drastically.

ORGANISATIONAL ADJUSTMENTS IN SUPPORT OF COMMERCIAL DEVELOPMENT INITIATIVES

The efforts of the technical/organisational department in support of the Bank's commercial activity continued also in the year 2009. In this context we may mention the following initiatives:

- **The "Io Leonardo tu vinci" competition**

The Organisation and ICT Management collaborated in the initiative "Io Leonardo tu Vinci", creating the necessary instruments for the system of calculation and attribution of points and for the management of the request and delivery of prizes. For this purpose, functions of the CSE information system were used, together with specifically designed applications made available on the company intranet network. As regards the use of CSE applications, the "Contract Management procedure was particularly useful, allowing us to automatise the attribution of points to those who presented new current account holders.

- **CRM Project**

A further organisational intervention was that of the activation of functions made available by CSE for the CRM project; this project involves the use of a specific Data Warehouse for investigations and analyses of a commercial kind, which will be conducted under the coordination of the Planning and Marketing Department, and made available to the whole Network. Furthermore, the project provides for the revision of customer segmentation, and the activation of new specific functions, such as the management of customer-related events and the commercial agenda.

- **New Product Catalogue**

An new application has made available on the company intranet for the management of the products catalogue, substituting the static pages previously used. The new application makes it possible to manage, in an integrated manner with the rest of the intranet system, the division of products into categories and their connection with the other intranet resources, for both commercial and operational purposes.

- **Automation of sales processes and electronic forms**

2009 saw the continuation of the amplification of the range of products that can be sold by means of the application "Contract Management", which makes it possible to reduce the time of execution and the operational risks connected considerably. With the integration of the phases referring to the securities dossier and the money laundering questionnaire, planned by the end of February 2010, the automation of sales process will be completed for all the products and/or packages of products that present significant volumes. The results achieved in terms of the improvement in efficiency and the reduction in compliance risks have been considerable.



ACTIVITIES CONCERNING THE DEVELOPMENT AND MAINTENANCE OF THE INFORMATION SYSTEM

During the course of 2009, the relationship of collaboration with the information outsourcer (CSE) was extended, and the action of modernisation of the technological infrastructure and the Information System as a whole continued.

In this context, together with the numerous implementations of a minor nature already mentioned, we may point out the following interventions:

1. AMPLIFICATION OF THE TD NETWORK AND EXTENSION OF THE VOIP SERVICE

During the course of the year, an important intervention of modernisation and amplification of the TD network was performed, in collaboration with the CSE outsourcer, allowing us to:

- increase the power of TD lines, so that they will adequately support the growing use of web-based applications and the increasing traffic of data;
- improve the levels of business continuity by means of the amplification of back-up solutions available: besides the first level of back-up – based on ADSL technology – a second (additional) level has been arranged, based on UMTS technology;
- create the conditions to extend VoIP technology (already used for the Head Office) to the whole distributive network, thus benefiting from the advantages that this guarantees (modern telephone services and large economic savings); the completion of the VoIP project is planned for the month of April 2010.

2. WEB INFORMATION SYSTEM

The activity of migration towards the so-called WebIS continued, with the aim of completing the substitution of the application areas involved by the end of 2010.

In the course of 2009, numerous applications migrated definitively, including: Conditions, Electronic Lending Procedure, Register and Marketing Information System. In the last quarter of 2009, we also formed the Working Group for the activation of the new Web Bank Counter application. This is an area of application, with a web interface, based on the logic of guided and facilitated work processes, destined to substitute the present operational interfaces of the transactional kind which characterise the operativity of front and back offices. The Group took charge of the configuration and testing of the complex, flexible application area, and all the activities necessary to make it operative. In the month of December, the first work stations were activated in a medium-sized branch office, and the activities of verification in a real environment started. In consideration of its great impact, an important training programme has been organised, involving all bank counter workers, and an activation plan has been prepared, which envisages the start in groups of branch offices, with the presence of experts in loco for 2-3 days. The completion of the activity is planned for the month of July 2010.

With the activation of the new web bank counter, and of other minor applications, the passage will be completed to the Web Information System and it will be possible to eliminate the servers that are currently present in each branch office, thus sensibly reducing costs, containing critical situations, and simplifying management.

3. SYSTEM SECURITY

Important interventions have been implemented or started, aiming to raise the level of security of company information system management. Particular attention has been dedicated to the management of qualifications for access to the data contained in the systems, carrying out a revision of the modalities of management of use, and adopting profile definition policies more circumscribed to ordinary operational necessities.



STAFF

Together with the usual activity of management of the company's human resources, the year 2009 saw the continuation of the activity of implementation of interventions in which, in its capacity as Parent Company of the Carismi Banking Group, the Bank is involved, both on the organisational level and from the point of view of the allocation and management of human resources, so as to provide the companies that are members of the Banking Group with the support and the consultancy that they need, both as members of the Group and as a result of their more limited dimensions.

INDUSTRIAL RELATIONS

On the front of industrial relations, it may be pointed out that in the course of 2008, we proceeded to the signing of agreements aiming to adapt company provisions already in force on the subject of salaries and minimum conditions to the new organisational reality of the commercial network, as it emerges from the distributive model applied as of February 1st, 2008 and from the organisational revision of the Head Office, which started from the same date.

As mentioned, we signed the agreements with the Trade Union counterpart on June 26th, 2009, which partly modified the minimum levels contemplated and the indemnities paid to staff members with roles of responsibility in the Head Office, and the agreement of July 24th, 2009, which partly modified the minimum pay levels and the indemnities for the roles contemplated by the network organisational model.

Furthermore, we should mention the completion of the procedure contemplated by Art. 46 of the current CCNL (collective workers contract) of December 8th, 2007, on the subject of the company rewards system. In line with contract provisions that commit the company to setting up a confrontation procedure on the incentive mechanisms proposed, at the request of the trade union organisations, the Bank initially gave the company union information in December of 2008, and then set up discussions starting from the following month of January 2009. After the conclusion of the procedure with the signing of the agreement at a meeting in March 2009, the rewards system "Over the top" already finds application, for the commercial network, starting from the results achieved in the course of 2009.

Lastly, we should mention the signing of an agreement on December 23rd, 2009, at the conclusion of a procedure, described above, referring to the incorporation of La Rocca Immobiliare SpA into the Cassa di Risparmio di San Miniato SpA; this agreement regulates certain aspects of the transfer of work relationships of staff members previously employed by the incorporated company to the incorporating company.

MANAGEMENT OF COMPANY PERSONNEL

Among the main activities carried out by the Management and Development of Human Resources Department during 2009, we may mention, in the field of the management of human resources, in the first half of the year, the activities resulting from the application of a new organisational model of the commercial network, and a new organisation of the head office as a result of the change in head office management. In the month of January 2009, in view of the coming application of the new organisation starting from the following February 1st, activities of a management type were arranged, based on the determination – by competent company structures – of personnel needs in each of the peripheral organisational units, and these made it possible to calculate, quantitatively and qualitatively, the personnel requirements for the operation of the company structure. Analogous activities were subsequently arranged also with reference to the personnel assigned to the structures of the Head Office, where the new organisation came into force, as for the commercial network on February 1st, 2009.

In both cases, the implementation activities of the new commercial model and the new central organisation made it necessary:



1. to establish in advance the professional characteristics possessed by staff members, so as to guarantee the most logical placement on the basis of the professional contents of the new organisational roles of the network and of the activities distributed among the different, changed central structures;
2. subsequently, to share with the leaders of the company organisational units the new approach and the impact produced by it on the operational reality and the commercial/management potential of the single structures. After verifying the advantages, from the organisational and commercial point of view, of the new organisation of work, we proceeded, always in agreement with the company managers, to allocate the staff to the single new roles. In some cases, the need to guarantee the broadest and most effective coverage of the various roles in the different organisational units made it necessary to carry out interventions of horizontal/vertical mobility; in other cases, the different distribution of activities between central and peripheral structures (e.g. the new organisation of the lending procedure) made it possible to “pass competences” from the commercial network to the Head Office, thus guaranteeing opportunities of professional development and growth for the staff members involved.
3. to identify the training needs that emerge as a result of the changed organisation of work, and to define and subsequently realise training plans aiming to fill any gaps between the competences possessed by staff members and those required by the new roles/activities.

Together with the activities for the application of the new overall company organisation, we set up negotiations with the trade union in order to revise existing agreements in the field of minimum pay and indemnities for roles of responsibility; the negotiation was concluded with the signing of the relative agreements in the months of June and July 2009, respectively, for the Head Office and the peripheral network.

Furthermore, as the second tranche of an overall plan of facilitations for early retirement already outlined in the Industrial Plan 2008 – 2010, the Board of Directors deliberated, in the month of October, the realisation of a plan of stimulated retirement, aiming to favour the termination of the working relationship for staff already possessing the requisites for access to pensions paid by the I.N.P.S. The intervention in question, the aim of which was clearly that of facilitating future reductions in costs as the consequence of early retirement, was for those workers who had already acquired the pension requisites, but were still in service on the basis of existing normative regulations (which, as is known, allow the continuation of the working relationship, after the acquisition of pensions rights, until the accomplishment of the 65th year of age). The stimulus offered to staff members for the early termination of the working relationship was determined as 6 months' salary (paid as a golden handshake), and the starting date of the termination of service fixed at January 1st, 2010. The overall number of people who adhered to the Company proposal of stimulated retirement and who consequently ceased working with the Company from January 1st, 2010, totalled 5, two of whom were workers assigned to the central structures, and three to the commercial network.

Lastly, we should mention the operation incorporating La Rocca Immobiliare SpA into the Cassa di Risparmio di San Miniato SpA; this entailed, from the point of view of human resources, the transfer of the work relationships of staff members previously employed by La Rocca Immobiliare SpA, without any interruption, in accordance with Art. 2112 of the Civil Code, to the incorporating Parent Company, and the consequent reallocation of the personnel involved within the structures of the Bank. The assignment of the personnel coming from La Rocca Immobiliare SpA was carried out in the respect of organisational requirements and the functional balance of the Bank, and in accordance with management criteria that took into account the professional qualities and competence of the personnel involved.

From the strictly quantitative point of view, the overall number of people hired during the course of the financial year amounted to 2 (as said, a further 12 insertions regards the staff members previously employed by La Rocca Immobiliare SpA; the cases of termination of service during the year added up to



13 (5 of which, as mentioned above, had access to the plan of stimulated early retirement). As a result of the above-described management events, the Company personnel on December 31st, 2009 totals 734 resources, compared with 733 at the end of 2008, two of whom had a fixed-term contract, substituting absent staff members. During the course of 2008, the interventions of personnel enhancement carried out regarded a total of 27 workers, and consisted of:

- n° 4 promotions by choice;
- n° 23 promotions to higher duties.

The number of employees at the end of 2009 is influenced by the entry into the Bank of the personnel employed by the company La Rocca Immobiliare SpA, following the operation of amalgamation at the end of December. In the accompanying tables, in order to allow a comparison in homogeneous terms with the previous year, the separate data of the two entities have been included: it emerges that, considering the personnel net of the twelve former La Rocca employees, the total of employees actually went down by 13 units compared with 2008 (-1.8%), 11 of whom were branch office workers and two in the Head Office, thus maintaining the proportion between branch offices and head office substantially unchanged.

Lastly, safeguard activities of personnel efficiency and distribution of personnel among the different structures of the network and the head office continued, in accordance with the provisions of the Industrial Plan; as in the previous year, the monitoring of the state of advancement of instrumental and consequential activities was guaranteed by means of a specific project inserted in the "Personnel Site", in accordance with the methodology already generally contemplated for the realisation of the Industrial Plan.

MEASURES IN SUPPORT OF TRAINING AND PROFESSIONAL DEVELOPMENT OF HUMAN RESOURCES

During the year 2009, the activity of Training was characterised by the realisation of interventions regarding four main areas:

1.training for the development of competence of a specialised kind

This area of intervention includes the training given to support the change of the company organisational model, above all with reference to the adaptation of competence for the Network personnel.

In particular the transformation of branch offices into undifferentiated structures required work on the consolidation of the competence of certain professional figures, such as Enterprise Managers, Directors, Development Experts.

The situation of financial markets made it necessary to dedicate particular attention to the professional updating of figures like Private Managers, Personal Managers, and Family Experts. Interventions were planned for these people with the aim of supporting their reading of the scenario, and the management and creation of lasting relationships with private customers.

Lastly, particular consideration was given to the training of young personnel (apprentices) or those involved during the course of the year in significant changes in terms of roles and/or responsibilities assigned. For these people, besides the planned training for their role, a functional training for professional growth was organised, in view of different, more complex roles.

2.training of a commercial kind

The training necessary to maintain the requisites for the sale of insurance products was carried out for those employees who had shown in the past that they were able to guarantee a minimum standard of production (Training project for the acquisition – 60 hours – and maintenance – 30 hours – of requisites for the sale of insurance products).



3.training of a managerial type

The Managers of Offices and of the General Management Department were involved in a project of managerial training, whose aim was to support them in the management of this moment of profound change in the company, both of the internal context of the company and of the external one, favouring in each of them the development of attitudes orientated towards flexibility, sharing of knowledge and service towards both internal and external customers.

4.training on questions of a normative nature

The year 2009 saw the realisation of courses on subjects of a normative nature, required by legal provisions or by the directives of control organisms.

Before the organisation of this kind of training, the relevant company structures proceeded to reorganise the processes and procedures referring to specific subjects regulated by normative limitations, for which novelties had been introduced. These are the cases of Money Laundering, the Government Decree 231/01, Compliance, and Risk Control. On these subjects, policies and process regulations have been emanated, and where necessary, new information procedures have been activated.

At the end of the above-described activities, it was possible, for each subject requiring adaptation to legal provisions, to carry out the training interventions, which had been determined by means of careful analysis, on the one hand, of training obligations, and on the other, of the training needs determined in collaboration with the company representatives.

Compulsory training was accurately planned – with the aim of minimising its impact and maximising its effectiveness – and it was conducted together with the start of the new operativity.

In the logic of following the professional course of young personnel, specific interviews were held in the months of November and December with staff members hired in 2007 with a professionalising apprenticeship contract. These interviews, whose aim was to evacuate the experience acquired by the single apprentices, verify the effectiveness of the training conducted so far, and appreciate the specific requirements for the fourth and last year of professional training, supplied a wide-ranging picture of the apprentices' motivation, their expectations and their possible future professional development. Lastly, the list of people carrying out the role of tutors of the apprentices was updated, and for the newly appointed tutors, a meeting was held to inform them about their role and the responsibilities connected with it.

The first few months of 2009 saw the conclusion of the project for the realisation of a new rewards system for the network, as contemplated by the Industrial Plan: a new rewards system called "Over the top" was elaborated. After the phases of negotiation with the trade union and verification of the degree of conformity to existing provisions, this was presented to the Territorial Area Managers and branch office managers in the first few days of April 2009. This new system aims to reward all the branch offices that go beyond the budget assigned. With reference to the prize to be assigned to branch office personnel for the year 2009, pending the definition of the new system planned for 2010, a transition system has been contemplated, correlated with the prizes distributed to network personnel.

The activities of training and development of personnel are monitored by means of a specific project inserted in the Personnel Site, within the scope of the methodology contemplated for the realisation of the Industrial Plan.

FINANCING FOR TRAINING

The year 2009 saw the conclusion of the financed training plan indicated in the announcement 02/06. The training activities were carried out in the period January-March; the activities of account rendering were concluded in April with the declaration signed by the President of the Bank and the Auditor.

In the month of September 2009 the final inspection was carried out by the Banks and Insurance



Companies Fund, in order to close down the procedure and proceed to the payment of the last tranche of financing. The inspection gave a positive result, and now the Fund can proceed to pay the final balance of the financing for the year.

With reference to the 2009 training plan, and for a part of the planned interventions equal to 75% of the overall training given, an application for financing has been formulated, valid for Announcement FBA 04/09. The application regards 14 projects included in the 2009 training plan, 12 of which have already been completed, while 2 have been started and will be completed in 2010.

This application has been approved by the Fund, and once the training contemplated has been conducted and all the expenses have been indicated in accordance with the vade-mecum (announcement 04/09) issued by the Fund itself, this will allow us to recover the costs sustained, for a maximum amount of about 443,000 euro.

STAFF COSTS

Personnel costs for the year 2009, excluding contributions to the Company Pension Fund, the recourse to the Credit Solidarity Fund, and retirement incentives, amounted to 47,425 thousand Euros, gross of recovery of costs for seconded personnel. Compared with the costs sustained in the year 2008, there was an increase in absolute value of 810 thousand Euros, corresponding to an increase in percentage terms equal to 1.74%.

As regards the above, the following is a more detailed list of the major elements which affected the variation of staff costs compared with the previous accounting period:

Increasing:

- Increases deriving from the effects of the renewal of the national collective contract signed on December 8th, 2007 (Middle-ranking Managers and Professional Areas) and January 10th, (Directors), as well as the appropriations reserved in preparation for the renewal of the company supplementary contracts;
- Increases following the operation of incorporation of the company La Rocca Immobiliare SpA, whose juridical effects dated from December 30th, 2009, but the accounting effects from January 1st, 2009;
- Appropriation for the rewards system;
- Physiological increases connected with the increase in seniority, and recognitions for personnel, failure to renew from the legislative viewpoint the decontribution of the company prize, etc.

Decreasing:

- Lower costs following the effects of termination of service during 2009, and of savings deriving from the full benefit of terminations of September 2008, which took place as a result of stimulated retirement;

The total costs of personnel in the profit and loss account, including the various components based on the IAS accounting principles, amount to 55,190 thousand Euros, with an increase of 3,704 thousand Euros, compared with the figure for the year 2008, equal to +7.19%.

It should be pointed out that the above-indicated figures also include the positive performance of the Carismi Employees' Pension Fund, which was equal to 3,159 thousand Euros, whereas this had been negative in the previous accounting period (it is to be remembered that on the basis of the Vigilance Authority's instructions, any negative results of internal Pensions Funds is not to be imputed to Staff Costs, but to Other Charges/Revenue of management; as a result, the figure was equal to zero in the previous accounting period.).

Consequently, net of the above "extra" cost, (which caused the registration of another item in the



balance profit and loss account), the variations in absolute terms was + 545 thousand Euros, equal to + 1.06%.

The overall staff costs also include the costs sustained for retirement bonuses for a total of 293 thousand Euros, of which 266 thousand Euros deriving from the retirement plan of December 2009. In perspective, the stimulated retirements of December 2009 will determine annual savings for future accounting periods that may be quantified as about 450 thousand Euros. However, this result displays a reduction in staff costs equal to 1,175 thousand Euros, compared with the previous year. As regards the personnel seconded with other companies (CRSM Foundation, Vegagest, Bancasintesi), the recovery of relative costs was equal to 658 thousand Euros, with a decrease of 101 thousand Euros, equal to -13.30%, compared with the previous year.

Furthermore, it may be pointed out that the costs described as "Other staff" include:

Costs sustained for atypical contracts (Co.co.co. and Co.co.pro) for a total of 340 thousand Euros, with an increase, compared with 2008, of 135 thousand Euros, equal to 65.85%;

Costs sustained for workers of other enterprises seconded with the Bank, for a total of 211 thousand of Euros, with an increase compared with 2008 of 199 thousand Euros, equal to 1,658.33%;

Costs sustained for the recourse to the hiring of temporary workers (n. 13.50 on average) for a total of 670 thousand Euros, with a decrease, compared with 2008, of 13 thousand Euros, equal to -1.9%.

Lastly, it may be pointed out that the overall effects on the Staff Costs of the incorporation of La Rocca Immobiliare SpA was equal to 794 thousand Euros. Thus the overall staff costs, net of the performance of the "Carismi Employees Pension Fund" and the costs deriving from the incorporation of La Rocca Immobiliare SpA, was equal to 51,237 thousand Euros, for a decrease of 249 thousand Euros, equal to -0.48%. As a final consideration, it emerges from a reading of the figures that the cost containment policies followed starting from 2008 have made it possible to maintain the overall staff costs under the level of the previous year.

The safeguard activities of staff costs are monitored by means of a specific project inserted into the Personnel Site, within the scope of the methodology adopted for the realisation of the Industrial Plan.

EVOLUTION OF REAL ESTATE PATRIMONY AND PURCHASING POLICY

As regards the real estate sector, the most important fact of the 2009 accounting period is undoubtedly represented by the incorporation of the company La Rocca Immobiliare SpA into the banking parent company. Following the spin-off operation carried out in the year 2002, the incorporated company owned and managed the entire real estate patrimony of an instrumental nature of the Bank. The amalgamation operation was completed with the stipulation of the Act of Merger dated December 23rd, 2009, with juridical effects starting from December 30th, 2009. Thus also for the accounting period 2009, the real estate management was actually carried out by La Rocca Immobiliare, even if the accounting effects of the merger are backdated to January 1st, 2009.

During the year 2009, certain interventions both of ordinary and extraordinary maintenance were carried out, which, though contained in consideration of the more general aim of containment of costs contemplated by the Industrial Plan, and recommended also by the moment of difficulty of the economy, were considered propaedeutic for the maintenance of a state of preservation that would not prejudice the functions of buildings and equipment.

Overall, the resources dedicated to the various interventions recorded a decrease of 17% compared with the previous year for current expenses, and an increase of 70% for investments, which returned to the levels of 2007. Compared with an increase in the number of interventions on branch offices of about 7% compared with 2008, current expenses went down nonetheless by 17%, indicating that the unit cost per intervention (despite their differentiation) saw significant savings.

Among the interventions carried out on different buildings of the branch offices, we may point out the extraordinary maintenance of the covering of the Bank's offices at La Scala, in the locality la Covina (also



the seat of the personnel training activity) and of the Sports Hall owned by the Bank, with the realisation of a new central heating system, as well as works of ordinary maintenance.

Within the field of the action to improve efficiency to identify savings in material costs and services, the activity carried out by the technical structure was particularly important in contracting new prices and searching for new suppliers. In fact, we operated with various suppliers in 2009, in order to guarantee the best prices on the market, identifying better suppliers during the accounting period in 25% of cases, that is to say, one out of four suppliers in 2009 was new.

Following the above-mentioned merger, the Head Office management structure was revised, with the introduction of the Real Estate and Technical Service Management, within the Resource Management Division. The responsibilities attributed to the new structure may be thus summarised:

- technical and economic management of the real estate patrimony, equipment and installations, owned or managed by the Bank;
- management of ordinary and extraordinary maintenance, including gardening and cleaning of the premises;
- management and safeguard of security and vigilance systems;
- management of the availability of premises, working places and the other components of the infrastructure, and maintenance of functional standards of furniture, equipment and facilities.

In this context, the new Management Division has been assigned the safeguard of the norms concerning security, prevention and protection in the workplace (law n° 81/2008), in collaboration with the Director of the Protection and Prevention Services.

In the course of 2009, the Purchases Management watched over the area of the Industrial Plan referring to the reduction of costs. This area of competence was organised in order to intervene on various kinds of structural costs, and for this reason different working groups were created to safeguard the various projects. The most important initiatives were:

- Complete revision of the spending process:** this project was the hub of the working area, and in future will enable us to safeguard the dynamics of spending correctly, with appropriate phases of budgeting, evaluation, analysis of needs and opportunities that can be found on the market, and above all scrupulous phases of authorisation and subsequent control. In this connection, the Head Office has supplied general indications to the structures involved, who in turn have evaluated the various working hypotheses in order to achieve an effective process combining precision in competences, feasibility controls and streamlined operation. The project, divided into eight separate phases, has passed the planning stage and will become operative by the end of March 2010.
- Reduction in general expenses:** this project includes various expense components, and has already brought significant results in the course of 2009. We proceeded to examine the single kinds of expenses, analysing the items in comparison with the reference benchmark (ABI) and evaluating their dynamics over a time span of several years. The items that presented anomalous data were picked out and broken down into their analytical components, and then we proceeded to identify appropriate interventions in order to bring them back to adequate levels. Priorities were fixed by considering the commitment required by the various interventions in relation to expected results. The main interventions carried out in the course of the year concerned:
 - **Expenses for consultancy and advertising:** these are now centralised under the Planning and Marketing Department, so as to permit a joint management that will increase efficiency and effectiveness.
 - **Expenses for data transmission:** in this field, the Organisation and ICT Management exploited the levers of competitiveness to the maximum. Suppliers were offered the possibility to win not only



the contract for Data Transmission, but also that of the realisation of the company VOIP network, which had already been planned for some time, but only partly realised. After due negotiation, which in the final stage had the direct support of the company top management, significant results were achieved, which will lead to the signing of a new four-year contract with the current supplier, with a considerable saving compared with present costs.

- **Expenses for cleaning and gardening:** new supplies have been contracted by means of new competitive tenders, with a significant annual saving.
- **Expenses for insurance:** a complete revision of current insurance coverage has been carried out, together with the brokerage for the overall insurance package for the year 2010. This activity has proved to be particularly useful, seeing that, even after a year characterised by a high number of accidents, it allowed us to limit the increase in premiums to an extremely modest level, as well as obtaining a better and more specific coverage of the various kinds of potential risks.
- **Expenses for mobile telephony:** after comparing offers, the company signed a new contract with the current supplier, with a significant annual saving.
- **Expenses for stationery:** the use of direct delivery by the supplier, already tested in the previous year, has been intensified. Considerable benefits have been obtained with this system in terms of reduced warehouse management, with supply costs which, as a result of a prudent choice of the supplier on the market, have remained practically the same as those previously obtained for centralised supplies. Furthermore, the prerequisites have been created for a considerable limitation in the use of company vehicles for delivery of material to branch offices, with the result of further savings.
- **Structural expenses in the finance area:** in this sector, the combined action of the Financial Products and Services Management, the Organisation and ICT Management and the Purchases Management has led to savings in terms of the optimisation of the information and telematic services available. These stratagems already brought economic benefits in the year 2009, even if we also sustained the implementation of some information services for private managers of branch offices. Further savings are expected starting from this year.

AUDITING AND INTERNAL CONTROL SYSTEM

The system of internal controls is made up of the set of rules, procedures and organisational structures that aim to ensure respect of company strategies, and the achievement of effectiveness and efficiency of company processes, the safeguard of the value of assets and protection against losses, the reliability and integrity of accounting and management information, the conformity of operations to the laws, vigilance regulations, and the internal regulations of the intermediary. The internal control system is an integral part of the daily activity of the Bank. The safeguard represented by the internal control model is composed of three levels, both as regards its design and its relative functioning:

- Line controls (first level), aiming to censure the correct execution of operations. These are carried out by the production structures themselves (e.g. controls of a hierarchical type) or incorporated into the procedures and information systems, or carried out in the field of back-office activity;
- Second level controls, the aim of which is to:
 - contribute to the definition of risk evaluation methodologies (frequency/ weight) actions of mitigation and monitoring of residual risks, to verify the respect of limits assigned to the various operational departments, to control the consistency of operativity of the single production areas with the risk and performance aims assigned (risk management);
 - contribute to the definition of conformity risk measurement/evaluation methods, to identify suitable procedures for the prevention of relative risks, and propose their adoption (Compliance);
- internal revision activity (third level): this is delegated to different structures, independent of



production structures; it aims to identify anomalous behaviour and violations of procedures and regulations, and to evaluate the functionality of the overall system of internal controls. It is conducted continuously, periodically or exceptionally, by means of verifications in loco.

In the rearrangement of the organisational model of the Bank, adopted by means of a deliberation of the Board of Directors in October 2008, and in force since February 2009, a series of modifications were introduced which determined an overall revision of the structure of governance, within which we proceeded to identify a new Auditing Department, placed in an independent position from the hierarchical structure, and in direct contact with the Board of Directors, with the aim of promoting a continuous improvement of the overall system of internal controls. On the basis of this mandate, the Auditing Department took charge, during the course of the year, of:

- Repositioning the organisational structure, partly through a careful verification of the qualitative and quantitative adequacy of the resources assigned to the Department;
- Carrying out an activity of analysis and planning of personnel training interventions, aiming to ensure, on the basis of numbers, competence and professional diligence, the adequate execution of institutional duties.
- Reinforcing the auditing activities, with the intensification of inspections throughout the network and in the main processes, made possible partly thanks to a different use of the instruments and technologies adopted, through the reorganisation of the Department itself, and an activity of planning, which has allowed us to go beyond the slavish repetition of duties without any reference to a systematic, integrated action;
- Adopting more effective methods and instruments, with the aim of optimising the times of verifications, in the pursuit of the aims of effectiveness and efficiency;
- Revising and regulating relevant processes, by the introduction of appropriate regulations, approved by the Board of Directors on February 27th, 2009, disciplining the activities to be created and the procedures to adopt, together with a Deontological Code of Internal Auditing – destined for all the components of the Department, and inspired by the ethical code of the Institute of Internal Auditors – also approved by the Board on the same date.

In this specific sector of activity, which is fundamental for the safeguard against company risks, a method was used which takes into account a risk-based and process-oriented approach.

In the course of 2009, the following verification activities were carried out:

- 34 ordinary verifications on the network (8 of which in collaboration with the Board of Auditors);
- 6 interventions on processes (2 of which in collaboration with the Board of Auditors);
- 1 intervention on the controlled company Banca Sintesi;
- 35 administrative inspections;
- 14 reports to the company top management.

The activities carried out proved to be generally in line with the 2009 auditing programme, and did not show up any particular anomalies.

INTERNAL CONTROL COMMITTEE AND VIGILANCE ORGANISM

In accordance with the provisions of the deliberated that set it up, the Internal Control Committee also carried out the functions of Vigilance Organism ex Government Decree 231/01. Following the organisational revision carried out by the Bank, and with the aim of integrating legislative novelties, it proved to be necessary to update the Organisation and Management Model ex Government Decree 231/2001, approved by the Board of Directors on June 30th, 2009.



The main novelties contained in the Document, briefly, are as follows:

1. Normative Scenario: this has been updated with the new kinds of crimes which can give rise to the administrative responsibility of the Bank, such as:

- Crimes committed in violation of accident-prevention rules and norms regarding the safeguard of hygiene and health at work (Article 25 septies, Government Decree 231/01, added to art. 9, Law n° 123 of August 3rd, 2007, subsequently substituted by Government Decree n° 81 of April 9th, 2008, art. 300);
- Crimes regarding prevention of the use of the financial system for purposes of recycling of income from criminal activities and financing of terrorism (Art. 25 octies Government Decree 231/01, article added by Government Decree n° 231 of November 21st, 2007, art. 63, paragraph 3);
- Information-based crimes and illicit treatment of data (art. 24 bis Government Decree 231/01, added by Law n° 48, of March 18th, 2008, art. 7);

2. Organisation, management and control model: this has been updated, with the identification of sensible activities in relation to crimes connected with market abuse and the new kinds of crimes mentioned above, with the principles that are applicable.

Lastly, with reference to the companies that are members of the CARISMI Group, it may be pointed out that each company of the Group autonomously adopted its own Organisational Model, and deliberated the creation of its own Vigilance Organism, whose composition was determined partly on the basis of the dimensions of the structure and the professional competence present in it, and in all cases consistently with the legal provisions and the "Guidelines" elaborated by the ABI.

Furthermore, wide-ranging training activities were planned and administered to all personnel, by means of both classroom teaching and on-line training.

The verification activities performed concerned 5 company processes, sensible according to Government Decree 231/01 at the group level, for a total of 20 inspections in 16 Head Office structures and 4 companies of the Group. The verification activities carried out, and the examination of flows periodically sent by the company structures did not reveal any anomalies.

RISK MANAGEMENT

In the course of the year 2009, as well as the complex activity regarding the ICAAP process (the internal process of self-evaluation of patrimonial adequacy) described in greater detail in the following section, the contribution of the Risk Control Department, which is divided into the Risk Management and Credit Risk Control sections, the latter included in the Head Office staff, regarded the following subjects:

1 - CREDIT RISK MANAGEMENT ACTIVITY

Within the scope of the revision of the organisational model of the Bank, a series of modifications were organically introduced, which globally determined a substantial revision of the governance of the lending process. The innovation regarded the overall arrangement of the general management functions, with the aim of enhancing separation and the lack of conflicts of interest between structures in charge of the activities of preliminary examination and concession, the activity of monitoring and safeguard of the quality of credit, and the activity of credit recovery.

Furthermore, within the scope of the Bank's Strategic Plan 2008-2010, the activity of the Credit Area was conducted with the aim of improving the whole process, by acting on credit and guarantee policies, preliminary examination, concession and management of loans, applicative instruments in support of the process, trend monitoring of the loan relationship, management of anomalous positions and credit recovery.



In particular, among the main normative novelties introduced in 2009, the Credit Regulations were updated. These discipline, at a high level, the *modus operandi* of the central and peripheral organisational units in the single phases of the lending process, also in the light of the process of self-evaluation of patrimonial adequacy (ICAAP) as regards the overall management of credit risks.

Consequently, the Regulations are accompanied by the following documents:

Lending policy: this defines the strategic orientations and the company policies for the assumption and management of risks, in an awareness of the risks to which the Bank exposes itself, verifying the acceptability of their levels and approving the modalities by which risks are measured and evaluated, consistently with the complexity and the dimensions of the activity carried out. This document lists the rules and limitations guidelines to be followed in the assumption of lending risks;

CRM (credit risk management) techniques, which integrate the regulations regarding the acquisition and management of guarantees; this document lists the guarantees that the Bank intends to assume in the field of lending activity, and their treatment for prudential purposes;

Powers delegated by the Board of Directors concerning lending. The system of delegation has been brought into line with the new organisational model of the Head Office and the distributive Network and, with a view to a greater safeguard against risks, contemplates a gradual competence of authorisation, depending on the amount, for different roles, from the branch office Director, to the Loans Officer of the Lending Management, to the General Manager.

Furthermore, within the field of the Lending Area, the lending process was revised and made more efficient, starting from the phase of Preliminary examination and Concession, following two lines of intervention, that is to say, a total revision of the lending process and an optimisation and rationalisation of procedures. The modifications, introduced in the first half of the year in the Family segment, were extended to the whole portfolio in the second half of the year. In particular, a new operational circular on Preliminary Examination and Concession was issued, which includes the mapping of the relative lending sub-process. The electronic credit procedure on a web platform was adopted, so as to allow a greater speed in the administration of the credit procedure, a greater availability of information, and a more intuitive, user-friendly structure. A general rationalisation of the technical credit forms was also conducted.

With the collaboration of the Legal Department and the Network, we prepared, by means of an analysis of current preliminary examination routes and the overall portfolio, four different credit-line questions, depending on customer typology, defining a check list of the minimum documentation to be presented and signed by customers, in consideration also of the current transparency regulations.

Lastly, fifteen training sessions were held in the classroom, to communicate the novelties introduced to more than 400 members of the Network and the Head Office.

As regards the management of trend monitoring of credit, the detailed activities conducted have been described in the section of this Report dedicated to Lending. Here we shall limit ourselves to a brief repetition of the most important aspects. The process of trend monitoring of the credit portfolio defined by the Bank is based on the identification of anomalous phenomena which may occur in the course of the lending relationship set up between the Bank and the customer. These anomalies have been defined on the basis of the deviation measured between the values of riskiness considered acceptable by the Bank (riskiness threshold) and the values expressed by relationships in the period under consideration. In management terms, the whole lending/commercial line has been made acutely aware of the themes of asset quality, and for this purpose, a series of interventions were carried out with the aim of strengthening the safeguard on credit quality. In support of the activity of trend monitoring, a procedure of Credit Monitoring has been made operative which makes it possible – on a weekly basis – to identify the first anomalies requiring network intervention that occur for customers; this procedure is still being implemented, in order to enlarge the set of anomalies to be processed.



2 – MARKET RISK MANAGEMENT

The Risk Control Department contributed to the activities of revision of the internal regulations, in particular as regards the aspects of measurement and management of financial risks. In accordance with the provisions of the prudential vigilance norms and the reference internal regulations, (Risks Regulations), some time ago the Bank prepared its Financial Assets, Treasury and Overseas Regulations, which define the operational rules, the structure of limits and controls and the levels of responsibility regarding the finance process. In the course of the year, the updating of these Regulations regarded mainly the governance of “finance management”, the management of liquidity, treasury and foreign exchange, the management of the Bank’s securities portfolio and derivatives, the activity of issuing debenture loans, the management of investment services and the definition of the structure of limitations and delegation.

In particular, the Risk Management sector contributed to the revision of the structure of the Bank’s securities portfolio and the relative operational limitations and risk assumption, and also to the definition of a system of risk monitoring deriving from the existence of a period of time between the stipulation of the interest rate swap connected with the debenture loans issued by the Institute and the date of the end of placement of the loans themselves.

In the same field, we also revised the internal regulations regarding pricing and the negotiation of financial instruments not quoted, issued or held by the Institute, in accordance with the Consob Directive 9019104 of March 2nd, 2009, the so-called “Level 3” of implementation of the MIFID directive. This defines the rules regarding the functioning of the secondary market of debenture loans issued by the Institute and their relative pricing, which must respect a criterion of consistency with the conditions of issue and the balance value, guaranteeing transparency of choices, the adoption of good, commonly used market practices, and first of all, the safeguard of customers’ interests.

Within the sphere of the daily and periodic control contemplated by the current internal regulations, the Risk Control Department measures the At-risk Value of the Portfolio of Securities and Derivatives Held For Trading, controlling every day the respect of the relative limit. Furthermore, this Department carried out the monitoring of potentially risky positions deriving from swap assets executively connected with debenture collection.

As regards the provisions of Risk Regulations, a periodic monitoring of the interest rate risk on the Bank portfolio was carried out, which, on the basis of a pattern of analysis contained in the standard norms issued by the Bank of Italy for ICAAP purposes, observed the exposure of the Bank to the risk of a reduction in the economic value of the banking book, following unfavourable movements in the curve of yields due to maturity. An analogous activity of monitoring of the structural liquidity risk is carried out by means of a ‘maturity ladder’ table, which evaluates the balance of expected cash flows in a medium- and long-term perspective.

Lastly, new functions have been implemented in the Asset-Liability Management procedure. In order to extend and improve analyses regarding interest rate risk and liquidity risk, making them more adherent to the operational reality of the Bank and its reference market, the Asset-Liability Management procedure has been integrated, in collaboration with the IT provider and the company Prometeia, with a module specifically dedicated to the modelling of sight postings with customers (active and passive current accounts and free savings deposits). This module is based on an econometric analysis conducted on past series of interest rates and volumes of the Bank, and makes it possible to take into greater consideration the actual characteristics of sight postings in terms of elasticity to variations in interest rates and the profile of persistence of cash on hand. Besides the standard records contemplated by the norms, this implementation makes it possible to dispose of more detailed management analyses, aiming to define the ALM strategies of the Bank, and the connected activities of coverage of interest rate risk and management of the structural liquidity risk.



3 – MANAGEMENT OF THE LIQUIDITY RISK

According to the definition found in the “New Prudential Vigilance Instructions for Banks” (Bank of Italy, circ. 263/2006, Section III, Chapter 1, Appendix A), the liquidity risk is “the risk that the Bank is not able to fulfil its obligations at their maturity”. The same publication makes a distinction between the “Funding liquidity risk”, that is, the risk that the Bank is unable to handle its cash disbursements successfully, thus prejudicing daily operativity or the financial situation of the Bank itself, and the “Market liquidity risk” when the Bank is unable to settle a financial activity without incurring capital account losses due to the scarce liquidity of the reference market.

For internal management purposes, to monitor these two aspects of the liquidity risk, the Bank has adopted a model that deals with the management of short-term liquidity (operative liquidity) on a time scale from one day to three months. A report is prepared by the Treasury every day, recording the net financial position, calculated as the sum of expected cash inflows and disbursements in the course of the various maturity brackets identified. Reporting on Treasury assets is carried out on a daily and three-monthly basis, and every time it is requested by the Managing Committee.

The information included in the report regards all the assets and liabilities that generate cash flows (positive/negative), starting from the net balance of maturing positions accumulated; the main items are:

- Interbank maturing positions: operations of lending/funding carried out on the Interbank Deposits Market (MID) and the Interbank Collateralised Market (MIC);
- Other cash flows accumulated: expected cash inflows and cash disbursements, except for those deriving from loan returns/new disbursements, issues/reimbursement of bonds and swap operations with customers, for which a rollover at maturity is hypothesised.

Furthermore, the gross amount of financial current assets that can be used by the Bank by way of reserves as assets that can readily become liquid, referable to:

- Assets that can be allocated, available for cash net of haircuts;
- Securities that can be allocated, pledged with the MIC and not used, net of haircuts;
- The amount in the compulsory reserve account that can reasonably mobilised.

Quantitative indicators are applied to the report thus prepared, in order to establish the state of liquidity of the Bank. Furthermore, different stress scenarios are contemplated, bearing in mind the guidelines contained in “Principles for Sound Liquidity Risk Management”, issued by the Basle Committee. These are based on exogenous scenarios (events caused by a shock on the market, not controllable or foreseeable by the Bank), endogenous scenarios (specific negative events of the Bank that entail a loss of confidence in it by the market) and mixed scenarios.

4 – MANAGEMENT OF THE OPERATIONAL RISK

The Vigilance Authority recognises that the specific approach adopted by the single bank for the management of the operational risk may depend on a series of factors, including the dimensions, the organisational structure, and the nature and complexity of its operations. Our Bank is included in Class 3 banks, and does not present any particular operative specificities; this makes it possible to adopt the basic method for the calculation of its vigilance patrimonial requisites to cover the operational risk. A greater internal awareness of these kinds of risks and controls is developing, and together with the implementation of a functional internal, and the availability of emergency plans, these are the essential elements of an effective and efficient system of operational risk management. In this context, during the course of the year, the Bank continued its activity to identify the operational losses found in the profit and loss account, and to insert them into the database, placed at our disposal by the CSE provider, for the creation of multiyear series



of data about losses suffered, which are necessary for the statistical and actuarial elaboration. In this activity, importance was given both to the measurement of the operational losses observed, so as to understand their causes and prevent further possible effects which may derive from operativity, and to the interventions on potential risk sources and on the system of internal controls. In order to deal with both needs, the methodology contemplates the use of instruments of qualitative and quantitative analysis. In particular, the qualitative analysis consists of the application of risk evaluation techniques, aiming to identify potential risks before the losses occur, and disclosing the possible causes in order to define suitable intervention strategies.

INTERNAL PROCESS OF SELF-EVALUATION OF PATRIMONIAL ADEQUACY

In conformity with the new agreement of Basle 2, accepted by the Bank of Italy in Circular n° 263 of 2006, the first “complete” ICAAP report was prepared in the month of April, with patrimonial and accounting data consolidated at December 31st, 2008 and the provisional temporal horizon at December 31st, 2009. Furthermore, we also adopted the third Pillar of Information to the Public about patrimonial adequacy, risk exposure and the general characteristics of the of the relative systems of management and control.

As regards the ICAAP, therefore, the “Report on the internal process of evaluation of the present and future patrimonial adequacy” was prepared. This describes the process to determine the patrimonial adequacy, documenting the fundamental qualitative characteristics of the planning process, and fully evaluating all the risks to which the Group is currently exposed, or could be exposed in future.

The ICAAP Report is composed of six information areas, in line with the pattern proposed by the New Prudential Vigilance Instructions, as summarised below:

- 1.Strategic lines and foreseeable horizon considered: compared with the previous Report, the patrimonial plan for 2009-2010 was confirmed in relation to the hypotheses of the Industrial Plan previously formulated and in the light of the final figures of the Balance for 2008;
- 2.Company governance, organisational set-up and control systems connected with the ICAAP; the modifications to the company organisation were included in the reference ICAAP internal regulations, and the correspondence of the responsibilities attributed to the organs of management were verified, with respect to the traditional governance that the Group intends to adopt, in accordance with the Vigilance Instructions on the organisations and company governance of banks;
- 3.Exposure to risks, methods of measurement and aggregation, stress testing; with reference to the requests for information regarding this subject, the documents “Perimeter of Application of the Second Pillar” and “Map of Significant Risks” have been updated, with data and records at December 31st, 2008; we have likewise updated the Risks Regulations governing the overall procedure of the management of risks that are significant for the Bank;
- 4.Components, estimate and allocation of internal capital: table have been produced for the determination of overall internal capital and for the stress testing carried out: these are summarised in the document “Quantitative risk records”, which is an integral part of the Report. These records show that the Group possesses a patrimonial endowment that is adequate for the risks assumed;
- 5.Connection between internal capital, prescribed requisites and vigilance patrimony: as the Group belongs to Class 3 for ICAAP purposes, by virtue of the principle of proportionality, the overall internal capital was calculated in accordance with a simplified “building block” approach (adding to the regulation requisites for the risks of Pillar I any internal capital referring to other significant risks of Pillar II). Furthermore, the “overall capital” to be destined to the coverage of the “overall internal capital” was made to coincide with the Vigilance Patrimony, as defined by the new regulations of Prudential Vigilance;
- 6.Self-evaluation of the ICAAP; in this section, the ICAAP process areas are identified which can be improved, and the organisational and patrimonial interventions are planned. The ICAAP self-evaluation is thus the result of the critical analysis carried out by the control structures on the



basis of the verifications they continually conduct. Having said that, the aims fixed for the areas of improvement indicated in the previous Report have been reached in terms of: contextualisation of the ICAAP process in the new organisational structure, definition and implementation of the management frameworks of strategic risk and reputation risk management, revision of the liquidity risk management policy and the connected Contingency Funding Plan, and preparation of the Credit Regulations. Furthermore, within the scope of the broader Strategic Plan 2008-2010, improvements have been adopted in order to optimise the management of credit risks (greater efficiency of control activities), liquidity risks (up-grade report of operational liquidity) and market risks.

The Report is made up of the following documents;

- Strategic Planning – Risk Strategy;
- ICAAP Regulations;
- Map of Significant Risks – Risk Map;
- Perimeter of application of Pillar II;
- Risks Regulations and Contingency Funding Plan, which is an integral part of the whole

All the documents enclosed with the ICAAP Report were revised by the Risk Control Department, both for the necessary organisational updating and for the refinement and integration of management policies and methods of calculation of the measurement/evaluation and mitigation of risks. The main novelties introduced in each document, with respect to the “simplified” notification of the month of October 2008 are listed below:

The *Strategic Planning Document* indicates the determination of the present level of risk tolerance at the individual and consolidated level, and outlines the risk strategy aims on the basis of the so-called risk appetite. The internal capital destined for the Pillar II risks was determined both by quantitative methods (single name and geo-sectorial concentration risk, residual risk, interest rate risk) and with a judgmental-qualitative approach (strategic risk, reputational risk and liquidity risk).

The ICAAP Regulations contain the guiding principles, the roles and the responsibilities of the organisational department involved in the internal process of determination of patrimonial adequacy at the consolidated level of the Group; consequently, they were updated, bearing in mind the new organisational model which came into force on February 1st, 2009, and above all the governance arrangement of the Group, in the light of the Vigilance Instructions on the subject of company governance.

The *Risk Map* determines the risks to be subjected to evaluation (significant risks), which might hinder, or limit companies in the full achievement of their strategic aims, and which must therefore be measured or evaluated, and revised at least annually.

The *Risk Regulations* form the internal norms of the Carismi Group for the management of the risks to which various entities that come inside the reference perimeter are exposed, in line with the characteristics, dimensions and complexity of the activities that they carry out. Substantially, they define the models, the methods, the process and the responsibilities for the management and control of risks which, formalised in suitable policies, are subjected to a periodic re-examination, in order to ensure their effectiveness in time.

As regards the Contingency Funding Plan, we have revised, in accordance with the policy, the limits that discriminate states of normality, stress and crisis of the various indicators. These modifications have been made necessary, both to adapt it to the changes of internal organisational safeguards, and as a result of extraordinary manoeuvres by the European Central Bank, which made it necessary to revise some of the indicators.

The revision of the ICAAP process was conducted within the programme of annual verifications that the Auditing Department of the Parent Company carries out in order to express an evaluation on the overall system of internal controls; in particular, the correspondence of the various process phases to the Vigilance Instructions, to internal procedures and to the guidelines of the company organs.

With reference to Pillar III, in an aim to strengthen market discipline, the Circular n° 263/2006 of the



Bank of Italy introduced the obligation for banks and banking groups to publish information of a qualitative and quantitative nature about their patrimonial adequacy, their exposure to risks, and the systems responsible for identifying, measuring and managing the risks themselves. In this sense, the Bank has, on a consolidated basis also for the companies that fall within the perimeter of the Carismi Group, the responsibility for ensuring the completeness, correctness and truthfulness of the information published. The choices made by the Carismi Group to ensure respect of the disclosure obligations contemplated by the norms have been approved by the Organ of strategic supervision, that is to say, the Board of Directors. Thus, in accordance with normative duties, this information for the public has been prepared and published on the Bank's internet site, as requested by the Bank of Italy.

COMPLIANCE ACTIVITY

Aware of its mission to project itself dynamically and globally, with the strength of its roots, towards new challenges, while guaranteeing an offer of solutions appropriate for the style and expectations of every moment in the life of families and enterprises, and ensuring the creation of value for shareholders, the Cassa di Risparmio di San Miniato dedicates particular attention, in the achievement of its aims, to respect for all parties involved. For this reason, the Bank orientates its management in accordance with criteria of loyalty, professional correctness, respect for the law and efficiency .

In order to combine these ethical principles in a concrete manner in the operativity of each day, the Bank has also realised a project aiming to adapt its own "Compliance Function" within the new company organisational structure to the vigilance regulations on the subject of "conformity". This project, included in the sphere of the "Controls" Area of competence in the implementation of the Industrial Plan, was substantially concluded in 2009 with the deliberations of the Board of Directors:

- Internal Regulations of the Compliance Function approved in the month of July
- Compliance Programme approved in the month of September

In the definition of the project aims, the Board of Directors has indicated the company policies as regards the management of the "Risk of non-conformity to the norms". These, however, do not exclusively take into account controls, procedures, verifications to carry out to avoid being punished, with an exquisitely formal approach, but dedicate particular attention to behaviour, favoured by processes aiming to ensure the full observance, in the course of business activity, of respect for the laws and the regulations of the sector, but also of the internal codes of conduct that the enterprise has chosen.

In the management of compliance, the Bank logically pursues the aim of protection from risk. By means of a careful risk management, we try to identify events that can generate potential damage, and to take steps to construct a system aiming to prevent, attenuate or manage the consequences of events that give rise to critical consequences, thus protecting the enterprise and their workers.

But at the same time, conformity has been identified also as a means to obtain efficiency. When at times norms require particular controls or procedures, and determine extra activity, their definition within processes structured in accordance with the correct company performance, respecting laws and regulations, represents the result of conscious choices in clear contrast with a consolidation by stratification of the various adjustments. Thus compliance helps to identify the best practices, and to harmonise behaviour by means of the adoption of guidelines, to be applied in the different organisational units, consistently with the founding principles of the company values.

Our Bank is firmly convinced that the system of compliance, which is closely connected with company behaviour, allows the creation and maintenance of a reputation with stakeholders. It is with the system of compliance that trust is created through the expectation of the desired behaviour, which represents an resource that is immaterial, but fundamental, in competitive dynamics.

The Bank is aware that conformity represents an extremely important factor in the creation of value,



and that it is inseparable from the behaviour of all the various members who make up the company structure. For this reason a course of evolution towards compliance within the enterprise has been undertaken, with the aim of the formation and development of a company culture, through the preparation of single company members in this field.

Thus in our daily operativity, compliance assumes an increasingly present, pervasive role in our company.

NORMATIVE ACTIVITY

In the course of 2009, as an integration of everything illustrated in the preceding paragraphs of the report, there was a specific activity conducted by the General Affairs, Legal, Compliance and Shareholdings Sector, which takes care of the legal aspects, within the Bank, of the integration of external regulations which have a particular impact on company regulations and contracts. The most significant activities regarded:

- **Compilation of Group Regulations.** In the light of the new group of top managers who came into power on February 2nd, 2009, the compilation of the new Regulations took place, in collaboration with the Organisation and ICT Management, within the Governance Area of Competence, as part of the implementation of the Industrial Plan 2008-2010.
- **Company Governance Project.** In relation to the vigilance instructions about the company governance of banks, (Bank of Italy circular of March 4th, 2008 and subsequent integrations), we proceeded, within the Governance Area of Competence, to compile the “Company Governance Project”, together with the Assembly Regulations, the Regulations dealing with limits to the accumulation of appointments for directors, the Document about remuneration policies, the Regulations about information flows, the Code of Behaviour for operations with correlated parties, and the policy of management of personal operations, both for the Parent Company and for companies in the Group.
- **Statutory Modifications.** In relation to the repercussions that the Company Governance Project entailed for respect for the Bank Statute, an adaptation of the various articles involved in the modifications was carried out. The updated, modified version of the Bank statute was approved by the Shareholders’ Assembly in an extraordinary meeting on July 20th, 2009.
- **Government Decree 231/2001 – Organisational Model.** The working group accepted the normative modifications that had become necessary as a result of the introduction of new hypotheses of criminal acts, in particular crimes in the field of prevention of the use of the financial system for the purpose of recycling the income of criminal activities, and the financing of terrorism (such as “receiving stolen goods”, “money laundering” and “the use of money, goods or utilities of illicit origin”), IT-based crimes, the offences of organised crime, and offences against industry and commerce, as well as the crime of “convincing others not to make declarations, or to make false declarations to the Judicial Authority”. Furthermore, offences committed in violation of the accident-prevention norms and norms for the protection of hygiene and health at work have also been introduced, such as unintentional murder and grievous bodily harm, resulting from the violation of the above-mentioned norms.
- **Money laundering.** The activity to contrast money laundering was characterised, during 2009, by profound changes created by the installation of the new company top management (1.2.2009), which transferred the activity of safeguarding norms and second-level controls from the Auditing Department to the General Affairs, Legal, Compliance and Shareholdings Department. The activity of verification of the correct operativity of the Network and other branch structures was consequently intensified, and new controls were set up, to guarantee a greater correctness of the information present in the registration of operations, for the purposes of contrasting money laundering (e.g. the presence of real/virtual cash, etc.). Among the other activities performed by this Department, it may



be pointed out that during the year 2009, 50 reports of suspicious operations received by branch offices were the object of evaluation and further examination, 44 of which were sent to the Unit of Financial Information set up by the Bank of Italy, with an increase compared with the previous year of 50%. An incisive training activity was organised, which saw the involvement of all the personnel of the Banking Group, with the preparation of courses on-line and in the classroom, for a total of 4,000 hours/person trained. Furthermore the Regulations of the Anti-Money Laundering Process were prepared and approved by the Board of Directors on September 17th, 2009. The aim of this document was to discipline the strategic orientations and the guidelines that the Carismi Group adopts as regards the ways to manage the risk of "money laundering" and "financing of terrorism", fixing the main lines of operation. Likewise, the new information procedure GIANOS 3D, prepared by the information outsourcer, CSE, was made operative. In this way, it has been possible to give full practical application to the norms established by Government Decree 231/2007, regarding the contrast of money laundering and the fight against international terrorism, thus implementing EC Directive 2005/60/CE.

- **Norms regarding commissions and banking costs.** Following the various measures taken by the Government (identification of specific limits for the applicability of maximum overdraft commissions, introduction of payment for reconciliation agreements), the contracts referring to the new relationships have been adapted, as well as those referring to relationships that already existed at the date when the measures came into force.
- **New Transparency norms.** The current contracts referring to banking relationships have been revised by the working group on Transparency, to make them conform to the new vigilance instructions (decree of July 29th, 2009), bearing in mind all the indications contained in the measure.
- **Financial Banking Arbitrator.** In accordance with the vigilance measures (June 18th, 2009) which set up the figure of the Financial Banking Arbitrator, the Bank, on behalf of all the banking institutions in the Group, adhered to this new organism for out-of-court settlements of controversies, compiling, for all the banking institutions in the Group, a special circular about claims, a facsimile of the claim presentation form to be made available on bank websites, and the information for customers about the new claims procedures.
- **Other activities.** In connection with initiatives adopted to support enterprises and families in difficulty, the contract forms have been prepared in order to formalise the suspension of repayment of loans (already before the analogous measure taken by the ABI and the Government), as well as for advance payment of wage supplementation.

Following the crisis that involved the companies of the Lehman Brothers Holding Inc. (LBHI), in collaboration with the Securities Administration Department, we presented applications for inclusion in the bankruptcy liabilities on behalf of our customers, paying due attention to the reference U.S. norms.

Within the Lending Area of competence, following specific indications from the Board of Directors and the Board of Auditors, a new contract for the opening of credit has been prepared, creating four distinct modules destined for the different categories of applicants (physical persons and disputes, entrepreneurs, partnerships, and companies).

ACTIVITIES OF RESEARCH AND DEVELOPMENT

During the financial year 2009, no specific activities of research and development were carried out, apart from those illustrated in the previous sections of this report.



RISK FACTORS

As regards the risk factors to which the Bank is subject, apart from those illustrated in the previous sections of this report, mention is made in section E of the Supplementary Note.

IMPORTANT FACTS WHICH OCCURRED AFTER THE CLOSURE OF THE ACCOUNTING PERIOD

In accordance with the provisions of IAS principle 10, described in regulation N° 2238/2004, which requires a report of important facts that happened after the closure of the accounting period, we may make the following observations.

EVOLUTION OF THE CONTEXT

Ahead of us lies a “moderate” economic growth in the Euro area this year, and a dynamics of prices that will remain “contained”. Prospects that the ECB confirms in the editorial of its recent monthly bulletin of February 2010, and in this scenario, the Frankfurt-based institution adds, “the present level of interest rates continues to be appropriate”. At the beginning of the month of February, the ECB again confirmed the main reference for the cost of money at its all-time low of 1%. At the same time, the ECB repeats its warning that the recovery process of the economy, which started after the recession, might prove to be “discontinuous”, and that the dynamics of the recovery “remain subject to uncertainty”. The ECB continues to believe that these prospects are subject to risks that are substantially balanced. As regards the upward risks, the improvement in the climate of confidence may go beyond current expectations, and it is possible that the world economy and foreign trade may record a more marked recovery than expected. Furthermore, the current ample macroeconomic incentives and the other interventions of economic policy may generate stronger effects than expected. In terms of downward risks, fears remain concerning more intense or longer negative interactions than expected between the real economy and the financial sector, new rises in the prices of oil and other raw materials, greater protectionist pressure, and the possibility of a disorderly correction of international imbalance. The growth of bank loans will remain “weak” in the next few months. According to the ECB, it is the time lag between economic recovery and financing applications that counts. Furthermore, the zero growth of loans in the private sector reflects “the persisting increase of growth in family loans, while the contraction has become even more accentuated for non-financial companies”. For banks, the challenge is “to adapt the dimensions and the structure of balances, ensuring at the same time the availability of lending for the non-financial sector, in particular for enterprises. A challenge that makes it necessary “to exploit the improvement in financing conditions and further strengthen their patrimonial bases”. In order to strengthen sustainable growth and the creation of jobs, the main challenge that the ECB sees is that of accelerating structural reforms, because the financial crisis has had negative repercussions on the productive capacity of the economies of the Euro area. In the case of goods and services markets, the ECB suggests the urgency of policies to stimulate competition and innovation, to give an impulse to restructuring and investments, and create new entrepreneurial opportunities. In Italy the year 2009 closed with a drop in the GDP of 5.1%. This decline measured by Istat is slightly higher than the Government’s estimate of –4.8%. This is the worst result since 1971, the year when the multiyear series of records began. Also in the fourth quarter, the economy recorded a decline, albeit contained: –0.2% compared with the previous quarter (in contrast with analysts’ expectations of +0.1%) and –2.8% compared with the same period in 2008. Italy’s result is worse than that of the other leading countries. In the fourth quarter, the GDP increased in trend terms by 1.4% in the USA, 0.1% in the U.K., 0.6% in France, and it remained unchanged in Germany. The decrease of 0.2% in the GDP of our country is the result of a drop in the added value of industry, a substantially stationary added value of services, and an increase in the added value of agriculture. Also the final data for the balance of trade



indicate a negative deficit among the highest since 1970, with a decline in exports of 20.7% and a drop in imports of 22% in the last year. Istat points out that with these figures, the growth for 2010 is equal to zero.

The shadows lengthened over public accounts in the month of February. The crisis in public finance is mainly affecting some of the peripheral countries of the Euro area, in particular Greece, Portugal and (to a lesser extent) Spain: their difficulties have become more acute due to the materialisation of fears that these countries are no longer able to sustain the service of the public debt acquired, given the limited credibility of their plans to recover from the high deficits recorded last year. These growing fears about European public accounts are creating new instabilities and uncertainties on financial markets: there has been a further widening of the spread between the yields of gilt-edged securities of these countries in greater difficulty and those of the leading economies of the Euro area. The effect of this instability has had repercussions also in the BTP-Bund spread: the difference between yields at ten years of Italian and German gilt-edged securities went up in the second part of January (74 basis points on average in the first ten days of February; about 60 basis points at the beginning of the year). Also premiums on credit default swaps (CDS) of the riskiest sovereign securities rose sharply. The increase in the country risk also led to a sharp devaluation of the Euro, after the appreciation of recent months: the Euro/dollar exchange rate fell below the quota of 1.37 in the first ten days of February (1.44 on average in the first half of January). These shadows on finance markets may be added to the figures for industrial production, which recorded a decline in the main countries of the Euro area in December, revealing the uncertainties which still characterise the intensity of the recovery.

EVENTS THAT OCCURRED AFTER DECEMBER 31ST, 2009.

In the period following December 31st, up to the date of the present Report, no facts or events took place that changed the patrimonial, financial or economic situation of the company as represented in the Financial Statement.

EXPECTED EVOLUTION OF MANAGEMENT

The year 2009 closed with a profit higher than that expected in the industrial plan 2008-2010 in the "revised" version approved by the Board of Directors on May 22nd, 2009. Ever since the beginning of 2009, in the light of the substantial changes of scenario and the negative evolution of the economic situation, we deemed it necessary to analyse the impact of these phenomena on expected results for the year 2009 and 2010, in order to verify the sustainability of the provisions of the Industrial Plan 2008-2010 approved in September of 2008. Though confirming the strategic lines indicated in the original planning document, we proceeded to take into consideration the changed conditions of the economic and financial market in the forecast model, with particular reference to the evolution of interest rates, which generated a significant impact on the structure of the profit and loss account, entailing a more contained forecast of gross and net profitability in the years 2009-2010. Also the more recent "Revision of economic data" for the year 2010 approved by the Board of Directors on February 8th, 2010 had the same characteristics as the previous one, representing a repositioning of the resulting forecast, made necessary by exogenous factors not foreseeable at the moment of preparation of the Three-Year Plan, whereas the strategic lines indicated in the Industrial Plan 2008-2010 remain perfectly valid, and the activities planned in order to achieve the aims fixed in the planning document continue to be the most suitable for the present configuration and potential for development of the Cassa di Risparmio di San Miniato Group, to which the structure has directed, and continues to direct its activities, also in 2010.

The final evaluation is, extremely synthetically, that even in a general context that is still difficult, the recovery of good levels of profitability and the confirmation of the patrimonial solidity of the Bank and the Group remain, in the context of a sound, correct management of the enterprise, aims that can be achieved in the year 2010. The return to a positive economic balance, which has already been achieved starting from the



year 2009, will make it possible to recover the advance taxes registered in the balance, for a total of 10,216 thousand Euros.

Also as regards the request contained in the combined Bank of Italy/Consob/Isvap document n.2 dated February 6th, 2009, we may point out that the balance at December 31st, 2009, has been compiled in the perspective of a continuation of activity: bearing in mind all the information available about the future, and in particular the Industrial Plan 2008-2010 and its subsequent revised version, we are not aware of any significant uncertainties as regards the present or the future, due to events or conditions that may engender doubts about the Bank's ability to continue to operate as working entity. Thus it is right to underline that in the same way as the combined Bank of Italy/Consob/Isvap document n°4 of March 2010, the Board of Directors proceeded, in its meeting of March 19th, 2010, to approve the deliberations concerning the evaluation of shareholdings and of the other assets mentioned in IAS 36 and IAS 39, rigorously applying the reference norms and accounting principles; likewise, in the same way as the Bank of Italy note of March 2010 concerning patrimonial strengthening, as regards both the processes of evaluation of the balance postings, and profit destination policies, rigorous principles of prudence and transparency have been respected.

* * * *

Before concluding this Report, it is worth underlining the fact that also in 2009, the proper assistance was given to the Financial Police and to the judiciary in the production and delivery of documents requested within the framework of the collaboration contemplated by the existing laws.

Furthermore, the proper support was given and investigations were carried out for the Bank of Italy for the functions previously carried out by the Italian Exchange Office (Government Decree n° 231 of 21/11/2007), and our Institute supplied the required documentation following reports of suspicious activities during 2009 as in previous years.

* * * *

In terminating the Financial Statement for the year 2008, with the guarantee of the precision of the information supplied in the Financial Statement, we would like to express our warmest appreciation to our General Manager for his highly qualified activity and the whole-hearted dedication shown in the exercise of his duties.

We would also like to thank the members of the Board of Auditors for the professional advice given on several occasions.

Particular thanks are due to the managers, the executives and all the personnel of every level for their cooperation in the realisation of the company programmes, and in the achievement of the results described above, in a year which required everyone's full-scale dedication and generous effort.

We would also like to express our gratitude to the Central and Local Offices of the Vigilance Authority, and to the Bankers' Associations for the assistance and consultancy they provided on every occasion, to the Local Authorities and Entrepreneurial Associations, for their friendly and profitable cooperation, and to all our customers for the trust they put in our Bank.

Lastly, our sincere thanks to the auditing and certification company, KPMG, for their qualified, professional support.

The Board of Directors

San Miniato, March 29th, 2010

**PATRIMONIAL STATE AT DECEMBER 31, 2009**

	Assets	31/12/2009	31/12/2008
10.	Cash in hand and current liquid assets	70.122.536	19.817.738
20.	Financial assets detained for negotiation	204.323.060	159.132.626
30.	Financial assets calculated at their fair value	0	0
40.	Financial assets available for sale	26.324.032	29.809.925
50.	Financial assets detained until maturity	20.900.656	21.112.892
60.	Credits towards banks	121.062.427	113.978.311
70.	Credits towards customers	2.201.877.050	2.106.010.723
80.	Coverage derivatives	0	0
90.	Value adjustment of financial assets subjected to generic coverage (+/-)	0	0
100.	Shareholdings	91.456.550	112.302.859
110.	Tangible fixed assets	45.425.783	4.773.935
120.	Intangible fixed assets	412.528	264.913
	of which :		
	- installation costs	207.083	0
130.	Fiscal assets	18.113.760	20.726.233
	a) current	7.897.799	11.766.982
	b) advanced	10.215.961	8.959.251
140.	Non-current assets and asset groups soon to be disinvested	9.336.920	0
150.	Other assets	69.119.367	74.612.455
	Total assets	2.878.483.669	2.662.542.610



	liabilities and net patrimony	31/12/2009	31/12/2008
10.	Debts towards banks	5.668.396	15.147.614
20.	Debts towards customers	1.335.349.139	1.032.608.987
30.	Securities in circulation	629.415.591	759.421.134
40.	Financial negotiation liabilities	218.921	1.038.268
50.	Financial liabilities calculated at their fair value	565.016.455	516.659.345
60.	Coverage derivatives	0	0
70.	Value adjustments of financial liabilities subjected to generic coverage (+/-)	0	0
80.	Fiscal liabilities	11.561.560	15.694.000
	a) current	7.985.510	12.058.962
	b) deferred	3.576.050	3.635.038
90.	Liabilities associated with assets subject to disinvestment	0	0
100.	Other liabilities	62.706.979	67.117.297
110.	Personnel severance payments	12.204.369	12.359.861
120.	Funds for risks and charges	39.837.081	36.329.039
	a) retirement and similar obligations	33.881.553	28.856.959
	b) other funds	5.955.528	7.472.080
130.	Revaluation reserves	2.678.496	1.407.690
140.	Redeemable shares	0	0
150.	Capital instruments	0	0
160.	Reserves	43.113.718	47.877.611
170.	Surcharges on issues	27.787.221	27.166.850
180.	Capital	140.216.248	140.216.248
190.	Own shares (-)	-5.387.586	-2.503.299
220.	Profit (Loss) of the accounting period (+/-)	8.097.081	-7.998.035
	Total liabilities and net patrimony	2,878,483,669	2,662,542,610

The Chief Accountant

Alessandro Gabrieli

The General Manager

Piergiorgio Giuliani

The President

Lucia Calvosa

The Auditors

Moreno Menichetti

Enzo Sollini

Franco Volpato



INDIVIDUAL INCOME STATEMENT AS OF DECEMBER 31ST, 2009

	Items	2009	2008
10.	Interest earned and assimilated proceeds	115.248.624	155.421.768
20.	Interest paid and assimilated charges	(38.536.039)	(74.735.057)
30.	Interest margin	76.712.585	80.686.711
40.	Commissions earned	31.197.601	25.374.014
50.	Commissions paid	(1.387.460)	(2.403.041)
60.	Net commissions	29.810.141	22.970.973
70.	Dividends and similar proceeds	2.266.139	3.320.001
80.	Net result of negotiation activity	2.139.640	(2.543.755)
90.	Net result of coverage activity	0	0
100.	Profits (Losses) from conveyance or repurchase of:	1.942.306	(960.973)
	a) credits	71.937	(667.539)
	b) financial assets available for sale	1.669.055	(9.842)
	c) financial assets detained until maturity	0	0
	d) financial liabilities	201.314	(283.592)
110.	Net result of financial assets and liabilities calculated at their fair value	1.221.389	(182.548)
120.	Intermediation margin	114.092.200	103.290.409
130.	Net value adjustments for deterioration of :	(16.738.587)	(30.417.288)
	a) credits	(16.287.271)	(24.748.167)
	b) financial assets available for sale	(903.124)	(5.177.456)
	c) financial assets detained until maturity	0	0
	d) other financial operations	451.808	(491.665)
140.	Net result of financial management	97.353.613	72.873.121
150.	Administrative expenses :	(88.716.060)	(87.727.298)
	a) personnel expenses	(55.189.973)	(51.485.954)
	b) other administrative expenses	(33.526.087)	(36.241.344)
160.	Appropriations for risks and charges	560.098	(58.922)
170.	Net value adjustments on tangible assets	(1.320.871)	(631.798)
180.	Net value adjustments on intangible assets	(240.226)	(295.952)
190.	Other management charges/proceeds	8.079.872	15.958.127
200.	Operational costs	(81.637.187)	(72.755.843)
210.	Profits (Losses) of shareholdings	(755.344)	(3.232.304)
220.	Net result of fair value evaluation of tangible and intangible assets	0	0
230.	Value adjustments of start-up	0	0
240.	Profits (Losses) from conveyance of investments	120	320
250.	Profit (Loss) of current pre-tax operating income	14.961.202	(3.114.706)
260.	Income tax on current operating income	(6.864.121)	(4.883.329)
270.	Profit (Loss) of current operating income net of taxes	8.097.081	(7.998.035)
280.	Profit (Loss) of no longer current activities subject to disinvestment net of taxes	0	0
290.	Profit (Loss) of accounting period	8.097.081	(7.998.035)



SHAREHOLDINGS OF THE INSTITUTE AT DECEMBER 31ST, 2009

Name	Percentage quota	Nominal value	Accounting value
Controlled companies			
BANCASINTESE S.p.A. - Milano	83,062	4,186,331.36	7,701,034.34
FIDUCIA S.p.A. - San Miniato (Pi)	100,000	130,000.00	181,774.95
SAN GENESIO IMMOBILIARE S.p.A. - San Miniato (Pi)	70,000	3,640,000.00	9,250,082.83
		7,956,331.46	17,132,892.12
Related companies			
BANCO DI LUCCA S.p.A. - Lucca	34,997	7,411,300.00	9,058,979.50
CASSA DI RISPAMIO DI VOLTERRA S.p.A. - Volterra (Pi)	20,000	9,038,050.00	64,047,097.94
MEDIAT S.r.l. - Roma	20,000	20,000.00	20,000.00
SAN MINIATO PREVIDENZA S.p.A. - San Miniato (Pi)	34,000	3,400,000.00	4,964,000.00
TIRRENA PROFESSIONAL FACTOR S.p.A. - Pisa	22,606	233,288.76	0,00
VEGAGEST S.p.A. - Ferrara	22,514	5,300,000.00	5,301,560.00
		25,402,638.76	83,391,637.44
Others			
CONSORZIO ETRURIA Srl - Firenze	8,153	842,886.90	869,859.00
C.S.E. CONSORZIO SERVIZI BANCARI Srl - Bologna	4,000	1,200,000.00	4,147,999.84
ETRURIA INVESTIMENTI S.p.A. - Montelupo Fiorentino (Fi)	5,000	350,000.00	450,186.05
EUTELIA S.p.A. - Arezzo	1,408	479,077.04	323,377.00
FIDI TOSCANA S.p.A. - Firenze	1,488	1,469,260.00	1,662,806.59
INSO S.p.A. - Firenze	12,000	1,800,000.00	1,580,699.76
(at fair value)		6,141,223.94	9,034,928.24
AFFITTO FIRENZE S.p.A. - Firenze	9,091	11,000.00	438,836.43
BANCA D'ITALIA - Roma	0,217	339.04	6,512,230.66
CARICESE S.r.l. - Bologna	3,000	44,980.47	231,012.87
CENTROFIDI TERZIARIO Scpa - Arezzo	5,356	578,417.00	800,000.00
CITYPOST S.p.A. - Pisa	8,863	129,420.00	647,801.55
CONSORZIO CENTO PERCENTO ITALIANO - Scandici (Fi)	1,235	258.23	258.23
ECOFOR SERVICE S.p.A. - Pontedera (Pi)	0,846	9,900.00	9,900.00
ENERGETIC S.p.A. - Ponsacco (Pi)	8,560	116,420.00	124,682.00
E.S.CO PISA S.r.l. - Pisa	10,000	2,500.00	1,326.90
EUROBIC TOSCANA SUD S.p.A. - Poggibonsi (Si)	0,479	2,304.00	2,304.00
EUROCASSE S.I.M. S.p.A. - Milano	0,049	1,078.92	0,00
FINEV S.p.A. - Peccioli (Pi)	10,000	461,132.00	461,132.00
GAL GARFAGNANA AMBIENTE E SVILUPPO - Lucca	10,284	10,140.00	10,070.91
GEOFOR S.p.A. - Pontedera (Pi)	0,846	22,880.00	224,592.17



KORE S.r.l. - Montelupo Fiorentino (Fi)	12,000	7,200.00	21,258.24
MICRO TECH S.r.l. - Pontedera (Pi)	1,640	3,213.00	2,165.60
NODALIS S.p.A. - Pisa	2,613	17,833.00	0.00
NOVASIM S.p.A. - Roma	11,940	186,010.00	366,649.63
P. B. S.r.l. - Milano	2,260	2,689.40	2,925.46
PROMO DESIGN Srl - Calenzano (Fi)	5,000	10,000.00	11,435.56
S.I.A. SSB S.p.A. - Milano	0,025	5,404.62	5,934.08
S.I.C.I. SGR S.p.A. - Firenze	10,000	516,460.00	586,618.84
SINTESIS S.r.l. - Livorno	13,000	13,260.00	31,153.32
SI.TE.BA. S.p.A. - Roma	0,129	3,353.48	3,330.63
SOCIETA' INFRASTRUTTURE TOSCANE S.p.A. - Firenze	1,500	450,000.00	225,081.08
SUTOR MANTELLASSI HOLDING S.p.A. - Firenze	2,000	70,204.00	0.00
S.W.I.F.T. - BRUXELLES	0,008	1,125.00	7,876.40
TECHNODEAL S.r.l. - Vicopisano (Pi)	8,133	1,626.66	2,134.32
TERRE DELL'ETRURIA S.c.r.l. - Castagneto Carducci (Li)	4,312	149,773.40	149,773.40
(at cost)		2,828,922.22	10,880,484.28
GENERAL TOTAL		42,329,116.38	120,439,942.08



Directors' Report
Consolidated Accounts
Management Report

December 31st, 2009

THE COMPOSITION OF THE GROUP

The incorporation of the “Cassa di Risparmio di San Miniato Banking Group” and its enrolment in the Register of Banking Groups, as per Art.64 of Legislative Decree N° 385/93, date back to June 1st, 2002. On June 30th, 2009, within the scope of a progressive action of structural rationalisation of the Group shareholdings, the Board of Administration deliberated to start the procedure of incorporation of the company La Rocca Immobiliare SpA into the Cassa di Risparmio di San Miniato SpA. The amalgamation eliminates repeated controls, improves the management of resources and obtains a greater efficiency, thus reducing overall costs and consequently streamlining procedures of governance, administration and control of the Group. Following the operation of incorporation, however, the Parent Company maintains at its disposal a structure that can boast a significant technical competence, acquired over many years, in the field of the maintenance and management of real estate instrumental for the exercise of the banking activity. After obtaining the necessary authorisation from the Vigilance Authority on November 6th, the amalgamation operation was deliberated by an Extraordinary Assembly of the two companies, and was completed by the signing of the Act of Amalgamation on December 23rd, 2009, with juridical effects starting as of December 30th, 2009. With reference to the patrimonial situations on September 30th, 2009, the incorporation entailed the nullification of the shares held by the incorporating company in the incorporated company, with the substitution of the assets and liabilities of the latter.

The member Companies of the Group, as of December 31st, 2009, are the following:

Parent Company	- Cassa di Risparmio di San Miniato SpA
Components	- Fiducia SpA (a financial company)
	- San Genesio Immobiliare SpA (an instrumental company)
	- BancaSintesi SpA (a banking company)

The companies belonging to the CARISMI Group mainly operate in the sectors of real estate, finance and credit. In particular:

Fiducia SpA, 100% controlled, carries out an activity of trustee registration of relationships and performs the static trustee management of patrimonies for qualified customers of the Banks in the Group, at the same time enhancing the attainment of higher volumes of direct and indirect funding.

San Genesio Immobiliare SpA, 70% controlled, operates in the real estate sector; its main activity is the purchase, leasing and sale of property of a non-instrumental nature. San Genesio is thus the instrumental company that is specialised in property trading, and is functional in its support of the Group. This company



collaborates with the relevant departments of the Parent Company, facilitating the liquidation of distressed loans, by participating in the property auctions regarding items belonging to customers from whom the Banks of the Group have credits to recover.

BancaSintesi SpA, of which our shareholding corresponds to 83.062% of the capital stock, has been a part of the Cassa di Risparmio di San Miniato Group since 2005. The Cassa di Risparmio di San Miniato became a partner of the Milanese bank, which at the time was known as Banca Advantage SpA, in November 2004, with a shareholding of 16.50%, beside the other partners, GFC Advantage, a holding of the Confuorti family, and the financial partners Monte dei Paschi di Siena and Generali Group. Banca Advantage was a Milanese institute founded in the year 2000, operating mainly in the sector of private and corporate banking, partly by means of a network of financial promoters. Our shareholding went up to 20% in February 2005, by the underwriting of shares not underwritten from the previous increase in capital stock, and then at the end of the month of April, it rose to 64.90% with the purchase of shares equal to approximately 45% of the capital stock, from the previous majority shareholder, Advantage GFC LCC. Consequently, the procedures were started for the formalisation of the documents required to demonstrate its membership of the Carismi banking group. During the month of February 2006, our share in the capital stock of BancaSintesi SpA went down from 64.90% to 54.90%, following the conveyance of a quota corresponding to 10% of the capital stock to Finatan SpA of the “Nutti Group”, one of the most solid entrepreneurs of the leather-working district, and in all Tuscany, with diversified activities that go from the purely industrial sector to real estate and financing. The conveyance did not have any significant economic effects to be mentioned. Subsequently, our share rose again to 59.43% (the situation at June 30th, 2006), following the purchase of a corresponding quota from a minority partner. In August 2006, as a result of the increase in capital to € 14,000,000.00 deliberated by the Extraordinary Meeting of Shareholders of the controlled company, the Parent Company increased its share to the present 83.06%, by underwriting its own quota, as well as other rights not underwritten.

On January 28th, 2010, an extraordinary Assembly of BancaSintesi was held, to approve the project of a reduction in capital stock, with a simultaneous increase in the same, and related statutory modifications. In the month of March 2010, the operation of the increase in capital was concluded with the effective underwriting for the account of our Bank of an amount equal to 2,205,570 Euros, and our shareholding quota passed to 84.55%.

COORDINATION AND ORGANISATION OF THE BANKING GROUP

The first six months saw the implementation of the activities planned for the “redefinition of Governance and the organisational structures” within the scope of the master plan prepared for the realisation of the Industrial Plan, in accordance with the vigilance instructions of the Bank of Italy. Particular attention was dedicated to the redefinition of the model of company and organisational governance, proceeding, where necessary, to the preparation of new Regulations. This activity was concluded on June 30th, 2009, with the approval by the Board of Directors of the Parent Company, and the favourable opinion expressed by the Board of Auditors, of the Model of Company Governance and related Regulations, including the new Group Regulations. These introduced some innovations in the discipline of the system of internal normative sources. In particular, the new normative arrangement contemplates the presence of the following regulation sources:

- **Group Regulations:** the source from which the organisational design of the group and its logic of governance derive.
- **Process Regulations:** these contain the discipline of the main operational and decisional processes within the Group and the single companies of the Group.
- **General Regulations:** these define the organisational and functional structure of each company in the Group, consistently with the Group Regulations and the Process Regulations.



In the context of the approval of the new Group Regulations and General Regulations, which identify the reference structures (“Owner”), an Operational Plan has been structured and shared, for the adaptation of the system of internal regulations.

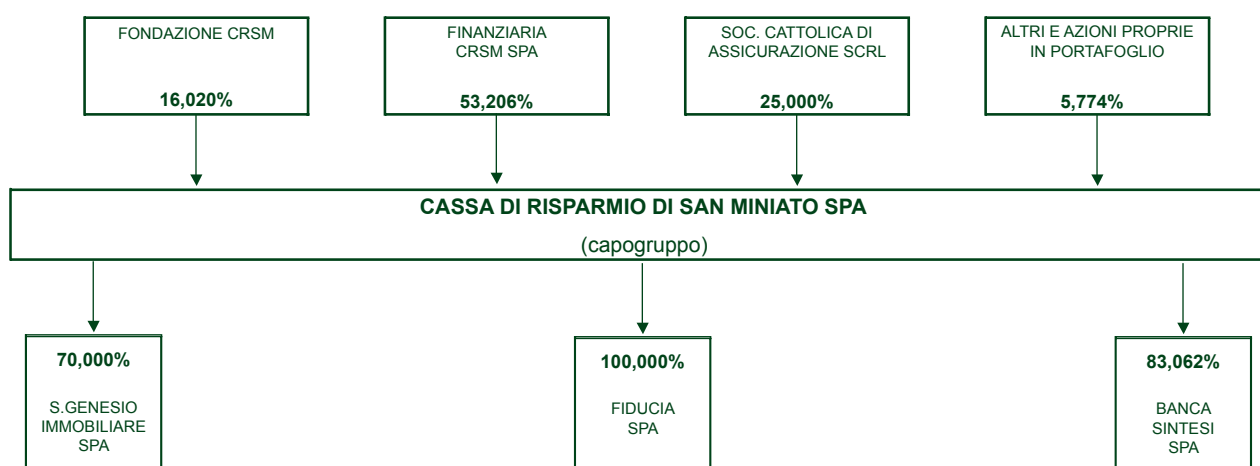
Besides bearing in mind the changes introduced by the Company Law Reform and the relative coordination with the Banking Law (Government Decree 385/93) and the Finance Law (Government Decree 58/1998), the new regulations also take into account the latest evolution of the norms regarding corporate governance and the organisational bases of Banks.

Considering the dimensional, organisational and operational characteristics of all the components of the Group, and the need to respect their autonomy, the aim of the Parent Company in devising these criteria is to regulate the working of the Group in a perspective of reciprocal transfer of information, in order to:

- ensure the governance, policies, coordination and control of activities at the Group level and in the single components, in order to guarantee the correct implementation of the strategic mission and accuracy of management;
- guarantee a single, clearly identifiable responsibility for expected results;
- pursue a customer-oriented commercial model that is agile and swift in responding to the market, with connotations of entrepreneurship in the distributive structure;
- integrate the activities of support and service where it is possible to obtain large-scale economy, and share the best expertise.

The functions of the Parent Company are those of strategic guidance and governance of the Group by means of the attribution to its departments of responsibilities of management, coordination and control of the companies in the Group, within the scope of the general policies defined by the Board of Directors of the Parent Company. For the implementation of these functions, the Parent Company will use its own structures, without determining departments exclusively dedicated to this task; consequently, these will operate as an “ideal” Corporate Centre.

GRUPPO BANCARIO CASSA DI RISPARMIO DI SAN MINIATO



Although the partner Finanziaria CRSM SpA possesses 53% of the shares of the Bank, it does not perform any activity of management or coordination, in accordance with the provisions of art. 2497 sexies and 2497 septies of the Civil Code, as transpires from the articles of incorporation of the financial enterprise.

The controlled companies do not possess any shares of the Cassa di Risparmio di San Miniato SpA



VARIATIONS IN THE PARENT COMPANY'S SHAREHOLDINGS IN THE ENTERPRISES OF THE GROUP.

BANCASINTESE SpA

In the month of June, the capital stock operation decided by the shareholders' assembly on October 31st, 2008, was completed; acknowledging the losses up to June 30th, 2009, the assembly had deliberated a reduction in the capital stock, from € 14,000,000 to € 7,840,000, by transformation of the nominal unit value of each share from € 0.50 to € 0.28.

On June 26th, 2009, at the end of a period of negotiation, a contract was signed for the transfer of Banca Sintesi to the company Intermedia Finance; this contract was conditionally suspended in view of the fact that in order to be completed, the transfer had to wait until the Bank of Italy granted the necessary authorisation to the buyer. A negative response was received from the Vigilance Authority in the month of November, 2009, and consequently the planned transfer did not go ahead.

In the month of September, the Board of Directors of BancaSintesi approved a project for a reduction in capital stock due to losses, from € 7,840,000 to € 5,040,000 and a simultaneous increase to € 7,560,000 by means of the issue of 13,999,995 new shares of the nominal value of 0.18 Euros each, with the related proposal of the modification of art. 5 of the Statute. On December 18th, the Board of Directors of the Cassa di Risparmio di San Miniato SpA deliberated the Bank's participation in the project to increase the capital stock, calculating the payment of € 2,520,000.00 for financing to the account of a future increase in capital stock, for which the Bank of Italy gave its approval on December 23rd, 2009. In the month of March 2010, the increase in capital stock was concluded with the effective underwriting by our Bank of a sum equal to 2,205,570 Euros, and the quota of profit-sharing passed to 84.55%.

Consequently, in conformity with existing laws, the consolidated group situation has been compiled, for which we provide a brief analysis of the essential data, including the results of the single companies controlled.

Other detailed information can be found in the Management Report of the Individual Company Statement.

THE ACTIVITY OF THE GROUP

FUNDING FROM CUSTOMERS

The overall amount of funding (direct and indirect) from customers, at the end of the year, reached a total of 4,832 million Euros, of which 2,547 million from direct funding and 2,285 million from indirect funding. The positive result was significantly affected both by the upward dynamics of indirect managed funding as a result of the recovery of confidence and prices recorded on the finance markets, and by the growth of the direct funding stock, which was positively influenced by the good performance of sight funds and short-term funds, which are preferred by savers in this situation, compared with maturity funds, in particular certificates of deposit and bonds.

DIRECT FUNDING

The aggregate of direct funding followed a trend that was differentiated among its components and its separate technical forms.

In particular, from the qualitative and quantitative point of view, the most significant elements that emerge are the following:

- The aggregate of Direct Funding, including swap operations, amounted to about 2,547 million Euros



at the end of the year, with an increase of 9.54% compared with the previous year. By far the most significant components were current accounts in the at sight sector, and bonds for those at maturity.

- Swap operations remained stable, whereas there was a drop in certificates of deposit, included in the item “other securities”, which had benefited from the success of the issue of certificates of deposit in yen in the second half of the year 2008.

INDIRECT FUNDING

As regards Indirect Funding during 2009, a positive trend was recorded for the equivalent value of stocks, with a more marked tendency towards a growth in the second semester, with the progressive attenuation of the high degree of volatility recorded on finance markets at the beginning of the year. At the end of the year, the aggregate total displayed an increase equal to 153,306 thousand Euros in absolute value, and 7.19% compared with December 31st, 2008, reaching 2,284,970 thousand Euros. The recovery took place both in the component of administered savings and in the managed component, which had been penalised more heavily in the previous year by the drop in the common investment funds sector, and by the fall in patrimonial management.

A return was also seen in customers' direct investment in shares (+15.52%), which is an indication of a recovery of confidence on the part of savers, after the fears raised by the serious crisis that had previously shaken the markets. The Patrimonial Management item shows an increase in the equivalent value invested, compared with the values of the previous year (+16.21% compared with the end of the previous year). A positive trend was recorded, after a long period of difficulty, also in the sector of Common Investment Funds, where the value of the quotas administered on behalf of customers went up by 1.97% compared with December 2008, in line with the general trend shown at the system level, in spite of the fact that the net collection of Carismi/Vegagest Funds had not yet recovered a plus sign at the end of the year. This also emerges from the subdivision by type of savings, represented by the graph at the side, showing how the different quotas of customer indirect funding are divided. The quota dedicated during the course of the year to managed savings caused the percentage of this aggregate to rise to 42.28% of the overall total, whereas the weight of the administered component reached 57.72% at the end of December. At the end of the year, the insurance component registered a premium collection stock of about 264 million Euros, with an increase of almost 50 million Euros compared with the end of the previous year, equal to +23.05% .

LENDING TO CUSTOMERS

At the end of 2008, the aggregate of lending to customers reached 2,211 million Euros, with an increase of 5.63%.

The trend of the aggregate during 2009 was characterised by a slight fall in the short-term segment (current accounts and other operations), which was influenced by the weakness of the general economic situation in the territory served by the Bank, whereas the medium- and long-term sector displayed a growth (loans +6.20%), even if the trend was more contained compared with previous years, analogously to results at the system level.

Deteriorated assets (bad debts, stranded items and overdue exposures) increased by 37.45% compared with values at the end of 2008, representing 7.44% of the sum total of credits (the proportion at the end of 2008 was 5.72%).

The incidence of bad debts on the sum total of credits rose from 2.26% to 2.60%, while the weight of stranded items fell from 2.57% to 2.56%; there was also an increase in the incidence of overdue exposures, from 0.89% to 1.54%, while the incidence of restructured loans is equal to 0.75%.

In consideration of the predominant weight of the Parent Company on the sum total of aggregate data at the consolidated level, the considerations expressed in the individual balance management report are valid as a detailed analysis.



TERRITORIAL ORGANISATION AND SALES NETWORK

Continuing in the strategy of consolidation of the territory of operations, in order to reinforce the dimensions of a regional bank, starting from the last quarter of 2008 by following the outlines traced by the Industrial Plan, we proceeded to an organisational and structural reinforcement of the sales network, above all for the branch offices which have been opened most recently. The Bank has attempted to consolidate its trading name in the various provinces of Tuscany, by implementing an activity of reorganisation of the network structures into a smaller number of Territorial Groups, in order to obtain a further reduction in the number of intermediate structures between the Head Office and the branch offices, and to increase the resources dedicated to commercial activity and customer relations. The process of simplification and the improvement of efficiency of the Distributive Model continued with the implementation of the new distributive model. The organisation of the commercial network is geared to satisfying the requirement of maximising commercial protection, by means of a distributive model based on clear, distinct responsibilities for the commercial results of branch offices, territorial areas and the relative structures of the Head Office. Furthermore, again with a view to improving the overall efficiency of the sales network, there was a reduction in the number of Territorial Areas, passing from the previous seven to three. At the beginning of February 2009, this complex operation had been fully implemented.

HUMAN RESOURCES

As regards the management of human resources, in the year 2009, the Carismi Group implemented the strategic policies aiming at a recovery of efficiency and a containment of staff expenses, which is an important item in the objective of reducing the cost/income ratio. The implementation of these strategies on the one hand involved the containment of overall staff numbers, by means of a substantial blockade of the turnover due to retirements and resignations that took place during the year, and with the realisation of a plan of motivated retirement, aiming to favour the termination of members of the staff who already possess the requisites for access to the social benefits provided by the INPS; on the other hand, this policy was backed up by a series of measures of rationalisation and optimal organisational placement of human resources, maintaining stable the ratio between members of the sales network and the central structures. The activities to control staff efficiency and their distribution among the various network and central structures will continue in 2010, and are monitored by a specific project included in the Staff Area of Competence within the scope of the methods planned for the implementation of the Industrial Plan.

ACTIVITIES OF RESEARCH AND DEVELOPMENT

During the financial year 2009, no specific activities of research and development were carried out, apart from those illustrated in the previous sections of this report.

OPERATIONS WITHIN THE GROUP AND WITH RELATED PARTIES

Operations between the Parent Company, controlled companies and companies subject to considerable influence were carried out in full respect of the indications of current legislation, on the basis of evaluations of mutual economic convenience.

Operations with related parties were carried out in full respect of the provisions of current legislation, and were settled at market prices.

By "related parties", we mean the subjects defined by the international accounting principle n°24 concerning balance information about operations with "related parties", mentioned in art. 2 letter h) of the Consob Regulations n. 11971 of May 14th, 1999 and subsequent modifications.



In compliance with the above Consob notifications, it may also be pointed out that as regards operations with related parties, no atypical or unusual operations were carried out or were in course at the end of the year, meaning by this term those operations which do not come under the ordinary management of the enterprise, or are able to have a significant effect on the economic, patrimonial and financial situation of the company.

In conformity with the definition given by the Consob in communication n° 1025564 of April 6th, 2001, atypical or unusual operations are considered to be those which, in view of the significance, importance or nature of the parties, the object of the transaction (also in relation to ordinary management), the modality of determination of the price of conveyance and the time at which it takes place (proximity to the closure of the financial year), may give rise to doubts about the correctness or completeness of information in the balance, a conflict of interests, the safeguard of company patrimony, or the protection of minority shareholders.

In their meeting on December 22nd, 2005, the Board of Directors of the Cassa di Risparmio di San Miniato SpA approved the "Code of Behaviour" for operations with related parties, in accordance with the provisions of Art.2391 bis of the Civil Code; in accordance with an express normative provision, the principles outlined there must be applied both to operations realised directly by the Cassa di Risparmio di San Miniato SpA, and to those that are concluded through companies of the Group or controlled by the Group.

In defining the reference internal regulations established by the Cassa di Risparmio di San Miniato SpA in accordance with the general rules dictated by the Consob, the "Code of Behaviour", subsequently renewed on July 28th, 2006 and June 30th, 2009 in order to integrate the normative modifications that had taken place, also takes into account the further legal provisions in force on this subject, with particular reference to the norms relating to administrators in a conflict of interests situation, regulated by art. 2391 and art. 2629 bis of the civil code, and the instructions on the subject of "obligations of banking exponents", as laid down by art. 136 of Government Decree n° 385/1993, as modified by art. 8 of Law n° 262/2005 and by paragraph 8 of art. 1 of Government Decree 303, dated December 29th, 2006, with the relative vigilance instructions issued by the Bank of Italy (Section II chap. 3).

It may be pointed out that the company Locagest SpA, controlled by the company San Genesio Immobiliare SpA, this latter a member of the Carismi Group, ceased its activity and was cancelled from the Register of Companies as of January 12th, 2009 (the date of their application was December 23rd, 2008). Consequently, the company Locagest SpA is, among other things, excluded from the number of subjects regulated by Art.136 of Government Decree n.385 (Single Text on Banking and Credit) dated September 1st, 1993, with the relative vigilance instructions issued by the Bank of Italy, and the particular regulations regarding "Related Parties".

Information relating to relationships with controlled companies or those subject to considerable influence may be found in the table included in the Supplementary Note.

ANALYSIS OF THE CONSOLIDATED ECONOMIC RESULTS

The values of the consolidated accounts record an assets total of 2,898 million Euros, while from the economic point of view, there is a current operating result, gross of taxes, equal to 12,033 thousand Euros and a net result for the period, referable to the Parent Company, of 4,822 thousand Euros; compared with the result for the same period of last year, equal to -8,439 thousand euros, there is a variation of 157.1%.

This highly positive result in terms of profitability was influenced by the extraordinary components present in the profit and loss account of the 2008 balance, already discussed in the comments on the Income Statement of the individual Parent Company.

An analysis of the interest account by margins reveals the area data which gave rise to the profit for the period: these data may be further examined by consulting the more detailed information included in the various tables of the Appendices to the Accounts and the Supplementary Note.



Taking into consideration the single margins, it may be observed that:

- **The interest margin** is 76,832 thousand Euros, with a drop of 2.5% compared with 2008;
- **The intermediation margin** amounts to 113,395 thousand Euros, with an increase of 12% with respect to the previous year;
- **The net result of the financial management** is equal to 96,379 thousand Euros, with an increase of 38.2% on an annual basis. The net financial management result grew compared with the previous year as a result of lower net value adjustments due to deterioration of credits, which, however, were decidedly higher in 2009 than the multiyear trend of devaluations, and in particular as a result of the actual losses recorded in the last few years, and above all of lower value adjustments of other financial assets available for sale (in 2008 the devaluation of the Eutelia shareholding had a significant impact);
- **The gross result of current operativeness** is equal to 12,033 thousand Euros, with an increase of 381.4% compared with 2008;
- **The Parent Company's net result for the period** is equal to 4,822 thousand Euros, displaying a variation of +157.1%, compared with the relative figure for the same period of the previous year equal to -8,439 thousand Euros. As illustrated in detail in the individual company statement, the net result for 2008 was influenced by the extraordinary components that affected the profitability of the Parent Company, thus penalising the trend of profitability for the ordinary operational management of the Group.

NET PATRIMONY

The consolidated net patrimony was determined by taking into consideration the elements of deduction or increase, with reference to the consolidated companies of the Group, by the integral method, and with reference to the consolidated associated companies, by the net patrimony method.

The statement presenting the Net Patrimony and the Profit (Loss) of the Parent Company is to be found in the Appendices to the Financial Statement.

CONTROLLED AND CONSOLIDATED COMPANIES

FIDUCIA SpA

This company, which is 100% controlled, carries out an activity of trustee registration of relationships on behalf of private customers.

On the basis of the balance reclassified for the purposes of IAS consolidation, the company presents a total Assets value of 337,479 Euros, a net patrimony of 222,219 Euros and an administered fiduciary mass equal to 48.2 million Euros. The company achieved a gross profit of current operativeness at December 31st, 2009, of -15,218 Euros, and a net result for the period equal to -17,787 Euros. The permanent relationships with customers at the end of the year totalled 303, compared with the 308 at the end of the previous year. In spite of its streamlined operational structure, the operations on limited volumes of masses administered, partly due to the recent trend of finance markets and the persistence of the economic crisis did not make it possible to achieve an economic balance, unlike previous years.

SAN GENESIO IMMOBILIARE SpA

This society, which is 70% controlled, operates in the real estate sector; its priority activity is the purchase, leasing and sale of property. Even if it operates in a market where the general economic crisis is visible, the company carried out a discreet commercial activity during this year, above all thanks to the conclusion of some important operations referring to buildings purchased during the course of the financial



period, e.g. the sale of a housing complex situated in Capannori (LU), in the village of Segromigno in Monte, Via delle Ville n° 253 at the price of € 3,500,000, and the conveyance of a portion of a building destined to become a management centre, situated in the Municipality of San Miniato, in the village of San Donato, urbanisation area "Interporto", at the price of € 2,200,000.

Again in the course of 2009, two further sales of real estate-goods have been realised, both situated in the Municipality of Terricciola, in the village of La Rosa, Via Volterrana n° 288, respectively on June 30th, 2009 at the price of € 460,000, and on July 27th, 2009 at the price of € 290,000.

The company presents a total assets value of 21,309,037 Euros, and a net patrimony of 8,497,338 Euros, and at December 31st, 2008, it achieved a positive pre-tax result of 440,791 Euros, and a net result for the period of 435,992 Euros, compared with the loss recorded in the previous year.

As a result of the commercial activity exercised, sales revenue increased compared with the previous year, passing from 1,873,552 Euros to 6,450,000 Euros, with the achievement of a positive operational result equal to 1,003,663 Euros, compared with a negative operational result of the 2008 accounting period of 606,799 Euros.

The Financial Management Result continued to record a negative balance, equal to 412,872 Euros, but this is a clear improvement on the result achieved in the previous year, which amounted to 729,430 Euros.

Besides the commercial operations described above, work continued during the year on the realisation of the new Financial Police barracks situated in the Municipality of San Miniato, in the village of La Catena, as well as maintenance work in Via Volterrana, in the village of Terricciola, which has favoured, among other things, the sale of two commercial constructions, as described in detail above, and work on the partial restoration of the Study Centre "I Cappuccini".

As regards the new purchases in 2009, apart from those of Capannori and the buildings situated in the area known as "Interporto", we may mention the purchase, by taking part in an auction, of a residential flat with a total surface area of about 110 square metres, situated in the Municipality of Ponsacco, in Via Buozzi n° 49, at the overall price of 141,900 Euros.

The commercial credits of the Company are almost totally credits towards enterprises of primary importance in the real estate market, for which no particularly negative aspects have emerged. At the end of the accounting period, the administrators proceeded to carry out a prudential devaluation of 150,000 Euros, equal to 10% of the credit claimed from the Company "Santa Croce 2010 srl", in consideration of the exceptions, disputes and observations made with reference to the execution of work in the Interporto area, and the resulting delay in payment of the sums due.

It may be recalled that by virtue of the deliberation of the Board of Directors on June 22nd, 2009, shareholders were invited to finance the Company to the tune of 5,000,000 Euros on reserve account, not available to cover losses and/or future increases in capital stock; following this request, the Shareholder Cassa di Risparmio di San Miniato SpA, made a payment of 5,000,000 on June 30th, 2009.

Observing that the profit of the 2009 accounting year is equal to 435,992 Euros, and that, bearing in mind the available reserves, the overall losses of the financial year have fallen to less than one third of the capital stock, The Board of Directors of the controlled company proposed to shareholders the use of the entire profit achieved, for the partial coverage of the losses of the previous financial years.

BANCASINTESE SpA

The company BancaSintesi SpA, in which our shareholding corresponds to 83.062% of the capital stock, has been a part of the Carismi Group since 2005. In the month of June, 2009, the capital stock operation decided by the shareholders' assembly on October 31st, 2008, was completed; acknowledging the losses up to June 30th, 2009, the assembly had deliberated a reduction in the capital stock, from € 14,000,000 to € 7,840,000, by transformation of the nominal unit value of each share from € 0.50 to € 0.28.

In the month of September, the Board of Directors of BancaSintesi approved a further project for a



reduction in capital stock due to losses, from € 7,840,000 to € 5,040,000 and a simultaneous increase to € 7,560,000 by means of the issue of 13,999,995 new shares of the nominal value of 0.18 Euros each, with the related proposal of the modification of art. 5 of the Statute.

On December 31st, 2008, the company presented a total value of assets of 31,921,629 Euros, a net patrimony of 6,304,129 Euros, credits towards customers for 18,469,723 Euros (-3.03%), direct funding from customers for 22,950,866 Euros (-5.85%), including a subordinate debenture loan underwritten by the Parent Company for 5,000,000 Euros, and indirect funding for 62,272,000 Euros (-25.32%), penalised not only by the difficult period on financial markets, but also by the closure of relationships with institutional customers involving a substantial sum.

At December 31st, 2009, the bank achieved a positive financial management result of 641,192 Euros (+0.44%) and a negative net result for the period equal to -2,162,391 Euros, thus reducing by about 32% the loss recorded at the end of the 2008 financial year. This result is the fruit of an improvement of more than 25% in the management of structural costs, with lower administrative expenses to the tune of about 976 thousand Euros, and a better quality of "in bonis" assets, which made it possible to carry out lower overall value adjustments on credits. It was thus possible to recover the erosion of the interest margin (-18.62%), as well as the negative trend of net commissions (-128.76%), penalised mainly in the components of indirect funding and securities negotiation.

The 2009 accounting period was strongly influenced by a series of strategic studies carried out, in collaboration with the Parent Company, in order to complete the global reflection started in the last part of the previous year, partly in the light of the persistence of a structural weakness which affected the specific sectors of operativity of BancaSintesi.

In this scenario, a contract of sale referring to the capital of BancaSintesi was stipulated in June 2009 with a financial company, with a clause of authorisation from the Vigilance Organism. The extension of the authorisation procedure limited the activities to develop operational volumes in the second semester of the financial year, also on the part of consolidated partners of the Institute. In November 2009, the Vigilance Organism refused to authorise the purchase.

For the whole of 2009, confirming the decision taken at the end of the previous accounting period, the operativity of the bank was concentrated, with the exception of niche initiatives characterised by specific processes, on the maximisation of the economic trend deriving from existing activities, and every possible scale economy that could be generated with the existing organisational set-up.

In particular the activity of funding and intermediation by means of third-party networks was qualified and rationalised; this achieved excellent results, higher than the previous accounting period, especially in the first half of the year, only to be cut back during the second half of the year, partly as a result of the contraction of activity on bond markets, combined with minimal levels of yields. However, customers have proved to be faithful, and a forthcoming recovery in the curve of yields should determine a recovery of activity in accordance with the physiological trend consolidated in the first part of the financial year. Overall, however, this activity did not allow us to offset the contribution of commissions deriving from the negotiation activity channelled by the Parent Company, no longer in existence, or with a merely occasional character.

As regards the activities of direct Financial Promoters, the persistence of a minimal trend of revenue compared with organisational and regulation investments that can no longer be put off, determined the decision to proceed to the cancellation of existing mandates and the suspension of the channel itself.

New initiatives have been identified in the field of financing aimed at the purchase of goods, in agreement with industrial producer enterprises (lifts, boilers, photovoltaic sector, etc.) and destined for specific customer targets. The agreements set up in the second quarter began to generate contracts, with a progressive disbursement starting from the third quarter.

Furthermore, the agreement with a third network that is already a customer of the Bank has been amplified, with good results in terms of funding, inserting into the range of the offer the retail catalogue of loans, already available from the Parent Company. Also in this case, the activity has already generated



contracts disbursed and in portfolio in the second half of the year, with a constant progressive trend.

On the scale economies side, the planned interventions have been completed in the passage from a “direct” adherence to markets to an “indirect” one, maintaining the service at good levels of efficiency and costs that are definitely more contained. The benefits, already clear in the limitation of expenses at the end of the semester, will be even more evident in the next financial year.

Interventions to rationalise operational processes have been started, setting up further service contracts and rationalising resources and competences within the Group, partly through the seconding of resources with the Parent Company. The result of the revision of the organisational set-up has converged into the new Institute Regulations recently issued.

Lastly, we proceeded to cut the location costs, by adapting the dimensions of premises to the changed, and more contained, spatial requirements of the Institute. This was planned in two steps. A first agreement signed with the current owner of the premises, in order to prolong our permanence in the present premises until March 31st, 2010. The period of respite will allow us to complete the second step, which is the search for new premises more functional for the new strategic design hypothesised, and, seeing the difficulty of the real estate market, at conditions consistent with the economical criteria followed by the Institute.

The unsuccessful conclusion of the hypothesis of selling the Bank made it necessary to adapt the patrimonial situation of Bancasintesi with interventions on the capital stock, which is the first step towards the implementation of the guidelines of the Industrial Plan 2010 – 2012 studied by the Parent Company for the controlled company. The Plan provides for a relaunching of the Bank by means of the maintenance and development of the remunerative activities initiated, and a more intense traditional activity as a commercial bank in the Milanese territory that promotes and enhances the development of Private Banking services and securitised patrimony management.

In particular, we aim to supply specialised services of asset allocation for customers of a high standing and for the Carismi Group in a context of a complete banking activity with :

- Specialisation in the management of the investments of customers in the Upper Private Banking segment throughout the national territory, through the phases of asset allocation and relationship management;
- Specialisation in asset allocation of GPM for customers of the Group also of other segments;
- Activity of access to securities markets for the Carismi Group;
- Development of the commercial activity of funding and lending, with a complete offer of products and services directly to the hinterland of Milan and through conventions with a third-party network in the rest of Italy.



ASSOCIATED COMPANIES CONSOLIDATED BY THE NET PATRIMONY METHOD

The strengthening of contact with the reference territory by means of the expansion of activity also externally, and the desire to offer customers specialised products and services also in “non-traditional” sectors, have led the Carismi Group to set up and develop collaboration agreements with strategic partners, which have come about by the purchase of minority shareholdings with significant quotas, equal to, or higher than, 20%.

Company	Head Office	Activity	Percentage	
			direct	indirect
San Miniato Previdenza SpA	San Miniato	Insurance	34.00%	
Vegagest SGR SpA	Ferrara	Savings management	22.51%	
Cassa di Risparmio di Volterra SpA	Volterra	Banking	20.00%	
Banco di Lucca SpA	Lucca	Banking	34.99%	
Mediat S.r.l.	Roma	Financial consultancy	20.00%	

The following is a brief presentation of the main data of Associated Companies consolidated by the net patrimony method.

It should be noted that the data indicated below are extracted from the accounts compiled in accordance with Ias/Ifrs principles.

SAN MINIATO PREVIDENZA SpA

This company, in which the Cassa di Risparmio di San Miniato has a 34.00% shareholding, was created with the partner from the insurance sector, Società Cattolica di Assicurazione (66%) in order to carry out an activity of life insurance, and in particular, social security. The company was incorporated on December 9th, 2002, and the ISVAP gave its authorisation for the exercise of insurance activity in ordinance N° 2234 of December 16th, 2003, published in the Gazzetta Ufficiale dated December 24th, 2003; the inception of operations was in January 2004. Distribution takes place through the branch offices of the Cassa di Risparmio di San Miniato, and the network of financial promoters of BancaSintesi, both as regards the life insurance products of Cattolica, and new insurance and social security products studied for the customers of the banks of the Group.

In the month of September 2009, the Board of Directors of the Parent Company deliberated to share the proposal of the participated company to proceed to the payment on capital account of the sum of € 1,020,000, as the quota relating to the shareholding of 34% in the capital stock. This request had been made in a letter of August 21st, and its purpose was to provide the participated company with further financial means with respect to the capital available through a payment on capital account. This manner was considered to be the most suitable, in view of the requirements of promptness and perspective flexibility. In consideration also of future processes of development, the need was underlined to carry out a recapitalisation of the Company, for a total sum of € 3,000,000. This recapitalisation was to be imputed pro quota to the two shareholders. The sum is registered in the accounts among the “Other patrimonial reserves”. With this endowment, the solvency ratio is fixed above the value of 1.40, and thus remains adequate also at December 31st, 2009.

The company’s annual accounts closed with a negative IAS/IFRS result equal to 1,028 thousand Euros, with a decrease compared with the positive result, equal to 1,572 thousand Euros, determined in accordance with national accounting principles. The downward variation, in absolute value, amounts to 2,600 thousand Euros.



At the closure of the previous financial year, the IAS/IFRS result was positive, and amounted to 257 thousand Euros, compared with a negative result determined by national accounting principles, to the tune of 2,588 thousand Euros. The difference between the result in accordance with the international accounting principles (IAS/IFRS) and that determined by national accounting principles is mainly due to:

- the classification of financial investments in the categories contemplated by IAS 39, on the basis of the guidelines deliberated by the Board of Directors;
- the determination of benefits for employees (severance pay and seniority bonus) in accordance with IAS 19.

Among the most significant data, we may point out that investments grew by 35.7%, reaching 303.6 million Euros, technical reserves grew by 32.9%, with a total at the end of the year that arrived at 291.1 million Euros. The net patrimony at December 31st, 2009, amounted to 13.7 million Euros, while the gross premiums recorded were equal to 83.7 million Euros, with a growth of 13% compared with the previous year.

The upward dynamics of life insurance premiums recorded by the Company, albeit with different percentages, is analogous to the trend shown by the life insurance market during the financial year.

The total of collection includes two Branch V Direction policies for a total of 9.6 million Euros, compared with the 20.7 million stipulated by the Cassa di Risparmio di San Miniato in the previous year. It follows that the collection of the banking partner, net of the above-mentioned direction operations, shows an increase of 75%, passing from 41.8 million Euros in 2008 to the present 73 million. The activity of placement on branch V capitalisation policies in the course of 2009 was significant, as it represents 58% of the collection of the Cassa di Risparmio di San Miniato, whereas branch I arrived at 41.6%.

VEGAGEST S.G.R. SpA

The company “Vegagest SGR SpA” is a savings management company specialised in the distribution of investment funds, patrimonial management and the realisation of unit-linked insurance products. The Bank has a 22.51% shareholding in the company. Other shareholders in Vegagest SGR include the Società Cattolica Assicurazioni, the Cassa di Risparmio di Ferrara SpA, the Banca Popolare di Bari, the Cassa di Risparmio di Cento and BancApulia.

The 2009 financial year represented the beginning of a period of significant renewal for the enterprise, both from the strategic point of view and from that of internal organisation; these results were achieved in a delicate macroeconomic scenario characterised by an economic crisis at the global level, particularly deeply felt in the finance sector, and above all in the field of managed savings. Even in this scenario, the enterprise showed a good capacity for adaptation to the evolution of the market of Italian and international managed savings, pursuing its development by continuing the strategy of entrepreneurial diversification, culminating in the conferment on the controlled company Vegagest Immobiliare Sgr of the branch of the company represented by the Real Estate Funds Management Sector, which happened at the beginning of 2009. In the perspective of a substantial internal reorganisation, which started in the first part of the current financial year, the Company adopted a series of initiatives aiming to relaunch its original core business, represented by the activity of securities management, together with a policy of a general reduction in costs.

In this perspective, therefore, the following operations of a strategic-organisational nature are to be seen:

- As regards the relaunching of the sector of securities management, we may underline the reaching of a joint venture agreement with the Luxembourg intermediary “Nordea Investment Funds S.A.” (under the control of the Swedish Group “Nordea Bank”), who are interested in entering the Italian market of managed savings actively, and are capable of realising important operational synergies deriving from the contribution of added value both from the commercial point of view and in terms of know-how about management, especially with reference to mandates regarding the great patrimonies belonging to institutional customers.



On the basis of this agreement with Nordea, as already planned for some time, the Company conferred its branch dealing with securities management to the controlled company Systema Asset Management SGR SpA, on March 1st, 2010. The latter had remained inactive in 2009, and had also changed its company title to "NorVega SGR SpA"; it is likewise planned that Vegagest Sgr will sell to Nordea Investment Funds S.A. a quota equal to 40% of the capital stock of NorVega SGR, thus sealing, with this co-partnership in the shareholdings of NorVega SGR, the joint venture already outlined in the course of 2009;

- The implementation of the process of rationalisation of the range of products managed, on the one hand with the completion of the amalgamation procedure of the 10 Systema Funds with the homologous Vegagest Funds (which began in the second half of the financial year 2009) and on the other, the inception of other amalgamation projects, regarding products of contained dimensions, and therefore not capable of guaranteeing the necessary inexpensiveness and management efficiency; the completion of this process took place at the end of 2009.

Furthermore, in the desire to give continuity to the strategy of the diversification of business areas followed in these years, the Company started operations during 2009 in the sector of private equity funds, thus receiving the first revenue from this new activity and setting up the bases for the development of a sector which will be strategic for the Company, above all following the conferment of the securities branch, as described above.

In the course of the financial year, the Company sold the shareholding it held in Servizi Sgr (which, at its own request, asked to be cancelled from the SGR list of firms at the end of December 2009), thus definitively leaving the business of "fund administration" which, for a series of reasons, largely influenced by the crisis in the market of managed savings which conditioned its profitability, and also connected with the running of the participated company, encountered great difficulty in maintaining an economic balance. The sale of the shareholding in Servizi SpA (the new company title assumed after the loss of SGR status), on the one hand made it possible to leave an operational environment no longer considered to be strategic for the Company, and on the other, generated significant negative repercussions on the Vegagest profit and loss account, in connection with the conditions of the closure of the shareholding sale operation, which could not help reflecting the negative economic trend that Servizi SpA was gradually assuming, with a consequently limited contractual power in the definition of the shareholding sale conditions.

As a result of the occurrence of the above-described company events, therefore, the Vegagest Group is currently structured in such a way as to perform, in every company that of which it is composed, a distinct business activity:

- in Vegagest, the activity of collective management of savings in the sector of private equity, as well as the outsourcing offer to controlled companies of a series of services regarding the activities of internal auditing, together with those of organisational, legal and administrative support;
- in Vegagest Real Estate, the activity of collective management of savings in the real estate sector, as well as the activity, also for third parties external to the Group, of fund administration linked to the sector itself;
- in NorVega, the activity of collective management of savings and that of patrimonial management regarding the securities sector.

The 2009 financial year closed with a negative net result equal to -5,908,204 Euros, with a drop compared with the slight loss of 27,749 Euros in 2008. This figure is largely influenced by the charges deriving from the above-mentioned sale of Vegagest's shareholding in Servizi, and by other connected charges described below.

To be more precise, it may be stated that the sale of this shareholding entailed an expenditure of 3.02 million Euros. Furthermore, examining in a global perspective the whole operation of leaving the company



system of Servizi, we may also point out a further loss of 0.875 million Euros deriving from the compromise closure of the agreements previously signed with the European Fund Administration; these agreements had contemplated a co-partnership in the capital stock of Servizi (together with Banca Carige) and the consequent relaunching of the company, in contrast with what actually happened. Overall, the charge present in the 2009 accounts of the Company, referring to the case in point, amounts to 3.9 million Euros. Thus the result of the financial year, net of the expenditure of an extraordinary nature described above, displays a loss of about 2 million Euros. This value, though indicative of a loss over the financial year, is however better than the sum budgeted at the beginning of 2009, (a loss of about 2.15 million Euros), calculated bearing in mind the reduction in patrimonies displayed during 2008, with consequently smaller patrimonial masses at the beginning of 2009, and a clearly negative impact on commission profitability. The total assets amount to 30,202,935 Euros, while the net patrimony including the financial year loss and the losses of the previous years brought forward amount to 25,631,821 Euros. The managed patrimony in securitised common investment funds amounted to 1,113 million Euros at the end of the accounting period, with a reduction of about 5% (-60 million Euros) compared with the patrimony at the end of 2008. The sector of individual institutional patrimonial management showed a slight increase of about 6% compared with the end of 2008, with a patrimonial mass at the end of 2009 equal to about 1,223 million Euros, compared with a value of about 1,148 million Euros in the same period of the previous financial year. In the field of the individual retail patrimonial managements that the Company received by delegation from the Cassa di Risparmio di Ferrara and the Cassa di Risparmio di San Miniato, there was an overall increase in patrimonies of slightly more than 7%, passing from 721 million Euros to 773 million Euros.

CASSA DI RISPARMIO DI VOLTERRA SpA

The strategic course of indirect growth of the Carismi Group found an important stage in its participation in the capital stock of the Cassa di Risparmio di Volterra. The collaboration project took shape at the conclusion of a procedure which saw our Bank take part in the offer for sale of a significant shareholding in the Cassa di Risparmio di Volterra SpA in 2003. Following the decisions taken by the Cassa di Risparmio di Volterra Foundation, a quota corresponding to 20% of the CR Volterra capital stock was purchased by Carismi in May 2004, and another quota corresponding to a further 5% of the capital stock was purchased by the controlling company, the Cassa di Risparmio di San Miniato Foundation. Compared with the accounting value of the shareholding and the goodwill value registered on the occasion of the purchase of the 20% shareholding, for a total of 47.2 million Euros, applying the international IAS 36 accounting principle, the positive differences of net patrimony were subjected, in the financial statement for 2005, to an "impairment test" both with respect to the 2004 statement and to the 2005 one; lasting losses of value were found which had determined a negative impact on the income statement, respectively, for 5,700,000 Euros in the financial year 2004 and for 3,000,000 Euros in the financial year 2005, which led to a registration of the shareholding equal to 60.919 million Euros. In accordance with the provisions of IAS 36, the goodwill value recognised at the time of a business combination is no longer subject to yearly amortisement throughout its useful lifespan, but to a verification of sustainability to be conducted at least once a year, as it is considered to be an asset with an indefinitely useful lifespan. In December 2006, following the payment of the second compensatory sum which had remained outstanding in connection with the payment of the price of the shareholding (1.320 million Euros), the registration value of the shareholding was adjusted to the sum of 62.239 million Euros, a value which has been considered sustainable in subsequent impairment tests carried out in the period between 2006 and 2008.



The increase in capital stock optionally offered to shareholders, was approved in June 2009 and already underwritten by Carismi for its relevant quota (1.8 million Euros); this increased the value of the quota held to 64 million Euros, a sum which was thus subjected to the test of sustainability during the preparation of the financial statement for 2009. The fair value evaluation gave a mean value of 65.2 million Euros, which is higher than the value of the quota, registered in the accounts for 64.0 million Euros; consequently, consistently with the provisions of IAS 36, no need emerged to carry out any further adjustments of the value of the shareholding.

The annual accounts of the CR Volterra closed with a net profit of 5,088.5 thousand Euros (-54.2% compared with 2008). The bank presents an assets total of 2,056 million Euros, and a net patrimony of about 160 million Euros; in the volumes mediated, direct funding amounts to 1,684 million euros (+3.0%) and lending to customers reached 1,706 million Euros, with an increase of 5.7% compared with the previous year.

BANCO DI LUCCA E DEL TIRRENO SpA

The company originally known as “Banco di Lucca SpA”, in which the shareholding is 34.99% of the capital stock, was set up by the Parent Company and a certain number of private entrepreneurs who operate in the province of Lucca. On July 14th, 2003, the Bank of Italy authorised the Banco di Lucca SpA to exercise the activity of banking, registering it in the “Cassa di Risparmio di San Miniato Banking Group”, in consideration of the role of governance exercised by the Parent Company, through its majority position in the Board of Directors of the Company. The effective operations of the Banco di Lucca SpA started on December 1st, 2003, by virtue of the purchase of a branch of the company Cassa di Risparmio di San Miniato SpA, composed of a part of the assets incorporated from the Banca di Lucca di Credito Cooperativo and other assets coming from the Cassa di Risparmio di San Miniato SpA. As of July 2nd, 2007, the company Banco di Lucca SpA left the Group, as a result of the fact that control was no longer exerted by the Cassa di Risparmio di San Miniato through the majority of the Directors, as confirmed by note number 662153 dated July 3rd, 2007, in which the Bank of Italy – Pisa Branch – ratified the cancellation of the Banco di Lucca from the Group, as of July 2nd, 2007. In the light of this development, as of the same date, the Banco di Lucca SpA moved outside the area of consolidation, becoming connoted as a “significant shareholding”.

In the accounting situation of the end of the financial year, the bank presents a total value of assets of 161.6 million Euros, a capital of 21.2 million Euros, a net patrimony of 14.4 million Euros, credits towards customers for 133.8 million Euros, direct funding for 142.4 million Euros, including a convertible debenture loan underwritten in 2004 by our Bank for 13,950,000 Euros, of the duration of seven years, and on December 31st, 2008, its gross result of current operativeness was negative for -1,845,451, with a net result for the accounting period of -1,549,605 Euros.

In the month of December 2009, the preliminary contact of sale was signed by the Cassa di Risparmio di San Miniato, the former shareholders adhering to the paracorporate agreement signed on March 16th, 2006, and the Cassa di Risparmio di Ravenna, for the sale of the entire shareholding, with the simultaneous definition of all the pending relationships with the Banco di Lucca e del Tirreno SpA and its shareholders, including those subjected to arbitration, and the extinction of the convertible securitised loan underwritten by our Bank in 2004. The hypothesis of assignment was subjected to the clause of suspension pending receipt of the opinion of the Vigilance Authority within the terms of law, after which the assignment can be completed.

MEDIAT S.R.L.

The corporate purpose of this company is the study and organisation of financing for investment projects and initiatives, as well as the performance of all the activities of financial consultancy.

It may be recalled that on November 24th, 2005, the General Meeting of the participated company deliberated an increase in capital stock from 50 thousand Euros to 100 thousand Euros. On that occasion, having obtained the necessary authorisations from the Vigilance Organism, the Cassa di Risparmio di San



Miniato Banking Group raised its shareholding to 30%, of which 20% through the Parent Company, and 10% through the Banco di Lucca SpA and BancaSintesi SpA, each with 5%. With the departure from the Group of Banco di Lucca SpA, the shareholding quota held by the Carismi Group went down to 25%. During the course of the first half of 2009, also BancaSintesi sold its quota of 5%, with the result that the overall shareholding held by the Group is currently 20%, entirely in the Parent Company's portfolio.

The company presents at December 31st, 2009, a net patrimony of 171,856 Euros, while the profit and loss account closed with a loss of 19,319 Euros, compared with a closure figure for the 2008 accounting period, which displayed a profit of 42,446 Euros.

IMPORTANT FACTS WHICH OCCURRED AFTER THE CLOSURE OF THE ACCOUNTING PERIOD

In accordance with the provisions of IAS principle 10, described in regulation N° 2238/2004, which requires a report of important facts that happened after the closure of the accounting period, we may make the following observations:

EVOLUTION OF THE CONTEXT.

Ahead of us lies a "moderate" economic growth in the Euro area this year, and a dynamics of prices that will remain "contained". Prospects that the ECB confirms in the editorial of its recent monthly bulletin of February 2010, and in this scenario, the Frankfurt-based institution adds, "the present level of interest rates continues to be appropriate". At the beginning of the month of February, the ECB again confirmed the main reference for the cost of money at its all-time low of 1%. At the same time, the ECB repeats its warning that the recovery process of the economy, which started after the recession, might prove to be "discontinuous", and that the dynamics of the recovery "remain subject to uncertainty". The ECB continues to believe that these prospects are subject to risks that are substantially balanced. As regards the upward risks, the improvement in the climate of confidence may go beyond current expectations, and it is possible that the world economy and foreign trade may record a more marked recovery than expected. Furthermore, the current ample macroeconomic incentives and the other interventions of economic policy may generate stronger effects than expected. In terms of downward risks, fears remain concerning more intense or longer negative interactions than expected between the real economy and the financial sector, new rises in the prices of oil and other raw materials, greater protectionist pressure, and the possibility of a disorderly correction of international imbalance. The growth of bank loans will remain "weak" in the next few months. According to the ECB, it is the time lag between economic recovery and financing applications that counts. Furthermore, the zero growth of loans in the private sector reflects "the persisting increase of growth in family loans, while the contraction has become even more accentuated for non-financial companies". For banks, the challenge is "to adapt the dimensions and the structure of balances, ensuring at the same time the availability of lending for the non-financial sector, in particular for enterprises. A challenge that makes it necessary "to exploit the improvement in financing conditions and further strengthen their patrimonial bases". In order to strengthen sustainable growth and the creation of jobs, the main challenge that the ECB sees is that of accelerating structural reforms, because the financial crisis has had negative repercussions on the productive capacity of the economies of the Euro area. In the case of goods and services markets, the ECB suggests the urgency of policies to stimulate competition and innovation, to give an impulse to restructuring and investments, and create new entrepreneurial opportunities. In Italy the year 2009 closed with a drop in the GDP of 5.1%. This decline measured by Istat is slightly higher than the Government's estimate of -4.8%. This is the worst result since 1971, the year when the multiyear series of records began. Also in the fourth quarter, the economy recorded a decline, albeit contained: -0.2% compared with the previous quarter (in contrast with analysts'



expectations of +0.1%) and -2.8% compared with the same period in 2008. Italy's result is worse than that of the other leading countries. In the fourth quarter, the GDP increased in trend terms by 1.4% in the USA, 0.1% in the U.K., 0.6% in France, and it remained unchanged in Germany. The decrease of 0.2% in the GDP of our country is the result of a drop in the added value of industry, a substantially stationary added value of services, and an increase in the added value of agriculture. Also the final data for the balance of trade indicate a negative deficit among the highest since 1970, with a decline in exports of 20.7% and a drop in imports of 22% in the last year. Istat points out that with these figures, the growth for 2010 is equal to zero.

EVENTS THAT TOOK PLACE AFTER DECEMBER 31ST, 2009.

Finally, it may be pointed out that in the period between the closure of the accounting period and the date of the present Report, no facts or events, other than those already indicated in the Management Report referring to the Individual Company Accounts, took place that changed the patrimonial, financial or economic situation of the Group as represented in the consolidated Financial Statement.

An extraordinary Assembly of BancaSintesi was held on January 28th, 2010, in order to approve the project of a reduction in capital stock due to losses, with a simultaneous increase in the same, and related statutory modifications. This project had been the subject of a deliberation by the Board of Directors of the controlled bank on September 8th, 2009, and subsequently received a positive evaluation from the Bank of Italy on December 23rd, 2009. The initiative had become necessary in order to absorb the losses that had accrued in the second half of 2008 and the first half of 2009, equal to a total of € 3.02 million (an amount corresponding to more than one third of the capital stock) and to restore the level of the capital stock above the minimum required by existing legislation. In the new text of the Statute, the capital stock is thus equal to € 7,599,999.10, divided into 41,999,995 ordinary shares of the nominal value of € 0.18 each. In the month of March 2010, the operation of the increase in capital was concluded with the effective underwriting for the account of our Bank of an amount equal to 2,205,570 Euros, and our shareholding quota passed to 84.55%. The advisor designated is taking charge of the disinvestment.

EXPECTED EVOLUTION OF MANAGEMENT

The year 2009 closed with a profit higher than that expected in the industrial plan 2008-2010 in the "revised" version approved by the Board of Directors on May 22nd, 2009. Ever since the beginning of 2009, in the light of the substantial changes of scenario and the negative evolution of the economic situation, we deemed it necessary to analyse the impact of these phenomena on expected results for the year 2009 and 2010, in order to verify the sustainability of the provisions of the Industrial Plan 2008-2010 approved in September of 2008. Though confirming the strategic lines indicated in the original planning document, we proceeded to take into consideration the changed conditions of the economic and financial market in the forecast model, with particular reference to the evolution of interest rates, which generated a significant impact on the structure of the profit and loss account, entailing a more contained forecast of gross and net profitability in the years 2009-2010. Also the more recent "Revision of economic data" for the year 2010 approved by the Board of Directors on February 8th, 2010 had the same characteristics as the previous one, representing a repositioning of the resulting forecast, made necessary by exogenous factors not foreseeable at the moment of preparation of the Three-Year Plan, whereas the strategic lines indicated in the Industrial Plan 2008-2010 remain perfectly valid, and the activities planned in order to achieve the aims fixed in the planning document continue to be the most suitable for the present configuration and potential for development of the Cassa di Risparmio di San Miniato Group, to which the structure has directed, and continues to direct its activities, also in 2010.

The final evaluation is, extremely synthetically, that even in a general context that is still difficult, the recovery of good levels of profitability and the confirmation of the patrimonial solidity of the Bank and the



Group remain, in the context of a sound, correct management of the enterprise, aims that can be achieved in the year 2010.

Also as regards the request contained in the combined Bank of Italy/Consob/Isvap document n.2 dated February 6th, 2009, we may point out that the balance at December 31st, 2009, has been compiled in the perspective of a continuation of activity: bearing in mind all the information available about the future, and in particular the Industrial Plan 2008-2010 and its subsequent revised version, we are not aware of any significant uncertainties as regards the present or the future, due to events or conditions that may engender doubts about the Bank's ability to continue to operate as working entity.

Thus it is right to underline that in the same way as the combined Bank of Italy/Consob/Isvap document n°4 of March 2010, the Board of Directors proceeded, in its meeting of March 19th, 2010, to approve the deliberations concerning the evaluation of shareholdings and of the other assets mentioned in IAS 36 and IAS 39, rigorously applying the reference norms and accounting principles; likewise, in the same way as the Bank of Italy note of March 2010 concerning patrimonial strengthening, as regards both the processes of evaluation of the balance postings, and profit destination policies, rigorous principles of prudence and transparency have been respected.

The Board of Directors

San Miniato, March 29th, 2010

**CONSOLIDATED PATRIMONIAL STATE AT DECEMBER 31, 2009**

	Assets	31/12/2009	31/12/2008
10.	Cash on hand current liquid assets	70,138	19,820
20.	Financial assets detained for negotiation	210,378	166,412
30.	Financial assets calculated at their fair value		
40.	Financial assets available for sale	26,324	29,810
50.	Financial assets detained until maturity	20,906	21,118
60.	Credits towards banks	115,799	109,006
70.	Crediti towards customers	2,211,393	2,093,539
80.	Coverage derivatives		
90.	Value adjustment of financial assets subjected to generic coverage (+/-)		
100.	Shareholdings	78,851	84,621
110.	technical reserves chargeable to reinsures		
120.	Material assets	45,518	45,777
130.	Immaterial assets	2,655	2,786
	of which :		
	- goodwill value	2,399	2,457
140.	Fiscal assets	21,076	23,915
	a) current	8,768	12,918
	b) advanced	12,308	10,997
150.	Non-current assets and assets groups soon to be disinvested	7,153	197
160.	Other assets	87,750	94,911
	Total assets	2,897,941	2,691,912



liabilities and net patrimony		31/12/2009		31/12/2008	
10.	Debts towards banks		1,712		14,146
20.	Debts towards customers		1,353,074		1,049,487
30.	Securities in circulation		629,416		759,421
40.	Financial negotiation liabilities		219		1,038
50.	Financial liabilities calculated at their fair value		565,016		516,659
60.	Coverage derivatives				
70.	Value adjustment of financial assets subjected to generic coverage (+/-)				
80.	Fiscal liabilities		11,732		17,295
	a) current	8,150		12,206	
	b) deferred	3,582		5,089	
90.	Liabilities associated with assets subject to disinvestment				
100.	Other liabilities		65,124		71,862
110.	Personnel severance payments		12,452		12,704
120.	Funds for risks and charges		40,275		36,883
	a) retirement and similar obligations	33,882		28,857	
	b) other funds	6,393		8,026	
130.	Technical reserves				
140.	Revaluation reserves		5,477		3,758
150.	Redeemable shares				
160.	Capital instruments				
170.	Reserves		43,984		50,097
180.	Surcharges on issues		27,787		27,167
190.	Capital		140,216		140,216
200.	Own shares (-)		(5,388)		(2,503)
210.	Patrimony belonging to third parties (+/-)		2,023		2,121
220.	Profit (Loss) of the accounting period (+/-)		4,822		(8,439)
Total liabilities and net patrimony			2,897,941		2,691,912

The Chief Accountant

Alessandro Gabrieli

The General Manager

Piergiorgio Giuliani

The President

Lucia Calvosa

The Auditors

Moreno Menichetti

Enzo Sollini

Franco Volpato

**CONSOLIDATED INCOME STATEMENT AS OF DECEMBER 31ST, 2009**

	Items	2009	2008
10.	Interest earned and assimilated proceeds	115.651	154.350
20.	Interest paid and assimilated charges	(38.819)	(75.533)
30.	Interest margin	76.832	78.817
40.	Commissions earned	31.488	26.014
50.	Commissions paid	(1.580)	(2.363)
60.	Net commissions	29.908	23.651
70.	Dividends and similar proceeds	985	1.814
80.	Net result of negotiation activity	2.506	(1.905)
90.	Net result of coverage activity	0	0
100.	Profits (Losses) from conveyance or repurchase of:	1.943	(961)
	a) credits	72	(667)
	b) financial assets available for sale	1.669	(10)
	c) financial assets detained until maturity	0	0
	d) financial liabilities	202	(284)
110.	Net result of financial assets and liabilities calculated at their fair value	1.221	(183)
120.	Intermediation margin	113.395	101.233
130.	Net value adjustments for deterioration of :	(17.016)	(31.514)
	a) credits	(16.565)	(25.757)
	b) financial assets available for sale	(903)	(5.187)
	c) financial assets detained until maturity	0	(78)
	d) other financial operations	452	(492)
140.	Net result of financial management	96.379	69.719
150.	Net premiums	0	0
160.	Balance other proceeds/charges of insurance management	0	0
170.	Net result of financial and insurance management	96.379	69.719
180.	Administrative expenses :	(92.232)	(90.420)
	a) personnel expenses	(56.928)	(54.560)
	b) other administrative expenses	(35.304)	(35.860)
190.	Appropriations for risks and charges	560	(195)
200.	Net value adjustments on tangible assets	(1.360)	(1.799)
210.	Net value adjustments on intangible assets	(281)	(343)
220.	Other management charges/proceeds	9.626	16.704
230.	Operational costs	(83.687)	(76.053)
240.	Profits (Losses) of shareholdings	(666)	1.767
250.	Net result of fair value evaluation of tangible and intangible assets	0	291
260.	Value adjustments of start-up	0	0
270.	Profits (Losses) from conveyance of investments	7	0
280.	Profit (Loss) of current pre-tax operating income	12.033	(4.276)
290.	Income tax on current operating income	(6.872)	(5.108)
300.	Profit (Loss) of current operating income net of taxes	5.161	(9.384)
310.	Profit (Loss) of no longer current activities subject to disinvestment net of taxes	(542)	0
320.	Profit (Loss) of accounting period	4.619	(9.384)
330.	Profit (Loss) of accounting period of third parties	203	945
340.	Profit (Loss) of accounting period of Parent Company	4.822	(8.439)