REPORT 2004

Siena, 30 march 2005

LETTER TO THE SHAREHOLDERS

The year of 2004 was marked by the strong expansion of the international economy (+5.0% with respect to 2003 with reference to the percentage change of the GDP in real terms), mainly driven by the hefty growth of the United States (+4.4%) and Asia, in particular China (+9.5%). Against this favourable backdrop, the Eurozone continued to experience limited growth (+2.0%) with Italy performing even worse (+1.2%), burdened with unsatisfactory domestic consumption and a reduced contribution from foreign trade which faced problems of competitiveness and was penalized by the appreciation of the Euro against the US dollar.

The trend of the financial markets, as a whole, turned out to be more favourable than in 2003. The rally of the equity markets in Europe and in the United States was flanked by the positive performance of bond markets in Japan and Europe, though offset by a negative trend in the US.
In Italy stock prices rose and volumes traded expanded, while the bond market was characterized by declining returns and growing prices, with net issues by the Government, the banks and companies progressing remarkably.

In Italy, the less-than-impressive trend of real economy and the recovery of the financial markets inevitably influenced the development of banking business. On the one hand, traded volumes increased and the levels of profitability remained steady, but on the other hand the criticalities experienced in 2003 in relation to lending and equity trading did not disappear. Lending continued to be affected adversely by the reduction of the spreads and the negative effects resulting from limited economic growth, whereas equity trading was subject to the widespread risk aversion of the investors and their prevailing propensity to very liquid, return-guaranteed forms of investment.

Operating against this critical economic and financial backdrop, the Bank and the MPS Group managed to achieve appreciable results from the standpoint of the growth of profits and the development of operating volumes.

In 2004 the net profit of the Bank and the Group (the Bank's net profit and the other results herein indicated are calculated with reference to reclassified profit and loss statements for ease of reference with prior years) reached EUR 610.5 million and EUR 513.7 million respectively, with a substantial growth in comparison with 2003 in absolute terms (+ EUR 398.4 million and EUR 71.2 million, respectively) and in relative terms (+187.8% and 16.1%, respectively).

These impressive key highlights were reflected by the ROE (return on equity) which, net of valuation adjustments on goodwill and with reference to average assets, climbed from 5.1% in 2003 to 10.9% in 2004 for the Bank and from 9.5% to 9.8% for the MPS Group after last year's fall.

The trend of overall profitability was determined, as in the past, by several circumstances including, in particular, the unsatisfactory result of lending, the limited contribution of the components of non-interest income, the steadily positive performance of operating expenses, the slowdown of adjustments and provisions, the improvement of the performance of extrabanking activities and taxes. Each one of these circumstances will be outlined in detail in the profit and loss statements of the Bank and the Group in the scalar form, starting from the results of the typical banking business to the examination of the performances of the other activities so as to break down the net profit step by step.

The less-than-impressive result of lending operations is due to the decline of interest income which stood at EUR 1,218.5 million for the Bank and EUR 2,426.4 million for the Group with a year-on-year decrease of 6.7% and 2.2%, respectively. As illustrated in the following analysis, in view of the growth of traded volumes, the unfavourable trend of interest income is mainly attributable to the drop in the spread between lending and borrowing rates. This reduction and, in particular, the different extent of the reduction for the Bank and the Group is due to the increasing cost of funding in relation to the issues targeted at consolidating capital position. This involved mainly the Parent Company as a result of its increasingly important role as the centre of centralized treasury for structural funding operations such as the transactions linked to perpetual convertible securities (FRESH) and subordinated loans. The above is indirectly confirmed by the interest income from commercial transactions. In comparison with 2003, this income performed better than the overall interest income for the Bank and, in particular, the Group. The Bank's interest income decreased by 2.3% versus a reduction of the overall interest income of 6.7%. The Group's interest income progressed by 0.3% with respect to a fall in the overall interest income of 2.2%.

The modest contribution of the activities which determine non-interest income is proved by the reduction of said income which came to EUR 1,253.8 million and EUR 2,043.2 million for the Bank and the Group respectively, with a decline of 5.1% and 6.8% with respect to 2003. These unfavourable trends reflected the standstill of service activities and securities trading with the customers resulting from the investors' widespread risk aversion and the consequent product policies biased towards traditional products and services rather than innovative finance products and services.

The above influenced the development of net commissions which were characterized by an acceptable performance. In comparison with 2003, on the one side the Bank's net commissions dropped by 1.0% but, on the other side, the Group's net commissions rose by 1.9%. In particular:

- as regards the Bank, the overall decline is attributable to the joint effect of the growth of income from traditional banking services (+7.4%) and the contraction of income from asset management services (-9.4%), stemming from the increase in asset management commissions (+5.9%) and the falling income from innovative finance products (-51.5%) and funds under administration (-10.0%);
- as regards the Group, the overall increase is due to the steady contribution of commissions from traditional banking services and the sharp increase (+14.0% approx.) in the contribution of the tax collection units.

The dynamics of non-interest income is determined by the following components:

- the negative trend of profits/losses from financial transactions, generally caused by the traditional volatility of the financial markets, and partly – at the Group level – by the minor contribution of structured innovative financial products and the abolition, as a result of the change in the fiscal regulations, of tax credit on dividends;
- the decreasing contribution of other operating income, mostly produced by the disappearance of income from securitization transactions;
- the positive contribution of the Group companies valued with the net equity method, thanks to the excellent results of the insurance area;
- the downturn of dividends (increasing for the Bank and decreasing for the Group).

The poor performance of interest income and non-interest income was reflected by the negative trend of gross operating income, which stood at EUR 2,472.3 million for the Bank and EUR 4,469.6 million for the Group respectively, with a year-on-year decrease of 5.9% and 4.4%. For ease of reference with prior year's data, emphasis is placed on the lack of income components from securitization transactions, the minor contribution of profits/losses from financial transactions, the expected drop of up-front income in relation to the placement of innovative finance products. The core operating income (interest income + customers' commissions), which represents the higher quality component of income, performed somewhat better. The core operating income totalled EUR 1,899.2 million for the Bank and EUR 3,767.3 million for the Group with a decrease on a yearly basis of 4.8% and 0.8% respectively, clearly showing that it remained steady at the consolidated level.

The positive dynamics of operating expenses is confirmed by their continuous downward trend, as already registered last year. In 2004 the operating expenses continued to decrease with respect to 2003, in relative terms, by 3.0% and 3.2% for the Bank and the Group respectively. The achievement of this important result is indicative of the objective of operating efficiency indicated by the 2003-2006 Business Plan and results from the pursuit of the structural initiatives of cost cut started in 2002 and intensified in 2003 through the consolidation of the centralization process of operations and sharper actions of cost governance and monitoring. This is confirmed by the analysis of the trend of each expense component which contributed to achieve the global result.

Personnel expenses continued to fall with respect to 2003 by 2.6% and 2.0% for the Bank and the Group, respectively. These figures, which would become more substantial (-3.4% for the Group) if excluding the amounts resulting from the consequences of the renewal of the national labour contract, are indicative of the initiatives started in 2003 in relation to the downsizing and re-mix of the workforce, in particular as a result of the Early Retirement Plan and the Solidarity Fund, and the reduction of the relative cost components.

The profit and loss statement also indicates clearly that "other expenses" continued to decline, with a year-on-year decrease of 2.0% and 0.6% for the Bank and the Group respectively. This decline incorporates the huge cut of current operating expenses and stems from the effects of the governance and containment actions started in 2002 and pursued with greater efficiency (e.g. zero-base budget level, payables cycle review, set-up of a Cost Committee, other cost management measures). With reference to this global downward trend of expenses, the only component of "other costs" which increased remarkably with respect to 2003 (+4.7% and 13.2% for the Bank and the Group, respectively) is represented by the production expenses of the tax collection units. These increases are considered as functional to the achievement of the positive results concerning the contribution in terms of commissions of the tax collection activity (+14.0% with respect to 2003).

Rounding out the picture of operating expenses, "valuation adjustments on fixed and intangible assets" confirmed the downward trend of 2003 with a considerable decrease of 16.2% and 17.5% for the Bank and the Group, respectively.

The dynamics of income and costs had repercussions on the performance of the cost/income ratio. In particular, the reduction of operating expenses could not offset the decline in gross operating income. As a result, the cost/income ratio excluding depreciation and amortization climbed from 57.0% to 57.8% for the Bank and from 68.3% to 69.3% for the Group.

The operating income, which stood at EUR 697.8 million for the Bank and EUR 1,372.8 million for the Group (with a decrease of 12.5% and 7.0% on an annual basis), was less impressive than in 2003.

The other accounts to be examined are, first of all, net valuation adjustments on loans and specific and lump-sum loan provisions. In comparison with 2003, these accounts showed a hefty decline both for the Bank (-41.2%) and the Group (-26.2%). In light of the criteria of rigour and prudence which have always inspired the Bank's and the Group's loan evaluation, this decline is indicative of a global decreasing riskiness of the assets of reference. The accounts under exam incorporate the provisions made in relation to critical situations such as, for instance, the potential risks resulting from the exposure to the car industry.

As a result, the core banking business income, which differs from the operating income due to the above-mentioned adjustments and provisions, came to EUR 466.1 million for the Bank and EUR 839.4 million for the Group, with a good improvement with respect to 2003 (15.7% for the Bank and 11.4% for the Group).

Other accounts of the profit and loss statement to be considered are depreciation and amortization, the provisions for risks and charges and net valuation adjustments on long-term investments. Similarly to loan adjustments and provisions, the aggregate of these accounts shows a remarkable reduction for the Bank (-55%) and the Group (-52%). The evaluation criteria adopted also in this case comply with the traditional prudence and rigour and, consequently, the resulting reductions are attributable only to the global decreasing riskiness of the assets of reference with respect to 2003.

The profit from ordinary operations, which differs from the core banking business income due to depreciation and amortization, and the above-mentioned provisions and adjustments, totalled EUR 291.2 for the Bank and EUR 661.3 million for the Group, thus improving remarkably with respect to 2003 (+EUR 277.3 million for the Bank and +EUR 279.4 million for the Group).

Rounding out the picture of net profits are the income from extraordinary operations, the changes of the general banking risk reserve and tax issues. Excluding the general banking risk reserve which showed nil changes for the Bank and minimal changes for the Group in 2004, the accounts in relation to extraordinary operations and tax issues became particularly important, just like in 2003, both for the Bank and the Group, due to specific reasons which have to be highlighted.

Unlike last year, extraordinary operations gave a very positive contribution with the balance of extraordinary income and charges amounting to EUR 301.3 million for the Bank (in 2003 the balance posted a loss of EUR 227.0 million) and EUR 82.3 million for the Group (in 2003 the balance was EUR 13.9 million). These important results are mostly attributable to the economic benefits in relation to valuation adjustments on equity investments made in 2003 in enforcement of fiscal regulations, and reversed in 2004. They also depended, though to a lesser extent, on net capital gains realized through the sale of some non-strategical equity investments and extraordinary income for the use of the provisions for risks and charges in relation to the settlement of the disputes concerning the savings plans and the structured products. The results under exam are to be considered even more impressive, since they fully incorporate the extraordinary charges in relation to the plan of staff downsizing and re-mix and the contingent liabilities for the charges incurred with respect to the claims already settled on said savings plans and structured products.

Turning to tax issues, the situation improved in comparison with 2003 with positive – though lower than in prior years - levels for the Bank (EUR 17.9 million versus EUR 125.1 million) as a result of tax benefits for non-taxable income and the recovery of deferred taxes. The Group’s taxes dropped considerably from EUR 245.2 million to EUR 215.6 million, mainly due to the benefits in relation to dividend tax-exemption. In general terms, the overall positive impact of tax issues is proved by the fall of the actual tax rate from 41.7% in 2003 to 35.0% in 2004.

Briefly, the profit and loss statement for the Bank and the Group suggests/shows some criticalities in relation to the lending business and securities trading, partly attributable to the critical operating scenario and partly due to the opportunity of further intensifying the commercial effort. However, with specific regard to the excellent cost management and the brilliant performance of profitability, other strenghts stand out.

The figures of the balance-sheet which express the trend of operating volumes involve/entail some considerations which are even more attractive than the ones concerning the data of the profit and loss statement. From this standpoint, all the major aggregates (funding, lending and net assets) performed positively, in line of continuity with prior years, reaching year-end figures higher than in 2003.

Starting from the trend of funding, total funding from customers expanded fairly with respect to 2003 both for the Bank (+2.3%) and the Group (+1.9%), thus reflecting the strong growth of direct funding and the virtual stability of indirect funding.

Direct funding (+7.5% for the Bank and + 4.9% for the Group) was mainly driven by the certificates of deposit, bonds and savings deposits, whereas the progress of current accounts and repurchase agreements was more moderate. The above growth percentages are very respectable and witness the Bank's and the Group's competitive growth in the market. This is also proved by the so-called primary funding, calculated excluding funding from subordinated bonds, which registered growth rates higher than the whole aggregate (+8.0% for the Bank and +5.0% for the Group).

Unfortunately, the trend of indirect funding is less impressive (-1.8% for the Bank and -0.5% for the Group). It is indicative of the further decline of funds under administration (-3.8% for the Bank and -2.6% for the Group) consequent upon the customers' preference in relation to the re-mix of their investment portfolio, and also of the Bank's decision to continue to cut marginally profitable relationships with institutional customers. However, this trend also confirms the growth of asset management volumes (+1.1% for the Bank and 2.7% for the Group), mostly attributable to the action of the commercial networks aiming at orienting the process of savings allocation/re-allocation in accordance with the customers' risk profile.

This aspect is confirmed by the dynamics of the different components of asset management: insurance policies and pension funds rose considerably with respect to 2003 (+12.7% for the Bank and +14.0% for the Group); mutual investment funds, SICAVs and individual portfolios under management fell sharply (-6.0% and -5.5% for the Bank and -3.6% and -4.8% for the Group, respectively). This phenomenon was typical of most of the banking industry, since it results from the customers' orientation towards highly liquid, low-risk financial products.

The positive performance of total funding was flanked by the good trend of lending. Despite the persistent weakness of the economic cycle, the Bank's and the Group's lending business grew by 5.6% and 5.7% respectively. The development of lending volumes is indicative of the policies of selection and containment of capital absorption started in the second half of 2002 in a logic of portfolio optimization in terms of return and risk, with emphasis placed on the support of the financial requirements of the manufacturing industry. The overall dynamics was driven, once more, by medium- and long-term loans which progressed by 8.7% for the Bank and 12.5% for the Group with respect to 2003. At the Group level, the development of volumes continued to be driven, as in the past, by the specialized product companies (MPS Banca per l'Impresa, MPS Leasing & Factoring and Consum.it) and by MPS Finance with reference to corporate products targeted at the management of financial risks, even though they decreased considerably with respect to 2003 as a result of the criticalities which involved the whole banking industry. In this framework, Consum.it enjoyed a boom with disbursements increasing by 58% year on year. With reference to the breakdown by category, medium- and long-term loans influenced the growth of the mortgage loans/total loans ratio (with an increase – in 2003 and 2004 – from 42.2% to 44.4% for the Bank and 45.9% to 49.4% for the Group).

As in the past, the Group's lending policy continued to unfold in accordance with the guidelines established by the Parent Company, with particular emphasis placed on the standardization of creditworthiness criteria and loan evaluation techniques. In this regard, the accent was placed on the re-engineering of processes, further developed in accordance with a logic of specialization by customer segment and stage (first disbursement and loan trend) of management of loans.
From this standpoint, the Bank and the Group are committed to comply with the New Accord on Capital Adequacy for Banks (aka Basle 2) in relation to credit risk evaluation, the relative management and organizational processes and technological and IT tools. The objective pursued aims at achieving an internal system of risk measurement and evaluation, and appreciation of capital absorption ratios which might be approved by the Regulatory Authorities. The methods and procedures developed so far were satisfying and, with respect to the achievement of the objective stated, the presence of the Basle 2 Committee ensures the consistency of the whole project. The diversification of the loan portfolio has remained a distinctive aspect of the Group's credit policy. The concentration of risk as of the end of 2004 was clearly limited and improving with respect to prior years when measured indirectly with reference to the ratio of loans of amounts of less than EUR 2.5 million to total loans (58.8% versus 57% in 2003 and 56.4% in 2002).

More in general, the lending policy has been based over time on the traditional criteria of prudence and selectivity. Within this framework, the classic indicators of credit quality have remained sound. Despite the modest economic growth exacerbated by persistent corporate crises, the ratio of net non-performing loans to total loans experienced relatively limited increases with respect to 2003 with the Bank's ratio going from 1.6% to 1.9% and the Group's from 1.8% to 2.1%. The Bank's ratio of doubtful loans (non-performing loans, watchlist credits, restructured credits and unsecured loans to high-risk nations) to total loans declined from 3.5% to 3.4% and the Group's ratio rose slightly from 3.75% to 3.82%. A comparison with the market shows that the Bank's and the Group's situation in terms of problem loans is smooth. With reference to the Group, the ratio of net non-performing loans to total loans was virtually in line with the banking industry average, but the Group reported a gross non-performing loans/total loans ratio lower than the industry average (4.0% versus 4.7%).

Turning to capital aggregates, the trend of growth of the relative indicators for the Bank and the Group continued to improve. In particular, as of the end of 2004, the Bank's regulatory capital climbed by 4.05% in comparison with the prior year-end to a total of EUR 8,026.6 million. The Group's regulatory capital rose by 4.42% to a total of EUR 8,159.1 million. These increases, which are attributable both for the Bank and the Group to the growth of core capital and the decrease in deductions, entailed a general improvement of all capital ratios with respect to the end of 2003. The Bank's Tier 1 ratio advanced from 10.77% to 10.91% while the Group's was up from 6.46% to 6.74% (from 6.31% to 6.52% excluding preferred securities computed in the core capital, that is in terms of Core Tier 1 ratio). The Bank's Total Risk Ratio decreased slightly due to the joint effect of the increase in the amount of "deductions" as a result of (i) valuation adjustments made on some equity investments in 2003 in enforcement of the tax regulations, and reversed in 2004, and (ii) the maturities of some tranches of subordinated loans. However, the Group's Total Risk Ratio jumped from 9.89% to 9.95%. Capital absorption resulting from credit risks, net market risks and other requirements advanced both for the Bank and the Group, but the increase in the capital for regulatory purposes caused a considerable growth of the capital surplus to EUR 4,408.4 million (+2.6% on an annual basis) for the Bank and to EUR 1,739.2 million (or + 8.4% on an annual basis) for the Group.

Control of risks: Risks continued to be monitored and managed in accordance with an integrated risk management approach, by gradually complying with the international regulations. In 2004, the Group continued to finetune the measurement of risk and economic capital in compliance with the qualitative and quantitative requirements of Basle 2 and the international best practices. The Group also gradually evaluated the impact on the portfolio structure and risk measurement of the enforcement of the new IAS accounting standards. The specific developments concerned the various kinds of risk (i.e. credit risks, market risks and operating risks). The measurement of the economic capital, as the amount of the minimum resources necessary for covering the losses caused by unexpected events during the calendar year, became fully operational in 2004 in the process of measurement of the corporate performance.

On the basis of the approach adopted for the presentation of the 2003 Annual Report, I should like to move on to other considerations in relation to the distribution of the Group operations by business area. By Business Area, reference is made to some business areas which concentrate their activity on specific businesses and customer segments. As a result of the innovations in reporting and performance measurement techniques, the Group can evaluate the strategies carried out and the results achieved and analyze the Group's performance by area. However, the breakdown of the Group Business Areas changed in comparison with 2003 and this required to reclassify the data on a proforma basis for ease of reference on a yearly basis. That being said, I am going to focus attention on the following Business Areas: Retail Area, Private Area, Corporate Area, Finance & Investment Banking Area, International Affairs, Tax-collection Area.

In 2004 the marketing policy implemented by the Retail Area was oriented toward the consolidation of customers' relations, by designing new service models and developing the range and quality of products. With reference to service models, the Group finalized the introduction of the Carattere platform for the "affluent"segment (which consists of customers with assets between EUR 25,000 and the quantitative – EUR 500,000 – and qualitative ceilings identifying the Private segment) and continued to implement the specific commercial platform for the "family" segment (customers with assets of less than EUR 25,000). The policies of product innovation were based on close compliance with the present and future development of the customers' financial needs, in view of the clear risk aversion of the investors in relation to investment products and specific loan requirements for the purchase of houses and consumption. Particular attention was placed on the design of an appropriate Social Security package as a result of the opportunities which emerged from the enactment of Law no.243 in relation to the reform of pensions.

The Group's intensive marketing efforts produced a hefty growth in the volumes for the Retail Area, on the front of asset management and loan disbursement, with particular reference to residential mortgage loans and consumer loans. Profitability for the Area is satisfactory: interest income (EUR 896 million or 36.9% of the Group's interest income), non-interest income (EUR 973 million or 47.6% of the Group's non-interest income), total banking income (EUR 1,869 million or 41.8% of the Group's total banking income) and gross operating profit (EUR 538 million or 39.2% of the Group's gross operating profit) were higher than in 2003 (+1.1% and, respectively, +2.9%, +2.0% and + 16.8%). More in general, the excellent performance of the Area is confirmed by an appropriate 19.9% RAROC (risk-adjusted return on capital) (6.8% for the Group), a capital absorption ratio of 17.0% for the Group and a cost/income ratio of 71.2% (69.3% for the Group), to the extent that the following data (and this is also applicable to the Business Areas which will be analyzed later) incorporate specific structural aspects of each business and are not comparable to the industry.

With reference to the companies belonging to the Retail Area, the performance of Consum.it and all insurance companies (MP Vita, Monte Paschi Life, Monte Paschi Assicurazione Danni and

Quadrifoglio Vita), with volumes and margins increasing remarkably in comparison with 2003, turned out to be particularly impressive. MP Asset Management SGR gave a more lacklustre performance: on the one side, the company's market share of assets managed remained steady and, on the other side, the net profit was lower than in 2003. The situation of MPS Banca Personale, the new name of former Banca 121 Promozione Finanziaria as of 1 January 2005, is completely different. In 2004 the Bank posted a loss which reduced considerably with respect to 2003 from EUR 60.9 million to EUR 49.8 million, thus reflecting the major streamlining initiatives implemented as a result of the plan of reorganization approved in the summer with the objective of reaching operating breakeven in 2006.

The Private Area was set up in 2004. The new Area resulted from the merger by incorporation of Banca Steinhauslin and BMPS and is directly responsible for the production and co-ordination of distribution of private-banking products and services.With reference to product policies, the supply of the Area is constantly reviewed and updated through the development of "core" products characterized by highly distinctive features and high value added and "auxiliary" products completing the specific requirements of some customers' subsegments in a logic of enhancement of advisory services. The main characteristics of these products is the multibrand supply which is deemed to be fundamental to be in line with the best market qualitative standards and to seize the possible synergies and opportunities existing outside the Group.
As far as the distribution policies are concerned, the Area started the design and implementation of new commercial and governance processes within the commercial banks. As a result of the initiatives undertaken in relation to the organization structure and the production and distribution policies, in 2004 the Private Area achieved appreciable results in terms of volumes and margins, even though the weight of the Area within the Group is marginal. Total funding advanced by 6% in comparison with 2003. From the viewpoint of profitability, excluding interest income (EUR 25 million or 1.0% of the Group's interest income) which dropped year on year (-2.2%), all other profitability indicators improved.
Non-interest income (EUR 85 million or 4.2% of the Group's non-interest income), total banking income (EUR 109 million or 2.4% of the Group's total banking income), the gross operating profit (EUR 31 million or 2.3% of the Group's gross operating profit) were higher than in 2003 (+2.0% and, respectively, +1.0%, +38.4%). More in general, the good performance of the Area is confirmed, in accordance with the above-mentioned limits and methods, by a RAROC of 157.0% (6.8% for the Group) with a capital absorption ratio of the Group of 0.2% and a cost/income ratio of 71.3% (69.3% for the Group).

In 2004 the Corporate Area continued to develop and implement new service models and to upgrade the range of products and services, with different projects on the basis of four segments: Small Business, SMEs, Large Corporate and Local Entities. With reference to the Small Business and SME segments, the Group completed the extension of the relative service models to BMPS and Banca Agricola Mantovana, and their extension to Banca Toscana is under way. Going into further details, at the end of 2004 the Group numbered 60 SME Centers in the network of Banca Monte dei Paschi di Siena and 19 SME Centers in the network of Banca Agricola Mantovana with 2,485 relations managers already trained at the Group level. As regards the Large Corporate and Financial Institutions segment, the Group pursued the programme of centralized management of the customers in a specific unit of the Corporate Center, thus completing the transfer of the positions already managed by the Parent Company and starting the migration of the positions of Banca Agricola Mantovana and Banca Toscana to be finalized no later than 30 June 2005. With reference to the Local Entities, the Group continued to develop the specific project through the completion of the implementation of the relative platform at the network of BMPS and its extension to the other Group's commercial banks no later than 30 June 2005. The corporate customer relationship management project has been started to support the service models. Major initiatives of optimization have been undertaken in the area of loan disbursement and management through the projects concerning “first disbursement” and “management trend”. Turning to product policies, the innovations were numberless and important and concerned the instruments for getting access to subsidized loans and specific insurance products by segment. The marketing effort was strenghtened by several initiatives undertaken in co-operation with local public and private players for the purpose of facilitating the SMEs access to loan facilities.

All these projects contributed to the expansion of volumes through the hefty growth of medium- and long-term loans, while total funding remained virtually steady. The trend of income flows – which were affected by the decline of the spread and the minor contribution from the placement of derivatives for corporates and entities – was less favourable. In particular, interest income (EUR 1,442 million or 59.4% of the Group’s interest income), non-interest income (EUR 476 million or 23.3% of the Group’s non-interest income), total banking income (EUR 1,918 million or 42.9% of the Group’s total banking income), the gross operating profit (EUR 840 million or 61.2% of the Group’s gross operating profit) were lower than in 2003 (-0.1% and, respectively, -7.3%, -2.0% and -1.4%). More in general, the lacklustre performance of the Area is confirmed, in accordance with the above-mentioned limits and methods, by a RAROC of 6.8% (6.8% for the Group) with a capital absorption ratio of the Group of 49.7% and a cost/income ratio of 56.2% (69.3% for the Group).

The performance of the companies belonging to the Corporate Area highlights/embraces the impressive results achieved by MPS Banca per l’Impresa (merging the activity of MPS Merchant and MPS Banca Verde) and the capital market desk of MPS Finance, with volumes and margins advancing considerably year on year. MPS Leasing & Factoring posted a modest growth of traded volumes and recorded an improvement in the gross operating profit, but also a decline in the flows disbursed by the Leasing Unit and a net loss resulting from huge loan adjustments. Rounding out the picture is the performance of MPS Finance which registered a decrease in volumes, partly due to the planned repositioning of the commercial flows with respect to corporates and entities, and a sharp drop in the gross operating profit and the net profit.

The aggregate of the Retail, Private and Corporate Areas contributes to give an outline of the performance of the sales and marketing business, which determines the Group’s results (in 2004 the weight of the financial income from the commercial area was 97.4% with respect to the Group figures, the weight of non-interest income was 75.0%, total banking income accounted for 87.2% and the gross operating profit for 102.6%). The performance of the commercial area was appreciable in terms of volumes and margins. The volumes expanded substantially, as already evidenced when analyzing the dynamics of funding and lending. The margins showed a positive trend, with a steady interest income (+0.3%), non-interest income (-0.5%) and total banking income (no change), in addition to a very good gross operating profit (+5.6%) on an annual basis. In general terms, the good performance of the commercial area is confirmed, in accordance with the above-mentioned limits and methods, by a RAROC of 10.5% (6.8% for the Group), with a capital absorption ratio for the Group of 66.8% and a cost/income ratio of 63.8% (69.3% for the Group).

Turning to non-commercial areas, I should like to move on to the Finance & Investment Banking Area which monitors the activity of proprietary finance and securities portfolio management, Treasury and the integrated management of assets and liabilities (ALM). Firstly, as a result of the low volatility of the equity markets and the different trends of the other areas, the Area adopted a tactical position aiming at gradually reducing risk exposure with the consequent reduction of market risks and a strong decrease in the volume of the Group’s portfolio of own securities. Secondly, the final centralization at the Parent Company of the management of the Group’s financial flows encouraged the management of global liquidity, with substantial benefits in terms of optimization of expected flows and containment of the daily requirements, and reduction of the debit balance of the net interbank borrowing position. Thirdly, the activity of measurement and control of the Banking Book exposure to liquidity and interest rate risks entailed, inter alia, bond issues in the international market and the issues of subordinated loans in relation to the management of Tier 2 capital, in addition to the issue of a bonded loan convertible into ordinary shares of Banca Nazionale del Lavoro.

As a whole, the performance of the Area was strongly dependent on the above-mentioned market situation and the consequent tactical position adopted for its securities portfolio. In particular, interest income (EUR 85 million or 3.5% of the Group’s interest income), non-interest income (EUR 133 million or 6.5% of the Group’s non-interest income), total banking income (EUR 218 million or 4.9% of the Group’s total banking income), the gross operating profit (EUR 126 million or 9.2% of the Group’s gross operating profit) were much lower than in 2003 (-16.6% and, respectively, -48.1%, -39.1% and -51%). More in general, in accordance with the above-mentioned limits and methods the contribution of the Area was appreciable, with a RAROC of 27% (6.8% for the Group) with a capital absorption ratio of the Group of 3.9% and a cost/income ratio of 42% (69.3% for the Group).

The activity of International Affairs was mostly oriented toward supporting foreign operations of Italian customers, with particular reference to the development and follow-up of the process of internationalization of the SMEs. In this framework, the Area intensified the co-operation with SACE and continued to design innovative products and services with the objective of facilitating the relationships of Italian companies with foreign counterparties. It is worthwhile mentioning “International Partner”, the service model aiming at supplying a wide range of professional services and technical assistance through the co-operation of the Group foreign network and a network of professional consultants selected in each target country (i.e. legal advisors, fiscal consultants, contractual experts etc.) . The activity of correspondent banking - focused on intensive business relations and the increase in business flows with the objective of improving the Group’s efficiency and image – continued to play a role of paramount importance. A specific aspect, which was very important from a strategical viewpoint, was the streamlining of the foreign network which will be described later on.

The performances achieved were partly influenced by the planned policy of optimization and upgrade of the loan portfolio. As a consequence, the business volumes recorded a moderate progress of funding (+2.6%) in comparison with 2003, but also a sharp reduction of loans (-18.5%), with negative repercussions on the dynamics of income flows. In particular, interest income (EUR 66 million or 2.7% of the Group’s interest income), non-interest income (EUR 33 million or 1.6% of the Group’s non-interest income), total banking income (EUR 99 million or 2.2% of the Group’s total banking income), the gross operating profit (EUR 18 million or 1.3% of the Group’s gross operating profit) were lower than in 2003 (-9.7% and, respectively, -22.7%, -14.5% and -33.4%). More in general, in accordance with the above-mentioned limits and methods, the lacklustre performance of the Area is confirmed by a RAROC of 3.4% (6.8% for the Group) with a capital absorption ratio of the Group of 1.7% and a cost/income ratio of 81.5% (69.3% for the Group).

With reference to the foreign banking subsidiaries, the performance of Monte Paschi Belgio was characterized by the positive developments resulting from the reorganization and streamlining process undertaken, with an improvement of the quality of the loan portfolio and appreciable profits (EUR 5.2 million in 2004 versus a EUR 24.2 million loss posted in 2003). In light of a rigorous selection of loans and in presence of a critical situation in the private banking market , the performance of Monte Paschi Banque was less impressive, although showing an improving gross operating profit (+20.9%) with respect to 2003 and a decreasing total loss (from EUR 6.1 million to EUR 2.8 million).

The Tax Collection Area experienced a turnaround. In 2004, after the considerable recurrent losses registered in the past, the Area achieved positive results, mostly due to the programme of streamlining and efficiency improvement started in 2001. These results, mainly attributable to the containment of operating and financial costs and the increase in the recovery of tax rolls, are appreciable because they were achieved operating against a critical regulating and administrative backdrop. The favourable development of the situation is clearly proved by the gross operating profit which went from the loss incurred in 2003 to the profit of EUR 22 million posted in 2004, with a177.2% increase with respect to 2003. On the basis of the breakdown of the Area, this resulted from the profit of direct tax collection units and, above all, the positive performance of the main Group tax agent, Monte Paschi Serit, from a EUR 24.4 million loss in 2003 to a profit of EUR 4.8 million in 2004. The contribution of the other Group tax agents is minimal, though improving.

An Area which merits specific consideration is the Equity Investments Area, although it is not included in this report among the Business Areas subject to the analysis of profitability, since it is newly established. This new Area started operating early in 2004 with the specific task of managing the Group investments, co-ordinating corporate relationships between the Parent Company and the subsidiaries/affiliated companies, issuing the relevant Group provisions and arranging acquisitions, sales, changes, mergers and capital transactions concerning said subsidiaries/affiliated companies. During its first year of operations, the Equity Investments Area realized important results ranging from the design of a new monitoring system of equity investments to the action of portfolio streamlining. From this viewpoint, the initiatives undertaken were very incisive with 27 investments sold, total proceeds amounting to EUR 129 million and net capital gains totalling more than EUR 35 million. A contribution to the global profitability of the Area came from extragroup dividends in the amount of EUR 33 million. As of 31 December 2004, the total equity investment portfolio amounted to EUR 7,570 million, including investments in Group companies in the amount of EUR 5,249 million and other equity investments for EUR 2,321 million.

With the analysis by business areas completed, I should like to move on to several other important subjects such as the distribution channels, customers' portfolio and human resources.

As far as distribution channels are concerned, the Group continued the process of streamlining of the network and its qualitative and technological development. The "Programme of geographical expansion and streamlining of the sales network" responds to the requirement of streamlining. The Group pursued the re-engineering of the production processes and the integration of electronic banking channels in a logic of integrated multichannels. With reference to the re-engineering of the processes involving all the Group branches, about 70% of the processes contemplated by the programme were implemented, thereby producing a recovery of efficiency quantifiable in approximately 700 resources dedicated to sales and marketing activities. As a result of the integration of the electronic banking channels - which incorporated the implementation of the project of migration of low-value added transactions toward remote channels, the weight of the most frequent transactions at the counter dropped from 61% to 54% in 2004, with an increase in the weight of Internet Banking transactions up to 32%.

The Group's distribution network was consolidated further in terms of volume and was streamlined in terms of channels. From 2003 to 2004 the number of financial boutiques contracted by 53 to 159, the number of financial advisors by 219 to 1,133, the number of foreign banking facilities decreased by 8 to 30 and the number of ATMs fell by 66 to 2,199. These decreases were flanked by increases in the number of domestic branches (which rose by 5 units to 1,805 at the end of 2004) with POS terminals growing by 1,490 to 70,788. The presence in the territory was virtually unchanged with a clear focus on central Italy. As of the end of 2004, the Group's branches were distributed all over Italy as follows: 28.5% in the northern regions of the country, 50.5% in central Italy and 21% in the souther regions of Italy and in the islands. Rounding out the picture is the system of remote channels (e.g. Internet banking, mobile banking, phone banking, TV banking and remote banking) which continued to develop its query and instruction functions and included at the end of 2004 598,873 contracts in effect (excluding telephone banking contracts). The retail segment accounted for 82.7% of these contracts, the corporate segment for 16.4%, the private segment for 0.8% and the Public Entities segment for 0.1%. The contracts executed with corporate customers recorded a hefty growth of more than 2% in comparison with 2003.

As regards the technological consolidation of the remote channels, specific emphasis was placed on strenghtening the payment services to retail and corporate customers. Credit and debit cards progressed strongly reaching the total number of 1,800,000 at the end of 2004 (with credit cards accounting for 46.5% and debit cards for 53.5%). In detail, in comparison with 2003, the amount traded through said cards advanced by 5.5% with respect to the volumes disbursed and 3.6% with respect to the number of transactions executed.

The structure of the Group's distribution network is completed by the direct and indirect foreign network. The direct foreign network consists of six branches and seven representative offices, the indirect network incorporates 17 branches belonging to two banking subsidiaries, MP Banque and MP Belgio. The process of streamlining of the network started in 2003 continued in 2004 and was targeted at enhancing the Group's role of support and assistance to Italian customers abroad. With reference to the indirect network, the Group sold Banca Monte Paschi Channel Islands and Banca Monte dei Paschi Suisse and some minority equity investments originally purchased by Banca Agricola Mantovana in some eastern European banks. As far as the direct network is concerned, the Group prepared a plan of international presence with the objective of keeping its presence in the major international financial centres and re-orienting the Group's presence in the markets with a high growth potential, which are more attractive to the domestic customers (i.e. Mediterranean area, Central and eastern Europe, Far East), through the development of "light" banking facilities. In compliance with these guidelines, the Group decided to close the branches of Madrid and Singapore and to open the representative offices of Casablanca, Canton and Mumbai. In this framework, several commercial agreements with foreign banks and advisory firms were executed, including an agreement with Citibank which embraces the establishment of specific customer desks located in the subsidiaries of this bank operating in the major countries of eastern Europe, staffed by resources of the MPS Group with the objective of assisting the Italian companies operating in the relevant markets. Such agreement is already enforced with the establishement of a customer desk in Poland. Other agreements are existing with other banks in Romania, Spain, China, India, Morocco, Egypt and Algeria.

As of the end of 2004, the Group's distribution channels services a customers' portfolio at a Group level consisting of more than 4,100,000 units, or over 4,400,000 units including the direct customers of Consum.it. In terms of weight by segment, retail customers accounted for 91% of the 4,100,000 customers of the Group commercial network, the Private customers for 1% and the Corporate customers for 8%. The Family segment (customers with assets of less than EUR 25,000) of retail customers accounted for 69%, Lower Affluent customers (customers with assets from EUR 25,000 to EUR 125,000) accounted for 24% and Upper Affluent (customers with assets of more than EUR 125,000 up to EUR 500,000) 7%.

With regard to human resources, a specific characteristic of 2004 was the reduction in staffing, as started in 2003. In 2004 the Group's workforce declined by 259 units, to be added to the 636 unit decrease of 2003. In the last two years, the Group's personnel dropped by 895 units or 1,195 including the resources working under apprenticeship contracts in the Tax Collection Area. As of 31 December 2004, the Group's workforce totalled 26,622 units. This dynamics reflects the

Group’s policy of containment and retraining of the workforce with the objective of improving flexibility and the structure of costs, through natural turnover and specific early retirement incentive plans or solidarity funds which are partly offset by the recruitment of young professionals. (In the two-year period between 2003 and 2004, 530 staff units and 809 units left the Group as a result of the Early Retirement Incentive Plan and the Solidarity Fund, respectively).

Highlights on the Group’s personnel include the staff breakdown by unit of reference (4.2% at the Corporate Center, 67.5% in the commercial banks, 0.8% in the asset management companies, 1.6% in the foreign banks, 6% in the product companies, 9.8% in the service companies, 9% in the tax collection area, 0.6% in the insurance area, 0.5% in other companies). With reference to the Bank’s personnel which decreased in 2004 by 449 staff units with a resulting total workforce of 12,192 units as of 31 December 2004, other highlights incorporate the average young age of human resources (41.5% of staff are less than 40), relatively low average seniority (33.5% of staff have less than 10 years of service), the high percentage of women employed (women account for 38.9% of staff), a good education (26.3% of staff graduated from the university).

In addition to the measures adopted with respect to the quantity and mix of staff for the purpose of cutting costs, the Group implemented a policy for the management of human resources with guidelines aiming at the achievement of qualitative objectives in relation to the development of professional skills and the retraining of human resources. Such guidelines mostly focused on the consolidation of training, the development of the management model based on professional skills and a new rewarding system.

Emphasis on the enhancement of the Group’s human resources is closely associated with the centrality of people, in view of the Bank’s and the Group’s traditional commitment to social responsibility. This commitment is a distinctive feature of the Bank’s and the Group’s strategies in a continuous effort to match the typical corporate objectives of growth and value creation with a system of values committed to social welfare and the protection of the environment. In 2004 the Bank and the Group intensified their efforts and developed specific initiatives in relation to corporate strategies, organization, product and service policies, participation in external programmes and initiatives.

Firstly, I should mention the Strategic Plan of Social Responsibility, a medium-term programme targeted at integrating corporate responsibility and the Group’s strategic planning processes as a prerequisite for the creation of value over time. Secondly, the Group set up a Committee for Corporate Social Responsibility, one of the Committees having input and advisory functions to the Board of Directors of BMPS. The Committee for Corporate Social Responsibility supersedes the former Advisory Board and focuses on the Bank’s social responsibility with particular regard to the protection of the environment, customers’ satisfaction, staff professional development and the stakeholders’ interest. Thirdly, the Group introduced many innovations in its range of ethical products and loans offered by some Group units and completed the preliminary stage of the “microcredit project” with the objective of setting up a company held by the Bank and other local entities, and dedicated to microcredit. Fourthly, the Group finalized the activities concerning the ETHMA project (“Ethics and Market”), an initiative funded by the European Commission for the purpose of (i) promoting ethical funds, (ii) starting the co-operation for the project of “Sustainable Development through Global Compact”, which contributes to the promotion of corporate social responsibility among the SMEs, (iii) launching the Consumer-Lab programme, which represents the state of the art in the Italian banking industry - with the creation of a joint laboratory consisting of the representatives of the MPS Group and the principal Consumers’ Associations - and acts as a liaison centre for the study of the improvement of customers’ relations. All the efforts made with respect to social responsibility are outlined in the 2003 Socio-Environmental Report, which was published last autumn in its fourth edition and can provide additional information on these issues.

All these important initiatives confirm the Bank's and the Group's commitment to corporate responsibility and can be associated with the claims in relation to long-term savings plans and structured products. The Bank and the Group faced this critical situation in view of their steady commitment to the various stakeholder categories, and in particular the customers. During the Shareholders' Meetings which were held in April 2003 and April 2004, I had the opportunity of pointing out the following pivotal elements which I should like to emphasize, since today words have materialized. These pivotal elements entailed: (i) focus on the customers, (ii) emphasis on markting policies and segmentation techniques, (iii) full legal and financial validity of all the Group's products, (iv) open commitment to examine all customers' claims thoroughly and firmly, and to settle problem cases which emerged during the placement. These priorities became the points of reference for starting other actions. In particular, BMPS was the first Italian bank which decided to open a settlement procedure with the Consumers' Associations registered in the list of the Ministry of Productive Activities. The disputes concerning the savings plans and the structured products were settled as of 31 May 2004 and 31 December 2004, respectively. The parties gave a positive opinion on this experience in the joint press release dated 8 July 2004 in relation to the completion of the examination of the claims concerning the savings plans (My Way and For You).
Between 7 July 2003 and 31 May 2004 the Bank held 138 meetings with the Consumers' Associations. As a result of the settlement procedures, 21% of claims received were repaid on a case by case basis in different amounts ranging from 80 and 100% of the sums paid; 51% of contracts executed were restructured, cancelled after the sixth year from the date of subscription at favourable terms or repaid up to 80%; 28% of claims received were unacceptable. The press release also indicated that the claimants' percentage of acceptance of the proposals submitted by the Bank topped 90%, thus confirming the success of the initiatives undertaken.

The frequency of said claims gradually reduced over 2004. In particular, the Bank received 7,596 claims during the second half of the year (18,317 claims as of 30 June 2004), including 5,397 claims concerning the savings plans (12,714 as of 30 June 2004) and 2,199 claims concerning the structured products (5,603 as of 30 June 2004), with a sharper decline in the last quarter of the year. More in general, the claims received from 2002 (when problems arose for the first time) to 31 December 2004 were 29,311 with reference to the savings plans (36.5% were supported by the Consumers' Associations, or 16.8% of plans placed) and 9,159 with respect to structured products (22.6% were supported by the Consumers' Associations, or about 55.2% of total). As of 31 December 2004, 81.8% of claims in relation to savings pland and 92.3% of claims concerning structured products had been settled. The ratios of claims admitted to total claims received and total claims settled were 48.7% and 59.5% respectively in relation to the savings plans. With reference to the structured products, the ratios of claims admitted to total claims received and total claims settled were 81.6% and 88.5% respectively.

For reporting purposes, the Group adopted last year's conservative criteria based on the statistics concerning the settlement procedures available until the drafting of the Annual Report. Contingent liabilities for charges incurred with respect to the claims already settled were posted in the amount of EUR 87.7 million (EUR 67.5 million for BMPS) in the 2004 consolidated financial statements, in addition to extraordinary income in the amount of EUR 33.0 million (EUR 29.0 million for BMPS) for the use of the provisions for risks and other charges. As of 31 December 2004, the provision for risks and other charges included EUR 81 million (EUR 48 million for BMPS) for the purpose of covering possible risks resulting from the savings plans and the structured products. The total economic impact produced by these claims will be evaluated only after clearing up pending claims. However, I am pleased to realize that the judgements rendered, confirming the full legal validity of the products in question, are more and more increasing and that the Group succeeded in managing this situation by avoiding the deterioration of the customers' confidence and encouraging co-operation with the principal Consumers' Associations. This is also proved by the start of the Consumer-Lab project, which continues the Bank's fruitful collaboration with said Associations.

From the industrial and strategic viewpoint, in 2004 the Bank and the Group concentrated their efforts on the gradual implementation of the 2003-2006 Business Plan. In this logic, the final objective to be pursued is the MPS Group's configuration as a leading domestic banking group which is strategically independent and able to create value. The Group's guidelines continued to be oriented on internal and external growth on the one hand, and the improvement of operating performance on the other hand.

With reference to growth, particular emphasis was placed on internal growth since external growth was strongly dependent on the operating scenario.

The programme of internal growth contemplates the launch of the above-mentioned "Programme of geographical expansion and network streamlining" (also known as 2004-2006 Branch Plan"). This programme, to be completed by 2006, aims to optimize the domestic presence of the commercial banks, also with reference to their traditional franchise, and entails the opening of 119 branches and the reallocation of 39 banking facilities. As of today, this programme is being implemented and the Group has already started activities for opening about 100 branches in 2005.

Due to the uncertain operating backdrop, the Group has decided to turn to an important international advisor in relation to external growth with the objective of analyzing the different viable options in terms of general strategies with no reference to any possible specific targets, and focusing on the examination of the opportunities of development, through alliances and partnerships, in specific high-growth potential sectors (i.e. consumer credit, bancassurance and asset management). At the moment, the Head Office is investigating and steadily monitoring the market in order to check any existing opportunities of development, to be taken into account on the basis of the essential evaluations of economic and strategic benefit.

In this framework, the MPS Group resolved the three-year renewal of the shareholders' pact with Spoleto Crediti e Servizi in relation to the minority investment (25%) held by the Group in the capital of Banca Popolare di Spoleto.

This decision was flanked by the purchase of a 28.8% interest in Spoleto Crediti e Servizi by Banca Monte dei Paschi di Siena, in addition to the expected consolidation and development of Banca Popolare di Spoleto in its area of reference, with the possibility for the MPS Group to increase its commercial presence in this area.

Let me now move to the issue of the equity investment held by Banca Monte dei Paschi di Siena in the capital of Banca Nazionale del Lavoro. In 2004, this involved two important decisions: (i) the first one was made in June in relation to the issue of a bonded loan convertible into shares of Banca Nazionale del Lavoro, expiring in 2009, in the amount of EUR 450 million roughly. This loan enabled Banca Monte dei Paschi di Siena to raise funds in the market at favourable economic conditions and to keep the voting rights associated with the investment in question; (ii) the second decision was made in November in relation to the exercise of the right of option with reference to the capital increase of EUR 1,224,268,979.36 suggested by Banca Nazionale del Lavoro. Both decisions are attributable to the more general objective of protecting the value of this equity investment and the relative governance rights. With this objective in mind, the MPS Group follows up the crucial stage following the public offering for the exchange of the ordinary shares of Banca

Nazionale del Lavoro, launched by Banco Bilbao Vizcaya Argentaria. The relative decisions are made and will be made on a case by case basis once the operating backdrop clears up and, obviously, only in the interest of Banca Monte dei Paschi di Siena. In line with this strategy, so far the Group has decided to participate in the next Shareholders' Meeting of Banca Nazionale del Lavoro with a list for the appointment of the members of the Board of Directors prepared together with Banca Popolare di Vicenza on the basis of the Shareholders' Pact signed by Banca Monte dei Paschi di Siena and Banca Popolare di Vicenza on 24 December 2002, expiring after three years in 2005.

The improvement of operating performance was pursued firmly and, as contemplated by the Business Plan, should leverage commercial productivity, the improvement of operating efficiency and the optimization of risk management on the basis of an intensive planning action. In particular, the Group has activated roughly 40 projects, with some projects already completed and most projects expected to be finalized during 2005.

More specifically, the initiatives undertaken in relation to the development of commercial productivity were concentrated on the enhancement of the quality of the services supplied to the customers, by implementing specific platforms specialized by segment. These initiatives have already been mentioned when I have outlined the Retail, Private and Corporate Business Units.

The initiatives undertaken for the improvement of operating efficiency implied the containment of costs, the reorganization and efficiency of operations and administration. Specific considerations on the containment of costs were made during the analysis of the Bank's and the Group's profit and loss statement, whereas the actions concerning reorganization and efficiency embraced (i) the completion of the organizational review of the branch operations in the commercial banks; (ii) the continuous re-design of some branch transactions in view of freeing up human resources and professional time from low-value added operations; (iii) the completion of the centralization of back office operations in the Group's units at the Operating Consortium; and (iv) the launch of specific projects targeted at downsizing Head Office units (Corporate Center and the Head Offices of the banks) and the branches which co-ordinate a specific geographical area (Major Branches).

With reference to the optimization of risk management, the MPS Group concentrated efforts on the finetuning of the management of credit risk and the improvement of market risk and operating risk monitoring, in compliance with the guidelines of the Basle 2 Accord. All these activities have been described when analyzing the profile of risk control.

In addition, the Group is planning (i) the reorganization of its real estate activities and the optimization of real assets, and (ii) the Bank's and the Group's compliance with Basle 2 regulations and the IAS accounting standards. Two specific project groups follow up the second issue. The activity of the Basle 2 Project Group has already been illustrated when I have dealt with the Group's lending policy. The IAS Project Group is working with great industry, despite the delayed finalization of the regulations of reference. Although the MPS Group is required to enforce the new accounting standards only with respect to the consolidated financial statements, the Bank is weighing the opportunity of adopting the IAS in the Bank's financial statements in advance, starting from 2005, in order to encourage consistency, transparency and greater intelligibility.

This is flanked by the implementation of the Business Plan which also implied the finetuning of the Group's structure and organization. To this end, the Group undertook many initiatives for streamlining its structure, including:

- the merger by incorporation of Banca Steinhauslin into BMPS, as part of the strategy of global reorganization of the Group’s private banking business;
- the set up of MPS Banca per l’Impresa - the new name of MPS Merchant following the consolidation of said company through the merger by incorporation of MPS Banca Verde and the transfer of the capital market business unit of MPS Finance, as part of the strategy of streamlining the Group’s corporate finance business;
- the start-up of the reorganization plan of Banca 121 P.F. which will be renamed MPS Banca Personale as of 1 January 2005, as part of the reorganization process of the Group’s presence in the area of financial advisory services;
- the new name of Ticino Assicurazioni, renamed Monte Paschi Assicurazione Danni, and of Grow Life Limited, renamed Montepaschi Life (Ireland) Limited, which completes the process of rationalization of the insurance business started in 2003;
- the merger of Montepaschi Ireland Limited and Mantovana Ireland Limited, as part of the strategy of reorganization of the Group’s Irish-law companies;
- the sale of Banca Monte Paschi Suisse, Banca Monte Paschi Channel Islands and other minority investments in the capital of some banks in eastern Europe, as part of the strategy of streamlining the Group’s indirect presence abroad;
- the decision to close the branches in Singapore and Madrid and to open the representative offices of Casablanca, Canton and Mumbai, as part of the strategy of streamlining the Group’s direct presence abroad.

The drive to re-design the Group’s organization has embraced the consolidation of the multi-market model and the streamlining of Head Office units.

The measures adopted with respect to the multi-market model incorporate the establishment of the following new Areas:

- the Private Banking Area, which was set up when Banca Steinhauslin merged into BMPS, responds to the need of harmonizing the Group’s Private Banking business;
- the Equity Investments Area, which is in line with the objective of monitoring and streamlining the Group’s diversified portfolio of equity investments;
- the Communications Area, which responds to the dual need of (i) monitoring institutional communications in close co-ordination with the various units which take care of product communications, market and corporate communications, and (ii) trying to develop a “culture of communications” in an environment which is often characterized by leaks and the distorted and instrumental use of information, with consequent serious damage to the Bank’s and the Group’s image.

Furthermore, the MPS Group has started the above-mentioned project of streamlining the Head Office units. To this end, in March 2004 the Group decided to centralize some of the activities of the commercial banks at the Corporate Center and to downsize the other central organization units of these banks which were not involved in the centralization process, with the consequent revision of the structure of the Corporate Center and the Head Offices of the banks involved. By this decision the Group intends to streamline its global structure, reduce the diseconomies produced by the duplication and overlap of structures, but also to protect the independence of management of the banks in question and their franchise in the markets of reference. This strategy attempts to combine the opposing requirements of (i) the centralization of functions at BMPS and (ii) the operating independence of the Group companies.

The major events occurred in 2004 with reference to the Bank’s and the Group’s global governance incorporated:

- numberless meetings of the Board of Directors and the Executive Committee (33 and 48 meetings, respectively, held during the year);
- the further increase in the powers delegated by the Board of Directors to the Executive Committee with respect to personnel issues, equity investments, loan disbursement, bad loans, overheads and the profit and loss statement;
- the review of the Committees having input and advisory functions to the Board of Directors, by setting up the Committee for Corporate Social Responsibility, in addition to the Remuneration Committee and the Internal Control Committee, and modifying the composition/membership and the tasks of the pre-existing Communications Committee.

The trend of BMPS shares gives a good overall picture of the Bank and the Group, although the share price is also indicative of circumstances other than the factors associated with corporate key highlights. In 2004, BMPS shares grew by 4.8% on a yearly basis, closed the year at EUR 2.63 and reached an annual high of EUR 2.74 on 18 February 2004 and an annual low of EUR 2.30 on 28 September 2004. This increase was lower than the performances recorded in 2004 by the Mibtel Index (+18.1%), the Mib30 Index (+16.9%) and the Mibbanks Index (+9.8%). The number of shares traded on a daily basis averaged around 5.4 million for the year, with a low of about 1.1 million in June and a peak of about 29.4 million in September. As of 31 December 2004, the market value of BMPS was close to EUR 7.9 million and BMPS shares traded, in terms of market multiples, at a multiple of 13.3 times projected earnings for 2005. The ratio of price to book value was around 1.2 at the end of 2004. From the standpoint of risk, the shares of BMPS continued to be defensive, with an unchanged Beta with respect to 2003 (0.86) and volatility falling from 23.34% in 2003 to 14.63% in 2004.

The opinions of the major rating agencies, which confirmed outstanding short-term and medium-term debt ratings, are positive. However, though confirming its debt ratings, Standard & Poor's downgraded the outlook from stable to negative.

As far as investor relations are concerned, the MPS Group intensified its relations with the market. At the end of 2004 about 30 financial analysts covered the BMPS shares with a percentage of "hold" recommendations of 50%. Yesterday the BMPS shares closed at EUR 2.715, a price slightly lower than the 2004 high. This is supposed to be promising, because yesterday's price is part of a recent favourable trend for BMPS shares which is characterized, according to the information coming from the competent Bank's units, by a performance of 3.4% for the period from 31 December 2004 to 28 April 2005, lower than the Mibbanks Index (+8.2%), but higher than the Mibtel (+0.2%) and the Mib30 (-1%), with a peak of EUR 2.93 recorded on 16 April 2004. It is encouraging that this positive trend has been favoured by the investors' appreciation of the results achieved in 2004 which I am submitting to you today.

Summing up, it has been once again a source of great satisfaction and pride for me to outline the most outstanding events occurring in 2004 to the Bank's shareholders; despite the unfavourable critical factors enveloping the economy and the financial markets during the year, the Bank and the MPS Group

- achieved a satisfactory performance in terms of earnings and operating volumes;
- implemented an ambitious and sophisticated Business Plan effectively and punctually;
- streamlined the Group's structure;
- carefully monitored the developments of the banking scenario, though keeping their strategic expectations.

In conclusion, the overall picture of the Bank and the Group which emerges from these developments appears comforting and clearly improving in comparison with 2003. Despite the critical economic and political scenario in Italy which is strongly characterized by instability and uncertainty, the MPS Group has numberless strenghts flanked by some weaknesses which can be overcome and solved.

Nonetheless, in light of the accomplishments, I wish to thank all of the Bank and the Group employees for their professionalism, dedication, sense of commitment and loyalty. This note of appreciation also extends to Union representatives with whom it has been possible to maintain good industrial relations based on mutual respect and the pursuit of the best interests of the Bank and the Group.

I also wish to acknowledge the contribution of the Head Office Executives and other managers in terms of skills and sense of commitment. A special note of appreciation goes to the Chief Executive Officer, Emilio Tonini, for his discretion, great professionalism and dedication.

Let me extend my sincere and great thanks to the other members of the Board of Directors. I wish to acknowledge specifically the quality of their professional contribution that has been assured over the years, and the continuous, credible and impartial support which they have provided to me in my role as Chairman.

A final note of thanks goes to the Chairman of the Board of Statutory Auditors, Giuseppe Vittimberga, and his two colleagues for the rigorous and expeditious controls which they have consistently assured to the Bank and the Group.

Considering the efforts made in 2004 in terms of balance-sheet results and the implementation of the Business Plan, we can look to the future with confidence and peace of mind.

In the midst of an operating scenario and a backdrop for the economy and the financial markets which are characterized by current difficulties and uncertain prospects, the Bank's and the Group's strategies are based on the short-term guidelines indicated in the 2005 Budget and the medium-term strategic directives provided for by the Business Plan.

As far as the 2005 Budget is concerned, the objectives to be pursued during the year in terms of growth of operating profitability and increase in volumes traded have been set in compliance with the longer-term guidelines illustrated in the 2003-2006 Business Plan. Irrespective of purely quantitative profiles, the Group's key objectives incorporate:

- the monitoring and development of customers' relations;
- the stability of operating costs;
- the containment of the cost of credit;
- the achievement of appropriate capital ratios.

The indications emerging from the Bank's and the Group's operating performance in early 2005 prove that the developments are in line with the Budget.

With reference to medium-term strategies, as a result of the uncertainty characterizing the development of real economy and, in particular, the postponement of the projections for the operating scenario taken into account in the 2003-2006 Business Plan, we can assume that the Business Plan will be adjusted and updated during 2005. However, the new version of the Business Plan will change nothing with respect to its fundamental guidelines which will continue to be represented by the improvement of the operating performance and the promotion of growth. As already noticed last year, the objectives of these two guidelines are achievable, though they appear more uncertain. Operating performance actually reflects almost only corporate decisions, whereas growth, and in particular external growth, largely depends on the developments of the banking scenario and requires the shareholders' fundamental support in terms of ideas and initiatives. Nonetheless, I think it advisable to stress what I stated in April 2004 during the Shareholders' Meeting: both objectives shall be pursued firmly and with determination, aiming at keeping the MPS Group strategically independent as a leading player in the Italian and European banking scenario.

With this situation, I should like to close with a message of hope and certainty.

First, let me thank the Shareholders' Meeting for the attention given to these long "summary considerations".

Next, I hope that in 2005 the Bank and the Group will be in a position to achieve even better results than the brilliant performance recorded in 2004.

We are on the right track, but we have to work together with sense of unity and determination, exclusively in view of the interests of the Bank which I feel honoured to represent for the time being and which belongs fully to the shareholders.

ANNUAL REPORT 2004

Siena, 30 March 2005

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REPORT ON THE OPERATIONS OF BMPS

1. CORPORATE OFFICERS, SENIOR MANAGEMENT AND AUDITORS

Board of Directors:

Pier Luigi Fabrizi, *Chairman**
Stefano Bellaveglia, *Deputy Chairman**
Emilio Gnutti, *Deputy Chairman**
Fabio Borghi, *Director*
Francesco Gaetano Caltagirone, *Director*
Turiddo Campaini, *Director*
Massimo Caputi, *Director**
Francesco Saverio Carpinelli, *Director**
Giuseppe Catturi, *Director**
Luca Fiorito, *Director*
Lorenzo Gorgoni, *Director**
Andrea Pisaneschi, *Director**
Carlo Querci, *Director*
Roberto Rossi, *Director*
Ivano Sacchetti, *Director*
Girolamo Strozzi, *Director*

**Members of the Executive Committee*

Board of Statutory Auditors:

Giuseppe Vittimberga, *Chairman*
Pietro Fabretti, *Acting Auditor*
Leonardo Pizzichi, *Acting Auditor*
Stefano Mendicino, *Alternate Auditor*
Marco Turillazzi, *Alternate Auditor*

Senior Management:

Chief Executive Officer	Emilio Tonini
Deputy Chief Executive Officer	Pier Luigi Corsi
Assistant Chief Executive Officer	Antonio Vigni
Assistant Chief Executive Officer	Rossano Bagnai

Independent Auditors KPMG S.p.A.

A BRIEF OVERVIEW ON 2004 OPERATIONS AND THE IMPLEMENTATION OF THE BUSINESS PLAN

This introduction provides an overview on 2004 operations and the projects which involved the Group during the year. The major initiatives undertaken are detailed in the following sections dedicated to the development of operations in the different business areas.

IN 2004 the MPS Group carried out the numerous projects linked with the implementation of the 2003-2006 Business Plan, with specific reference to the completion of the commercial platforms, the review of loan disbursement and monitoring processes, the optimization of the level and structure of administrative expenses and the consolidation of capital ratios. As already anticipated during the year, the operating backdrop in the first part of the year was complicated and difficult to understand and required a conservative and selective stance in the implementation of commercial and lending policies. Starting from the summer, the operating scenario slightly improved with respect to the bank/investor relationships, the economic situation and the dynamics of the financial markets.

In this framework, the Group achieved appreciable results from the standpoint of the development of the operating basis and the growth of profitability.

In particular:

- With reference to **asset management**, the Group commercial networks realized good quality performances with flows totalling roughly EUR 7.6 billion, driven by insurance policies and capital-guaranteed products. **The Group confirmed/increased its market shares in the main operations segments with a 4.9% growth of direct funding (at EUR 86 bn) and a 2.7% progress of funds management;**

- With reference to the **lending business,** the Group commercial policy focused mainly on building business in the medium-/long-term loans granted directly by the distribution networks (+18% the new retail and corporate mortgage loans) and on behalf of the special credit companies (including Consum.it with consumer credit flows amounting to about EUR 1,400 million). As of 31 December 2004 the **total lending volume** stood at EUR 74.4 billion rising by 5.7% year on year. The traditional conservative lending policy in addition to the rigorous criteria of selection of doubtful loans enabled the Group to confirm a good asset quality with a **net doubtful loans/customer loans** ratio in line with the average for the banking industry (2.1%).

  The watchful management of capital absorption, already based on a logic consistent with the second Accord of Basle, **remarkably improved capital ratios for regulatory purposes** with the solvency ratio standing at 9.95% (+6 b.p. with respect to December 2003) and Tier 1 ratio at 6.74% (+28 b.p. in comparison with 31/12/03).

  With reference to **capital aggregates**, **the Total Banking Income rose by 11.4% r**esulting from virtually steady revenues from the commercial core business flanked by the reduction of trading income, a further considerable decrease in administrative expenses and a huge decline in the cost of money.

Including adjustments and provisions (based as usual on conservative criteria) consolidated net profits came to EUR 513.7 million with a 16.1% increase over 31 December 2003. Net of adjustments on goodwill, the net profit stood at EUR 609 million (+11.7% with respect to 31/12/03). The ROE on average net equity was 8.2% and 9.8% including and excluding adjustments on goodwill respectively.

* * * * *

In 2004 the MPS Group undertook numerous **initiatives of corporate reorganization** aimed at consolidating its position in the strategical markets, streamlining governance terms and optimizing the use of capital. The major initiatives embrace:

- The finalization of the merger by incorporation of Banca C. Steinhauslin in the Parent Bank Banca Monte dei Paschi, for the purpose of reorganizing the Group's Private Banking activity.
- The execution of the merger by incorporation of MPS Banca Verde in MPS Merchant and the subsequent transfer to MPS Merchant of the corporate finance business unit of MPS Finance. The incorporating company them changed its name into MPS Banca per l'Impresa.
- The sale of Banca Monte Paschi (Suisse) SA and Banca Monte Paschi (Channel Islands) Ltd and the winding up of MPS Commercial Paper Co (Delaware).
- The reorganization of the Irish-law companies with the merger of Monte Paschi Ireland Ltd (former 121 Financial Services Ltd) and Mantovana Ireland Ltd; Grow Life Ltd changed its name into Montepaschi Life (Ireland) Ltd.
- The promotion and restructuring of Banca 121 PF, with the objective of achieving operating break even in 2006. To this end, the company changed its name into MPS Banca Personale, effective January 2005.

During 2004, the MPS Group's efforts went to an **intense activity of projects**. According to the 2003-2006 Business Plan, efforts were mostly made to improve profitability by **developing commercial productivity, enhancing operating efficiency and optimizing risk management**. The roughly 40 projects identified as a result of the approval of the Business Plan include some projects already completed such as the first loan disbursement to Small Business customers and the inititatives targeted at the introduction of methods and instruments of capital allocation in a logic of value creation (Capital Management and Value Based Management). Several major initiatives aiming at the specialization of the production and distribution structure by customer segment are expected to be completed in the first months of 2004 (e.g. the definition and extension to the commercial networks of the service models targeted at Private, Affluent, Small Business, SME and Public Entities customers.

THE DEVELOPMENT OF COMMERCIAL PRODUCTIVITY

The main purpose of the measures adopted by the Group for increasing commercial productivity is to improve customer service through platforms specialized by segment.

- *Private Customers*

In order to consolidate the Group's position in the Private Banking market, at the end of 2003 the Group embarked on a project for developing a dedicated service model based on the diversification of the product range by customer sub-segments and the creation of Private Centers with highly experienced managers with respect to advisory services (not only banking/financial services, but also real estate, legal services…). As a result of the completion of the project, the Group will be able to:

- Create a Private Banking Area within the Parent Bank's Corporate Center.

- Merge by incorporation Banca C. Steinhauslin into Banca Monte dei Paschi, and streamline the distribution structures.

- Start the activity of product factory and upgrade/customize the products and services supplied to the customers .

- Extend the new service model, initially implemented by the Parent Bank, to the commercial networks of Banca Toscana and Banca Agricola Mantovana.

- *Retail Customers*

- *Affluent*. The "Carattere" service model was extended to the Upper Affluent customers and, during 2004, to Lower Affluent customers. To date, the MPS Group has more than 1,700 Upper Affluent managers and more than 1,100 Lower Affluent managers, who supply specialized financial advisory services through the use of Personal Financial Planning methods and instruments.

- *Family*. The dedicated service model which contemplates a different product range by customer sub-segment and commercial initiatives to be implemented through advanced instruments of Customer Relationship Management was extended to the commercial network of Banca Agricola Mantovana and is being extended to Banca Monte dei Paschi and Banca Toscana. The campaigns carried out in 2004 include the projects of migration of some low-value added branch transactions to remote channels.

- *Corporate Customers*

- *SMEs*. The SME service model was extended to the customers of Banca Monte dei Paschi and Banca Agricola Mantovana, by training dedicated account managers (about 460), opening SME Centers (about 80) and specializing the products supplied. This service model is being extended to the customers of Banca Toscana.

- *Small Business*. The training of specialized managers in the commercial networks was completed and a range of products was specifically developed for the segment. To date the MPS Group has more than 1,900 account managers.

- *Public Entities*. The specialized service model was extended to the customers of Banca Monte dei Paschi and Banca Agricola Mantovana, through the training and introduction of dedicated account managers (about 60) and the opening of Public Entities Centers (about 30). The same model is being extended to the commercial network of Banca Toscana and the range of products is being expanded with the addition of specialized services.

- *Large Corporate and Financial Institutions*. In 2004 the MPS Group set up a specific Corporate Center unit for the centralized management of business relations with the customers belonging to these segments. The positions of Banca Monte dei Paschi have already been transferred.

- *Set up of MPS Banca per l'Impresa*. The creation of the new MPS Banca per l'Impresa has been finalized and the initiatives for the start of the operations have been completed. The new company, which was already operating in 2004, has the dual objective of developing existing customers and increasing the customer base through the integrated supply of loans (mostly medium-/long-term loans to industrial, commercial and agricultural firms) and corporate finance services (eg. project & acquisition financing, capital market, private equity, …).

☐ IMPROVEMENT OF OPERATING EFFICIENCY

In line with 2003, the MPS Group took actions for increasing efficiency through the reorganization/streamlining of operations and cost containment.

In 2004, the most important projects in this area regarded:

- Extension to the networks of Banca Monte dei Paschi and Banca Agricola Mantovana of the organizational review of branch operations, as already completed at Banca Toscana in 2003.

- Cotninuing re-design, and extension to the commercial networks, of several branch transactional processes, in a logic of shifting professional resources and time away from low-value added activity.

- Inauguration of specific projects for streamlining the size of central units (Corporate Center and Head Offices of the banks) and geographical co-ordination units (Main Branches).

- Centralization of back office operations for the network in specific Group operating units at the Operating Consortium; initiatives for the centralization of the Group IT management services in the Operating Consortium.

- Revision of the agreements for the supply of goods and services by the Group Purchasing Unit.

- Actions to curb administrative expenses through the optimization of consumption and the review of expense management and control processes.

☐ OPTIMIZATION OF RISK MANAGEMENT

In 2004 projects have been undertaken to optimize credit risk management and to improve the monitoring of market and operating risks, in compliance with the guidelines of the Basle II

Accord (see the section covering *"The MPS Group compliance wit the IAS accounting standards and Basle II regulations"*).

- **Credit risks.** Work continued on defining and extending the projects of review of the loan management processes in a logic of specialization by customer segment. In particular, in 2004 the loan disbursement process concerning the Small Businesses was extended to the commercial banks with the projects concerning Retail customers and SMEs being defined/extended. In addition, the new trend control procedures have been implemented in the commercial banks.

- **Market and operating risks.** In 2004, the projects for building internal models for managing/mitigating market and operating risks and calculating their capital absorption ratios continued to be carried out in accordance with the Basle II-compliant indications and methodology. With reference to operating risks, the Bank of Italy has already started the preliminary validation process of the internal model.

OTHER PROJECTS

The Business Plan also contemplates other initiatives which include:

- **International affairs.** In a logic of supporting the SMEs in their process of international production and distribution expansion, the MPS Group implemented "International Partners". To this end, in 2004 the Group designed a Plan of International Presence in order to orient its expansion to the markets with high growth potential and the most attractive areas to the domestic customers (as a result of a co-operation agreement signed with Citigroup, the Group opened an Italian Desk in Poland). Specific training initiatives for the skilled staff operating in the networks have been undertaken.

- **Equity investments.** The Group has prepared a new system for monitoring equity investments and inaugurated the streamlining of its equity investment portfolio with the sale of roughly 30 non-strategic investments in 2004.

- **IAS.** Corporate information sheets are being prepared in compliance with the new international accounting standards.

- **Real estate.** The Group has embarked on a project for reorganizing its real estate activity and undertook specific actions for optimizing its properties.

- **Growth.** In accordance with the new Group Plan of Branch Opening, about 100 banking facilities will be opened in 2004.

MPS GROUP: KEY DATA AND RATIO ANALYSIS

million euro

Profit and loss aggregates	**31/12/04**	**31/12/03**	**% chg.**
Total banking income	4.469,6	4.673,9	-4,4
Income from Banking Activity	839,4	753,3	11,4
Net income	513,7	442,5	16,1
Net income adjusted for goodwill	609,0	545,4	11,7

Balance sheet aggregates	**31/12/04**	**31/12/03**	% chg.
Direct funding - including subordinated debt	86.345	82.338	4,9
Indirect funding	105.437	105.937	-0,5
including: Funds under management	*43.421*	*42.264*	*2,7*
including: Funds under administration	*62.016*	*63.674*	*-2,6*
Customer loans and advances	74.394	70.405	5,7
Consolidated shareholders' equity	6.465	6.154	5,1

Credit quality indicators (%)	**31/12/04**	**31/12/03**
Net non-performing loans / Customer loans and advances (%)	2,10	1,84
Watchlist credits / Customer loans and advances (%)	1,55	1,68

Profitability ratios (%)	**31/12/04**	**31/12/03**
Non interest income/Total banking income	45,7	46,8
Cost/Income ratio % (excluding depreciations and amortization)	63,1	61,2
Cost/Income ratio % (including depreciations and amortization)	69,3	68,3
Cost/Income ratio % (including depreciations and amortization) (°)	68,0	66,2
R.O.E. (net equity as of end of period)	8,6	8,3
R.O.E.(*)	8,2	7,7
Adjusted ROE (%) (*)	9,8	9,5

(°) excl. Tax Collection area

(*) average net equity

Solvency ratios (%)	**31/12/04**	**31/12/03**
Total capital ratio %	9,95	9,89
Tier 1 Ratio %	6,74	6,46

Share data	**31/12/04**	**31/12/03**
Number of shares outstanding	2.448.491.901	2.448.491.901
Number of preferred shares outstanding	565.939.729	565.939.729
Number of savings shares outstanding	9.432.170	9.432.170
Ordinary share price during the year:		
- average	2,49	2,42
- low	2,30	1,93
- high	2,74	2,85

Operating structure	**30/09/04**	**31/12/03**	Abs chg.
Number of banking employees (end of period)	24.202	24.343	-141
Number of total employees (end of period)	26.622	26.881	-259
Number of branches in Italy (*)	1.824	1.836	-12
Number of foreign branches and foreign representative offices	30	38	-8

The decrease is due to merge of MPS Merchant and MPS Banca Verde in MPS Banca per l'impresa

REPORT ON CONSOLIDATED OPERATIONS

THE RESULTS BY BUSINESS AREA AS OF 31 DECEMBER 2004

	Total Commercial Banking		Investment Banking		International Banking		Tax Collection		Group	
	31/12/04	**chg %**	**31/12/04**	**chg %**	**31/12/04**	**chg %**	**31/12/04**	**chg %**	**31/12/04**	**chg %**
PROFIT AND LOSS AGGREGATES (*MLN.€)*										
NET INTEREST INCOME	2,363	0.3	85	-16.6	66	-9.7	–16	35.1	2,426	-2.2
NON INTEREST INCOME	1,533	-0.5	133	-48.1	33	-22.7	285	14.0	2,043	-6.8
TOTAL INCOME	3896	0.0	218	-39.1	99	-14.5	269	19.5	4,470	-4.4
GROSS OPERATING PROFIT	1409	5.6	126	-51.0	18	-33.4	22	177.2	1,373	-7.0
PROFITABILITY RATIOS (%)										
COST/INCOME	63.8%		42.0%		81.5%		91.8%		69.3%	

RECLASSIFIED BALANCE SHEET AND RECLASSIFIED PROFIT AND LOSS STATEMENT

AS usual, in order to facilitate the analysis of consolidated operations and earnings, certain balance-sheet and profit and loss accounts were reclassified in order to provide the same basis for annual comparison:

a) Earnings relative to "sophisticated" securities transactions have been eliminated from "dividends" (account 30) and reclassified as "profits (losses) from financial transactions" (EUR 155.5 million in 2004). This aggregate is also inclusive of the "cost of funding" of said transactions (EUR 1.9 million), which has been eliminated from "interest expense and other expense on borrowed funds". In addition, tax credit relative to dividends from equity investments cashed as of 31/12/03 which is no longer acknowledged in compliance with the new fiscal regulations effective 2004, has been reclassified as "income taxes";

b) "Net commissions" consists of "Commissions earned" (account 40) and "Commissions expense" (account 50);

c) The losses relative to non-securitized financial plans have been eliminated from "Valuation adjustments and provisions for guarantees and commitments" (account 120) and reclassified as "Extraordinary profits and charges" (EUR 52.5 million in 2004). Furthermore, a part (EUR 0.9 million as of 31/12/04) of "Valuation adjustments to loans" in relation to interest accrued and not cashed on junior securities has been reclassified as "net adjustments to non-current financial assets";

In 2003 the amounts concerning "Securities trading with customers" were kept in the aggregate "Profits/losses from financial transactions" and not reclassified as "Net commissions", as in the past.

The figures concerning the past quarters (of 2004 and 2003) have been modified as a result of the merger of MPS Merchant and Banca Verde in order to take into account the new accounting method of interest on arrears, which is now fully adjusted at the level of interest income. Interest on arrears amounted to EUR 8 million and EUR 7.4 million in 2004 and 2003, respectively.

MPS GROUP

RECLASSIFIED CONSOLIDATED BALANCE SHEET (in EUR million)

ASSETS	31/12/04	31/12/03	Change	
			absolute	%
Cash and cash on deposit with central banks and post offices	616	671	-55	-8,2
Loans :				
a) Customer loans and advances	74.394	70.405	3.989	5,7
b) Amounts due from banks	11.356	8.551	2.805	32,8
Trading account securities	13.345	14.342	-996	-6,9
Non-current assets				
a) Investment securities	3.645	3.964	-319	-8,0
b) Equity investments	2.785	2.621	164	6,2
c) Fixed assets and intangible assets	2.257	2.512	-255	-10,2
Positive consolidation differences & positive net equity differences	817	913	-96	-10,5
Own shares or quotas	1	16	-15	-95,4
Other assets	20.152	18.995	1.158	6,1
Total Assets	**129.368**	**122.989**	**6.379**	**5,2**

LIABILITIES	31/12/04	31/12/03	Change	
			absolute	%
Liabilities				
a) Customer deposits and borrowed funds backed by neg.instruments	81.784	77.863	3.921	5,0
b) Due to banks	15.228	15.058	170	1,1
Reserves for specific use				
a) Staff severance indemnity reserve	423	427	-4	-0,9
b) Pension funds	490	430	60	13,9
c) Other reserves for risks and charges	741	784	-43	-5,5
d) Reserve for taxes	252	647	-396	-61,1
Other liabilities	19.114	16.805	2.308	13,7
Loan risk provisions	277	311	-34	-10,9
Subordinated liabilities	4.561	4.475	86	1,9
Minority interests	34	35	-1	-1,9
Shareholders' equity				
a) Share capital	1.935	1.935	0	0,0
b) Additional paid-in capital	523	523	0	0,0
c) Reserve for general banking risks	61	61	1	1,0
d) Negative consolidation & net equity differences	6	6	0	-0,3
e) Reserves and profit to be carried forward	3.426	3.186	240	7,5
f) Profit for the period	514	443	71	16,1
Total Liabilities and Shareholders' equity	**129.368**	**122.989**	**6.379**	**5,2**

MPS Group

Reclassified Consolidated Balance Sheet (in EUR mn)

ASSETS	31/12/04	30/09/04	30/06/04	31/03/04	31/12/03
Loans:					
a) Customer loans and advances	74.394	71.276	71.912	69.357	70.405
b) Amounts due from banks	11.356	11.387	10.184	8.180	8.551
Trading Account Securities	13.345	12.231	13.648	14.795	14.342
Non-current assets					
a) Investment securities	3.645	3.664	3.866	3.916	3.964
b) Equity investments	2.785	2.662	2.606	2.618	2.621
c) Fixed assets and intangible assets	2.257	2.289	2.370	2.493	2.512
Positive consolidation differences & positive net equity differences	817	841	865	888	913
Other assets	20.769	17.855	17.393	20.508	19.682
Total Assets	**129.368**	**122.205**	**122.843**	**122.756**	**122.989**

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/04	30/09/04	30/06/04	31/03/04	31/12/03
Liabilities					
a) Customer deposits and borrowed funds backed by negotiable instruments	81.784	77.378	78.614	75.312	77.863
b) Due to banks	15.228	14.566	13.796	15.814	15.058
Reserves for specific use	1.905	2.075	1.998	2.384	2.288
Other liabilities	19.114	16.980	17.107	18.033	16.805
Reserve for loan losses	277	313	318	314	311
Subordinated debt	4.561	4.540	4.758	4.578	4.475
Minority interests	34	36	34	28	35
Shareholder's equity	6.465	6.315	6.216	6.293	6.154
Total Liabilities and Shareholders' Equity	**129.368**	**122.205**	**122.843**	**122.756**	**122.989**

MPS Group

Reclassified profit and loss statement

(EUR mn)

	31/12/04	31/12/03 restated	chg Abs	chg %
Net Interest Income	**2.426,4**	**2.482,2**	**-55,8**	**-2,2**
Net commissions	1.341,0	1.315,6	25,4	1,9
Basic Income	**3.767,3**	**3.797,7**	**-30,4**	**-0,8**
Dividends	84,4	111,5	-27,1	-24,3
Earnings of companies valued with net equity method	78,3	31,8	46,5	146,1
Profit (loss) from financial transactions	57,5	231,7	-174,2	-75,2
Other operating income	481,9	501,0	-19,1	-3,8
Non Interest Income	**2.043,2**	**2.191,7**	**-148,5**	**-6,8**
Total Banking Income	**4.469,6**	**4.673,9**	**-204,3**	**-4,4**
Administrative expenses				
- personnel expenses	-1.758,7	-1.794,7	36,0	-2,0
- other administrative expenses	-1.061,9	-1.068,1	6,2	-0,6
o/w indirect taxes	*170,1*	*171,9*	*-1,8*	*-1,0*
Total administrative expenses	**-2.820,5**	**-2.862,7**	**42,2**	**-1,5**
Gross Operating Profit	**1.649,0**	**1.811,1**	**-162,1**	**-9,0**
Valuation adjustments to fixed and intangible assets	-276,2	-334,9	58,7	-17,5
Net Operating Profit	**1.372,8**	**1.476,2**	**-103,4**	**-7,0**
Valuation adjustments to loans net of recoveries	-506,5	-674,9	168,4	-25,0
Provision to loan loss reserve	-26,9	-48,0	21,1	-44,0
Income from Banking Activity	**839,4**	**753,3**	**86,1**	**11,4**
Goodwill amortization	-95,3	-102,9	7,5	-7,3
Provisions for risks and charges	-65,9	-171,8	105,9	ns.
Writedowns to non-current financial assets	-16,9	-96,7	79,8	ns.
Profit (losses) from ordinary operations	**661,3**	**381,9**	**279,4**	**73,2**
Extraordinary income (charges)	82,3	13,9	68,4	ns.
Change in reserve for general banking risks	-1,1	300,0	-301,1	ns.
Income taxes	-215,6	-245,2	29,7	-12,1
Profit for the period before minority interests	**526,9**	**450,6**	**76,3**	**16,9**
Minority interests	-13,2	-8,1	-5,2	64,3
Net profit	**513,7**	**442,5**	**71,2**	**16,1**

MPS Group
Quarterly profit and loss statement

(in EUR mn)

	Year 2004 (*)				Year 2003 restated (*)			
	4Q04	**3Q04**	**2Q04**	**1Q04**	**4Q03**	**3Q03**	**2Q03**	**1Q03**
Net Interest Income	**595,0**	**604,2**	**598,3**	**628,8**	**607,9**	**624,2**	**623,3**	**626,8**
Net commissions	358,2	310,5	326,7	345,6	352,3	318,2	359,2	285,8
Basic Income	**953,3**	**914,7**	**925,0**	**974,4**	**960,2**	**942,4**	**982,5**	**912,6**
Dividends	18,6	16,1	39,1	10,7	12,5	3,8	94,8	0,5
Earnings of companies valued with net equity method	8,3	17,3	32,7	20,0	-5,4	18,4	6,3	12,6
Profit (loss) from financial transactions	10,7	-28,8	-0,4	76,0	-13,4	96,4	43,2	105,6
Other operating income	131,5	127,6	116,4	106,5	186,3	104,6	98,6	111,6
Non Interest Income	**527,5**	**442,6**	**514,4**	**558,7**	**532,3**	**541,4**	**602,0**	**516,0**
Total Banking Income	**1.122,5**	**1.046,8**	**1.112,8**	**1.187,5**	**1.140,2**	**1.165,6**	**1.225,3**	**1.142,8**
Administrative expenses								
- personnel expenses	-466,3	-424,1	-429,2	-439,1	-458,7	-437,8	-444,1	-454,1
- other administrative expenses	-272,8	-265,4	-256,2	-267,4	-235,2	-279,4	-276,7	-276,8
Total administrative expenses	**-739,1**	**-689,5**	**-685,4**	**-706,5**	**-693,9**	**-717,2**	**-720,7**	**-730,9**
Gross Operating Profit	**383,3**	**357,3**	**427,4**	**481,0**	**446,3**	**448,4**	**504,6**	**411,9**
Valuation adjustments to fixed and intangible assets	-63,9	-69,2	-72,2	-70,9	-83,3	-83,3	-91,6	-76,8
Net Operating Profit	**319,4**	**288,1**	**355,2**	**410,1**	**363,0**	**365,1**	**413,0**	**335,1**
Valuation adjustments to loans net of recoveries	-122,8	-107,8	-156,5	-119,3	-328,5	-105,4	-144,6	-96,4
Provision to loan loss reserve	-5,3	0,5	-13,1	-9,0	-26,8	-10,1	-2,8	-8,3
Income from Banking Activity	**191,2**	**180,7**	**185,6**	**281,8**		**249,6**	**265,6**	**230,4**
Goodwill amortization	-23,9	-23,8	-23,8	-23,8		-25,8	-29,3	-22,2
Provisions for risks and charges	-54,3	-3,9	14,7	-22,4		-20,9	-38,9	-16,6
Writedowns to non-current financial assets	-16,2	5,3	-4,7	-1,3	-39,9	-3,4	-52,5	-1,0
Profit (losses) from ordinary operations	**96,8**	**158,3**	**171,9**	**234,3**	**-153,2**	**199,6**	**144,9**	**190,6**
Extraordinary income (charges)	133,1	-4,6	-54,3	8,2	26,3	-14,1	-23,9	25,6
Change in reserve for general banking risks	-1,1	0,1	-0,1	0,0	300,0	0,0	0,0	0,0
Income taxes	-35,7	-56,9	-20,1	-102,9	2,4	-107,3	-56,9	-83,4
Profit for the period before minority interests	**193,1**	**96,9**	**97,4**	**139,5**	**175,5**	**78,2**	**64,0**	**132,8**
Minority interests	-4,4	-2,0	-5,5	-1,3	-4,8	-0,8	-1,2	-1,3
Net profit	**188,6**	**94,9**	**91,9**	**138,3**	**170,7**	**77,4**	**62,9**	**131,6**

(*) The 2003 and 2004 quarters have been restated after the merger between MPS Merchant and Banca Verde because of a different count of past-due interests, now included in the net interest income figures.

Statement of changes in financial positions (mln.€)

Souces of funds	
Net profit	513.694
Change in provision for general banking risks	586
Change in staff severance indemnity reserve	55.764
Change in loan loss reserve	-34.028
Change in reserve for taxes	-395.743
Change in accrued income and prepayments	-181.340
Change in accrued liabilities and deferred income	-44.730
Other changes	-77.693
Funds generated/(used) from operations	**-163.490**

Funds from investments	
(Increase)/Decrease in customer loans	-3.989.319
(Increase)/Decrease in securities and certificates of deposit	1.315.347
(Increase)/Decrease in own shares	15.182
(Increase)/Decrease in fixed assets	255.366
(Increase)/Decrease in equity investments	-163.759
(Increase)/Decrease in positive differences	95.963
(Increase)/Decrease in other assets	-976.644
Funds generated/(used) from investments	**-3.447.864**

Funds from finance activities	
Increase/(Decrease) in due to customers	2.220.536
Increase/(Decrease) in borrowed funds backed by negotiable instruments	1.700.463
Increase/(Decrease) in subordinated debt	86.130
Increase/(Decrease) in other liabilities	2.353.346
Net profit to be allocated	-168.785
Funds generated/(used) from finance activities	**6.191.690**

Total sources /(uses)of funds	**2.580.336**
(Increase)/Decrease in cash and cash on deposit	54.939
(Increase)/Decrease in due from banks, net	-2.635.275
(Increase)/Decrease in cash,cash on deposit and due from banks,net	**-2.580.336**

OVERVIEW OF ECONOMY AND INDUSTRY TRENDS

MACROECONOMIC SCENARIO

The year of 2004 was characterized by the **strong expansion of the world economy** (growing by 5%) which was driven by the United States and China, thus fostering the recovery of Japan and the Eurozone. This vigorous pace of growth was flanked by the **considerable increase in the demand for raw materials and in oil prices,** which fell below USD 40 per barrel only at the end of the year (though this price was still 30% higher than the price registered in December 2003). However, consumer prices in the USA and in Europe rose only moderately. With reference to the **foreign exchange markets**, the expanding US trade deficit and the new mix of reserves adopted by several important central banks contributed to further depreciate the US dollar with respect to the Euro (about 8% in comparison with 2003) and, to a lesser extent, of the Japanese yen.

GROWTH RATES IN THE WORLD'S LEADING ECONOMIES

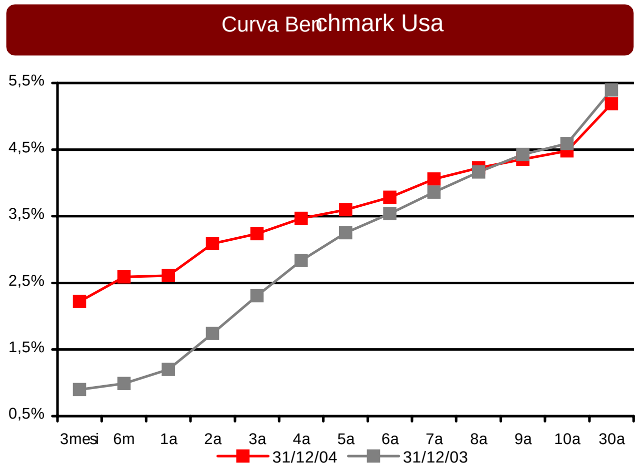
	2002	2003	2004
Usa	1,9	3,0	4,4
EuroZone	0,8	0,5	2,0
Italy	0,4	0,3	1,2
Germany	0,1	-0,1	1,6
France	1,2	0,5	2,5
Japan	0,1	1,3	2,6
China	8,3	9,3	9,5

The GDP in the **USA** topped 4%, boosted by the internal demand; the less expansive fiscal policy with respect to the families was offset by an increasing propensity to consume with private investments benefitting from a temporary favourable taxation. Despite the slowdown of the **Japanese economy** in the second quarter, the contribution of the Asian countries to the international expansion was particularly meaningful with **China** growing by 9.5%. **Latin America** was favoured by the hefty demand for raw materials and agricultural produces and by inbound investment flows (FDIs and portfolio investments) from abroad. The income of **Eastern European countries** continued to expand at a growth rate of more than 4%.

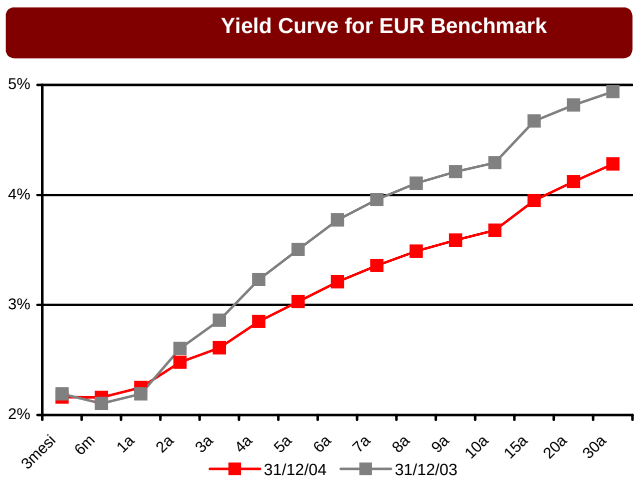
The economy of the Eurozone progressed modestly. This is mainly attributable to the trend of internal demand; the investments registered an appreciable recovery after a long decline whereas the contribution of consumption remained virtually steady. Foreign trade made a nil contribution to the GDP; the improving trend of exports was offset by the huge increase in imports. Consumer prices were kept under control (slightly above 2%). In May 2004, **ten eastern European countries** joined the European Union which now consists of 25 Member Countries. The contribution of the new EU members to the GDP of Europe was 5%, with the weight of their population reaching almost 20%.

The economic situation improved also in Italy, with the GDP increasing again by more than 1%, as a result of the positive contribution coming from foreign trade (even though the market share of exports with respect to the international trade declined further) and the recovery of investments. The dynamics of consumption decelerated. The volume of industrial production rose modestly (+0.7%), but the trade balance was negative again after an eleven year surplus, mostly due to the increasing cost of oil products.

In this framework, **the three main central banks adopted different monetary policies.** In June, the **FED** started adopting gradually restrictive measures in light of a better trend of the labour market and potential pressures on consumer prices. The reference rate jumped from 1% to 2.25% (early in February 2005 it went up to 2.5%). The **European Central Bank** kept the official rate unchanged at 2% in 2004, as a result of the appreciation of the Euro which supported the Bank in controlling the trend of prices. Thus, the Monetary Authority matched its concerns on the trends of public accounts and the dynamics of monetary aggregates with the need of not restraining/restricting the real economy which showed a few signs of recovery. The **Bank of Japan** continued to supply liquidity to the markets in order to put an end to price deflation.



The inclination of the benchmark yield curves for the USA and the Eurozone decrased remarkably, as a result of increasing short-term interest rates in the USA and the decline of medium-/long-term yields in Europe, thus reflecting the consolidating expectations of a steady growth of real economy at a moderate pace. In Italy short-term benchmark rates remained around 2% whereas the decrease in medium-/long-term yields exceeded 50 bp (ten-year Treasury Bills fell below 4%).



In the second half of the year **bond prices** registered a negative performance in the USA, but they were favoured in Europe by the consolidation of the Euro and in Japan by the huge demand for low-risk assets. In the international markets the spread between the yields of corporate bonds and Government bonds contracted hitting its low in the last few years. In Italy the issues of corporate bonds increased remarkably though they were concentrated on few high-standing issuers.

The quotations in the major **equity markets** rose considerably as a result of the positive trend of the last quarter. The price/earning ratio was compliant with the long-term average both in Europe and in the USA. The MSCI global index was up by almost 10%, in line with the average of the European Stock Exchanges. The performances of the NewYork and Tokyo Stock Exchanges were less buoyant. The **Milan Stock Exchange recorded one of the best performances**, with the Mibtel index climbing by 18.1%, trade volumes augmenting considerably (+7.7%) and market capitalization reaching 43% of the GDP. The performance of the quotations of service companies (+27.8%) and, in particular, of the utilities is impressive .

BANKING INDUSTRY TRENDS

In 2004, the operating scenario for the banks was characterized by the **reduction of the spread of traditional banking activities**, the growth of traded volumes higher than the dynamics of the nominal GDP and the **steady profitability**. Investments were mainly focused on guaranteed-yield instruments (Treasury Bills and bank bonds) and insurance policies, also in view of the widespread risk disaffection of the investors.

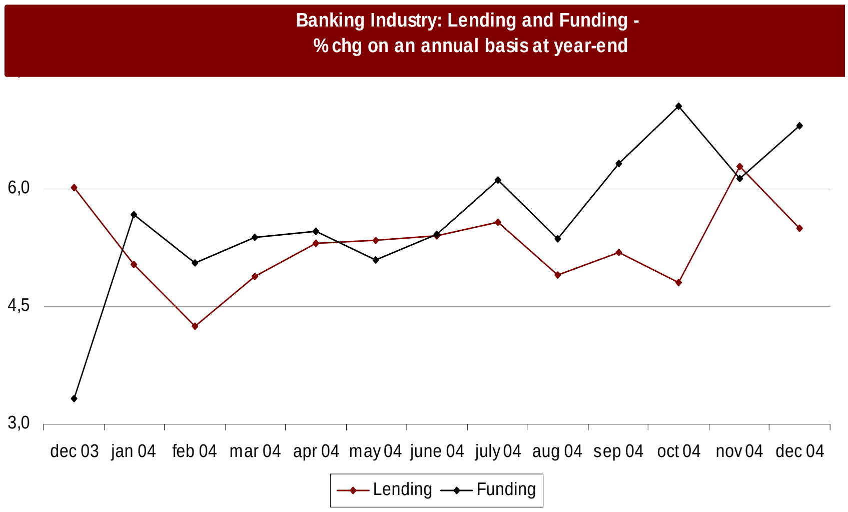
The pace of growth of direct funding accelerated, achieving +6.1% (+5.4% in 2003). The steady growth of current accounts (+7.6%) was flanked by satisfactory placements of bonds (with volumes increasing by +11.2%). The investors have apparently made a clear distinction between the issuer risk of banks and industrial groups, and the credit institutions have extended the maturities of funding in compliance with the trend of their loan portfolio. Repurchase agreements and certificates of deposit continued to drop whereas savings deposits recovered (+4%). The market share of direct funding for the MPS Group remained steady slightly above 6.5%.

Mutual investment funds (both Italian and foreign investment funds managed by domestic companies) registered again net redemptions of capital in the amount of almost EUR 10 billion. The only products which performed well are opportunities funds (in particular, hedge funds) and the funds managed by foreign companies (slightly more than EUR 4 billion); bond funds aroused interest in the investors in the last quarter of the year. As a result of the positive performances of the funds (with equity funds recording an increase of over 6%), the volume of assets managed rose by 1.4%. The **distribution channels** include the networks of financial promoters who raised funds in the amount of roughly EUR 5 billion**,** mostly through unit-linked policies and foreing investment funds. The branch network registered redemptions especially from liquidity funds. In a market scenario favourable to medium-size and niche players, the MPS Group market share calculated on the basis of net assets declined modestly (4.04% as of 31.12.2004 with respect to 4.16% in December 2003).

- NET FUNDING FROM MUTUAL INVESTMENT FUNDS **(€ million)**

	Total funds	Equity	Bond	Monetary	Opportunities
Q 1 2004	-1544	259	-1674	-1852	2188
Q 2 2004	-3162	-232	-3424	-1265	2273
Q 3 2004	-3060	-1776	-1403	567	577
Q 4 2004	-2037	-1009	3572	-3958	210
Total	-9803	-2757	-2928	-6508	5248

In the bancassurance business (including post offices) **total funds sourced** topped EUR 40 billion (EUR 37.9 billion in 2003). The trends of 2003 were confirmed with an increase in index-linked policies and traditional products. The weight of the premiums collected through unit-linked policies fell from 24% to slightly less than 20% (with peaks concerning the placement of unit-linked policies providing a guaranteed return). The MPS Group confirmed the market shares of 2003 which stood at approximately 10.1% in bancassurance (including Post Offices) and 7.6% in the global market (which incorporates the funding activity of insurance agents and financial promoters).



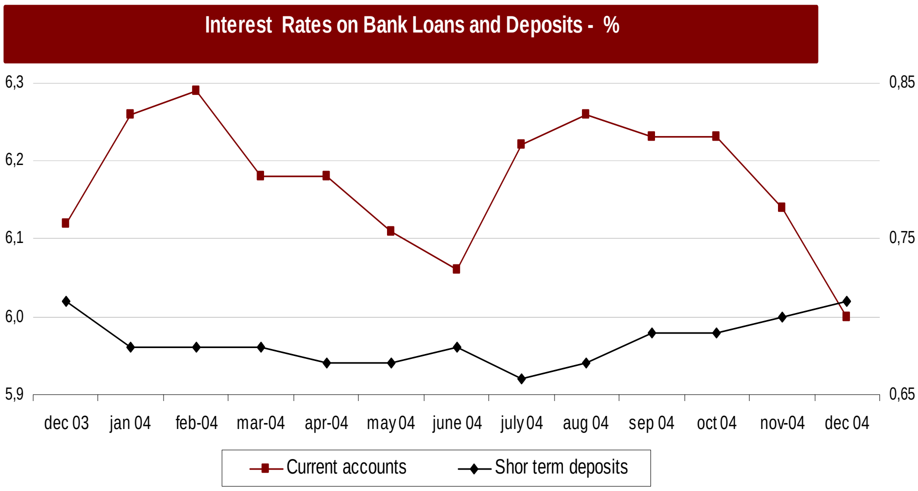
Assets in individual portfolios under management by the Italian banks continued to decline, in line with the trend in progress in the last few years and only temporarily discontinued in 2003. The decline, which is attributable to the negative trend of net funding, was close to 10% on a yearly basis. The MPS Group market shares jumped from 6.37% to 6.78%.

The growth of bank lending slowed down with an average of 5.3% in 2004 with respect to 6.4% in 2003. The buoyant performance of medium-/long-term loans (+13.2%) was offset by the drop in short-term loans (-4.3%). Loan applications from retail customers remained particularly substantial (+13%). In view of low interest rates and the uncertain operating scenario, retail customers maintained a marked propensity to real estate investments and increased their indebtedness in support of their consumption. Corporate demand from non-financial companies was more limited (lending business progressed around 5% on a yearly basis) with such companies continuing to reschedule their financial debt and turning to longer-term forms of indebtedness.

Low interest rates and the recovery of investments were the major factors which boosted corporate loans, whereas good liquidity, increasing financing directly drawn on the market (with reference to larger companies) and the economic situation are to be considered as a deterrent. At the end of 2004, the MPS Group market share of lending came to 6.23%, at the level recorded at the end of 2003. With reference to the vigorous market of retail mortgage loans, the MPS Group market share was up from 6.2% to 6.7% (as of November 2004); the market share of consumer credit companies was close to 4%.

At year-end, **gross non-performing loans** increased by 6%, with a steady non-performing loans/total loans ratio (4.7% in 2004 and 2003), despite the lacklustre economic situation. The growth of non-performing loans was concentrated with non-financial companies and retail customers (about +7%) and, to a lesser extent, one-man companies. The balances of net non-performing loans increased again in the second half of the year, though they were 2% lower than the figures registered in December 2003. The ratio of net non-performing loans to total loans was slightly above 2%, lower than the levels recorded at the end of 2003 (2.18%).

Bank lending rates (current accounts and short-term deposits) rose moderately in the first months of the year and fell again remarkably in the fourth quarter, as a result of high market competitiveness. In December 2003, lending rates were 10 bp lower than in December 2003. The decline topped 30 bp on average on a yearly basis and, including medium-/long-term loans reached 45 bp.



Lending rates on deposits were virtually steady in 2004, but the yield of bonds dropped somewhat (20 bp at year-end, 34 bp as yearly average). As a consequence, the **spread** (both calculated on current accounts and total lending and funding) turned out to be falling by about 25 bp on average on an annual basis. With reference to current account transactions, the yearly average reduction of the spread was attributable to the mark-up and the mark-down (calculated with respect to 1-month Euribor).

The trend of bank interest rates compromised the banks interest income to a certain extent. However, the evolution of non-interest income was satisfactory while the dynamics of costs slowed down slightly**.** Decreasing adjustments were expected to determine an increase in net profits, despite the decrease in the operating profit.

■ REGULATORY ISSUES

Effective 1 January 2005, listed companies or the issuers of public financial instruments, banks, regulated financial companies and insurance companies are required to adopt the IAS accounting standards to prepare consolidated financial statements. Non-

consolidated financial statements shall be prepared in compliance with the above standards as of 2006. The IAS principles introduce innovative criteria eliminating prudential accounting based on valuations at cost and the protection of corporate creditors and adopt accounting standards focused on the investors' logic and based on the fair value. The European Commission has decided to enforce the partial version of IAS 39 (Financial instruments) as of 2005, thus postponing the introduction of the two most controversial points, namely the valuation at fair value of financial liabilities and the accounting of hedging transactions on sight deposits. Additional information about the MPS Group compliance with the new IAS and Basle 2 regulations is provided in the section covering "The MPS Group compliance with the IAS accounting standards and Basle 2 regulations".
The Supervisory Authorities of G-10 countries approved the final version of the new regulations concerning bank capital ratios (Basle 2). The regulations are expected to be enforced in such countries no later than December 2006, excluding risk evaluation criteria which shall be operating in 2007.

The European Commission has issued a directive concerning investment services which eliminates the obligation to concentrate securities trading in a Stock Exchange market, thus enabling direct trading between financial intermediaries and customers. The directive shall be enforced by the EU countries no later than June 2006.

In Italy, the Government has approved the law enacted under delegated powers reforming Social Security. The law is based on two pillars: (i) the increase in retiring age and (ii) the promotion of supplementary Social Security by transferring the severance indemnity accrued by each employee to the pension funds (by implicit consent). Some provisions (retiring age) will be in force starting from 2008; others, including supplementary Social Security, will be implemented as soon as the relative regulations of application are issued.

With regard to transparency, the MPS Group launched other four initiatives (in addition to the four initiatives started in 2003) planned by the Italian Bankers' Association within the "Clear Pacts" project, with the objective of giving the customers additional information and transparency about the products offered by the banks. The MPS Group participated in the project and supported it since the very beginning, deploying its efforts in the eight initiatives of the poject and securing the certification mark for the right implementation of the protocols.

THE MPS GROUP COMPLIANCE WITH THE IAS ACCOUNTING STANDARDS AND BASLE 2 REGULATIONS

THE IAS PROJECT

THE DEVELOPMENT OF THE REGULATORY FRAMEWORK

THe process of definition of the regulatory scenario of reference has come to an end only in December 2004 with the publication of the international accounting standards in the Official Journal of the European Union. At the end of February, the Italian Government approved the final version of the Legislative Decree containing the options contemplated by art.5 of EC regulation 1606/2002 of the European Parliament.

The **Legislative Decree** incorporates the provisions of the law enacted under delegated powers. In particular, listed companies, the issuers of public financial instruments, banks and regulated financial intermediaries and insurance companies are required to adopt and introduce the international accounting standards in the preparation of the Consolidated Financial Statements starting from January 2005 and in the preparation of the Corporate Financial Statements starting from 2006.

These provisions enable the Parent Companies, which are required to prepare Consolidated Financial Statements, to adopt the IAS in the preparation of their own Financial Statements starting from 2005. All the companies in the area of consolidation are entitled to comply with this provision. The above applies also to the Parent Companies which decide to prepare IAS-compliant Consolidated Financial Statements even though they are not obliged to. Non-listed companies which are not required to prepare consolidated financial statements and, in general, all minor companies in accordance with art.2435-bis of the Civil Code are not allowed to adopt the IAS in 2005.

The decree has also introduced **fiscal provisions** regulating and facilitating the adoption of the IAS in the preparation of corporate financial statements, in view of guaranteeing an unchanged tax revenue.

FINANCIAL STATEMENTS OF GROUP COMPANIES

In compliance with the above-mentioned regulations, **the Monte dei Paschi Group**, even though it is required to adopt the new accounting standards only with reference to the Consolidated Financial Statements, **is assessing the opportunity of adopting the IAS in advance, also in the preparation of its Corporate Financial Statements starting from 2005** with the objective of increasing consistency, transparency and greater intelligibility of the balance-sheet.

STATE OF THE ART OF THE PROJECT

The delayed issue of the final accounting standards, published on 31 December 2004, caused some slowdown from the regulatory viewpoint and from the standpoint of IT updating.

Consob, the Italian Securities Commission, has only recently issued the guidelines with reference to mid-year reporting**;** as a consequence, the balance-sheet layout and the structure of the notes are not yet available for banks and financial companies. In particular, Consob realized that the law-making process has been delayed and deemed it appropriate to issue **transitional provisions** which enable the companies concerned to gradually adopt the IAS in 2005.

Though in light of an uncertain regulatory scenario, the working groups participating in the Group project continued to analyze the new regulations and to issue operating indications and guidelines to the units concerned.

In the last few months, the **Operating Consortium**, which had played an active role since the beginning of the project, **started its activity of implementation of internal procedures and continued to develop the procedures purchased from external vendors**.

In the meantime, **increasing meetings were held with Group companies** in order to share choices and problems and evaluate the characteristics of the different companies more carefully. Two of the three main stages of the project (diagnosis and design) have come to an end. The stage of design was developed and completed in the second half of 2004. As indicated in the Master Plan, **the stage of final conversion has been started with particular emphasis placed on IT implementation.**

With reference to Consob communication n. DME/5015175 of 10 March 2005, concerning compliance of the accounting systems and procedures with the enforcement of the IAS/IFRS accounting standards, the Monte dei Paschi di Siena Group expects to disclose quantity reporting on the basis of the international accounting standards starting from the half-year report as of 30 June 2005.

THE BASLE 2 PROJECT

In June 2004 the Basle Committee approved the New Accord on Capital Adequacy for Banks (Basle 2), containing several provisions which, effective the year of 2007, will (i) impact on the calculation of capital absorption which will be linked to the extent and type of risks taken on by the banks and (ii) innovate the lending process since risk instruments shall be used in the daily activity of loan disbursement and monitoring. **The Regulations attach much importance to the internal systems of measurement and evaluation of the risk and the associated economic capital** resulting from the measurement of all risk categories (not only the categories indicated by the First Pillar of the New Accord). Last but not least, many inputs which will be used for the measurement of credit risk according to the new Basle 2 regulations (e.g. information on probabilities of default or loss rates, LGD) shall be disclosed to the market which will be able to evaluate the extent of the risks taken on by the Bank and the consistency of the underlying capital coverage.

The Monte dei Paschi di Siena Group has been working for some time in the direction shown by Basle 2, seeking the approval of the Supervisory Authority for the use of an approach based on advanced internal rating systems. To this end, the internal rating systems already developed and the benchmarking procedures of the other risk factors represent a sound basis for achieving such result. In order to ensure the organic management of the "Basle 2" project, the MPS Group has set up the Basle 2 Committee, reporting to the Deputy Chief Executive Officer. The Basle 2 Committee also includes the other Assistant Chief Executive Officers and the competent Head Office units which meet on a monthly basis to check tha state of the art of the project, compliance with the timing and the terms for implementation. The Organization and IT Area deals with secretarial work for the Committee. Although the MPS Group considers the Basle 2 Accord in an integrated logic, the approach adopted contemplates the subdivision of activity among the following work groups (i) "Credit Risk", (ii) "Operating Risk" and (iii) "Market Risk" in addition to the two work groups dedicated to the "Second and Third Pillar".

The work groups follow a specific global programme approved by the Head Office and deal with methods and the evaluation of risk benchmarks, the lending and organization process, technology and IT, in compliance with the Regulations and the best market practices as a result of its participation in international activities and associations, such as the Institute of International Finance (IIF). **In 2005 the Group will pursue its activities of finetuning concerning estimated default probabilities, LGD and EAD. The Group has already started the projects concerning "credit risk mitigation" and the re-design of the application and IT architecture** which shall gather the information required for the managerial and customary measurement of capital absorption in line with Basle 2. Therefore, it will be possible to fully use the information in the daily processes of credit origination, monitoring and management.

OVERVIEW OF OPERATIONS

In 2004 the MPS Group continued to implement the policies outlined in the existing Business Plan, carried out important organizational initiatives (such as the merger of Banca Steinhauslin and the incorporation of MPS Banca per l'Impresa) and achieved appreciable results from the operating and income viewpoints.

As already indicated, the Bank operated against a critical backdrop in the first part of the year and adopted a conservative and selective stance in terms of sales, marketing and lending policies.

After the summer of 2004, the operating scenario gradually improved with reference to the relationships between banks and investors, which became more and more relaxed, and with respect to the economic situation and the financial markets.

In this framework, the strategies adopted by the MPS Group were always focused on the Customers, with the Group experienced staff dedicated to provide the clients with the best service and **ensuring relationship ethics and service quality.**

The operating results progressed gradually over the year, following the implementation of the commercial platforms specialized by customer segment (service models) which gave a positive contribution starting from the second half of the year. Such results were achieved with the contribution of the different Group Business Areas, as described below.

OPERATIONS BY BUSINESS AREAS: INNOVATION, SALES AND MARKETING POLICY AND OPERATING RESULTS

BUSINESS AREAS

In 2004**, in line with the prior year, the Group commercial guidelines were oriented to (i) re-balancing the contribution from commissions so as to maximize continuing fees, thus meeting the investment requirements of retail customers in view of consolidating confidence and (ii) ensuring appropriate financial and advisory support to the corporates.** The new Commercial Platforms, as the cornerstone of the process of enhancement of customer relationships, continued to be expanded and proved to be successful. **Benefits in terms of commercial volumes, income contributions and customer satisfaction resulting from the new service models were recorded in the second half of the year. Following is a review of the key aspects which characterized the Group commercial operations in the area of funds management and lending**.

■ 1) FUNDS MANAGEMENT

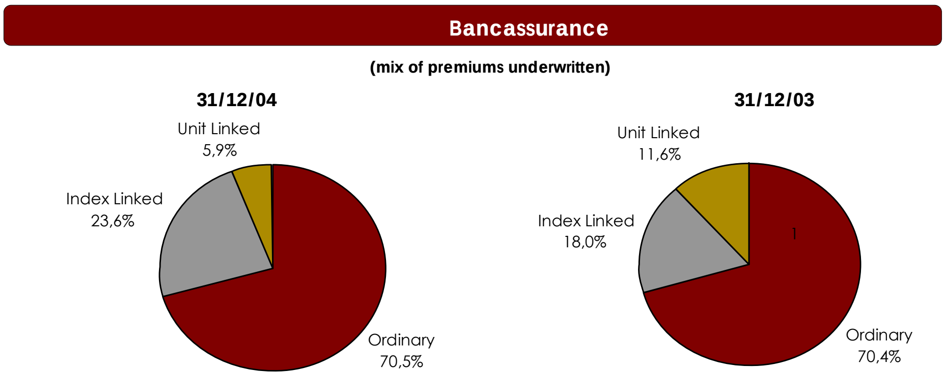
With reference to funds management, the Group commercial networks achieved appreciable performances in terms of quantity and quality, with placement flows totalling about EUR 7.6 bn mainly oriented **to products securing capital repayment, a guaranteed minimum yield and high liquidit**y. The Group recorded lower volumes than in 2003, due to the trend of unit trusts/SICAVs with the Banking Industry being affected by remarkable outflows. Following is the breakdown of the placement flows of the Group major products:

Consolidated Product Placement

In EUR million

	31/12/04	***31/12/03***
Mutual investment funds/SICAV	-1,011	1,460
GPM/GPF	-280	-15
Life insurance policies *o/w*	4,295	4,076
Ordinary life insurance policies	*3,027*	*2,870*
Index-linked policies	*1,015*	*735*
Unit-linked policies	*253*	*471*
Innovative financial products	2,002	3,194
Plain vanilla	2,564	1,583
Total	**7,570**	**10,298**

• **<u>The MPS Group ranks among the leading players in the "bancassurance and post office" industry with life insurance premiums underwritten of EUR 4,295 million</u>** (+5% with respect to the hefty volumes recorded in prior year) and **a market share of 10.13% for the products placed over the period**. The breakdown of premiums shows that ordinary life policies made a strong contribution (70.5% of the overall flow) with Index Linked policies expanding from 18% to 23.6%. The aggregate benefits from the positive contribution of Quadrifoglio Vita (50% controlled by Banca Agricola Mantovana). With reference to the new products marketed by the MPV Group, insurance premiums underwritten in 2004 amounted to EUR 3,370 million with recurrent premiums standing at EUR 276.5 million (EUR 234 million as of 31.12.03).



• **<u>Net redemptions of mutual funds/SICAVs managed by the MPS Group came to EUR 1,011 million</u>** (with net redemptions of direct customers totalling EUR 760 million) due to the downturn which affected the whole Banking Industry (with redemptions of EUR 9.8 bn in 2004);

• The balance of **<u>individual portfolios under management</u>** recorded an outflow of EUR 280 million (mainly GPM) in line with the trends of the Banking Industry;

• The volumes of **<u>structured bonds</u>** (EUR 2,002 million) are indicative of the operating guidelines set during the commercial planning for the year, aiming at repositioning to structural contribution products;

• The growth of ordinary bonds topped 60%, thus confirming the customers' preference for steady forms of funding.

■ 2) LENDING

A) COMMERCIAL OPERATIONS

In 2004, and in particular in the first half of the year, the persistent weakness of the macroeconomic cycle caused a decreasing demand for short-term corporate loans. However, starting from the third quarter onwards loan applications recovered and stabilized the trend. The weight of medium-/long-term loans progressed continuously, driven by retail mortgage loans. **From the commercial viewpoint, the MPS Group combined support to corporate requirements with the criteria of the utmost rigour and selectivity, with lending business shifting to medium-/long-term loans,** secured by collaterals, directly executed by the distribution networks or through the specialized credit companies. The Group three main networks disbursed new mortgage loans in the amount of EUR 6,787 million to retail and corporate customers (+18% with respect to December 2003). The growth of mortgage loans was particularly appreciable in the retail market with disbursements amounting to EUR 3,770 million with a 30% increase in comparison with 31.12.2003.

MORTGAGE LOANS DISBURSED TO RETAIL AND CORPORATE CUSTOMERS

In EUR million	31/12/03	31/12/03	Change	% change
Monte dei Paschi di Siena (*)	3,429	2,685	744	27.7
Banca Toscana	1,805	1,678	127	7.6
Banca Agricola	1,553	1,388	165	11.9

(*) excl.disbursements for public works

Specialized lending continued to develop at a fast pace, in line with prior years. The performance of Consum.it, which services retail customers, was particularly impressive with overall consumer credit disbursements totalling approximately EUR 1,412 million (+58%). Despite the judicious product policy implemented so far, the placement of hedging products for Corporates and Public Entities decreased and was indicative of the criticalities which involved the Banking Industry.

Specialized lending and financial products to Corporates

in milioni di euro		Progressivo al 31/12/04	Progressivo al 31/12/03
MPS Finance			
	Risk management (1)	2.424	4.562
MPS Banca per l'Impresa			
	Disbursements	2.339	2.564
MPS Leasing & Factoring			
o/w:	New leases executed	1.036	1.292
	Factoring turnover	3.947	3.876
Consumit			
	Disbursement	1.412	893

(1) the balances include the products directly issued by the Networks

3) OPERATING RESULTS

From the viewpoint of profitability, the Group total income from **commercial operations** (which include the results of the Retail, Private and Corporate Business Areas) **achieved EUR 3,896 million (in line with the prior year)**, booming in the second half of the year and, in particular, in the fourth quarter (+4% with respect to the third quarter).

- **Interest income** (at EUR 2,363 million) progressed slightly (+0.3%) as a result of the development of average volumes traded and the sound management of interest rates (which enabled the Group to limit the reduction of average spreads at about 10 bp);

- **Customers' commissions from commercial operations**[1] were virtually steady (-0.7%) year on year at EUR 1,539 million, though incorporating a decrease in the up-front component (falling from 13.7% to 9.4%). An analysis of the trend of commissions shows:

o The satisfactory performance of commissions from traditional banking services (+7.1% to EUR 811 million);

o A moderate improvement of commissions from funds management (which reached EUR 568 million, or + 2.4%) driven by the continuing growth of volumes;

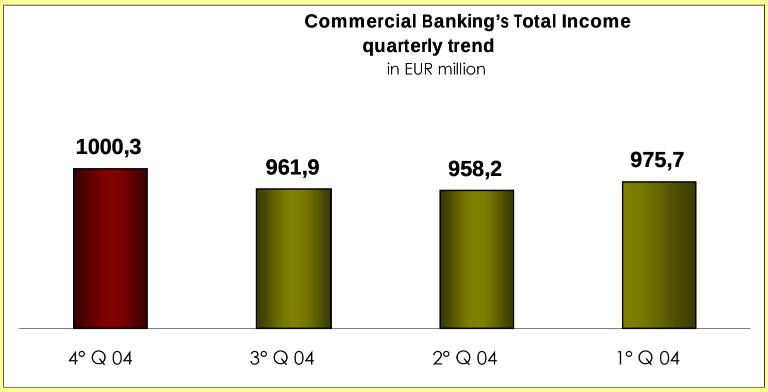
o A considerable reduction (-45.8% at EUR 77 million) of income from innovative finance which is indicative of the operating guidelines established during the commercial planning for the year and aiming at a repositioning to structural products, in addition to the decreasing contribution from the placement of hedging products to corporates and public entities;

1 The aggregate incorporates only to the contribution from the Business Areas and differs from "net commissions" ,which are not inclusive of income from the Tax Collection Area (which is not part of core banking business) and are supplemented with expenses recovered, dividends received and financial income posted by MPS Finance with respect to structured financial products. The aggregate is also inclusive of commissions from insurance companies (whereas the reclassified financial statements include only net profits with reference to insurance companies).

o A drop (-13.8%) in the income from orders placed (at EUR 82 million).

■ **Net Fees From Commercial Customers** (In Eur Million)

	31/12/04	31/12/03	Chg Ass.	Chg %
Funds management incl:	**728**	**793**	**-65**	***-8,2***
Funds under management	*568*	*555*	*13*	*2,4*
Innovative financial products	*77*	*143*	*-65*	*-45,8*
Funds under administration and related services	*82*	*96*	*-13*	*-13,8*
Banking services	**811**	**757**	**54**	**7,1**
Total (1)	**1.539**	**1.550**	**-11**	**-0,7**



Gross operating profit grew by 4% in the fourth quarter of 2004 with respect to the third quarter

Including operating expenses, the **net operating profit for the Commercial Area stood at EUR 1,409 million (+5.6% year on year) with a cost/income ratio of 63.8% (65.7% in 2003).**

Following is a review of the key aspects of the three major Business Areas:

■ RETAIL AREA

In 2004 the initiatives undertaken by the Retail Area were focused on intensifying confidence-based business relationships with the customers in light of the principles of clarity, transparency and the utmost care for the customers' needs.

SERVICE MODELS

At the end of 2004, with reference to the Retail Market (which encompasses the Family and Affluent segments), the **Affluent segment** accounted for almost 250,000 clients. Their follow up was ensured by the Carattere platform, which was extended to the whole Group in the first half of 2004. The new platform is based on an advisory approach to asset management in order to check the real consistency of the portfolios held with the investment profile of each Customer. **The contribution of the Carattere platform was very positive from the viewpoint of funding volumes from the customers already included in the project** (the average amount of balances held was +7% with respect to customers not yet involved) **and with reference to the extension of the average investment maturity** (4.5 years with respect to 3 years with regard to traditionally managed customers).

The new commercial platform for the **Family segment** continued to be implemented with the dual purpose of (i) seizing the "value" of the Customer by meeting his/her requirements and (ii) seeking any economies stemming from the industrialization of processes and instruments. At the end of 2004, BAM started operating the Family platform whereas BT has covered about 70% of its network. The platform was also extended to BMPS during the last quarter of 2004. The three commercial banks confirmed the **positive performance** of the Platform as already shown during the pilot stage **in terms of business volumes but, above all, of Customers' satisfaction**.

THE MPS GROUP SALES AND MARKETING POLICIES AND PRODUCT INNOVATION

In a market scenario characterized by the customers' conservative posture, the Group's efforts went to the development of instruments which protect the capital invested and provide the customers with the opportunity of taking advantage of positive market fluctuations.

CUSTOMER SATISFACTION

The MPS Group designed the Customer Satisfaction Project in November 2004.

- The project, which focuses on Retail and Private Customers, is based on four pillars: (i) Identification of possible customer satisfaction and insatisfaction factors, (ii) Design of instruments and planning of measurement, (iii) Measurement, and (iv) Interpretation of the results.

- The project measures Customer Satisfaction and aims to building a model which ensures periodical measurement. The process of measurement of customer satisfaction will identify insatisfaction factors for each customer and corrective actions will be taken accordingly.

The product innovation effort in the **bancassurance** area involved the issue of innovative capital-guaranteed unit linked policies and the marketing of 16 new index linked policies with an indexed structure and highly innovative performances, which contemplate more flexible opportunities with respect to coverage in case of death and advance settlement terms. The year of 2004 was also marked by the launch of "Operazione salute", a new **casualty policy**, which is expected to have considerable development prospects in Italy.

The MPS Group inaugurated 77 new issues (18 issues during the last quarter of 2004) of **structured bonds** which enabled the customers to choose on a monthly basis among various options in compliance with their requirements and characteristics.

THE DUCATO ETHICAL SYSTEM

With reference to unit trusts, the Group consolidated its presence in the area of Socially Responsible Investments effective October 1 (*additional information is provided in the section covering "The MPS Group social responsibility")* by launching the new Ducato Ethical System. The new System is featured by its own Management Regulations and Information Sheet, and contributed to creating a new fund (Fondo etico fix) and reviewing the two already existing funds. In the meantime, the Group also streamlined its overall range of investment funds by merging some funds of the Ducato System and some sections of Ducato Portfolio.

The range of package accounts specifically identified for Affluent Customers was completed by the marketing of "**Conto Carattere Light**" targeted at the Lower Affluent Segment. The new product results from the reorganization of leisure-time services and contemplates lower fixed fees than "Conto Carattere".

As a consequence of the enactement of Law 243/04 covering the reform of pensions, **in the final part of the year the Group established the strategic guidelines for the social security area with the purpose of consolidating its position as a market leader and confirming its role as the "Bank for Social Security".** The three major initiatives undertaken incorporate:

- **The streamlining and update of the range of products**. The range of products was reviewed and specialized, by setting up an open pension fund targeted at individual retail customers and another collective fund for corporate customers;

- **The creation of specific professional skills**. The launch of this range of products requires a process of education and training for the network operating in this new business area. To this end, the Group has devised a far-reaching training plan concerning all bank staff involved;

- **Instruments in support of the products supplied.** The instruments supporting supply (i.e. communications, IT supports) will be strenghtened in order to provide the customers with high quality services.

In 2005 the MPS Group is expected to embark on the creation of a new line of products targeted at young people including (i) a new A/C enabling young people (aged between 18 and 30) to have access to cheap and exclusive banking services (such as a loan for post-graduate studies) and (ii) a package dedicated to teenagers' thrift contemplating an increasing number of functions according to the customer's age. Besides, it is worthwhile mentioning the launch of "Muoviti sicuro", **the first product placed only through Phone Banking**, a simple and cheap insurance package aimed at covering travel risks of retail customers.

- *Consumer credit*

As a result of the investments made during the year in the commercial area in terms of IT tools and specific training sessions, in addition to the **strong demand for loans by the families, the MPS Group continued to disburse a huge number of retail mortgage loans**, as already hinted at in the section covering the development of the operating scenario, with repercussions on the **Group market share in this segment which continued to grow**.

In the last quarter of the year, the Group devised a new kind of mortgage loan. "**Mutuo 13"** enables the customer to avoid paying any instalments of the sinking plan in the 12 months following the disbursement.

With respect to **Personal Loans**, the project of centralization in **Consum.it** of loan disbursement and management was completed at Banca MPS and BAM. Banca Toscana has finalized the project early in 2005. *Additional information concerning the activity of research and development in the area of retail payment systems is provided in the section covering "Distribution Channels and Payment Systems"*.

OPERATING RESULTS

The MPS Group recorded hefty trade volumes with respect to funds management (gross flow of funding products of about EUR 5.6 bn) and loan disbursement (retail mortgage loans in the amount of EUR 3,800 million, personal loans routed through Consum.it exceeding EUR 320 million), with increasing medium-/long-term average loans (+14.7%) and a virtually steady total funding. **From the viewpoint of profitability, the Total Income progressed by 2% with respect to 31.12.2003, as a result of:**

- The expansion (+1.1%) of interest income driven by the development of lending volumes (mortgage loans and consumer credit);

- The increase in non-interest income (+2.9%) which – despite the decrease in up-front fees - benefited from higher commissions from asset management and the consequent traditional banking services, partly due to the streamlining of basic services supplied and the increasing use of remote channels by the customers.

The net operating profit stood at EUR 538 million with a 16.8% increase year on year. The cost/income ratio came to 71.2% (74.8% in 2003).

The banks and product companies contributing to the Retail Area include:

- **MPS Banca Personale (formerly Banca 121 Promozione Finanziaria)** undertook efficient projects for streamlining the network of financial promoters and motivating the best financial advisors. In July 2004, the company approved an important plan of "reorganization and restructuring" with the purpose of achieving operating break-even in 2006. On the front of profitability, the Operating Result for the year improved with respect to 2003 due to efficient cost cuts. The net profit is influenced by the provisions made for covering the claims concerning the financial savings plans and structured products.

- The life insurance companies (**Monte Paschi Vita** which incorporated **Ticino Vita** in 2003, **Grow Life** which started operating as **Monte Paschi Life** in February 2004) realized significant net earnings. The *embedded value* of the new production for 2004 was still appreciable at EUR 110 million for the product companies (EUR 90.5 million in 2003). Rounding out the interests in bancassurance is the property-casualty company **Monte Paschi Assicurazioni Danni** (formerly Ticino Assicurazioni) which earned a net profit of EUR 7.7 million (+37.7%).

€ mln

Bancassurance	Monte Paschi Vita		Monte Paschi Life		Monte Paschi Assicurazioni Danni		Quadrifoglio Vita	
	31/12/04	.%chg yoy.	31/12/04	.%chg yoy	31/12/04	.%chg yoy.	31/12/04	.%chg yoy.
Net Profit	43	39,3	25	59,9	8	37,7	13,4	84,1
	www.mpv.it		www.montepaschilife.ie		www.ticinoassicurazioni.it		www.quadrifogliovita.it	

- The market share of funds managed by **MP Asset Management SGR** was steady. From the standpoint of profitability, the company generated a gross operating profit of EUR 62.2 million and a consolidated net profit of EUR 42 million, falling by 20.4% with respect to December 2003.

- **Consum.it** disbursed special loans in the amount of EUR 906 million (EUR 775 million or + 16.9% year on year) which were flanked by the disbursements of the new PRS line (personal loans centralized for all the Group commercial networks) in the amount of EUR 333 million. Disbursements in relation to revolving credit cards were also considerable at EUR 173 million in 2004 (+68% with respect to December 2003). The market share of credit card disbursements jumped from 2.7% in 2003 to 3.8% in 2004 and specialized loans grew from 3.46% to 3.75%. Consum.it PRS accounted for 4.38% of the total disbursed by Assofin. The positive commercial trends reflected the clear progress of the gross operating profit (+70.5% at EUR 60.1 million) and the net profit at EUR 21.5 million (EUR 11.1 as of 31.12.03 or + 94%).

€ mln

Retail product companies	MP Asset Management SGR			Consum.it	
	31/12/04	31/12/03	Chg % yoy	31/12/04	Chg % yoy
Total Income	129,2	148,0	-12,7	90,3	49,4
Gross Operating Profit	62,2	84,1	-26,1	60,1	70,5
Operating Profit after LLS	62,2	84,1	-26,1	34,6	111,7
Net Profit	42,0	52,8	-20,4	21,5	94,0
	www.mpsam.it			www.consum.it	

■ THE PRIVATE BANKING AREA

SERVICE MODELS, SALES AND MARKETING POLICY AND PRODUCT INNOVATION

On the basis of the guidelines set in the Group Business Plan, the Private Banking Area was widely reorganized with the objective of capturing a leading position in the domestic market. **Following are the main points of the programme carried out during the year:**

- **The merger by incorporation of Banca Steinhauslin** executed on 30 May 2004;
- **The set-up of the Private Banking Area** within the Corporate Center, with direct responsibilities for the production and co-ordination of distribution;
- **The extension of the new organizational model** in June 2004 and the start of new marketing and governance processes within the networks of the Commercial Banks;
- **The optimization of the supply of products and services**.

In particular, the range of products was constantly reviewed and updated (see box) by **developing key products characterized by distinctive features and high value added** (flexible individual portfolios under management, SICAV management etc.) and "support" products completing the specific requirements of customers' subsegments.

THE PROGRAMME OF OPTIMIZATION

The Private Banking Area has focused activity on four pillars:

- The consolidation of the production structure, by expanding captive and non-captive supply, the engineering of new products and the identification and selection of a network of qualified financial partners;

- The development of projects aimed at monitoring and co-ordinating sales and marketing processes, the finetuning of governance rules within the Networks and the implementation of analysis, support and guidance functions and instruments;

- The definition of ancillary advisory services (tax planning, real estate, art & legal advisory);

- The development of the Private Wealth Management Project by centralizing business relationships with some very important Italian families.

The new range of private-banking products is characterized by a **multi-brand supply** (concerning both funds under management and funds under administration) which is considered as a prerequisite to be in line with the best market quality standards and to seize possible synergies/opportunities outside the Group. On the marketing front, emphasis is placed on the **development of commercial processes based on the "*enlarged family*"** which is meant to be a group of related customers.

Following are the main characteristics of the restructuring programme:

- Material **efficiency processes** at a central and peripheral level;

- Growing departure from product policies and enhancement of **advisory services**;

<u>Following are the benefits resulting from the last point:</u>

<u>To the customer:</u>

o Increasing bank transparency and, therefore, increasing confidence

o Increasing involvement in allocation processes

o Increasing awareness of the risk/return ratio

To the bank:

o Better information on the customers and their needs

o Increasing customer's loyalty

- Higher commercial productivity

o Active management with clear economic impact

OPERATING RESULTS

In 2004 the Private Banking Area recorded hefty gross placement flows (over EUR 800 million) which means that total funding progressed by over 6%.

From the standpoint of profitability, the total income increased by 1% with interest income declining by 2.2% and non-interest income expanding by 2%. The operating profit and the cost/income ratio stood at EUR 31 million (+ 38.4% year on year) and 71.3% (79% in 2003) respectively.

CORPORATE AREA

In 2004, the development of the Group strategies involved the Corporate Market (which consists of the Small Business, SME, Large Corporate and Public Entities segments) with the implementation of the **four initiatives** provided for by the specific commercial platform:

- The **activation of new service models** by customer segments;
- The **development of the corporate Customer Relationship Management (CRM)** project;
- The **expansion of the range of products/services**;

- The **implementation of remote banking channels.**

 SERVICE MODELS

The purpose of the **new service models for the SMEs and Small Businesses** is the enhancement of the role of reference played by the MPS Group with respect to individual companies in order to follow up their development.

- At Banca MPS, the model was extended to all Main Branches with the creation of 60 Centers dedicated to the SMEs;
- At Banca Agricola Mantovana, all Main Branches are operating this model and 19 Centers dedicated to the SMEs have already been set up.
- In December 2004 the two commercial banks had trained about 460 SME managers and more than 1,400 Small Business managers.

Banca Toscana completed the preliminary stage of segmentation and equipment with front-line IT instruments, and trained 625 managers.

With reference to the Large Corporate and Financial Institution segment, the MPS Group pursued its project of centralized relation management in a single unit within the Corporate Center. The centralization of the management of all corporate groups monitored by Banca MPS was completed and corporate customers managed by Banca Toscana and BAM are expected to be centralized by the end of June 2005.

Banca MPS completed the implementation of the "**Government Entities Project**" with respect to its network. The model will be extended to Banca Agricola Mantovana and Banca Toscana in the first half of 2005. The project contemplates to develop the supply of products to this segment due to the high market shares held in cash and treasury services. Government Entities will be supported by the professional skills of the other Group companies and the synergies with the Tax Collection Area in order to offer an innovative range of Group products in terms of advisory services, financial restructuring, capital markets, innovative finance.

The launch of the "**Third Sector Project**" with the objective of managing commercial relations with non-profit institutions is a complete novelty in Italy.

The Re-engineering of the Lending Processes

The initiatives aimed at increasing the capacity to service the customers and customer satisfaction include the re-engineering of the lending processes with a focus on the optimization of lending management, to be carried out **through two major projects: (i) the "first loan disbursement"** and the monitoring of credit risk through **trend management**. The project has the dual objective of (i) consolidating risk monitoring and (ii) expediting the response time.

CORPORATE CRM

In support of the service models and commercial operations, the MPS Group introduced CRM instruments with respect to corporate customers with the objective of gathering additional information about the customer and contextualizing them in order to properly support the commercial activity of account managers and its monitoring.

The "first loan disbursement" project concerning the Small Business segment has already been released. With reference to the other segments, it is expected to be released to the Commercial Networks at the beginning of 2005. The "trend management" project concerning the monitoring of credit risk was extended to the three commercial banks in December 2004.

The new lending process based on a structured path which the network is required to comply with and decide has already achieved positive results in terms of higher awareness of portfolio quality.

Additional information on the **re-engineering of the lending processes in light of the Basle 2 Accord** is provided in the section covering *"The MPS Group Project of Compliance with the IAS accounting standards and the Basle 2 Reform".*

□ THE MPS GROUP SALES AND MARKETING POLICY AND PRODUCT INNOVATION

The implementation of new service models was flanked by growing emphasis placed on product innovation. The Group corporate catalogue include **subsidized loans** with good development prospects (*see box*) and **specific insurance products by segment** (e.g. "Diga" targeted at the Public Entities was launched in the second half of the year) which consolidate the position of **Monte Paschi Vita** as a market leader for corporate insurance policies.

SUBSIDIZED LOANS

The major initiatives undertaken in 2004 incorporate:

- the inauguration of "Agevolo", a bridging finance package consisting of a "commitment" granted by the Bank to the company concerned (prior evaluation of the company's application and business plan) and providing supplementary support to investment projects with public funds;

- the launch of "Crossing Europe – European Group of Economic Interest (CE-EGEI)" between the MPS Group and the Chambers of Commerce located in the regions where the Group is mostly present, with the objective of assisting the SMEs in getting access to subsidized loans;

- the participation in the second INAIL (National Institute for Industrial Accidents) Tender Call for the disbursement of interest subsidies to the companies investing in industrial safety. On this second occasion, the MPS Group has confirmed its leading role (the applications managed by the Group accounted for 34%) in support of the companies also in terms of industrial safety.

The MPS Group entered into **co-operation agreements with other public and private players operating at a local level,** with the objective of strenghtening the Group's contribution to the economic growth of each geographical area. Following are the major initiatives undertaken:

- **General agreements with the Region of Tuscany and the Region of Umbria**: the Group continued to implement the measures for facilitating access by the local SMEs to credit facilities. The MPS Group agreed on drafting a specific paper ("Pact for Tuscany") which contemplates 14 negotiating tables.

- **Industry bond**: The MPS Group prepared a plan of financial assistance for the development of the Tuscan SMEs in co-operation with Fidi Toscana and the Region of Tuscany. The plan is to be structured according to the so-called “district bond” model;

- **Apulia Project**: the Group embarked on a specific project for providing the companies of Apulia with advisory and credit services, in line with the characteristics of the region and with the purpose of securing economic support and structural consolidation;

- **Confidi**: the Group entered into an agreement with Coordinamento Confidi Centro Italia, which participates in Federconfidi/Confindustria (Italian Manufacturers' Association), in order to standardize operating terms in compliance with the project of concentration of the guarantee institutions encouraged by the reform of this sector.

The new initiatives undertaken include the **successful participation**, together with Fabrica Immobiliare (a real estate management firm, 45% held by the MPS Group), in the **selection arranged by INPDAP** (Social Security Institute for Civil Servants) for the implementation, management and placement of a real estate fund with net assets initially amounting to EUR 800 million, to be used as a priority for the purpose of university and residential building and research institutes.

With reference to **electrical energy**, which is becoming more and more important from a strategical standpoint, the Group has marketed Conto Energia and Energia Plus as a result of an exclusive agreement with a primary energy player, with the objective of facilitating corporate supplying of energy and investments in corporate energy savings.

As regards **conto impres@più**, the package account providing integrated banking and non-banking services to the small business segment, as of 31 December 2004 the MPS Group had placed about 45,800 accounts, which more than doubled year on year.

Corporate finance

The evolution of the competitive scenario increased corporate requirements and fostered the demand for new assistance and advisory services to be flanked by traditional bank lending. In line with the objective of offering the SMEs and public entities an integrated range of financing products and corporate finance services, the Group set up **MPS Banca per l'Impresa** in October 2004. The new company grouped all the activities previously carried out by MPS Banca Verde, MPS Merchant and the corporate capital market desk of MPS Finance.

MPS Banca per l'Impresa assembles and consolidates the Group's specific professional skills with respect to medium-/long-term loans to industrial, commercial, environmental firms, agricultural loans, advisory, capital market, project financing and private equity services.

The main initiatives undertaken in 2004 embrace the **loan granted to Nuove Acque SpA-Arezzo**, the first example of project financing in the water industry in Italy which was widely highlighted by the Italian and foreign press. This project financing transaction was also awarded the prestigious "European Utilities Public Private Partnership Deal of the Year 2004" by the specialized magazine Project Finance Magazine published by Euromoney Plc.

THE *TERMOLI PROJECT*

The initiatives concerning the Large Corporate segment managed by a Corporate Center unit incorporate the loan extended to Società Energia Molise SpA for building a combined-cycle thermal power station in Termoli. This project is featured by innovative aspects (the first greenfield investment approved in Italy in compliance with the so-called "Power Station Deregulation Act" and the first example of merchant project financing) and the success achieved by the syndicated loan, exclusively arranged by Banca MPS. This project was awarded the prestigious "Deal of the Year 2004" for the energy industry by the specialized magazine Project Finance International published by Thomson Financial. Euromoney plc, the British publisher of the specialized magazine Project Finance Magazine, awarded a similar prize for the same reasons.

Environmental activity mainly focused on (i) advisory services to companies and public entities for securing quality and environmental management certifications and (ii) loans targeted at developing alternative energy sources with particular emphasis placed on wind energy plants, hydro-electric power stations and waste treatment/upgrading plants.

With reference to **private equity, MPS Venture SGR** continued to manage **four closed-end investment funds** (MPS Venture I, Siena Venture, MPS Venture Sud and Ducato Venture). During the year the company made five new investments in a total amount of EUR 22 million and approved other proposals of investments totalling EUR

43.8 million, to be finalized in 2005. Additional information about the activity of research and development in the area of corporate payment systems is provided in the *section covering "Distribution Channels and Payment Systems".*

OPERATING RESULTS

In 2004 the Corporate Area disbursed medium-/long-term loans in the approximate amount of EUR 7.1 bn which determined an increase in average lending volumes of more than 4%. Total funding remained virtually stable. **From the standpoint of profitability, the 2% decline in the gross operating profit was determined by the following factors**:

- Interest income was steady (-0.1% year on year) and indicative of the dynamics of volumes characterized by the contraction of short-term loans and the development of medium-/long-term loans;

- Non-interest income dropped by 7.3% due to lower contributions from the placement of derivative products for corporates and public entities, which was affected by the considerable slowdown of the banking industry.

The net operating profit stood at EUR 840 million (or -1.4% year on year) with the cost/income ratio at 56.2% (56.5% in 2003).

As is known, the above figures are inclusive of the results achieved by the specialized credit companies, which are summarized as follows:

€ mln

Corporate product companies	MPS Banca per l'Impresa 31/12/04	MPS Banca per l'Impresa % Chg yoy	MPS Leasing & Factoring 31/12/04	MPS Leasing & Factoring % Chg yoy
Customer loans (°)	8.180	16,6	4.166	3,9
Loans disbursed for the year (*)	2.339	-8,8	1.036	-19,8
Turnover factoring			3.947	1,8
	www.mpsbancaimpresa.it		www.mpslf.it	

(*)With respect to MPS L&F, the figures refer to leasing contracts executed (°)average balance

In particular:

■ **MPS-Banca per l'Impresa,** which incorporated the activity of MPS Merchant, MPS Banca Verde and the *capital market desk* of MPS Finance, continued to develop important *Project and Acquisition Financing* projects. The bank's core business was concentrated on loans disbursed in the amount of more than EUR 2,300 million (or + 10.5% year on year). Improvements were also achieved in terms of profitability with the gross operating profit rising by 14.8% and net profits totalling EUR 49.2 million.

■ **MPS Leasing & Factoring – Banca per i Servizi Finanziari alle Imprese** consolidated its operations as a *captive* product factory in the *leasing and factoring businesses*, though operating against a critical backdrop. With EUR 1,036 million of lease contracts executed, the results of the Leasing Unit decreased by 19.8% whereas the *factoring turnover* progressed moderately by 1.8% (at EUR 3,947 million). Despite an improving gross operating profit (+22%), the company posted a net loss due to the considerable loan loss provisions on the existing portfolio.

€ mln

Corporate product companies	MPS Banca per l'Impresa		MPS Leasing & Factoring	
	31/12/04	% Chg yoy.	31/12/04	% Chg yoy
Total Income	166,3	9,8	90,7	16,3
Gross Operating Profit	115,7	14,8	63,9	22,0
Operating Profit after LLS	81,2	14,3	-19,6	n.s.
Net Profit	49,2	1,1	-13,6	n.s.
	www.mpsbancaimpresa.it		www.mpslf.it	

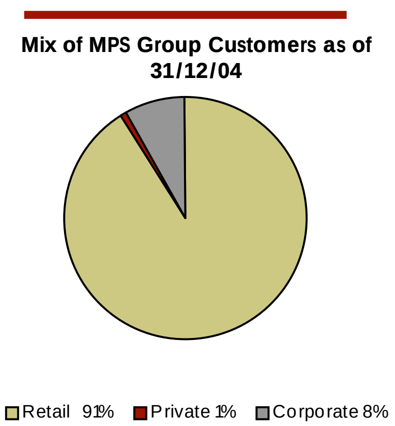
■ **Banca Toscana**. The bank's total funding increased by 3.9% driven by direct funding rising by 6.1% as a result of the increase in bonds and current accounts. Indirect funding also progressed by 2.1% due to the buoyant performance of asset management products. Customer loans rose by 4.5% on a yearly basis driven by medium-/long-term loans. The gross operating profit stood at EUR 290 million declining by 17.1% with respect to 2003 on the basis of reclassified data, but in line with the expectations for 2004. Net profits amounted to EUR 90 million (or – 15% year on year).

■ **Banca Agricola Mantovana**. The subsidiary's total funding achieved a 3% increase resulting from a virtually stable direct funding (-0.6%, characterized by the growth of demand components and bonds, and a decrease in CDs) and an improving indirect funding (+4.9% due to funds under management and funds under administration). Customer loans rose by 4.7% on a yearly basis driven by medium-/long-term loans. The gross operating profit stood at EUR 174 million declining by 9.7% with respect to 2003 on the basis of reclassified data, but in line with the expectations for 2004. Net profits amounted to EUR 71.5 million with a 129.5% increase year on year, influenced by particularly high valuation adjustments.

- **MPS Finance**. The company services retail, private and corporate customers, and supplies a wide range of financial products. Production volumes dropped on a yearly basis, partly due to the planned repositioning of trade flows. The gross operating profit stood at EUR 31.7 million with a 66.6% decrease with respect to December 2003 originated by declining volumes and more limited unit revenues from the activity of product factory (i.e. shorter maturities, lower interest spreads). Net profits at EUR 34.4 million fell by 45% with respect to the reclassified data of 2003[2].

- CUSTOMER PORTFOLIO

As of 31 December 2004 the customers of the MPS Group commercial networks numbered more than 4,100,000. Retail customers and private customers accounted for 91% and 1% of this total respectively, with corporate customers representing the remaining 8%.

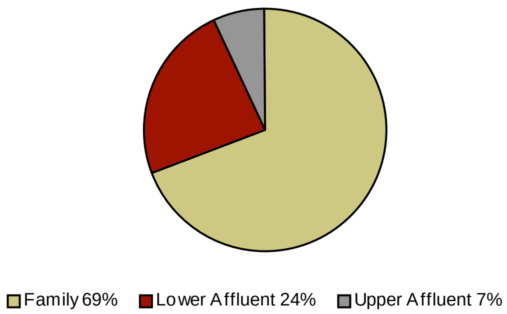


A review of the **Retail business** shows that the Family segment (assets of less than EUR 25,000) still represents the majority of the customers (69%), followed by the Lower Affluent segment (assets between EUR

2 The Capital Markets Origination and Securitisation business unit was transferred to MPS Banca per l'Impresa in 2004 (with backdated accounting effect as of 1 January 2004).

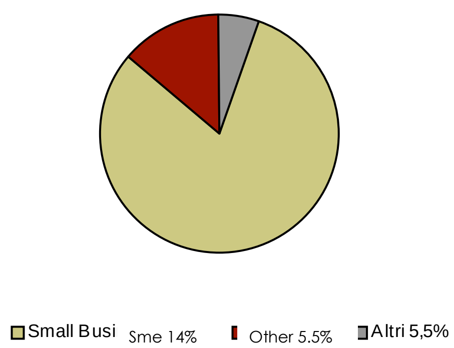
25,000 and EUR 125,000) and Upper Affluent segment (assets of more than EUR 125,000).

Mix Retail segment as of 31/12/04



The corporate clientele mostly consists of small businesses and SMEs (about 340,000 customers) with Large Corporates and Public Entities being incorporated under "Other".

Mix Corporate segment as of 31/12/04



If considering the customers directly managed by Consum.it, **the Group customer portfolio tops 4,400,000 customers**.

■ FINANCE AND INVESTMENT BANKING

The **contribution of the Finance and Investment Banking Area**[3] has declined year on year.

PROPRIETARY FINANCE AND TREASURY

A) PROPRIETARY FINANCE AND SECURITIES PORTFOLIO

Operating against a backdrop characterized by low volatility in the equity market and different trends for the other asset classes, the Parent Company's Proprietary Finance desk maintained a position which gradually reduced risk exposure. The Area followed a policy of moderate market exposure in the equity market, by reducing the weight of technological equities and shifting to cyclical shares, chemicals or other shares (car industry).

With reference to "credit spread" trading, upward pressures coming from oil, commodities and basic prices were flanked by increasing interest rates which determined a repricing of the credit risk and affected sub investment grade securities. Therefore, the Area adopted a "positive carry" strategy relying on high returns and steady default rates. The exposure to sub investment grade securities was concentrated on highly liquid securities with an improving rating.

From the viewpoint of quantity, the activity of the Area was based on short-term trading, failing any clear market trends for the period. Trading activity, and above all equity trading, became more appreciable in the second half of the year.

Volatility trading was dependent on the absence of any clear-cut market trends, which fluctuated in a very narrow range, thus implying the decline in historical volatility to the lowest levels ever experienced in the last few years.

These operations determined a considerable reduction of market risks during the year *(see the section covering "Integrated Risk Management")*.

3 Including the results of the Parent Bank's Proprietary Finance activity and – for a better description – the Investment Banking activity of MPS Finance and MPS Ireland and the brokerage business of Intermonte Securities Sim.

As a result, at the end of 2004 **the balance of the MPS Group own securities portfolio stood at EUR 16,990 million,** falling by EUR 1,315 million with respect to December 2003. The Parent Company posted a moderate increase (EUR 500 million) resulting from debt securities and equities.

The table below provides an overview of the Bank's and the Group's portfolio which consists of two components :

OWNED SECURITIES (€ mln at the end of period)

	MPS BANK 31/12/04	Abs. vs 31/12/03	%	MPS GROUP 31/12/04	Abs. vs 31/12/03	%
Total securities	**12.374**	**500**	**4,2**	**16.990**	**-1.315**	**-7,2**
including						
Investment portfolio	3.136	-303	-8,8	3.645	-319	-8,0
Investment portfolio	9.238	803	9,5	13.345	-996	-6,9

The Group's **investment portfolio** decreased by EUR 319 million versus December 2003 and the **trading portfolio** recorded a decline of roughly EUR 996 million, as a result of the contraction of Government Bonds (- EUR 2,321 million) and the growth of "Other debt securities" (+ EUR 364 million) and "Equities" (+ EUR 642 million).

The table below provides a breakdown of the securities portfolio by type of investment:

OWNED SECURITIES (in EUR million at end of period)

	MPS BANK 31/12/04	Abs.chg vs 31/12/03	MPS GROUP 31/12/04	Abs chg. vs 31/12/03
Government bonds	2.437	-414	4.828	-2.321
Bonds and others	8.860	519	10.392	364
Equities	1.077	396	1.770	642
Total	**12.374**	**500**	**16.990**	**-1.315**

B) TREASURY

With reference to treasury operations, the Parent Bank's trading volumes rose remarkably as a result of the gradual and final centralization in Banca Monte Paschi of the management of liquidity and financial flows for the whole Group. As a consequence, the overall management of the Group liquidity improved gradually with appreciable benefits in terms of optimization of estimated liquidity and the resulting containment of daily average requirements, in addition to the extension of the average life of funding. As shown in the following table, the Group's interbank balances decreased and **the net borrowing position in the interbank market reduced from EUR 6,507 million to EUR 3,872 million**.

INTERBANK BALANCES (in EUR million)

	MPS BANK 31/12/04	Abs. vs 31/12/03	%	MPS GROUP 31/12/04	Abs. vs 31/12/03	%
Amounts due from banks	21.076	4.389	26,3	11.356	2.805	32,8
Amounts due to banks	15.286	1.975	14,8	15.228	170	1,1
Net borrowing position	**5.790**	**2.415**	**71,6**	**-3.872**	**2.635**	**-40,5**

C) ASSET-LIABILITY MANAGEMENT

In 2004 BMPS consolidated its activity in the **international markets**. As part of the **Debt Issuance Programme**, the Bank launched **14 issues in the amount of roughly EUR 1,700 million** through public offering or private placement. Due to their characteristics (i.e. maturity and/or aggregate amount), some of these issues became real market benchmarks thereby promoting the Bank's and the MPS Group's image.

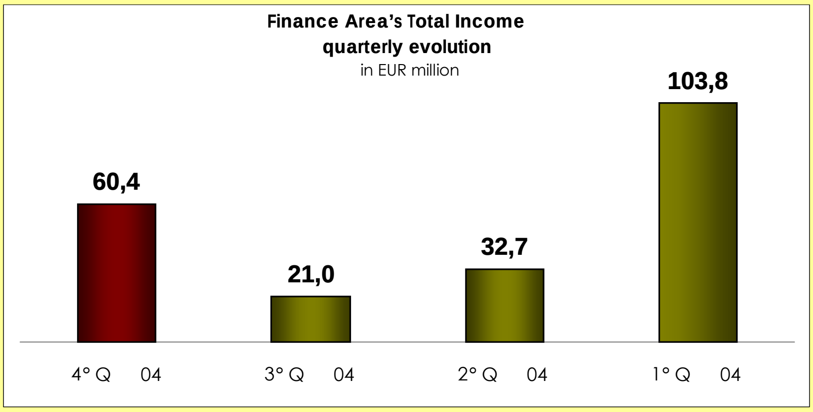
With regard to the actions undertaken in relation to BMPS Tier II capital, in June 2004 the Bank inaugurated a floating-rate ten-year subordinated issue in the amount of **EUR 250 million**, with a call option to be exercised at the end of the fifth year (**10NC5 Lower Tier II**). In view of consolidating its capital, in October 2004 BMPS launched a **Tier III** subordinated issue in the amount of **EUR 600 million**.

As part of the Debt Issuance Programme, BMPS also arranged **12 issues** through **private placements**, which were underwritten by the MPS Group insurance companies for the purpose of **hedging** their **index-linked policies** (marketed by the MPS Group commercial networks). These issues totalled a nominal amount of roughly **EUR 854 million**.

The major transactions carried out in 2004 include the issue of a bonded loan convertible in ordinary shares of Banca Nazionale del Lavoro S.p.A. in the amount of EUR 450 million approximately. This enabled BMPS to raise funds on favourable economic terms by tapping the market, also in line with any strategic options to be defined and in compliance with the voting rights in relation to the Bank's equity investment in BNL. In view of the above, this issue safeguards the value of the Bank's equity investment in BNL and protects the relative governance rights.

OPERATING RESULTS

In 2004 **the gross operating profit of the Finance & Investment Banking Area dropped by about 26%, with interest income and non-interest income declining by 16.6% and 29.7% respectively, thus incorporating the effects of cancellation of tax credit on dividends (EUR 80 million in 2003).**



The fourth quarter of 2004 stood at EUR 60.4 million, clearly improving with respect to the third and second quarter (EUR 21 and EUR 32.7 million respectively).

The operating profit came to EUR 126 million (or – 51% in comparison with 2003) and the cost/income ratio was 42% (28% in 2003).

INTERNATIONAL BANKING AREA

In line with the objectives set by the 2003-2006 Business Plan, the Group international business was more and more oriented to **supporting the operations of domestic customers**. Particular emphasis was placed on the **development and follow-up of the international expansion of Italian companies,** especially the SMEs, in a logic of commercial penetration of new or emerging markets and assistance of foreign investment projects.

With regard to **commercial activity** (additional information about the development of the "direct foreign network" in 2004 is provided in the *section covering "Distribution Channels and Payment Systems"*) and **settlement flows** managed by the Group, the aggregate of "current accounts" came to EUR 51.60 billion with a 6% increase over 2003 which confirms the growing Group's share of foreign trade settlements.

The MPS Group intensified its activity on the front of **export financing** to emerging countries and co-operated constantly with the Italian export-import insurance entity (SACE) for risk coverage, with the objective of keeping risks within the limits set by the MPS Group lending policies, also as a result of risk-sharing agreements with other players in the industry. The Group made the most of a **working agreement executed with SACE** (with volumes topping EUR 53 million) and offered other services in co-operation with SACE such as online confirmations and "Exportkey", with volumes exceeding EUR 93 million. At the end of 2004, the MPS Group had received specific insurance applications for export financing in the amount of EUR 15 million.

"Exportkey", a product which allows Italian exporters to negotiate business transactions with counterparties in high-risk countries, with BMPS taking on such risk, was flanked by other services supporting domestic customers such as the **sale without recourse of loans to foreign corporates**, secured by SACE insurance policies, and VAT recovery on international transactions. Besides, BMPS was appointed as **the Agent Bank for a new Aid Package in the amount of EUR 36.5 million which went to Tunisia**. This package is an addition to four already existing facilities, three of which were granted to Tunisia and the fourth of which went to Algeria (total amount of EUR 123.5 million).

"INTERNATIONAL PARTNER": A SERVICE MODEL

This model provides the SMEs with a wide range of professional and technical assistance services in support of their international expansion. InternationalPartner is a new professional reference point integrating advisory services targeted at the corporates dedicated to commercial or production international expansion. The service model is operated by the MPS Group direct foreign network (branches, Representative Offices, Italian Desks) and a team of professionals (legal counsels, tax consultants, contract experts) selected in each target country. In addition, a specific "integrated multichannel system" will give access to value-added online (instrumental, reporting and finalization) services useful for meeting corporate information and operating requirements.

In compliance with the dual objective of increasing the Group's operating skills and capacity to service the corporates in emerging countries, the **correspondent banking activity** focused on (i) improving the Group's efficiency through the management of the relationships with foreign correspondents in an economic logic and (ii) increasing business flows from abroad and promoting the Group's image with specific actions in interesting areas for Italian companies from the commercial standpoint (e.g. eastern Europe, the Far East, central Asia, southern Mediterranean area, America including Latin America).

OPERATING RESULTS

In 2004 the International Banking Area progressed moderately by 2.6% in terms of total funding and continued to optimize and upgrade its loan portfolio which declined by 18.5% with respect to the average balance of 2003. Therefore, **the reduction of interest income was in line with the expectations (roughly 10%) with the gross operating profit falling by 14.5% year on year. The operating profit stood at EUR 18 million (-33% decrease versus 2003) and the cost/income ratio came to 81.5% (76.2% in 2003). The net profit rose on a yearly basis due to extraordinary items** (valuation adjustments to previous provisions).

A review of the foreign subsidiaries shows as follows:

MP Banque undertook specific initiatives with the objective of upgrading its loan portfolio and seeking synergies with the Italian customers. The results - which were characterized by steady lending and direct funding, and a strong expansion (18%) of funds under administration (securities and investment funds) - were achieved in light of a rigorous selection of loans and operating against a critical backdrop with reference to the private banking market. The total banking income was in line with 2003, despite the decreasing interest rates. As a result of the good management of overheads (-5%), the Bank realized a gross operating profit of EUR 9.2 million increasing by 20.9% year on year. As of year-end, the Bank reached breakeven point due to the provisions for old files being closed and the rigorous budgetary policy adopted in view of the introduction of the IAS regulations.

MP Belgio continued to promote and focus on domestic operations, in line with the objectives set in its 2004-2006 Business Plan. The Bank started to develop diversified and customized customer relationships and expanded the range of products supplied. On the front of lending, MPBelgio further improved the quality of its loan portfolio by reducing risk concentration and consolidating the initiatives for the recovery of critical positions. From the standpoint of profitability, the gross operating profit more than doubled thanks to a watchful cost cut policy. As a result, the Bank achieved appreciable net profits.

In EUR million

Foreign banks	Monte Paschi Banque		Banca Monte Paschi Belgio	
	31/12/04	% Chg yoy	31/12/04	% Chg yoy
Total Income	50,0	-2,0	14,2	-2,3
Gross Operating Profit	9,2	20,9	3,3	131,5
Operating Profit after LLS	0,2	-96,8	4,0	128,2
Net Profit	-2,8	n.s.	5,2	n.s.
	www.montepaschi-banque.fr		www.montepaschi.be	

As planned, in 2004 the MPS Group sold the controlling interest held in Monte Paschi Suisse and Monte Paschi Channel Islands.

■ TAX COLLECTION

The performance of the Tax Collection Area was positive in 2004 as opposed to the losses posted in prior years (net profit of EUR 5.7 million improving by about EUR 28 million with respect to 2003). The units reporting to the Area include Montepaschi SE.RI.T which achieved an appreciable profit in the amount of EUR 4.8 million in comparison with a loss of EUR 24.4 million incurred in 2003.

Despite the unfavourable operating backdrop characterized by the reduction of the "lump-sum tax remuneration" and, effective July 2004, the suspension of the "administrative freeze on registered movables", the positive performance was mainly attributable to the curtailment of operating/financial expenses and the increase in the recovery of tax rolls.

With reference to the expectations for the Area, the Financial Act of 2005 extended the Government tax licenses expiring on 31.12.2004 to 31.12.2006. The Act also introduced the possibility to remedy the irregularities made by the Government Tax Agents during their tax collection activity by paying EUR 3 per resident in the geographical areas the Agents are competent for. Pending the evaluation of the impact of regulations on capital risks on the basis of their enforcement, previously made risk provisions cover the expenses for the participation (if any) in this "amnesty".

A major factor influencing the management of the Area is the use of the Staff Redundancy Fund for the tax collection area which will contribute to pursue the gradual staff reduction policy carried out so far through early retirement schemes.

Following is a breakdown of the profit and loss statements of the main MPS Group tax collection companies and BMPS directly-managed tax businesses:

In EUR million

Tax Collection	Directly-managed companies		Mps SERIT		GERIT		SO.R.I.T	
	31/12/04	31/12/03	31/12/04	31/12/03	31/12/04	31/12/03	31/12/04	31/12/03
Total Income	118,6	108,7	124,0	91,9	8,0	6,9	12,9	12,3
Gross Operating Profit	11,7	-3,2	15,2	-19,0	0,4	-0,2	0,4	-0,3
Net Profit/Loss	0,9	2,6	4,8	-24,4	0,3	0,1	-0,9	-0,8

EQUITY INVESTMENTS AREA

In 2004, the Equity Investments Area focused on the implementation and management of the Group portfolio monitoring pattern in compliance with the Business Plan and on the introduction of more selective procedures concerning new projects, while creating portfolio managers as key elements of the new structure. **In 2004, the portfolio was remarkably reorganized by disposing of 27 equity investments totally amounting to EUR 129 million revenues and net capital gains of more than EUR 35 million. Dividends from equity investments in companies other than Group companies amounting to EUR 33 million also contributed to the Area overall profitability.**

As of end 2004 the **Group's portfolio of minority equity investments totaled EUR 2,785 million** including EUR 538 million in relation to the MPV Group and other companies. The Parent Company's portfolio of equity investments stood at EUR 7,570 million.

EQUITY INVESTMENTS (in EUR million as of end 2004 – Banca Monte Paschi))

	31/12/04	31/12/03	Abs chg.
Investments in group companies	5.249	5.189	60
Other investments	2.321	2.039	281
TOTAL	**7.570**	**7.229**	341

The principal transactions for the year are summarized below:

INVESTMENTS IN MPS GROUP COMPANIES

The aggregate reflects the major reorganization of the investments in 2004 which took place pursuant to the guidelines of the Group's Business Plan

- Banca Steinhauslin & C. SpA: incorporation into Banca MPS on 30 May 2004, date of accounting applicability: 1 April 2004;

- MPS Merchant: in March underwriting of no. 145,442 shares resulting from the capital increase from EUR 69.9 million to 83.2

million by resolution of the extraordinary shareholders' meeting of 17 December 2003;

- MPS Banca per l'Impresa SpA: by deeds dated 5 October 2004 and starting from 18 October 2004, merger by incorporation of MPS Banca Verde SpA into Mps Merchant SpA and the partial spin-off of a business unit of MPS Finance SpA to MPS Merchant. As of the same date MPS Merchant has the new company's name with a share capital of EUR 119 million.

- Acquisitions, incorporations and sales

- BA.SA Servizi: in the framework of the reorganization of the investments in real estate companies, incorporation into MPS Immobiliare SpA after the necessary extraordinary corporate transactions;

- Banca Monte Paschi Suisse: sale to PKB Privat Bank Ag in Lugano at the price of EUR 24.8 million against a book value of EUR 12.2 million;

- Banca Monte Paschi Channel Islands Ltd.: sale to BSI Banca della Svizzera Italiana (Channel Islands) belonging to the Generali Group at the price of EUR 10.3 million against a book value of EUR 8.3 million.

- Other transactions

- Banca 121 Promozione Finanziaria: share capital reduction due to losses amounting to EUR 62.7 million and at the same time share capital increase up to the amount of EUR 125 million. Subsequently further EUR 45 million were paid in to cover future losses. In 2004, a plan to re-launch and reorganize the bank in view of which a new company's name was approved starting from 3 January 2005: Mps Banca Personale".

- Monte Paschi Belgio: parent company's underwriting of a share capital increase of EUR 10 million (including EUR 2.4 million of share premium) increasing its investment from 72.48% to 77.53%;

- Montepaschi Life (Ireland) Ltd: as capital contribution, total payment to the company of EUR 50 million, including EUR 20 million from BMPS and EUR 30 million from MPVita SpA;

- Monte Paschi Serit SpA: 2003 losses cover (EUR 24.4 million) by using the share capital, which was subsequently restored in its original amount (EUR 10.4 million) by paying-in EUR 7.7 million;

- MPS.Net: reduction of the share capital from EUR 53 million to EUR 21.8 due to EUR 31.2 million losses as of 31.12.03;

- MPS Professional SpA: the extraordinary shareholders' meeting resolved to write off the share capital due to operating losses (EUR 1.1 million) and restore it up to EUR 2.4 million;

- Liquidations of E-Idea, Consorzio Skillpass, Consorzio Mobilità and Servizi Telematici;

- Liquidations of Monte Paschi Nederland and MPS US Commercial Paper;

- Monte Paschi Ireland Ltd: pursuant to the reorganization plan of the Irish investments, Monte Paschi Ireland Ltd acquired all assets and liabilities of Mantovana Ireland Ltd which was therefore liquidated;

- MPS Leasing and Factoring SpA: share capital increase by EUR 50 million including EUR 43.4 million underwritten by BMPS;

- MP Vita: underwriting and payment of a share capital increase of EUR 50 million including EUR 45.7 million from BMPS and the remaining amount from Banca Toscana;

- Marinella SpA: in order to support the development plan of the area, the second tranche of share increase of original EUR 5 million (initially subscribed for EUR 2 million) was called for and a further capital increase of EUR 7.2 million carried out.

OTHER EQUITY INVESTMENTS

- Acquisitions, incorporations and sales

- Charme Investments SpA: in 2004, the company has resolved three calls for share capital and after that total payments from our bank amounted to EUR 11 million against an estimated max. commitment of EUR 25 million. Charmes Investments purchased stakes in in Poltrona Frau and in Ballantyne, an English manufacturer of high-quality knitwear.

- Autostrada Torino-Milano SpA and Sias SpA: in April 2004 direct sale of the investments (1.41%) in the share capital of Autostrada Torino-Milano SpA (with a revenue of EUR 14.3 million against a book value of about EUR 3.3 million) and of the investments (0.97%) in the capital of Sias SpA (EUR 9 million; book value EUR 2 million).

- Compagnia Assicuratrice LINEAR SpA: sale of the investments of Banca Agricola Mantovana for EUR 10.7 million with a capital gain of about EUR 5.2 million;

- Unisalute SpA: sale of the investments of Banca Agricola Mantovana at the price of EU 3.9 million with a capital gain of about EUR 2.2 million;

- I.B.A. Ag.: sale of equity investments (35.01%) to Bank Winter Ag, a former bank's shareholder now controlling I.B.A. Ag;

- C.B.I. Factor SpA: sale of the whole equity investments at the price of EUR 0.57 against a book value of EUR 0.35 million;

- Hopa: purchase from Fingruppo of no. 5,714,286 shares at the price of EUR 10 million increasing the investments from 9.17% to 9.58%;

- Spoleto Credito and Servizi Scarl: purchase of no. 750,000 quotas at the total price of EUR 30 million, corresponding to 28.88% of the whole share capital;

- Centrobanca SpA: sale of our quota (0.0004%) with a capital gain of about EUR 6,000.

- Etruria Innovazione SpA: sale of our whole 5.56% stake with a capital loss of EUR 2,000;

- Finlombarda SpA: sale of our whole 0.16% stake with a capital gain EUR 21,000;

- Banca Nazionale del Lavoro: pro rata subscription of no. 34,400,072 shares corresponding to EUR 52 million in the framework of a capital increase;

- E.Biscom: sale of equity investments (0.20%) at the price of EUR 20.6 million against a book value of EUR 13.8 million;

- CRIF SpA: sale of 50% of portfolio shares with a capital gain of about EUR 1 million;

- equity investments of VOLKSBANK Group: sales of equity investments in 5 Eastern European banks with a capital gain of about EUR 1.8 million.

- Other transactions

- Energia Italiana SpA: pro rata 8% subscription of the capital increase paying EUR 2.9 million;

- Firenze Parcheggi: in consideration of the importance of the company for the Florence area and the well-balanced company management, BMPS took part in the share capital increase, with a total subscription of EUR 1.1 million.

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In compliance with the new corporate law related to financial statements, accounts concerned by tax of preceding fiinancial years were subject to tax "adjustments" as better specified under section 3.6 of the Additional Notes to the Financial Statements. In particular,

- **with reference to the BNL equity investments**, in view of its strategic importance, the value of the equity investments was restored to the level previous to the tax adjustment of the 2003 financial year;

- **as to the put option on Bam shares**, which became owned shares after the merger by incorporation of the subsidiary Bam into BMPS, the ordinary shareholders' meeting, called on 28 February 2003, resolved the purchase of own shares, as investment securities, in compliance with the put option (in case of exercise) up to max. no. 92,401,908 own shares at the price of EUR 4.356, with corresponding inscription of a reserve of own shares for the same amount, to be established, in case of exercise of options, at the moment of purchase. Therefore, as far as the assessment is concerned, in line with the current accounting principle no. 20 and with article 2426, sub-par. 3 of the Italian Civil Code, no adjustment was carried out;

- **with reference to the investments held in Santorini Investment Limited Partnership,** the capital loss, due to the compliance with several accounting principle, is not deemed to be permanent in view of the assets underlying the financial contracts, which anyway increased in value in the last period; moreover, the contract was renewed for further 4 years (new expiry: 31 May 2009) while keeping the advance redemption right.

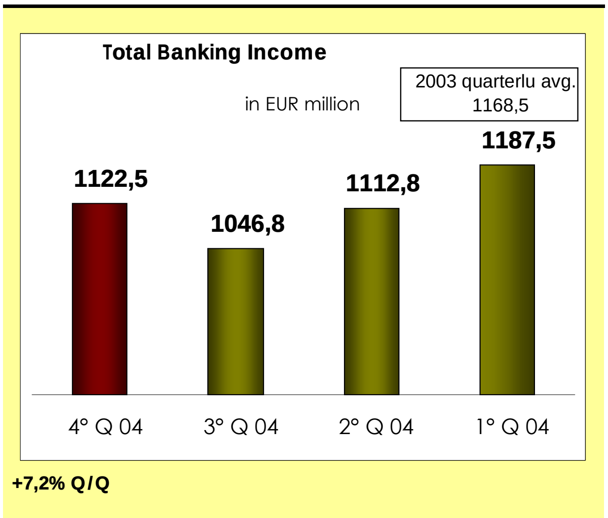
INCOME AGGREGATES

■ CORE BANKING BUSINESS

With respect to the core banking business the above-mentioned trends resulted in a 11.4% increase of the banking income thanks to steady returns from the core business together with a decrease in trading business income and a further significant reduction in administrative expenses and a remarkable decrease in credit costs.

□ TOTAL BANKING INCOME

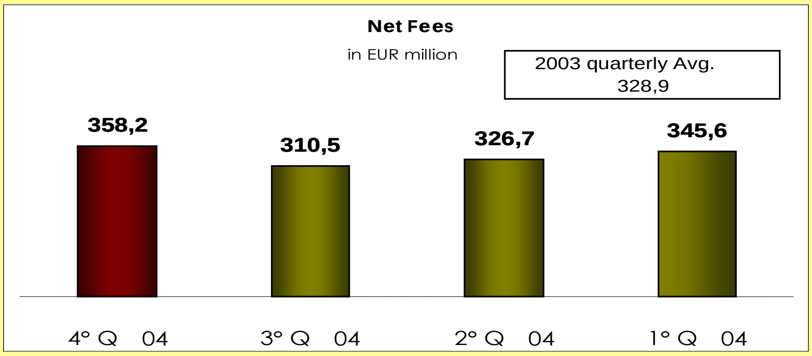
In 2004, **total banking income** recorded EUR 4,470 million (EUR 4,674 million in 2003) with a steady core component (interest margin + commissions paid by the customers) year after year. In comparison with 2003 there are no returns from securitization (EUR 83 million in 2003) and the contribution from "profits/losses from financial transactions" decreased (in 2003 included also EUR 80 million of tax credits on dividends, which are no longer provided for by tax regulations) **Main capital aggregates are summarized as follows:**



■ The **interest income** amounts to EUR 2,426 million (EUR 2,482 million in 2003) showing a decreased contribution of the Banking Book, due to higher costs of funding related to issues aimed at consolidating capital structure. The margin produced by the commercial aggregate slightly increased (+0.3%).

■ The **non interest income** amounts to EUR 2,043 million (EUR 2,192 million in 2003) and consists of the following:

- **Net fees** slightly increased (+1.9%) to EUR 1,341 million thanks to a steady contribution of commercial business and a strong growth (14%) of tax collection;



Net Fees of Q4 04 remarkably advanced by 15.4% in comparison with the results of Q3 04

- **"Profits/losses from financial transactions"** totalled EUR 57.5 million (EUR 231.7 million in 2003) absorbing the loss of tax credits and the decreased contribution from structured innovative financial products designed by MPS Finance;

- **"Dividends"** decreased to EUR 84.4 million from EUR 111.5 million in 2003 also because of a reduced contribution from structured products;

- the **contribution of investments valued with net equity method** strongly increased (+146.1% to EUR 78.3 million) thanks to positive results of MPV Group and to FINSOE growing contribution;

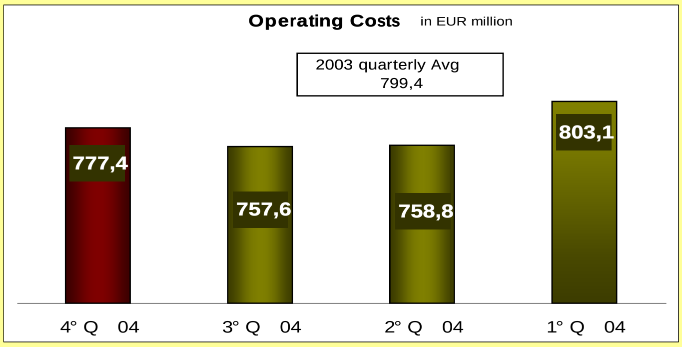
- **other income** slightly contracted to EUR 481.9 million, (-3.8%) since in 2003 it incorporated income from securitization transactions.

ADMINISTRATIVE EXPENSES

In line with compliance with the attainment of more efficiency gains in Group operations according to the Business Plan 2003-2006, in 2004 the Group carried on the important initiatives to reduce expenses by consolidating the process of centralization and cost governance, which had been inaugurated in the previous financial year. As a result, administrative expenses declined by 3.2% despite increased expenses, due to the renewal of the collective labor contract, net of which the decrease would amount to -4%. The decrease concerned all components of administrative expenses as follows:

■ **ADMINISTRATIVE EXPENSES (in EUR million)**

	31/12/04	31/12/03	Chg	
			Abs	%
Personnel expenses	1.758,7	1.794,7	-36,0	-2,0
Other administrative expenses	1061,9	1068,1	-6,2	-0,6
Total administrative expenses	**2.820,5**	**2.862,7**	**-42,2**	**-1,5**
Valuation adj. to Fixed and intangible assets	276,2	334,9	-58,7	-17,5
Operating Costs	**3.096,8**	**3.197,6**	**-100,9**	**-3,2**



Administrative expenses in Q4, net of costs of labor contract, decreased by 0.7% in comparison with Q3.

a) **Personnel expenses** decreased by 2%, in comparison with 2003, to EUR 1,758.7 million and by 3.4% net of the costs of the labor contract amounting to EUR 25 million and are the result of several steps undertaken last year to contain the aggregate, in compliance with the Business Plan, incorporating:

- the reduction in staffing (-259 staff in 2004; - 1,195 from 31/12/2002) and the subsequent restructuring under Early Retirement Incentive and Solidarity Plans, which provided for the retirement of senior personnel to be partly replaced by young employees, with benefits in terms of structure renewal and management flexibility;

- actions aiming at impacting other significant costs.

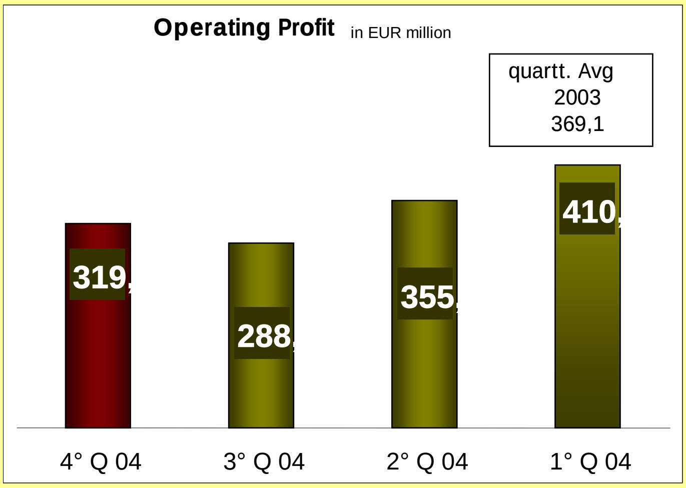
b) **other administrative expenses** (EUR 1,061.9 million) were further curtailed by 0.6% and the resulting total decrease amounts to 6% against the 2002 results. The decrease in expenses was the result of sharp actions of governance and monitoring of spending undertaken since long (i.e. zero-base budget, review of the payable cycle, set up of an Expense Committee, cost management initiatives) and is particularly remarkable in expenses aggregates relative to Advisory Services (-17%), "Equipment & Furniture" (-12%) and "Information Technology" (-7%).

■ OTHER ADMINISTRATIVE EXPENSES (in EUR million)

	31/12/04	31/12/03	Chg	
			Abs.	%
Operating expenses	846,3	856,0	-9,7	-1,1
Non-income taxes and recovery of stamp duties	170,1	171,9	-1,8	-1,0
Production costs (tax collection activity)	45,4	40,1	5,3	13,2
Total Other Administrative Expenses	**1.061,9**	**1.068,1**	**-6,2**	**-0,6**

c) **Valuation adjustments to fixed and intangible assets** remarkably decreased to EUR 276.2 million (-17.5%) in line with prior year's trend totaling a 32% decrease from 2002.

Operating income amounts to EUR 1,372.8 million (EUR 1,476.2 million in 2003), given the effects of the developments indicated above. <u>The cost/income ratio (including depreciation and amortization)</u> stood at 69.3% (68.8% net of labor contract costs) with respect to 68.3% as of end 2003 (69.7% net of securitization returns). The commercial core business cost/income ratio improves from 65.7% to 63.8%.



The operating profit trend in Q4 shows a 10.9% increase in comparison with Q3

ADJUSTMENTS AND PROVISIONS

In 2004 net valuation adjustments to loans amount to EUR 439.4 million (EUR 625.7 million in 2003) and confirm the MPS Group's traditionally conservative posture with regard to adjustments and provisions. Non performing securitization transactions of preceding financial years (totaling EUR 33.4 million) pursuant Law no. 130/99 should be added as well as lump-sum write-downs of performing loans (EUR 33.6 million and EUR 23.2 million as of 31 December 2003) resulting in a balance of EUR 291.6 million, including EUR 75 million to cover risks, if any, resulting from exposure to the car industry. The fund totaling EUR 277 million also includes **loan loss reserve** amounting to EUR 26.9 million (EUR 48 million as of 31 December 2203);

As a result the operating profit of the core banking business (operating profit net of loans adjustments/provisions) amounts to EUR 839.4 million, showing a 11.4% growth against 2003, with a 5.8% increase to EUR 191.2 million in Q4.

THE NON-CORE BANKING BUSINESS

ADJUSTMENTS AND PROVISIONS

The account having the most significant impact on net earnings are reviewed as follows and tend to confirm the MPS Group's traditionally conservative posture with regard to adjustments and provisions.

In particular, following accounts should be noticed:

- **The amortization of positive consolidation and positive net equity** differences of EUR 95.3 million, decreased by EUR 7.5 million compared with 2003;

- **The provisions for risks and charges** of EUR 65.9 million (EUR 171.8 million in 2003) to cover potential operating risks , such as lawsuits. With reference to the action for bankruptcy revocation towards banks of the Group in the framework of the extraordinary administration of Parmalat SpA (see "*Material events subsequent to year end*"), the banks of the Group did not set provisions aside since it is impossible at the moment to quantify the revocation risk, due to lack of exposure recovery prospects;

- **Net valuation adjustments to financial assets** in the amount of EUR 16.9 million substantially including further write-downs of some items of the investment securities portfolio (asset backed securities resulting from securitization); as of 31 December 2003 this aggregate amounted to EUR 96.7 million.

Give the effects of the developments indicated above, ordinary income amounts to EUR 661.3 million with a growth of EUR 279.4 million in comparison with 2003.

EXTRAORDINARY ITEMS, TAXES AND NET PROFIT

The profitability picture is rounded out by the following elements:

- **the balance of extraordinary income** (EUR 82.3 million, + 13.9 million in comparison with 2003) includes:

- - net capital gains amounting to EUR 35 million resulting from the sale of equity investments such as E-Biscom, Autostrade Torino-Milano, Sias, IBA;

- - Extraordinary charges linked with the Early Retirement Incentive Plan (Solidarity Fund) for overall EUR 73 million (including EUR 57 million booked by the Parent Company) which were conservatively fully booked in the profit and loss statement;

- - Extraordinary losses of EUR 87.7 million (including EUR 67.5 million booked by the Parent Company) for charges due to complaints on financial plans and structured products;

- - extraordinary income of EUR 33 million (EUR 29 million of the Parent Company) for the utilization of the risk and charge fund in relation to the disputes on financial plans;

- - extraordinary income of EUR 122 million resulting from value adjustments on equity investments carried out by the Parent Company as of 31 December 2003, in compliance with tax regulations, and then cancelled in 2004.

- **Overall taxes** of EUR 215.6 million (EUR 245.2 million in 2003 net of reclassified tax credits) took advantage of the dividend tax exemption resulting in a 35% tax rate.

Given the effect of the foregoing, consolidated net profit for the period came to EUR 513.7 million (+16.1% in comparison with 31 December 2003). Adjusted to exclude the amortization of goodwill the net profit was EUR 609 million (+11.7% in comparison with 31/12/2003). ROE for the year came to 8.2% including amortization of goodwill and reached 9.8% exclusive of such component.

PROFITABILITY BY BUSINESS AREA

Following[4] is a breakdown of the results by Business Area and the major ratios[5]: the high return on risk-adjusted capital (Rorac) of Retail Banking benefits from a positive trend of all margins and from limited absorption of economic capital with respect to credit risk.

Main Business Areas	Retail Banking		Private Banking		Corporate Banking		Total Commercial Banking		Investment Banking		International Banking		Tax Collection		MPS Group	
	Cons. 31/12/04	%chg yoy.	Cons. 31/12/04	% chg yoy.	Cons. 31/12/04	% chg yoy.	Cons. 31/12/04	% chg yoy.	Cons. 31/12/04	% chg yoy	Cons. 31/12/04	% chg yoy.	Cons. 31/12/04	% chg yoy.	Cons. 31/12/04	% chg yoy.
Interest Income	896	1,1	25	-2,2	1.442	-0,1	2.363	0,3	85	-16,6	66	-9,7	-16	-35,1	2.426	-2,2
Non Interest Income	973	2,9	85	2,0	476	-7,3	1.533	-0,5	133	-48,1	33	-22,7	285	14,0	2.043	-6,8
Total Income	1.869	2,0	109	1,0	1.918	-2,0	3.896	-0,0	218	-39,1	99	-14,5	269	19,5	4.470	-4,4
Net Operating Profit	538	16,8	31	38,4	840	-1,4	1.409	5,6	126	-51,0	18	-33,4	22	177,2	1.373	-7,0
Cost/Income	71,2%		71,3%		56,2%		63,8%		42,0%		81,5%		91,8%		69,3%	
Raroc	19,9%		157,0%		6,8%		10,5%		27,0%		3,4%		n.s.		6,8%	
% on capital absorption	17,0%		0,2%		49,7%		66,8%		3,9%		1,7%		0,1%		100,0%	

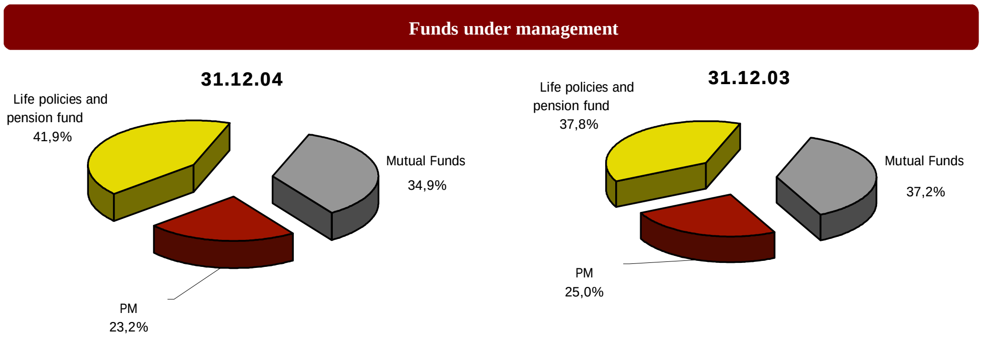
[4] The "Value Based Management" system adopted by the MPS Group was updated, in 2003, with respect to the methods concerning the models of analysis of performance adjusted for risk. In particular, new variables such as measurement of expected losses (i.e. net average loss estimated by the MPS Group in the 12 months following the reference date on the amount of performing loans outstanding as of measurement date) and economic capital (i.e. the capital required for balancing any losses generated by unexpected changes of internal or external conditions, as a result of credit, market, operating, business or insurance risks) were introduced in replacement of the measurement for regulatory purposes.
[5] From the viewpoint of methodology, the Rorac for an Area is calculated as the ratio of Nopat to the higher od "risk adjusted economic capital" and "allocated economic capital". The N.O.P.A.T. is calculated on the basis of the profit and loss statement of each Area, excluding several accounting items such as extraordinary items and amortization on goodwill. The cost/income ratio for each Area is inclusive of allocated Corporate Center costs. The Corporate Center incorporates risk-adjusted capital for the Equity Investments Area (roughly 20% of total) Business Risk capital and eliminations/integrations.

CAPITAL AGGREGATES

The aforementioned operating business resulted in a remarkable development of the main capital aggregates, as follows:

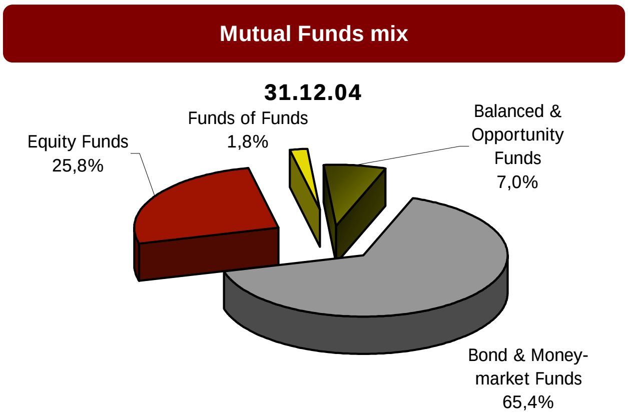
- 1) FUNDS MANAGEMENT

Funds under management grew by 2.7% in comparison with 2003 (+ EUR 1.2 billion) and reached EUR 43,421 million with an increase of the weight of "life policies and pension funds" from 37.8% to 41.9%.



- **With reference to life insurance policies, the technical reserves** of the Group commercial networks totaled EUR 18.189 million, rising by a significant 14% in comparison with 2003, with traditional policies making a strong contribution, as usual;

- **Mutual investment funds/SICAVs** managed by the MPS Group came to EUR 15,179 million with a 3.6% decrease in comparison with December 2003 showing, despite a positive performance (+3.04%), the difficulties of the System which concerned all main competitors. **The Group's market share on the total stock of funds managed by the Industry was 4.04% from 4.16% as of December 2003**. The graph below shows the overall mix of assets of the mutual investment funds and the increase of bond and money-market funds which account for 65.4% (63.9% as of 31/12/2003).



- **<u>The Individual Portfolios under Management</u>** amounted to EUR 10,063 million and reflected a 4.8% decrease with respect to 31/12/03, which is lower than the System's (-10.6%). **As a result the market share increased by 41b.p. reaching 6.8%.**

<u>Funds under administration</u> stock (EUR 62,016 million) declined by 2,6% showing the outflow of some institutional customers with marginal profitability.

Considering the dynamics outlined above, **<u>indirect funding</u> came to EUR 105,437 million as of 31/12/2004 and is substantially steady (-0.5%) with respect to 31/12/03. The weight of funds under management increased further from 39.9% in 2003 to 41.2%.**

<u>Direct funding</u> totaled EUR 86,345 million as of 31/12/2004 **with a domestic market share of 6.52%** with the "primary" component (excluding subordinated bonds) growing by 5%. The performance for the year incorporates an increase in current accounts and bonds (including issues servicing innovative financial products) as well as the increase in funding with foreign branches. Subordinated bonds advanced by 1.9% and with respect to **the performance of the aggregate progressed by 4.9% with respect to 2003**. As of 10 June, a bonded loan was issued expiring in 2009 for EUR 450 million was issued with an offer to non-Italian institutional investors. The loan is convertible in about 178 million ordinary shares of Banca Nazionale del Lavoro corresponding to the equity investments owned by Banca Monte Paschi and Banca Popolare di Vicenza. BPV has also issued a bonded loan convertible in BNL shares fully underwritten by BMPS; this transaction enabled our Bank to raise funds at good market conditions.

■ BREAKDOWN OF DIRECT FUNDING (in EUR million)

	31/12/04	31/12/03	% chg yoy.	% weight 31/12/04	% weight 31/12/03
Saving deposits	4.158	4.091	1,6	4,8 ,	
Current accounts	39.269	37.806	3,9	45,5	45,9
Certificates of deposit	6.531	6.021	8,5	7,6	7,3
Repurchase agreement	4.825	4.670	3,3	5,6	5,7
Bonds	25.604	24.000	6,7	29,7	29,1
Other	1.397	1.274	9,7	1,6	1,5
Sub Total	81.784	77.863	5,0	94,7	94,6
Subordinated bonds	4.561	4.475	1,9	5,3	5,4
Total	86.345	82.338	4,9	100,0	95,0

An analysis of the deposit aggregate (current accounts + savings deposits + CD) of the domestic network shows the weight of retail customers (58% of the total).

Deposits of resident ordinary customers with Italian branches

(in EUR million)

Sectors	31.12.04	% chg dic04/dic03	% weight 31.12.04	% weight 31.12.03
Public entities	1.534	2,4	3,7	3,8
Financial & insurance companies	4.131	23,8	9,9	8,5
Non-financial companies and family-owned business	11.763	14,7	28,2	26,1
Retail customers (*)	24.328	0,6	58,3	61,6
Total	**41.756**	**6,3**	**100,0**	**100,0**

(*) also includes private social institutions and other categories .

A breakdown of traditional deposits (current account, saving deposits and certificate of deposits) by geographical area of the Customers confirms the remarkable weight of Central regions (more then 53% of the total) showing a 11% increase over the year.

Deposits of resident ordinary customers with Italian branches

Distribution by geographical area *(in EUR million)*

Regions/Areas	31.12.04	% chg dic04/dic03	% weight 31.12.04	% weight 31.12.03
Northern regions	9.618	1,6	23,0	24,1
Central regions	22.193	11,2	53,1	50,8
Southern regions and islands	9.945	1,0	23,8	25,1
TOTAL	**41.756**	**6,3**	**100,0**	**100,0**

2) LENDING

As a result of the above mentioned commercial trends, as of 31 December 2004 outstanding loans amounted to EUR 74,394 million with the MPS **Group's share of the domestic performing loan market at 6.23%);** the aggregate grew by 5.7% year on year. Growth was mainly driven by the medium-/long-term segments with the domestic component advancing by 12.5% in comparison with December 2003; the short-term component drops (-3.3%) but less then the System. A breakdown of loans by type highlights the growing weight of mortgage loans (up from 45.9% as of 31/12/03 to 49.9%) with their volume rising by 13.7% year on year **above all because of the retail component growing by 41% from the beginning of the year and amounting to a market share of about 6.7%.**

DISTRIBUTION OF LOAN PORTFOLIO BY TYPES OF LOANS (in EUR million)

	31/12/04	31/12/03	%chg vs 31/12/03	% weight 31/12/04	% weight 31/12/03
Current accounts	11.464	11.839	-3,2	15,4	16,8
Advances	3.507	3.485	0,6	4,7	5,0
Subsidies	11.565	13.641	-15,2	15,5	19,4
Personal loans	1.194	1.145	4,3	1,6	1,6
Mortgage loans	36.785	32.340	13,7	49,4	45,9
Loan value of financial leases	4.128	3.053	35,2	5,5	4,3
Other	4.187	3.603	16,2	5,6	5,1
Non performing loans, net	1.564	1.299	20,4	2,1	1,8
Total	74.394	70.405	5,7	100,0	100,0

In the domestic market, the distribution of loans is mainly concentrated in Central Italy (45.4%); however, the trend of development of these regions is lower than in the Northern regions and above all in the Southern ones (+9.2% with respect to 31 December 2003 against a + 5.7% of the national average).

Loans to ordinary resident customers Italian branches
Distribution by geographical area *(in EUR million)*

Regions/Areas	31.12.04	% chg dic04/dic03	% weight 31.12.04	% weight 31.12.03
Northern regions	23.733	7,6	34,7	34,1
Central regions	31.023	2,8	45,4	46,7
Southern regions and islands	13.562	9,2	19,9	19,2
TOTAL	**68.318**	**5,7**	**100,0**	**100,0**

The distribution of loans by sector highlights the increase in loans to retails customers showing also a growth in the aggregate to

20.6% (from 17.7% as of 31 December 2003) with a 22.6% yearly growth supported by retail mortgage loans.

Loans to ordinary resident customers Italian branches
(in EUR million)

Sectors	31.12.04	% chg dic04/dic03	% weight 31.12.04	% weight 31.12.03
Loans for production purposes	45.202	5,4	66,2	66,3
- Non-financial companies	*39.536*	*5,4*	*57,9*	*58,0*
- Family-owned business	*5.666*	*5,3*	*8,3*	*8,3*
- cottage industries	*1.146*	*0,9*	*1,7*	*1,8*
- other family-owned businesses	*4.520*	*6,4*	*6,6*	*6,6*
Retail loans	14.040	22,6	20,6	17,7
Other (*)	9.076	-12,1	13,3	16,0
Total	**68.318**	**5,7**	**100,0**	**100,0**

(*)Public entities, financial & insurance companies, no-profit institutions and other.

The distribution of the loans for production purposes by sector serves to affirm the traditional wide diversification of the loan portfolio:

Loans for production purposes
Loans to ordinary resident customers Italian branches (in EUR million)

Sector	31.12.04	% chg dic04/dic03	% weight 31.12.04	% weight 31.12.03
Agriculture	3.661	11,8	8,1	7,6
Industry	15.450	2,6	34,2	35,1
Building industry and public works	4.843	3,7	10,7	10,9
Services	21.248	6,9	47,0	46,3
Total	**45.202**	**5,4**	**100,0**	**100,0**

The concentration of risk continues to be limited: 58.8% of the loans of the MPS Group are for individual amounts of less than EUR 2.5 million.

LOANS OUTSTANDING BY AVERAGE AMOUNT
Cash credits, net of non-performing loans

In Eur '000		% of total 31/12/04	31/12/03
0	75	12,5	13,5
75	250	18,7	15,9
250	500	7,7	7,8
500	2.500	19,9	19,8
2.500	50.000	25,0	24,1
more than	50.000	16,2	18,9
Total		**100,0**	**100,0**

3) DOUBTFUL LOANS

The year of 2004 was characterized by results confirming overall limited doubtful loans for the MPS Group. The ratio of non-performing loans and watchlist credits (net of loans with doubtful outcome) to total loans stood at 3.6% in comparison with 3.5.% as of 31/12/03 while the ratio of overall loans with doubtful outcome to total loans amounted to 3.8% with respect to 3.7% of preceding year's end. **The ratio of gross NPLs to gross customer loans of 4% was better than the average level for the industry (4.7%) and the ratio of net NPLs to customer loans of 2.1%,** absorbing the decrease (ca. EUR 1.5 billion) of securitization stock concerning performing loans as carried out as of end 2003, **was substantially in line with the average level for the industry.**

As to the dynamics of creation of doubtful loans, the non-performing loans mainly resulted in line with 2003 and above all deriving from anomalous loans as reported in the table below:

DYMAMICS OF NON-PERFORMING LOANS

Including interests on arrears – in EUR million

Reason/Category	Gross value	Doubtful loans	Net value
Starting exposure as of 31.12.2003	2.509	1.210	1.299
Increases:	**1.195**	**705**	**490**
From performing loans	510		
From other doubtful loans and other increases	594		
Interest in arrears	91		
Decreases::	**627**	**403**	**225**
To performing loans	6		
Write-offs	256		
Collections	335		
Sales	9		
To other doubtful loans and other decreases	21		
Final exposure as of 31.12.2004	**3.077**	**1.513**	**1.564**

Gross non-performing loans increased by 22.6% reaching EUR 3,076.8 million; non-performing loans plus gross watchlist credits amounts to EUR 4,512.8 million showing a more limited growth (+12.8%). Net non-performing loans amounted to 1,563.9 million as of December 2004 (EUR 1,299 million as of 31/12/2003). NPL writedowns (including losses booked to the P&L statement in preceding years) is slightly lower than 60% and higher than 70% excluding mortgage loans showing less doubtful loans because of the underlying collateral.

DISTRIBUTION OF LOAN PORTFOLIO BY RISK CATEGORY

Risk category Net book value *In EUR million*	31/12/04	31/12/03	% weight 31/12/04	% weight 31/12/03
Non-performing loans	1.564	1.299	2,10	1,84
Watchlist credits	1.155	1.185	1,55	1,68
Credits pending restructuring	0	22	0,00	0,03
Restructured loans	45	50	0,06	0,07
Unsecured loans to high-risk nations (*)	80	88	0,11	0,12
Total doubtful loans	**2.844**	**2.642**	**3,82**	**3,75**
Performing loans	71.551	67.763	96,2	96,2
Total customer loans	**74.394**	**70.405**	**100,0**	**100,0**

(*)Pursuant to the directives of the Bank of Italy and in accordance with a more conservative assessment of realizable value, the balance includes exposure to countries for which no provisions have been planned. The total amount of doubtful loans for the aggregate includes EUR 2.5 million as of 31/12/04 and EUR 5 million as of 31/12/03.

The table below illustrates that the **coverage of doubtful loans on gross NPL** comes at 49.2% (with a 1 per cent increase with respect to December 2003 and ca. 5 percent with respect to December 2002) and reaches 60% with reference only to ordinary loans.

COVERAGE OF DOUBTFUL LOANS

	31/12/04	31/12/03
"% Coverage "loans with doubtful outcome NPLs and watchlist credits/ Gross NPLs + gross watchlist credits"	39,8%	37,9%
"% Coverage loans with doubtful outcome watchlist credits/ gross watchlist Credits	19,6%	20,5%
"% Coverage loans with doubtful outcome NPLs/gross NPLs	49,2%	48,2%

Considering "general reserves" (i.e. lump-sum provisions on performing loans and loan loss reserves) which are 0.79% of gross performing loans, the percentage of coverage of gross NPLs equals 68% (70% for Banca Monte Paschi). The table below provides a summary of credit quality indicators for the main units of the Group.

DOUBTFUL LOANS BY BUSINESS UNITS

Risk category Net values as of 31/12/04 *(in EUR million)*	Gruppo	BMPS	BT	BAM	BANCA PER L'IMPRESA	MPS Leasing & Factoring
Non-performing loans	1.564	740	181	178	361	68
NPLs/Total customer loans	2,1%	1,9%	1,5%	2,1%	4,0%	1,6%
%coverage "doubtful loans/gross NPLs"	**49,2%**	**48,6%**	**50,2%**	**54,3%**	**25,8%**	**63,7%**
Watchlist credits	1.155	488	254	88	189	75
Watchlist credits/total customer loans	1,6%	1,3%	2,1%	1,1%	2,1%	1,8%
%coverage "doubtful loans/gross watchlist credits	**19,6%**	**23,0%**	**17,3%**	**21,2%**	**6,5%**	**30,0%**

Non-performing loans of BMPS, BT, BAM. MPS L&F and Banca Personale as well as the co-servicing on behalf of the mandatory banks for securitized files managed by MPS Gestione Crediti Banca. In 2004 the company consolidated the activity already started, looked for and verified new steps to improve the operating activity, such as streamlining file closing and increase in collections. The trend of collections (EUR 379.3 million, + 15.5%) was particularly satisfying. In this respect, to improve the efficiency of collection channels, external staff were engaged with "works contracts". This co-operation started in 2005 and for the moment is limited to some peripheral regions such as Piedmont, Lombardy, Emilia Romagna, Latium, Abruzzo, Sicily and Sardinia.

■ 4) EVENTS LINKED WITH COMMERCIAL OPERATIONS

□ SAVINGS PLANS AND STRUCTURED PRODUCTS

In the 2003 Report on Consolidated Operations and in the half-year Report as of 30 June 2004 the issues concerning savings plans and structured products were widely detailed. In the second half of the year the problem was substantially downsized and the updating only concerns quantitative terms.

As a matter of fact, in the second half of 2004 overall complaints amounted to 7,596 (in the first half 18,317) including 5,397 complaints concerning Saving Plans (first six months: 12,714) and 2,199 on Structured Products (first six months: 5,603) showing a clear slow down particularly in the last quarter of 2004.

In order to assess the repercussions of the above-mentioned issues as to the financial statements, the same conservative criteria as in 2003 were adopted on the basis of statistics before the preparation of the draft balance-sheet. In this regard the following amounts were booked to the 2004 profit and loss statements:

- extraordinary charges: charges on complaints already settled for savings plans and structured products amounting to EUR 87.7 million (EUR 67.5 million at parent company's level);
- extraordinary income amounting to EUR 33 million (EUR 29 million at parent company's level) against the use of available reserves to settle disputes concerning savings plans.
-

RISK MANAGEMENT PROCESS AT THE MPS GROUP AND COMPLIANCE WITH BASLE 2 STANDARDS

THe risk management process at the MPS Group is based on several fundamental principles which provide for a clear definition of roles and responsibilities at three levels: (i) line controls specified by operating area, (ii) controls of the Risk Management Unit at the Corporate Center and (iii) auditing controls assigned to the Internal Controls Area.

The Board of Directors is responsible for defining the overall degree of risk aversion and the operating limits in relation thereto. The Board of Statutory Auditors and the Internal Controls Committee are instead charged with evaluating the degree of efficiency and the adequacy of the internal controls system, with particular reference to the control of risk.

The Head Office is responsible for ensuring compliance with risk management policies and procedures. The Corporate Center Risk Committee has the responsibility of evaluating the risk profile of the individual Group companies and at a consolidated level, and therefore capital absorption (both capital for regulatory purposes and economic capital) in addition to the trend of the risk-return performance indicators. The Committee prepares risk management policies and verifies the overall observance of the limits on risks assigned at various levels of operations.

The Finance and Capital Management Committee has been assigned the tasks of (i) planning the Group funding, (ii) identifying initiatives to be adopted for the best risk-return profile of *Asset & Liability Management* and (iii) defining any capital management actions.

The Internal Controls Area of the is charged with defining the regulations applicable to the internal controls system and verifying the actual application and observance thereof.

The Risk Management Unit of the Corporate Center defines integrated methodologies of analysis for the measurement of overall risks in order to accurately and steadily monitor risks and quantify economic capital. The Unit produces daily and periodic reports for monitoring compliance with the operating limits set by the Board of Directors, on the basis of the internal models developed for the measurement of VaR and the sensitivity of the economic value of exposures to the various risk factors being examined.

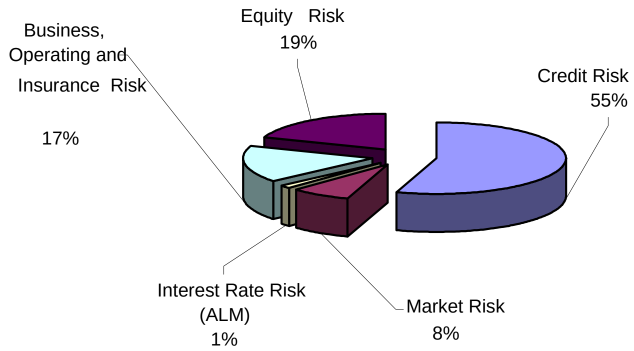
The monitoring activity of the Risk Management Unit has been extended to an increasing number of material risks at the Group level, in compliance with the Basle 2 basic criteria with particular emphasis placed on the second pillar. The Group has specifically activated the measurement of the market risks of the Life Insurance Company and implemented the first process of identification and measurement, from production to distribution, of the risks inherent to the instruments being placed with the Group retail and private customers. In this case, by anticipating the regulatory processes being defined in the banking industry, the Group intends to identify and monitor indirect risks in relation to its customers, support the network in its relationships with the customers and provide its clientele with some basic risk measurement in order to integrate the provisions of the existing regulations for a better information transparency.

During 2004 work continued on improving the measurement of risk and economic capital, in line with the qualitative and quantitative guidelines delineated by the Basle 2 Accord and the international best practices. The Group gradually evaluated the impacts on the portfolio structure and, therefore, on risk measurement since the enforcement of the new IAS accounting standards.

In the second half of the year the Group set up new important work groups and embarked on new projects concerning market risks and operating risks (in addition to the ones already existing), which contemplate the finetuning of organizational and process aspects in a logic of gradual centralization, the migration to more advanced and integrated systems in order to better meet the rquirements of validation of internal models.

In 2004 the measurement of the economic capital - defined as the minimum capital resources required for covering economic losses as a result of the occurrence of unexpected events during a calendar year – became a key management factor in the process of measurement of corporate performance.

The risks included in the evaluation embrace: a) credit risk (inclusive of counterparty risk), b) market risk on the trading book, c) interest rate risk as registered in the Banking Book (ALM), d) operating risk, e) Equity risk (referred to as the risk of the Equity Investment Portfolio and calculated as the Maximum Estimated Loss – determined with a VaR market approach – which the equity investments might incur in one year with a confidence interval of 99.93%, f) business risk (i.e. the risk of losses resulting from changes in the competitive scenario and the economic conditions of corporate business. Such risk is evaluated on the basis of the volatility of cost and income structure); g) insurance risk (i.e. the risk of losses resulting from unexpected or understimated changes in the death table for the life insurance business; and from an unexpected increase in casualty following extraordinary events, natural disasters and other unpredictable events for the casualty business area. The Business Units contemplating such risk are assigned a level of capitalization consistent with the levels recorded in the companies operating in similar business sectors, pending a standardized method of measurement for the industry).



The above risk measurement has been standardized on the basis of a holding period of 1 year and a selected confidence level (99.93%, in line with the rating assigned to the MPS Group by the official rating agencies), has been diversified on the basis of risks, then aggregated and distributed in a logic of "marginal" contribution to total risk among the business units /companies, with the objective of clarifying the extent of the MPS Group exposure to the worst events and highlighting their changes in space and time.

As of 31 December 2004, the MPS Group economic capital – if considering the diversification in/among risk factors – was estimated at EUR 7.5 billion approximately.

■ CREDIT RISKS

□ THE ANALYSIS OF THE MPS GROUP LOAN PORTFOLIO: CREDIT RISK

Credit risk is measured through the use of a Group Loan Portfolio Model developed by the Group itself. The Model takes into account: a) the Estimated Loss, which indicates the estimated average loss on an annual basis; b) the Unexpected Loss, which represents the difference between the loss calculated on the basis of the confidence level of 99.93% in a calendar year and the Estimated Loss. The Economic Capital with respect to the credit risk results from the application of specific capital multiplier to the Estimated Loss.

The major features of the Loan Portfolio Model incorporate: a) default probabilities stemming from the internal rating systems; b) loss rates in case of default (LGD); c) default exposure ratios (EAD); d) the factors mitigating risk such as collaterals, financial collaterals, personal security and netting agreements. Some of the features listed have been defined through the use of statistical and econometric techniques and adjusted to the specific lending business of the MPS Group. The Model also calculates the effect of diversification through a sophisticated matrix of structural and dynamic correlation which is sensitive to the effect of risk concentration/diversification and consequently re-distribute the Unexpected Loss to each unit/company. This gives the Group the opportunity to aggregate and represent risks in accordance with the requirements of the MPS Group. Of course, the above-mentioned benchmarking criteria have been amended with the passing of time in order to adjust the estimates to the guidelines of the New Accord on Capital (Basle II), and to align input data for the measurement of (future) capital adequacy for regulatory purposes and internal capital adequacy. The finetuning and adjustments still pending with reference to the internal rating systems, LGD and EAd might determine further changes in the levels of measurement produced/shown.

Internal rating models were specifically developed for the commercial banks (Monte dei Paschi di Siena, Banca Toscana and Banca Agricola Mantovana). The product companies such as Monte Paschi Banca per l'Impresa and Monte Paschi Leasing & Factoring, which are subject to credit risk monitoring and measurement, adopt and combine default probability values, if applicable, (the coverage is higher than 75% in terms of exposure) and "average" values or default benchmarks determined by clustering segment (type of counterparty, geographical area, kind of disbursement) resulting from the characteristics of the ordinary customers of the MPS Group. **With reference to LGD criteria, an LGD workout method is adopted for the estimates:** loss ratios are calculated on the basis of the amounts recovered and historical costs of non-performing loans over several years, less the appropriate discount rates, and adjusted in accordance with the "cure-rate" method for compliance with the default definition used by the internal rating systems. This is in line with the provisions of the New Accord on Capital Adequacy for Banks (Balse II) though it is constantly updated to achieve appropriate compliance.

Risk measurement produced by the MPS Group internal Loan Portfolio Model is a fundamental instrument for monitoring credit risk in space and time and is used in the active management of the loan portfolio, taking into account the details it can provide (Group exposures and risk measurement can be separated at the level of Companies, Busines Units and also cover the marginal contribution of each transaction). This choice helps to introduce the criteria of estimated loss and economic capital in the MPS Group internal processes (e.g. Budgeting and Capital Allocation) and to support central and peripheral lending processes, in addition to internal rating systems.

With reference to the activities carried out for implementing the internal rating systems, the MPS Group adopted a Masterscale with the objective of better representing the quality of its loan portfolio in a consistent and standardized way among all customer segments.

The loan portfolio distribution by rating shows that more than 60% of the loan portfolio can be classified as investment grade. This breakdown of the portfolio can be revised from time to time as a result of the improvements suggested by the work groups dealing with Basle II (see the section covering *"The MPS Group compliance with the IAS accounting standards and Basle2 regulations").*

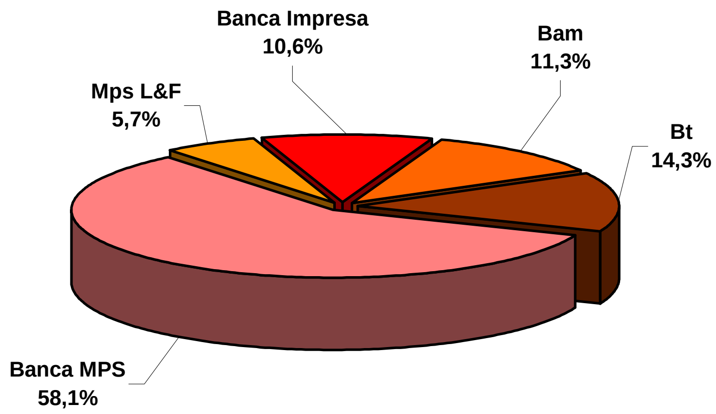
<u>As of 31 December 2004, the breakdown of risk exposures recorded by the MPS Group – as measured in the internal Group Loan Portfolio Model – shows slight changes with respect to the records at the end of December 2003.</u>

The graphs below confirm the marginal contribution – in terms of exposure and Economic Capital – of the credit risk of the three commercial banks (MPS, BT and BAM), MP Banca per l'Impresa (Bimp) and MP Leasing & Factoring (MP L&F), with a weight of more than 80% of the MPS Group total lending.

Exposure at risk

(excluding infragroup transactions)

MPS Group* - 31 december 2004

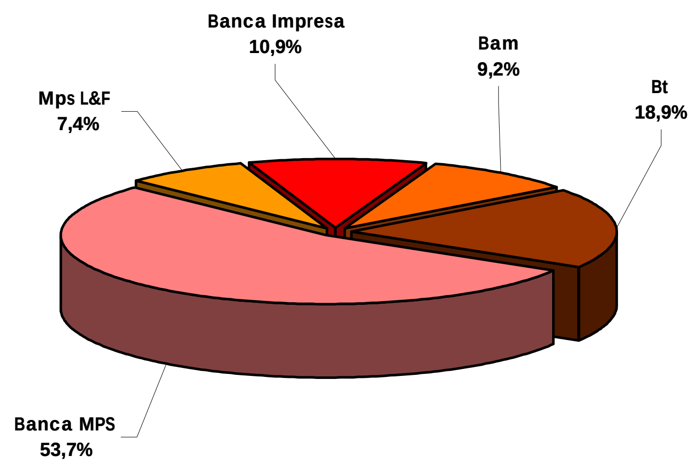


* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per L'Impresa

Economic Capital

(excluding infragroup transactions)

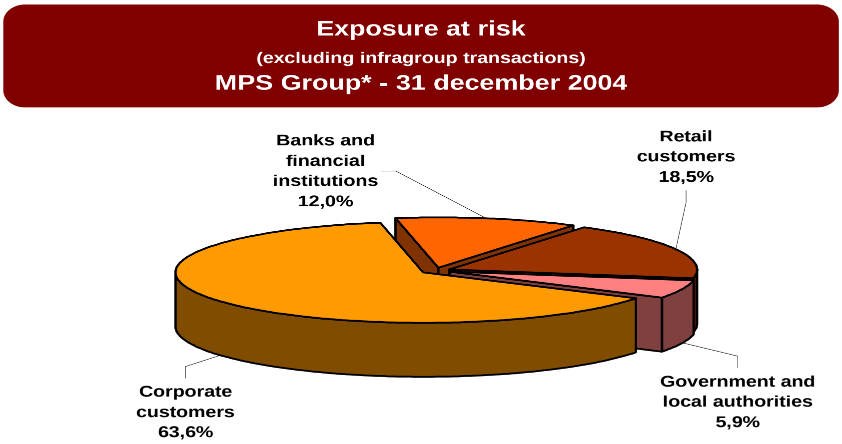
MPS Group* - 31 dicembre 2004



* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per L'Impresa

The economic capital with respect to credit risk is attributable for about 54% to BMPS, with Banca Toscana and Banca per l'Impresa accounting for 19% and 11% respectively, followed by Banca Agricola Mantovana (9%) and MP Leasing & Factoring.

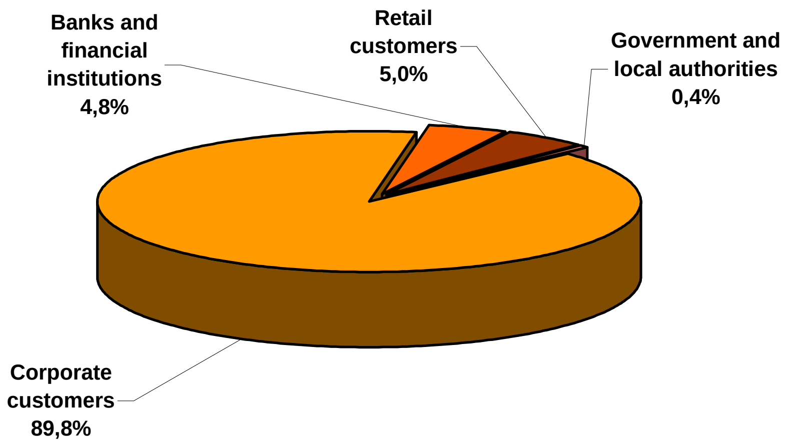
In view of the MPS Group geographical distribution and domestic vocation, it is clear that lending operations are mainly oriented to corporate customers (above all SMEs) and retail customers. In particular, risk exposures to "Governments and Local Authorities" (5.9% of the MPS Group total) and to "Banks and Financial Institutions" (12% of total) remained steady in comparison with 31 December 2003. The volume of the retail customer segment was 18.5% of the MPS Group total (+2.5% with respect to 31.12.2003); the remaining 63.6% consists of disbursements to "Large Corporates, Corporates and SMEs" (decreasing by 2.4%).



* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per L'Impresa

The graph below shows that the companies absorb about 90% of the economic capital (15% the Corporate segment and 74% the SME segment, respectively), with the "Retail" segment absorbing 5%.

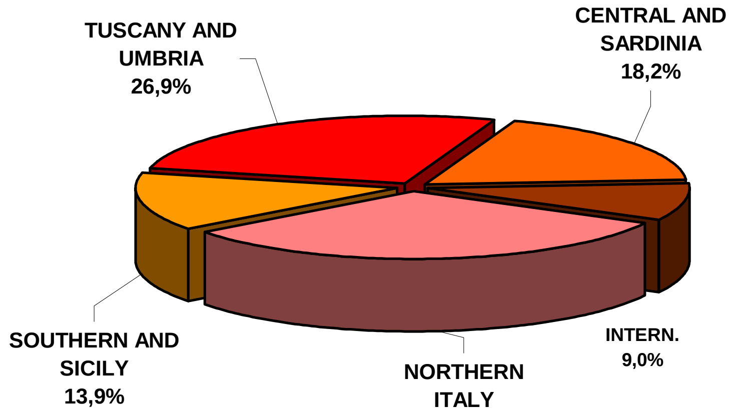
Economic Capital
(excluding infragroup transactions)
MPS Group* - 31 december 2004



* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per L'Impresa

From the geographical viewpoint, the MPS Group loans are mostly disbursed to resident customers. The breakdown of risk exposure by continental area shows that exposures are concentrated in the UME area (95% approx.). "Non-UME Europe" (especially Great Britain) accounts for 2.5% and America for roughly 0.91%. In detail, 9% of risk loans were disbursed to foreign residents, with the remaining part being attributable to northern Italy (31.9%), Tuscany and Umbria (26.9%), central Italy and Sardinia (18.2%) and southern Italy and Sicily (13.9%). As a consequence, the weight of loans granted in Tuscany and Umbria (approx. 35%) and in the North (approx. 29%) is substantial with reference to risk measurement, whereas the exposures to customers resident in central Italy and Sardinia, southern Italy and Sicily have a minor impact.

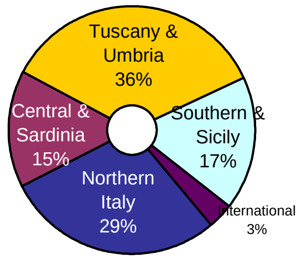
Risk exposure
(excluding infragroup transactions)
MPS Group* - 31 december 2004



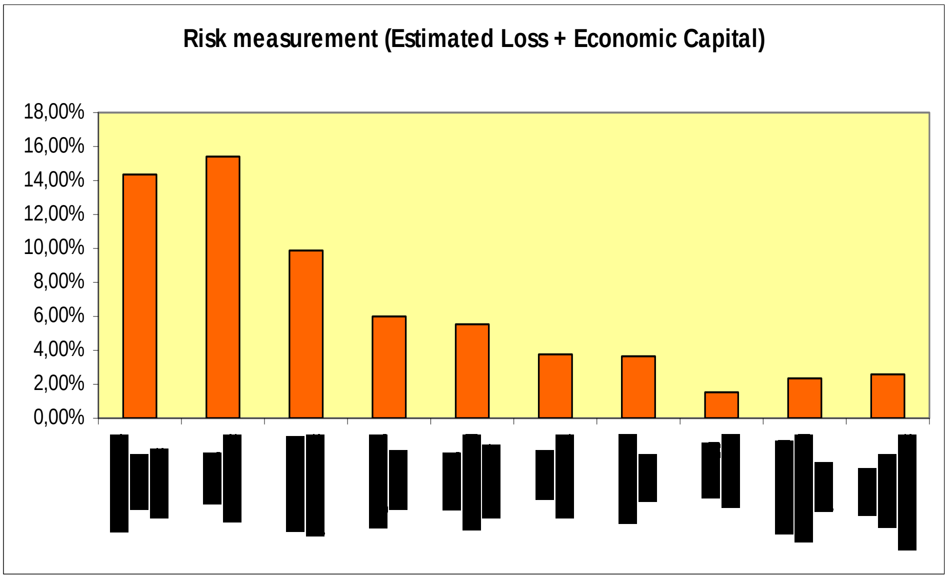
* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per L'Impresa

Risk measurement %	
Northern Italy	28,57%
Central & Sardinia	15,35%
Tuscany & Umbria	35,30%
Southern & Sicily	17,32%
International	3,45%

Risk Measurement %
(Expected Loss + Economic Capital)



The breakdown of the exposures of the top 10 business sectors according to the ranking of the Bank of Italy – which account for 44% of total lending – confirm that "Trade" and "Other trade related services" absorb 15% and 14% respectively of overall risk measurement. They are followed by the building industry, agriculture and the textile industry which account for 22% of the total of Estimated Loss and Economic Capital.



☐ COUNTRY RISK

The development of the macroeconomic scenario was in line with the country risk results of the Bank of Italy, with some major changes in the grid of measurement, such as the improvement of Algeria (nil provision) or the deterioration of the Dominican Republic (40% provision) and Syria (30% provision).

Specific prudential measures were adopted with respect to Latin America, Russia, Turkey and the Philippines. The updating of internal instruments of risk analysis and monitoring enabled the Group to diversify the "range of commissions" and to evaluate counterparty risk duly taking sovereign risk into account. During the year, the Group embarked on a project in compliance with the principles of Basle II which combines the results achieved by the existing internal models, the probability of default and the evaluation of estimated and unexpected losses. As a result, the Group has achieved the dual objective of (i) optimizing the economic capital for the purpose of covering the risk degree of assets and (ii) better determining the pricing of the products supplied. Some results and evaluations are available in the "corporate" section of the Bank's web-site (www.mps.it).

That being said**, the Group unsecured exposure to risk nations has remained steady with respect to the end of 2003**; in particular, the exposure of Banca MPS (which account for over 90% of the Group total in this area) went from EUR 427 million (customers, banks and securities) to EUR 453 million in December 2003. The following tables provide a summary of BMPS' unsecured exposure to high-risk nations by geographical area and type of counterparty (customers/banks):

■ **Unsecured credit vs. high-risk nations** - *mln.€*

Geographical area	Gross exposure				Doubtful loans	Net exposure
cash exposure	customers	banks	securities (*)	**Total**		
Africa	2,2	4,4	2,0	8,6	0,0	8,6
Latin America	8,8	14,9	10,3	33,9	8,7	25,2
incl. Argentina	*0,0*	*1,2*	*10,2*	*11,5*	*8,4*	*3,1*
incl. Brazil	*0,0*	*0,3*	*0,0*	*0,3*	*0,0*	*0,2*
North America	12,7	0,0	22,9	35,6	2,3	33,3
Australasia	47,5	230,1	36,5	314,1	0,4	313,6
Western Europe	0,1	0,0	0,0	0,1	0,0	0,1
Eastern Europe and the Balkans	8,7	9,3	13,2	31,2	0,0	31,2
Near Est	2,4	27,6	0,0	29,9	0,0	29,9
Total	**82,3**	**286,3**	**84,8**	**453,4**	**11,5**	**441,9**

(*) included in the investment portfolio of the foreign branches

The classification of country risk by transaction nature (commercial/financial/securities) is indicated in the table below

■ **Unsecured credit vs. high-risk nations** - *mln.€*

Geographical area	Gross exposure				Doubtful loans	Net exposure
cash exposure	commercial	financial	securities (*)	**Total**		
Africa	2,1	4,5	2,0	8,6	0,0	8,6
Latin America	0,9	22,7	10,3	33,9	8,7	25,2
incl. Argentina	0,0	1,3	*10,2*	*11,5*	*8,4*	*3,1*
incl. Brazil	0,0	0,3	*0,0*	*0,3*	*0,0*	*0,3*
North America	12,7	0,0	22,9	35,6	2,3	33,3
Australasia	208,4	69,2	36,5	314,1	0,4	313,6
Western Europe	0,1	0,0	0,0	0,1	0,0	0,1
Eastern Europe and the Balkans	18,0	0,0	13,2	31,2	0,0	31,2
Near Est	29,7	0,3	0,0	29,9	0,0	29,9
Total	**271,9**	**96,7**	**84,8**	**453,4**	**11,5**	**441,9**

(*) included in the investment portfolio of the foreign branches

As of 31 December 2004 the MPS Group had a modest amount of risk exposure to Argentina and Brazil, all of which has been written down if necessary and reduced with respect to December 2003. The tables below show the exposure of BMPS with respect to the two countries:

■ **Unsecured exposure vs Argentina** - *mln.€*

Geographical area	Gross exposure				Doubtful loans	Net exposure
cash exposure	customers	banks	securities (*)	**Total**		
Cash credits	0,0	1,2	10,2	11,5	8,4	3,1
Endorsements credits	0,0	3,0	0,0	3,0	0,9	2,1
Total	**0,0**	**4,2**	**10,2**	**14,5**	**9,3**	**5,2**

■ **Unsecured exposure vs Brazil** - *mln.€*

Geographical area	Gross exposure				Doubtful loans	Net exposure
cash exposure	customers	banks	securities (*)	**Total**		
Cash credits	0,0	0,3	0,0	0,3	0,0	0,2
Endorsements credits	0,0	0,0	0,0	0,0	0,0	0,0
Total	**0,0**	**0,3**	**0,0**	**0,3**	**0,0**	**0,3**

☐ COUNTERPARTY RISK (NON-RESIDENT COUNTERPARTIES)

The economic/financial evaluation of the borrowers with the Parent Company and other companies subsequently taking on the credit risk aims to achieve common development objectives within the Group, though in light of the different operating foreign and domestic structures. Therefore, the accent was placed on the activities supporting Italian exports and the process of international expansion started by the Italian companies.

In the international lending business, emphasis was placed on identifying the transactions which comply with the MPS Group's credit policy, but also translate into the smallest possible use of capital for the foreign network, and income flows that are the most appropriate for teh credit risk assumed and the market conditions.

From the organizational viewpoint, the Group has undertook the following initiatives with the objective of streamlining credit management in its dual function of risk remuneration and monitoring:

- The updating of the Group country limits and the assignment of operating ceilings to the Commercial Banks;
- The issue of Group operating guidelines to the commercial banks in terms of type, maturity and pricing of the transactions, with respect to country risk and bank risk assumption in trade-related activities. As a result, the Group domestic network has been enabled to support the exporters in a more homogeneous, transparent and efficient manner;
- Online distribution to all Group companies of the updated financial analysis and the relative internal ratings of the counterparties (banks and financial institutions) used as a tool in the risk decision-taking process;
- The weekly debate on a watchlist for closely monitoring foreign countries, international business sectors and foreign banks which, following certain events, require a close control on the economic-financial trend.

■ MPS GROUP MARKET RISK

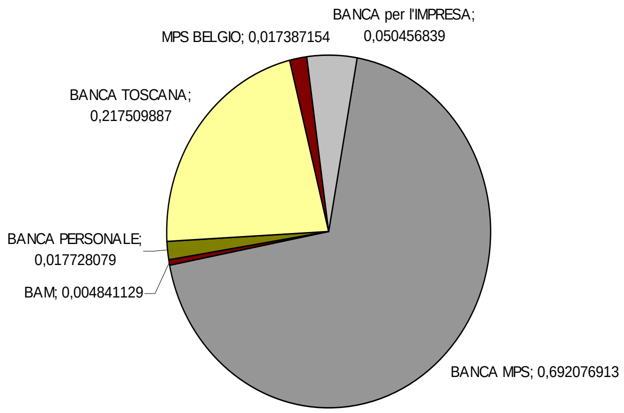
☐ INTEREST-RATE RISK ON THE CONSOLIDATED BANKING BOOK

The term "Banking Book" refers to all of the non-trading operations in relation to the transformation of maturities with respect to balance-sheet assets and liabilities, Treasury, foreign branches, investment securities portfolio and derivative instruments providing for risk hedging within this framework.

The analysis of the change of the economic value of the banking boos assets and liabilities is carried out by applying deterministic shifts of 25 bp and 200 bp, in compliance with the provisions of the second fundamental aspect of the Basle 2 Accord with reference to both Tier 1 capital and consolidated capital computed for regulatory purposes.

The position of the Parent Company which accounts for roughly 70% of the overall interest rate risk has influenced significantly the measurement of risk for the MPS Group as of 31 December 2004, as a result of a strategy aiming at curtailing the interest rate risk of the other Group banks, in view of a centralized operating management of the Group ALM.

% of Sensitivity of the Banking Book of Individual Group Banks on overall Sensitivity as of 31.12.04



<u>With respect to the end of 2003, the reduction in the measure of BMPS risk highlights</u> – as already indicated in the half-year report as of 30 June 2004 – a "liability sensitive" position, which is sensitive to the reduction of market risks, in compliance with the strategy adopted to benefit from a potential increase in interest rates in the medium term. The change registered with respect to 31 December 2003 is mainly attributable to ordinary management.

■ **BMPS**

Risk indicator for a shift of 200 bp	31/12/04	31/12/03
Interest margin at risk/Interest margin	0,6%	0,9%
Economic value at risk/Tier I capital	2,7%	4,1%
Economic value at risk/Capital computed for regulatory purposes	2,1%	3,0%

<u>The measure of the MPS Group's risk as of 31.12.2004 reflects the results of the Parent Company.</u> The "liability sensitive" position of BMPS was offset only slightly during the year and at year-end by an "asset sensitive" position, which is sensitive to an increase in interest rates (as occurred at Banca Toscana and other Group banks). The measure of the economic value at risk of the Group *Banking Book* in December 2004 was virtually in line with the figure recorded at the Parent Company, though falling in comparison with 31 December 2003.

■ **MPS Group**

Risk indicator for a shift of 200 bp	**31/12/04**	**31/12/03**
Interest margin at risk/Interest margin	0,4%	1,3%
Economic value at risk/Tier I capital	1,7%	2,6%
Economic value at risk/Capital computed for regulatory purposes	1,3%	1,8%

☐ LIQUIDITY RISK

The monitoring of the structural liquidity profile is effected by quantifying the imbalances, by settlement date, of expiring cash flows in teh first months of the time horizon over which the analysis is made.

A special emphasis is placed on the planning of the MPS Group's di *funding* policies which are co-ordinated by the Finance Area at the Corporate Center, both in terms of normal funding through bonds and funding through subordinated debt issues, in accordance with *capital management needs*.

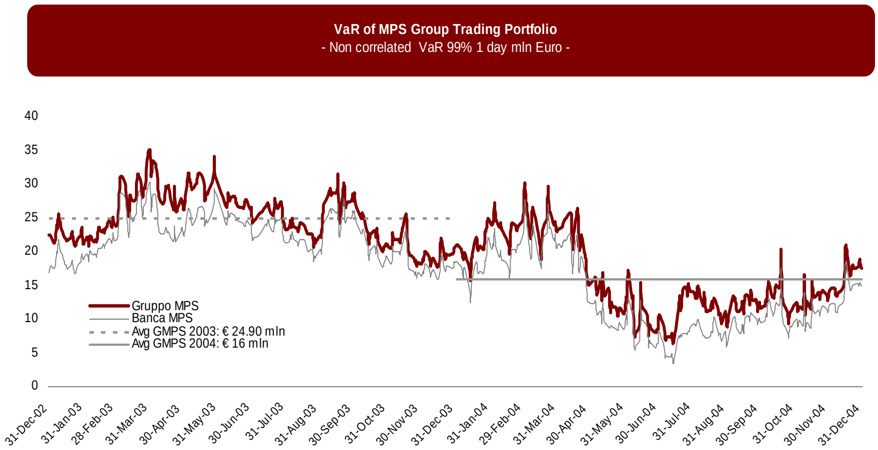
☐ MARKET RISKS ON MPS GROUP TRADING PORTFOLIO

Market risks are monitored in terms of *Value at Risk* (VaR), for BMPS and other Group companies which represent independent risk taking centers. Operating limits to trading activities, which are established by the Board of Directors of BMPS, are expressed by level of authority in terms of VaR. Limits of Maximum Acceptable Loss (MAL) by level of authority are also set on a monthly and yearly basis. Such limits consider both actual or potential earnings results (P&L) and the measure of risk on open positions (VaR) at the same time.

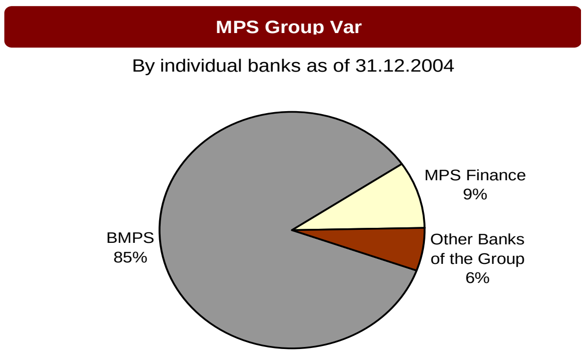
VaR is calculated autonomously by the Risk Management Unit of the Corporate Center by using the Integrated System of Group Risk Management developed by the Unit itself, on the basis of a confidence interval of 99% with a *holding period* of one business day. The historical simulation method contemplates a two-year historical report with a daily scrolling. As a result, the VaR calculated in this way considers all the effects of diversification among risk factors, portfolios and type of instruments.

Shift sensitivity analyses are regularly carried out for 1bp and 25bp shocks with reference to interest rate sensitive positions and on teh basis of ad hoc assumptions on the volatility of risk factors in relation to price risk (equities and forex).

The overall trend of the Group's risks in 2004 was remarkably influenced by the VaR dynamics of the Finance Area of BMPS.



The MPS Group market risks are mostly concentrated on Banca MPS (about 85%) and, to a lesser extent, MPS Finance BM (9% approx.), which account jointly for 94% of total. The remaining 6% is attributable to the risks taken by Monte Paschi Ireland and the VaR of the two service portfolios for the customers of Banca Agricola Mantovana and Banca Toscana.



As of 31.12.2004 non-correlated VaR, as calculated excluding the diversification effect between the VaR measures of the different *risk taking centers*, stood at EUR 17.46 mln, dropping by more than EUR 3 mln with respect to 31.12.2003 (EUR 20.60 mln).

■ **VaR MPS Group**

	VaR (EUR mln)	Dat3
2004 Low	6,40	14-07-2004
2004 High	30,11	03-03-2004
2004 Average	15,89	

Such scenario reflects a sharp decrease by roughly EUR 9 million in the average VaR of 2004 (from EUR 24.90 mln in 2003 to EUR 15.89 mln in 2004), mainly resulting from the contraction of BMPS risks.

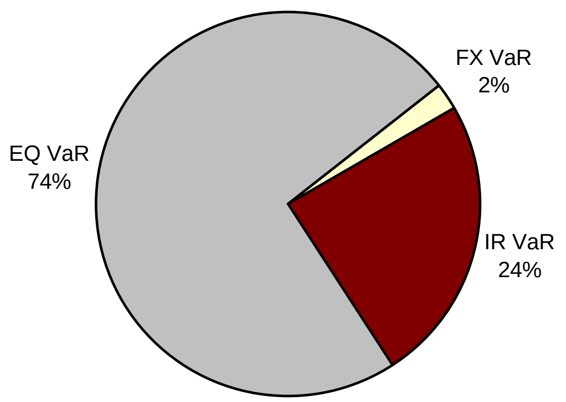
■ **VaR BMPS**

	VaR (EUR mln)	Date
2004 Low	3,42	15-07-2004
2004 High	27,76	03-03-2004
2004 Average	12,89	

The 99% 1 day VaR of the Parent Company, diversified among risk factors and portfolios, gradually reduced in the first half of the year and bounced bounced again in the second half of 2004 to reach a level close to the yearly average which came to EUR 12.89 mln (with a decrease of more than EUR 9 million with respect to 2003).

VaR BMPS

Breakdown of VaR by *risk factor* as of 31.12.2004



This scenario results from the general containment of positions, especially during the summer, and is indicative of a considerable downsizing of equity risk.

With reference to the Parent Company's portfolio by risk factors as of 31.12.2004, equity risk factors (EQ VaR) had a greater weight (3/4) than interest rate risk factors (IR VaR). Forex risk factors had a marginal weight (FX VaR).

■ OPERATING RISKS

The MPS Group is implementing an integrated system of operating risk management based on a governance model involving all banks and financial companies included in the Group. This approach defines the standards, methods and instruments for evaluating risk exposure and the effects of mitigation by business area. In 2004 the Board of Directors of the Parent Company approved an internal directive regulating the roles, activities and responsibilities in the process of identification of operating risks. The directive was subsequently implemented by the Group companies.

The internal model is designed so as to match all the major qualitative and quantitative information sources and collect data from outside (public and consortium data). The quantitative component is bsed on the collection, analysis and statistical modelling of loss data. The historical series reached five years. The qualitative component is focused on the evaluation of risk factors, the identification of the actions to be taken and risk mitigation. The most relevant risk scenarios are identified on the basis of the information collected and risk exposure is evaluated accordingly.

In terms of capital absorption, the approach based on estimated economic capital with respect to operating risks, covering expected and unexpected losses with a 1 year time horizon, are preferable to standardized methods which have an impact of about EUR 800 million. In addition, benefits on risk exposure are expected as a result of pending initiatives with the objective of optimizing insurance coverage, completing the Business Continuity Plan, and enhancing organizational and control processes.

The MPS Group participated since the beginning in a project promoted by the Italian Bankers' Association for the collection of operating loss data (DIPO) and in a Work Group promoted by the Italian Bankers' Association and the Italian Insurance Companies Association (ABI-ANIA) for the study of insurance policies compliant with the new international regulations on operating risk mitigation. A special emphasis was placed on the development of the market best practices, as proved by the participation in the international Work Group (WGOR) of the Institute of International Finance.

The Regulatory Authority has been constantly updated on the state of the art of the internal model. The meetings with the Bank of Italy were intensified in the second part of the year in relation to the beginning of the preliminary stage of the validation process of the MPS advanced approach.

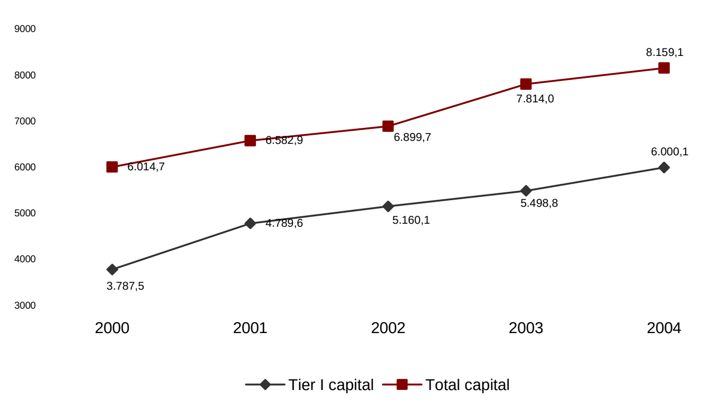
CAPITAL AND CAPITAL REQUIRED FOR REGULATORY PURPOSES

As of 31.12.2004, the MPS Group capital computed for regulatory purposes amounted to EUR 8,159 million approximately, or EUR 345 million higher (+4,42%) than the comparable figure at the end of 2003.

TOTAL CAPITAL FOR REGULATORY PURPOSES	GROUP		BMPS	
	mln€		mln€	
	31/12/04	31/12/03	31/12/04	31/12/03
TIER I CAPITAL	6.000,1	5.498,8	6.167,8	5.726,1
TIER II CAPITAL	2.954,6	3.136,3	2.816,9	2.847,9
	8.954,7	8.635,1	8.984,7	8.574,0
DEDUCTIONS	795,6	821,3	958,1	860,1
TOTAL CAPITAL FOR REGULATORY PURPOSES	**8.159,1**	**7.813,8**	**8.026,6**	**7.713,9**

The increase in total capital for regulatory purposes was mainly attributable to the growth of Tier 1 capital and the reduction of deductions. Tier 1 capital rose by roughly EUR 501 million (+9.12%) in comparison with 31.12.2003, due to the capitalization of a portion of unretained earnings, increasing "preferred securities" computable in Tier 1 capital and the amortization of goodwill and other intangible assets. Tier 2 capital dropped as a result fo the transfer of a portion of "preferred securities" to Tier 1 and the minor subordinated liabilities computed.

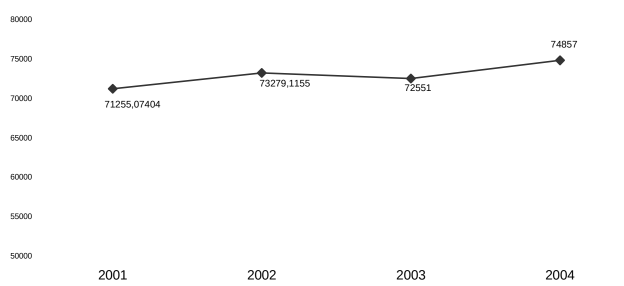
Trend of Capital Computed for Regulatory Purposes



The BMPS capital for regulatory purposes climbed to EUR 8,026.6 million (+ 312.7 million with respect to 31.12. 2003 or + 4.05%) with Tier 1 capital rising by EUR 441.7 million (+ 7.71%) and Tier 2 capital remaining virtually stable.

The Group's assets weighted for credit risk as computed for regulatory purposes totalled EUR 74.9 billion, with an increase of EUR 2.3 billion (+3.18%) in comparison with 31.12.2003. The appreciable progress of loans to the private sector (+ 4.03%) was due to the good trend of residential mortgage loans, non-residential real estate transactions and consumer credit. In addition to the placement of notes concerning the securitization of residential mortgage loans at the end of 2003 in the nominal amount of EUR 1,469 million, assets weighted for credit risk increased by 4.19%.

Trend of consolidated assets weighted for credit risk



■ Risk assets

(mln €)	Group		BMPS	
	Weighted value as of		Weighted value as of	
	31/12/04	31/12/03	31/12/04	31/12/03
- Balance-sheet assets:				
Assets backed by real property guarantees	0,0	0,0		
Loans to governments, central banks and multilateral banks	713,4	687,2	582,9	551,8
Due from banks	1.471,4	1.271,2	3.934,7	3.129,2
Due from investment companies	16,9	20,6	15,5	0,0
Loans to private sector:				
residential mortgages-private sector	5.865,2	4.987,8	3.127,8	2.679,9
non residential mortgages-private sector	2.944,7	2.447,0	5,9	6,8
other loans to the private sector	54.184,0	53.120,4	29.421,1	28.187,7
Equity investments weighted at 200%	249,1	23,0	247,6	21,0
Equities,equity investments and subordinated assets	1.867,2	1.788,5	6.497,7	6.368,1
Fixed assets	1.588,0	1.657,3	87,4	100,8
Negotiable instruments for collection, accrued income and other assets	1.064,1	1.253,6	523,1	580,7
	69.964,2	**67.256,7**	**44.443,8**	**41.626,1**
- Off balance sheet":				
Guarantees released, commitments & derivative contracts	**6.846,3**	**6.866,1**	**4.345,4**	**4.379,6**
Less: loan amounts classified as "doubtful outcomes" and capital losses	**-1.953,1**	**-1.571,4**	**-1.112,9**	**-976,3**
Total risk weighted assets	**74.857,4**	**72.551,4**	**47.676,3**	**45.029,4**

At BMPS, risk weighted assets advanced by EUR 2.6 billion (+ 5.85%) at EUR 47.7 billion. In particular, the aggregate of "due from banks" and loans to the private sectors progressed by 25.74 (EUR 805.6 million) and 5.44%, respectively. Including the effects of the securitization of residential mortgages Siena mortgages 03-4 at BMPS, the growth of weighted assets would be 6.96%.

Considering market risks, other prudential requirements and subordinated loans of Tier III type covering market risks, the Group capital position for regulatory purposes came to EUR 6,419.9 million approx., (+ EUR 210.7 million), with the surplus capital standing at EUR 1,739.2 million (+ EUR 134.6 million or 8.39% with respect to 31 December 2003).

■ CAPITAL POSITION	GROUP		BMPS	
	mln.€		mln.€	
	31/12/04	31/12/03	31/12/04	31/12/03
Credit Risks				
on balance-sheet assets	5.597,1	5.380,5	3.111,1	2.913,8
On off-balance sheet assets	547,7	549,3	304,2	306,6
Less doubtful loans	-156,2	-125,7	-77,9	-68,3
Total credit risks	**5.988,6**	**5.804,1**	**3.337,3**	**3.152,1**
Market risks				
On trading securities portfolio	**788,5**	**690,6**	**338,8**	**302,0**
including:				
generic risk on debt securities	*361,2*	*334,9*	*67,9*	*68,4*
specific risk on debt securities	*193,6*	*155,5*	*132,0*	*97,6*
generic risk on equity securities	*54,7*	*61,6*	*26,2*	*25,7*
specific risk on equity securities	*45,3*	*41,7*	*25,7*	*27,9*
delta-plus options: gamma factor	*10,6*	*0,2*	*3,7*	*0,0*
delta-plus options: vega factor	*0,1*	*0,4*	*0,0*	*0,0*
risk on quotas in mutual funds	*60,2*	*50,3*	*44,3*	*35,3*
settlement risk				
counterparty risk	*62,8*	*46,0*	*39,0*	*47,1*
on concentration				
on foreign currency	3,2	5,7		
Total market risks	**791,7**	**696,3**	**338,8**	**302,0**
Subordinated loans available to cover market risks	**700,0**	**600,0**	**338,8**	**302,0**
Net market risks	**91,7**	**96,3**	**-**	**-**
Other Requirements	**339,6**	**308,8**	**281,7**	**266,0**
Total capital required	**6.419,9**	**6.209,2**	**3.619,0**	**3.418,0**
Capital for regulatory purposes	**8.159,1**	**7.813,8**	**8.026,6**	**7.713,9**
Surplus Capital	**1.739,2**	**1.604,5**	**4.407,6**	**4.295,8**

Excluding market risks covered by subordinated loans of Tier III type, BMPS capital position stood at EUR 3,618 million with an EUR 200 million increase in comparison with 31 December 2003. The surplus capital thus expanded by EUR 112.5 million with respect to 31.12.2003 at EUR 4,408.4 million.

■ CAPITAL ADEQUACY RATIOS	GROUP		BMPS	
	Value at		Value at	
	31/12/04	31/12/03	31/12/04	31/12/03
Tier I ratio	6,74%	6,46%	10,91%	10,77%
Total Risk ratio	9,95%	9,89%	14,80%	15,08%

With reference to the MPS Group capital adequacy ratios, the total risk ratio improved at 9.95% (9.89% in 2003). The "Tier I ratio" was 6.74% in comparison with 6.46% at the end of 2003. Excluding the amount of preferred securities which is included in Tier 1 capital, this percentage comes to 6.52% versus 6.31% as of 31 December 2003.

With reference to BMPS, the total risk ratio was 14.80% (15.08% in 2003). The "Tier I ratio" was 10.91% in comparison with 10.77% at the end of 2003.

THE OPERATING STRUCTURE

The Research and Development initiatives undertaken in 2004 have been outlined in the chapter concerning the development of operations by business area. This section of the report on operations provides information on the development of the operating structure, with particular regard to distribution channels, payment systems and human resources.

The development of specific commercial platforms by customer segment aims to enhance the capacity to serve the customers, the quality of services rendered, the development of customer relations by finding customized solutions for retail and corporate customers. A fundamental contribution came from the **initiatives promoted by the Italian Bankers' Association** with the objective of increasing the quality and transparency of services rendered to the customers (*see box)*, at the Bank and the Group level in view of the Group's growing commitment to social responsibility (see the section covering *"The MPS Group social responsibility"*).

From the organizational standpoint, the Group continued to **develop IT structures and applications to be shared,** in line with the business models indicated in the Business Plan, with appreciable benefits in terms of competitiveness and efficiency. Following are the main initiatives undertaken in 2004:

- Within the programme of **development of a single IT platform**, the preparation of an executive plan for the centralization of the information systems of the product companies with the **MPS Group Operating Consortium**;
- With reference to the **reorganization of the Corporate Center**, the set up of three new areas: Communications, Private Banking and Equity Investments.

THE MPS GROUP PARTICIPATION IN THE BANKING INDUSTRY PROJECT, "CLEAR PACTS"

The banking industry project "Clear Pacts" included eight initiatives for which the three commercial banks of the Group secured quality certification. In 2004, The Group activated two major initiatives:

- "Compared Current Accounts": The web-site "Italian Bankers' Association/compared current accounts" periodically publishes the terms and conditions of our main current accounts so that the customers can choose their own profile and the most appropriate current accounts for their requirements;
- "Basic Banking Facility": the Group launched an account to facilitate the access of non-bank customers to banking services. The facility embraces a simplified, low-cost service for meeting basic financial requirements, getting access to the main banking facilities (such as ATMs), crediting wages and pensions, paying utilities bills, making money transfers and obtaining information on A/C balance and movements.

The Group is also committed to ensuring full compliance with the new regulations on transparency of banking transactions issued by the Bank of Italy in the fourth quarter of 2003.

DISTRIBUTION CHANNELS

In 2004, the MPS Group continued its activity geared toward developing and streamlining its distribution channels.

At the beginning of the second quarter, in line with the growth strategies of the Business Plan, the Group approved a "**Programme of geographical expansion and streamlining of the network"** with the objective of matching geographical potential with the Group's presence. The Expansion Programme contemplates 39 reallocations and 119 new branch openings no later than the end of 2006. Three banking facility layout standards were defined in accordance with the social/economic potential and characteristics of the geographical area of reference.

In addition, the MPS Group continued to integrate remote banking channels in accordance with the multichannel strategy which has been characterizing the Group banks for a long time. This incorporated the **project of migration of low value-added transactions (e.g. bank transfers, A/C balances, queries) to remote channels**, which represents a fundamental step (see the section covering "*Payment systems to retail customers*").

With reference to the **project of "boosting the efficiency of the commercial bank networks"**, about 70% of the processes subject to re-engineering were activated in all of the Group branches, with 700 human resources being recovered and dedicated to sales and marketing activities through the consolidation of the salesforce.

☐ TRADITIONAL NETWORKS, ATMS AND POS TERMINALS

As of 31 December 2004 **the MPS Group was operating a total of 1,805 domestic branches** (commercial banks) and another 159 financial boutiques run by Banca 121 (MPS Banca Personale as of 1 January 2005), which have been streamlined.

MPS Group Distribution Network

	31.12.04	31.12.03
Domestic branches	1.805	1.800
Financialboutiques - Telebou	159	212
Total domestic sales out	1.964	2.012
Foreign Branches	30	38
Financial advisors	1.133	1.352
ATMs	2.199	2.265
POS Terminals	70.788	69.298

MPS GROUP DISTRIBUTION NETWORK

☐ ELECTRONIC BANKING CHANNELS

In 2004 the Group continued **to update the existing e-banking instruments and systems**, including self-banking terminals (ATM), telephone banking and e-banking, as indicated in the section covering "Payment systems".

The table below shows the different types of contracts in effect at the end of December 2004 and their percentage shares **with a growth in the weight of corporate contracts of more than 2%** with respect to **December** 2003:

n ELECTRONIC BANKING CHANNELS (*)

Contracts in effect

Channel	Retail	Private	Corporate	Gov.& Local Auth.	**TOTALE**
31.12.04	495.025	4.638	98.382	828	598.873
%	82,7	0,8	16,4	0,1	100

(*) intenet, mobile e remote banking; non sono compresi i contratti di telephone banking

(*) Internet, mobile and remote banking; the aggregate does not include telephone banking contracts.

As of 31.12.2004 **corporate banking** (internet and remote)**contracts** in effect with the Group numbered roughly 100,000, with an 11.5% increase in comparison with 31.12.2003. The marketing effort to sell Internet Corporate Banking facilities - certified UNI EN ISO 9001/2000 – was deployed consistently with the strategy of development of the products and services supplied, in accordance with the principle of integrated multichannels.

On the front of the corporate segment, in addition to the increase in the number of contracts, the Group registered appreciable trends of growth in the number of transactions executed and in the average number of users with daily Internet connections.

In 2004, the MPS Group promoted the sale of **PaschiInTesoreria (Internet banking for Governments and Local Authorities)**, with about 830 contracts in effect as of 31.12.2004 and a 40% increase in comparison with 31.12.2004, thus consolidating its first-mover position on the product.

☐ DIRECT FOREIGN NETWORK

The Group's **direct foreign network** consists of several operating units; branches, representative offices, customer desks and other desks located in the premises of correspondent banks in accordance with specific commercial agreements.

The foreign network is currently structured so as to focus on **specific geographica areas which have been selected for their commercial potential and their capacity to support the Group's existing clientele.** Given this logic, the Group decided to confirm the importance of a presence in the principal financial markets.

The **Customer Desks** located in each foreign branch operate so as to support the Italian customers in identifying and developing business opportunities, thereby promoting the international expansion of the SMEs and achieving maximum integration with the Group domestic network. The foreign representative offices located in south-eastern Europe (Istanbul and Moscow), in the Mediterranean area of North Africa (Algiers, Tunis, Cairo and – next opening – Casablanca), in China (with two offices already operating in Beijing and Shanghai, and a third one to be opened soon in Canton) and India (next opening in Mumbai) have similar operating objectives.

■ COMMERCIAL AGREEMENTS WITH CORRESPONDENT BANKS EXECUTED IN 2004

The major agreements entered into in 2004 incorporated:

- The commercial agreement signed with CITIGROUP in relation to initiatives to be launched in eastern Europe. The Group signed a letter of intention which will be followed by several specific and customized agreements with the subsidiaries of Citigroup in different countries. The project started with the first agreement executed with Citibankhandlowy in Warsaw, with BMPS personnel seconded to Poland;
- The agreement signed with Branch Banking and Trust Co. (North Carolina) which supports the Group's domestic network and gives further momentum to the activity of our New York Branch;
- The agreement executed with FINTEC, a consulting firm located in Santiago, for the purpose of providing the MPS Group Italian corporate customers interested in the Chilean market with specialized assistance directly on the spot.

The important **commercial agreements** indicated in the box and executed in 2004 with foreign banks and consulting firms are flanked by the following existing agreements:

- **Eastern European area**: Alpha Bank in Romania (where BMPS holds a minority interest and to which BMPS has seconded its own personnel);
- **Iberian peninsula**: Bancaja Banking Group with BMPS personnel assigned to an office in Valencia and Caja Geral de Depositos Lisbon;
- **Central Asia**: Capital Trust Limited in New Delhi, India; Industrial and Commercial Bank of China (ICBC), China Merchants Bank (CMB) and China Construction Bank (CCB), in China in addition to the Representative Offices of Beijing and Shanghai;
- **Maghreb area and Egypt**: Crédit du Maroc with BMPS staff seconded to Casablanca, C.I.B. (Commercial International Bank) in Egypt and Banque de l'Agricolture et du Development Rural in Algeria, in addition to the Representative Offices of Cairo, Tunis and Algiers.

PAYMENT SYSTEMS

PAYMENT SYSTEMS FOR RETAIL CUSTOMERS

With reference to **electronic banking channels,** the MPS Group placed specific emphasis on the monitoring and enhancement of the level of services rendered, which is crucial in order to meet the customers' requirements. Following are the major events occurred during 2004:

- **ATMs**: The participation in the FARO project (within the Italian Bankers' Association initiative, 'Clear Pacts') - which enables the customers to obtain information in relation to the closest ATM facilities - was flanked by the functional upgrading of the channel through the possibility of renewing and checking the balance of the revolving prepaid card 'Europrima'. As a result of the project of "intercompany circularity" of self-service functions, the customers of the Banks can operate directly on their accounts from any MPS Group automated facility and can directly withdraw money from their account also in the evening hours, during the week-end and the holidays.

- **Mobile Banking**: the projects were focused on opening this service to the new numberless wireless tools. The project of renewal and consolidation of the WAP connection platforms and incoming-outgoing SMS was finalized.

- **Call Center**: The three commercial banks concentrated on the updating and consolidation of the technological infrastructure for the purpose of ensuring growing operating efficiency to the workstations for inbound and outbound activity.

- **Home banking**: The Group continued to develop the system with the dual objective of increasing:

- the frequency and simpleness of use;

- the services available to the customers on the channel, where it is possibile to buy the new insurance policies online and manage the prepaid card, Europrima.

In the last quarter of the year, the Group **released the first TV home banking facility** available in the market, thanks to an exclusive co-operation with Microsoft. As a result, the Group had a key role in some major events and was present in the online channels (direct presence in the Microsoft Italia web site). In order to promote the diffusion of the new service, the MPS Group designed a subsidized loan and a current account at advantageous conditions targeted at the purchasers of

THE MPS GROUP PARTICIPATION IN E-BANKING PROJECTS PROMOTED BY THE ITALIAN BANKERS' ASSOCIATION

- The "Microcircuit – Payment cards" project: the MPS Group participated in the public testing phase of the project components (cards, POS and ATM terminals and systems). The tests contributed to secure information to be stored in the memory which all cards outstanding shall have starting from 2006. The Group requested the Italian Bankers' Association approval of all instruments (cards, POS and ATM terminals) and management-operating processes.

- Bankpass Bills: the MPS Group contributed to the preparatory work for the launch (in November 2004) of this facility of electronic notice of bills issued by the Local Authorities participating in the circuit. Bankpass Bills enables (i) the customers to receive dematerialized payment notices and to execute the payment through their home banking facility, and (ii) the corporate creditors to channel the correspondence in relation to bill invoicing at low cost and to monitor their payment online.

the hardware and software systems (Media Center) required for getting access to the new service.

The **Project of "Migration of the customers' transactional operations"** was developed with the objective of promoting the use of electronic channels by the customers through an original approach, based on a training activity carried out directly in the Branches. The results achieved enabled the Group to reduce the more frequent low value added transactions at the counter (54% in 2004 versus 61% when the project started) and to increase Internet Banking operations which reached 32%.

PAYMENT SYSTEMS FOR CORPORATE CUSTOMERS

With reference to the management of corporate collections and payments, the MPS Group continued to market the **Internet Corporate Banking** service (certified UNI EN ISO 9001/2000 for Banca MPS), with appreciable growing trends in terms of the number of contracts in effect and transactions executed (*see the section covering "Electronic banking channels"*).

New functions including international bank transfers with online forex trading have been released. Due to the new functions of international operations, the **MPS Group internet banking service represents the state of the art in the domestic market**. This is proved by a customer satisfaction survey conducted in the second half of 2004 with respect to the BMPS Internet Corporate Banking service (PaschiInAzienda). Most of the customers interviewed (about 80%) expressed very favourable opinions (excellent or very good) on the simple access, the use and completeness of PaschInAzienda functions available.

THE "DIGITAL SIGNATURE" PROGRAMME

- Early in 2004, the Group completed the programme aimed at enabling Banca MPS to become the supplier of digital certification services to corporate customers. In August, the Bank secured the qualification of Certification Authority (C.A.) recognized by the CNIPA (National Center for Public Administration Informatics) and was registered in the public list of certification authorities. At the same time, in co-operation with some of the major Italian banking groups, the Group started to test the first application based on the "digital signature" dedicated to Corporate customers. As a result, it will be possible to execute Treasury transfers of funds and urgent bank transfers of high amount online and on a daily basis. The first digital certifications will be released to corporate customers and/or Governments and Local Authorities no later than June 2005.

On the front of the **development of new products**, the Group marketed an innovative service, **"incassipiù"**, targeted at companies (in particular, utilities) and local authorities requiring a full management of collections; the Bank also produces and sends invoices or other supporting documents, in addition to the notice of payment for the debtor.

In 2004, the MPS Group expanded the sale of the **Internet Corporate Banking service to Governments and Local Authorities,** as illustrated in the section covering "*Electronic banking channels*".

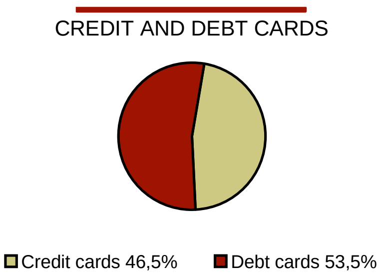
With respect to **E-Commerce**, in May 2004 an agreement with a primary telecommunications company came into force. The specific implementation of the pre-existing e-commerce product (PaschiInCommerce) enables Banca Monte dei Paschi to manage the dealers' payments with respect to the purchasing orders placed (via the Internet) in the web-site prepared by the Parent Company. The number of dealers involved tops 700, including 300 dealers who already participated in this initiative by opening an electronic banking channel with the Bank.

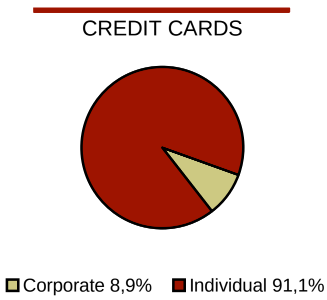
- Credit and debt cards

The **total number of payment cards (debit and credit cards) issued to customers of the MPS Group** came to 1,800,000 as of 31 December 2004 (including 47% of credit cards).

In 2004 Banca MPS, Banca Toscana and Banca Agricola Mantovana, as a whole, issued 107,200 **new credit cards** with a 2.44% increase year on year, mainly due to the hefty growth of corporate cards issued.

The volume of the amounts traded in 2004 progressed by 5.5% with respect to the volumes disbursed and by 3.6% with respect to the number of transactions executed in comparison with 2003.

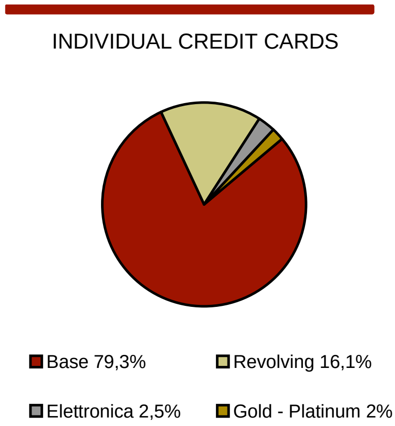


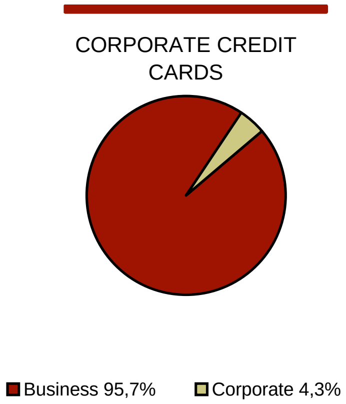


On the individual credit card front, the **weight of revolving credit cards** continued to expand from 16.1%, to 11.5% at the end of 2003 - and, in particular, of the "M'Honey" card, issued by Consum.It, which accounted for 86% of the total of the Group's revolving cards. The weight of the business component further increased in the **corporate credit card segment.**

As of 31 December 2004 the **number of debit cards issued by the Group** rose by 2.4% year on year at about 970,000 cards.

As regards innovation, the **new line of “pre-paid and renewable”**





products (Krystal Card) is mainly targeted at non-current account holders, including the under-age, or companies willing to eliminate cheque or cash management, which can credit their staff emoluments and make them available to their non-current account holders through such products.

HUMAN RESOURCES

STAFFING

As of 31/12/2004, the MPS Group[6] **had a total of 26,622 employees**, and thus had a decrease in staffing of 259 on an annual basis. In comparison with 31/12/2002 (base line of the Business Plan), the work force decreased by 895 or, including the employees of the Tax Collection Area, by 1.195:

MPS Group Staffing

	31.12.02	31.12.03	31.12.04
Total	27.517	26.881	26.622
Total including employees of Tax Collection Area.	*27.824*	*27.148*	*26.629*

These dynamics reflect the **containment and new distribution of staffing**, with the objectives of improving flexibility and the structure of costs by taking advantage of exit provisions (e.g. natural turnover, early retirement programmes and Solidarity Fund)[7] for senior employees replaced by highly-qualified young recruits. These recruits were almost exclusively assigned to the Network which kept its size but consolidated its sales and marketing capacity with the addition of high-potential human resources.

The table below shows the distribution of the MPS Group's work force[8] (26,706 units) **by job category and operating area**:

BREAKDOWN OF STAFF BY JOB CATEGORY

Category	Actual number	% of total workforce
Executives	639	2,4%
Managers	6.841	25,6%
Other professional areas	19.226	72,0%
TOTAL	26.706	100,0%

[6] Employees on the payroll og the Group companies consolidated on a line-by-line basis.
[7] The figures for 2003/2004 total 1,339 (530 staff units with respect to early retirement programmes and 809 staff with respect to the Solidarity Fund).
[8] The figures incorporate all MPS Group personnel, excluding staff assigned to other companies (minority interests) and cleaning staff. The work force of former Banca Steinhauslin, which merged by incorporation in BMPS (240 staff units), was absorbed by the Corporate Center (with the set-up of the Private Banking Area) and the BMPS Commercial Bank Division (Private Centers and Branches), with the remaining portion being assigned to the MPS Group Operating Consortium.

MPS Group Work Force of 31.12.2004

	Number of employees	%
Banca Monte dei Paschi di Siena - incl.	**12.364**	**46,3%**
Corporate Center	1.131	4,2%
BMPS Division	11.061	41,4%
International (*)	172	0,6%
Banca Toscana	**3.782**	**14,2%**
Banca Agricola Mantovana	**2.994**	**11,2%**
Banca 121 P.F.	**216**	**0,8%**
TOTAL ITALIAN BANKS	**19.356**	**72,5%**
Foreign Banks	**436**	**1,6%**
Product companies	**1.594**	**6,0%**
Service companies- of which	**2.619**	**9,8%**
Operating Consortium	2.310	8,6%
Tax collection	**2.401**	**9,0%**
Insurance	**166**	**0,6%**
Other companies	**134**	**0,5%**
TOTAL GROUP	**26.706**	**100,0%**

(*) Foreign branches and representative offices

As of 31 December 2004, **Banca Monte dei Paschi di Siena** had a work force of 12,192 employees, with a decrease of 449 units in comparison with the figure recorded as of 31/12/2003 ("proforma" data including the work force of Banca Steinhauslin).

The table below shows the distribution of personnel on the basis of operating units and job category:

Other professional areas	489	43,2%
TOTAL	1.131	100,0%

BMPS DIVISION

category/job grade	totale	% su totale
Executives	146	1,3%
Senior, middle and junior managers	2.613	23,6%
Other professional areas	8.302	75,1%
TOTAL	11.061	100,0%

INTERNATIONAL BANKING (*)

category/job grade	totale	% su totale
Executives	7	4,1%
Senior, middle and junior managers	62	36,0%
Other professional areas	103	59,9%
TOTAL	172	100,0%

(*) Foreign branches and Representative offices

TOTAL BANCA MPS S.p.A.

category/job grade	totale	% su totale
Executives	303	2,5%
Senior, middle and junior managers	3.167	25,6%
Other professional areas	8.894	71,9%
TOTAL	12.364	100,0%

The following observations can be made based on an analysis of the **mix of resources**:

- in terms of academic credentials, **the percentage of personnel with degrees is significant,** particularly in the case of Executives**:**

BMPS PERSONNEL: MIX OF CREDENTIA

JOB GRADE	% of university graduates	% of other diplomas
Executives	**45,2%**	**54,8%**
Managers 3/4	**34,4%**	**65,6%**
Managers 2/1	**21,1%**	**78,9%**
Other professional areas	**24,9%**	**75,1%**
TOTAL	**26,3%**	**73,7%**

- **Bank employees are young** (about 42% under 40) and have relatively limited seniority. Women represent a significant percentage of staffing (approximately 39%):

BMPS PERSONNEL: BREAKDOWN BY AGE

years	% female employees	male employees	% of total
up to 30 years	5,2%	4,6%	9,8%
31 to 40 years	17,0%	14,7%	31,7%
41 to 50 years	12,8%	21,1%	33,9%
over 50 years old	3,8%	20,8%	24,6%
TOTAL	38,9%	61,1%	100,0%

BMPS PERSONNEL: BREAKDOWN OF STAFF BY SENIC

years of service	% female employees	male employees	% of total
up to 10 years	14,6%	18,9%	33,5%
11 to 20 years	15,2%	16,5%	31,7%
21 to 30 years	7,2%	14,0%	21,1%
over 30 years	1,9%	11,8%	13,8%
TOTAL	38,9%	61,1%	100,0%

A huge portion of total staffing is dedicated to the commercial network:

STAFFING BY LOCATION

BMPS DIVISION	actual work force	% of total
Head office units	620	5,6%
Branches	10.284	93,0%
Call Center	157	1,4%
TOTAL	11.061	100,0%

- OPERATIONAL STRATEGIES

In a scenario characterized by the expansion of strategical projects which modified the structure of the Branches, innovated the methods and tools for getting in touch with the customers (service models), and internal processes, the management of human resources was pivoted on the following priorities:

- the **enhancement of professional skills** with particular reference to sales and marketing and with pronounced specialization by market segment, and the retrainment of resources freed as a result of changes aimed at improving productivity;
- the achievement of **cost containment objectives** through efforts oriented to reduce the size and mix of staffing and the other most significant expenses.

This development programme is supported by:

- **the consolidation of training,** with a **considerable increase in training hours (about 900,000),** contents innovation (especially with respect to professional and managerial development), and "channels" (e-learning Platform, Tutor Networks). The activity was oriented as a priority to support organizational and commercial changes and, therefore, focused on the new Network skilled staff, in order to ensure a consistent development in terms of technical-professional skills. The main efforts went to the consolidation of technical-professional skills typical of the role played (know-how and skills) and involved/entailed different actions, through a training supply which matches each training sessions with the role it was designed for.

All the Network professionals (Line and Branch Unit Managers, Affluent, SME, Small Business Account Managers, Sales and Marketing Clerks and Tellers) participated in a series of **different technical-professional training sessions**, with particular reference to commercial operations (service models, products, customer interaction instruments), loan disbursement (trend management, evaluation procedures, etc.) and organization (new business processes). On the **managerial front**, specific emphasis is placed on the capacity of staff management and development (evaluation and enhancement), market relationship and leadership as the capacity of managing and co-ordinating human resources and rallying individual energy.

In addition, the MPS Group **implemented the Group E-learning** (Clic portal and online training platform) and "Analysis of Training Needs and Monitoring of Training Efficiency" **systems,** and obtained the certification of the training process in accordance with the ruling ISO 9001/2000 regulations.

In 2005, the Group will continue to steadily **orient training contents and instruments to the growth of new key skills**. This requires the adoption of measures in the working place and in the classrooms, specifically designed by families and professional groups, but above all targeted at individual employees, for the purpose of consolidating the managerial and professional skills in relation to the needs identified by the "gap analysis" on the coverage of roles, and other information available on the person involved (know-how, expectations, potential);

- **the development of the management model based on the skills**, so as to enhance professional skills (know-how, skills, abilities and responsibilities required for covering each role) and individual potential, thereby activating consolidation measures and implementing **professional paths** with growing levels of diversification/customization, in line with the organizational structure. In an increasingly elaborate and specialized organization, the planning of the professional development of human resources represents a basic need for securing the efficient coverage of roles, pursuing the integration of skills necessary for the growth of managerial profiles and meeting the expectations of the resources. The objectives identified as priorities are the roles of responsibility in the Branch Network, of loan monitoring and some specialist services, also in the Head Office;

- **the definition of a new incentive system,** which closely links the level/importance of the role played, the results achieved and individual bonuses through a technical method aiming at ensuring greater objectiveness and transparency in the assignment of goals, the measurement of performance and the determination of benefits. With reference to the benchmarks and in relation to the instruments available, qualitative indicators (customer satisfaction) concerning customer relations, risk management and the performance of the products placed in the market will become increasingly important.

As far as the **management of Young Talents** is concerned, the MPS Group embarked on a project with the objective of using a huge portion of the resources coming from Post-Graduate Programmes (arranged in partnership with the University of Siena) in the Network. The educational contents of some of these programmes were revised so as to expand the issues related to commercial operations (service models, products, customer relations etc.), thereby safeguarding particular technical specialized skills, to be enhanced within the Head Offices.

Industrial relations are still based on high quality and the mutual respect of roles in order to effectively face the changes which have an impact on labour conditions (new organizational models and professional profiels, staff mobility etc.). In 2004 industrial relations were focused on achieving greater flexibility in the management of the work force (migration to sales and marketing roles and professional development) and in the structure of costs.

The agreements reached entailed the projects of organizational and commercial review ("reorganization of the Network", "new Family service model", "Governments and Local Authorities, "Large Corporate and financial institutions") and Group reorganization (merger by incorporation of Banca Steinhauslin & C. SpA in BMPS, set up of MPS Banca per l'Impresa). Two agreements were made with reference to the **Solidarity Fund**: the former is dated 27 February 2004 and extends the Fund term until 1 January 2006 at the same conditions as the original agreement (3 June 2003); the latter was executed on 11 October 2004 and considers the innovations introduced by the reform of Social Security, enforced on 6 October 2004, in relation to retirement eligibility requirements.

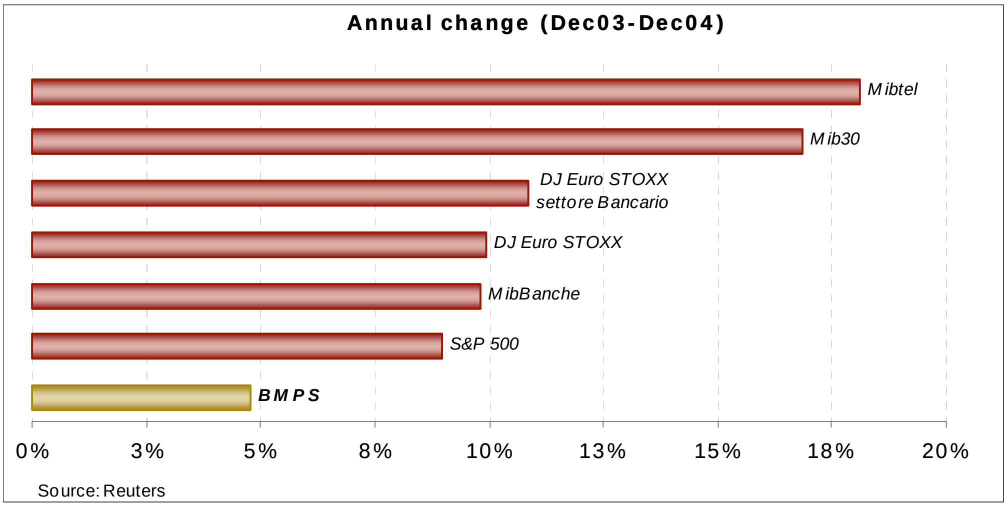
Last but not least, **the agreement made for executing new trials for the purpose of identifying human resources** (to be placed in the intermediate steps of the category of Managers) who are **able to play key roles in the Network**, thus obtaining greater professional and geographical mobility. In the Head Offices, this helps to capitalize on the value of high potential resources employed in the design and implementation of strategical projects and specialist activities.

OTHER INFORMATION

TREND OF BMPS SHARES AND DEBT RATING

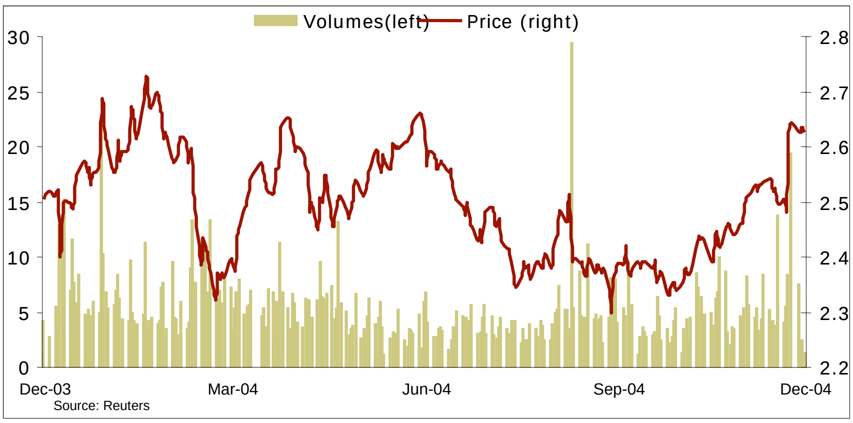
PRICES

In 2004 share indices were extremely erratic. Prices in the Eurozone and in the USA dropped to their low in March and August respectively and rebounded reaching a high in December. The performance of the Italian Stock Exchange was the best year on year (Mibtel +18.1% and Mib30 +16.9%), manily due to the performance of some bank shares.



The **BMPS shares increased by 4.8% on a yearly basis** and closed the year at EUR 2.63. The shares reached an annual high of EUR 2.74 on 18 February, and an annual low of EUR 2.30 on 28 September.

- **Trend of share price** (from 31/12/03 to 31/12/04)



■ **BMPS Share Price: Statistical Summary**

	2004	2003	2002
Average	2,49	2,42	2.87
Low	2,30	1,93	1.73
High	2,74	2,85	3.88

☐ CAPITALIZATION

As of 31 December 2004 the market value of BMPS computed on the basis of 3,014,431,630 (ordinary and preferred) shares outstanding was close to EUR **7.9 billion** (+4.8% in comparison with December 2003), accounting for 1.35% of the total capitalization of the Italian Stock Exchange.

■ **Summary of reference prices and capitalization**

	31.12.04	31.12.03	31.12.02
Price (euro)	2,63	2,51	2,25
No. Ordinary shares	2.448.491.901	2.448.491.901	2.607.791.591
No. Preferred shares	565.939.729	565.939.729	
No. Saving shares	9.432.170	9.432.170	9.432.170
Capitalization (ord + pref) (euro mln)	7.913	7.551	5.896

With reference to the **Bank's shareholder base**, see the section covering *"Corporate Governance"*.

☐ VOLUMES

The number of BMPS shares traded on a daily basis averaged around 5.4 million for the year, with a low of about 1.1 million in June and a peak of 29.4 million in September.

A total of about 57% of the Bank's ordinary capital changed hands in 2004, with the turnover of the market float amounting to approximately 1.1 times.

■ Monthly volumes of shares traded

Breakdown of 2004 Volumes

	(in milioni)
January	168
February	113
March	166
April	117
May	121
June	80
July	85
August	73
September	149
October	85
November	108
December	127

☐ MAIN MARKET MULTIPLES

Turning to market multiples, **the shares were trading at the end of December 2004 at a multiple 13.3 times projected earnings for 2005** (source of earnings estimates: *IBES*). The ratio of price to book value was around 1.2 at the end of 2004. Following are the Group data as of 31 December 2004.

■ Group Data (mln.€)

	2004	2003	2002
Shareholders' Equity	6.465	6.154	5.550
Net profit	514	443	582
Dividends*	264	169	218
Pay Out Ratio *	51,4%	38,2%	37,5%

(*) Proposed distribution to be approved by the Ordinary Shareholders' on 29 April 2005

■ Per share data (in euro)

	2004	2003	2002
Earnings per share	0,17	0,15	0,22
Net equity per share	2,14	2,04	2,13
Ordinary dividend *	0,086	0,0546	0,0832
Savings dividend *	0,0924	0,0610	0,0915

(*) Proposed distribution to be approved by the Ordinary Shareholders' on 29 April 2005

■ Market multiples (in euro)

	2004	2003	2002
P/E per share	15,40	17,06	10,23
P/BV	1,22	1,23	1,06
Dividend yield on ordinary share *	3,3%	2,2%	3,7%

(*) Based on share price at year end

As of 31 December 2004, the **historical Beta of BMPS shares** was unchanged with respect to December 2003 at 0.86, with implicit volatility falling from 23.34% in 2003 to 14.63%.

☐ DEBT RATINGS

In 2004 the Senior Management of the MPS Group held several meetings with the representatives of three rating agencies, presented the Group's strategies and illustrated the development of operations for the year. The rating agencies confirmed outstanding short-term and medium-term debt ratings, with the exception of Standard & Poor's which – though confirming its opinion – downgraded the outlook from "stable" to "negative".

Agency	Short-term rating as of 31.12.2004	Medium and long term rating as of 31.12.2004
Moody's Investors Service	P-1	A-1
Standard & Poor's	A-1	A
Fitch Ratings	F-1	A+

INVESTOR RELATIONS

In 2004 the activity of Investor Relations was very hectic with the objective of **ensuring continuity and transparency of information on the Group's operations and strategies**. In particular, the Group Management participated in six international conferences (including "Italian Financial Services" organized by Giubergia UBS Warburg in Rome and "Southern European Banking Conference" arranged by Morgan Stanley in Florence), met more than 200 financial analysts and investors, orchestrated four conference calls for the presentation of mid-year and quarterly operating results and participated in many roadshows in the major financial centres.

THE MPS GROUP FINANCIAL REPORTING

- On the basis of a survey promoted by Prometeia on voluntary financial reporting, the MPS Group turned out to be the listed banking group with the best voluntary economic-financial reporting, thus confirming its capacity to transform corporate management information used by the Management (VBM) into an appreciated reporting to the other stakeholders. The channels of communications analysed are the annual report, the social report, the presentation of quarterly operating results to financial anlysts and investors and the material available on the web sites.

As of 31 December 2004 about 30 financial analysts covered the BMPS shares (in line with 2003), with a **percentage of buy/hold recommendations of 50%**.

- **CORPORATE GOVERNANCE**

Banca Monte dei Paschi di Siena S.p.A. (the "Bank") has an organizational structure which complies with the guidelines set forth in the Self-Discipline Code for Quoted Companies (the "Code") (Resolution of the Board of Directors of 1 March 2001). This structure ensures an adequate system of corporate governance also lately confirmed by another resolution of 6 March 2003 further to a revision of the Code of July 2002.

a) The Bank's Charter (art. 10) provides the following Company's bodies:

- the Shareholders' Meeting (s. par. 1);
- the Board of Directors (s. par. 2);
- the Executive Committee (if nominated) (s. par. 3);
- the Managing Director of the Managing Directors (if nominated) (s. par. 5);
- the Chairman (s. par. 6);
- the Board of Statutory Auditors (s. par. 7).

Also the following bodies are integral part of the "governance" :

- other Committees with advising and proposing functions to the Board of Directors (s. par. 4);
- the Chief Executive Officer (s. par. 8).

The corporate governance is carried out also through the following Functions and Procedures:

- the regulation of transactions with related parties (s. par. 9);
- the management of sensitive information (s. par. 10);

- code of behavior concerning internal dealing (s. par. 11);
- the internal control system (s. par. 12);
- the investor relations (s. par. 13).
- As of 31 December 2004 the share capital amounts to EUR 1,935,272,832.00 and is subdivided into no. 2.448,491,901 ordinary shares (nominal value: EUR 0.64 each), into no. 565,939,729 preferred shares (nominal value: EUR 0.64 each) and no. 9,432,170 savings shares (nominal value: EUR 0.64 each).

The preferred shares, which do not have any voting right in ordinary shareholders' meeting, are preferred in assigning profits and repaying capital as well as savings shares, also without any voting right.

According to the register of the shareholders, integrated by other communications in compliance with current regulations and other available information, the shareholders owning, as of 31 December 2004, more than 2% of the share capital represented by share with voting rights are:

Shareholder	Owned shares	% of share capital with voting right in ordinary shareholders' meeting	% of share capital with voting right in extraordinary shareholders' meeting	% of share capital
Fondazione Monte dei Paschi di Siena	1,199,761,031 Ordinary shares 565,939,729 Preferred shares 9,166,322 Saving shares	49.00	58.57	58.70
Caltagirone Francesco Gaetano	115,500,000 Ordinary shares (i)	4.72	3.83	3.82
Hopa S.p.A.	73,463,100 Ordinary shares (ii)	3.00	2.44	2.43
Premafin Finanziaria S.p.A.	63,148,069 Ordinary shares (iii)	2.58	2.09	2.08

(i) date of the latest communication: 26 May 2004

(ii) date of the latest communication: 26 April 2004

(iii) date of the latest communication: 30 June 2004

The Bank received, on 22 January 2001, a communication concerning a three-year agreement with consultation obligations underwritten on 14 January 2001 by 54 shareholders, regarding and binding 69,287,534 ordinary shares of the Bank then corresponding to 2.93% of the share capital. The agreement concerned the voting right in the Shareholders' Meeting and the sale and/or disposal of the Bank's ordinary shares.

On 12 January 2004, the Bank received confirmation that the aforementioned agreement with consultation obligations underwritten by 54 shareholders has been silently renewed for three years and now regards 3.24% of the ordinary share capital.

1. THE SHAREHOLDERS' MEETING

1.1 The shareholders' meeting represents all shareholders and its resolutions, which are taken according to the law and the charter, are binding for all shareholders also if they are not present or do not agree.

The ordinary shareholders' meeting

- approves the financial statements;
- appoints the members of the Board of Directors and among them the Chairman as well as one or two Deputy Chairmen; revokes the directors;
- appoints the Chairman and the other members of the Board of Statutory Auditors as well as the alternate auditors;
- appoints the auditing company in charge of the accounting audit;
- establishes the compensations of directors and auditors;
- passes resolutions on the responsibilities of directors and auditors;
- passes resolutions on divestments of lines of business by the directors;
- passes resolutions on underwriting of shareholdings in other companies implying unlimited responsibility for their obligations;

• passes resolutions on any other subject falling within the competence of the ordinary shareholders' meeting according to the law.

The extraordinary shareholders' meeting

• passes resolutions on mergers, split-offs and advanced windings-ups or extensions of the company, capital increase and any other Charter's amendment;

• passes resolutions on liquidators' appointments as replacements, their tasks and on any other subject submitted to its approval by the law or the charter.

The shareholders' meeting usually takes place in Siena; it can be called also outside Siena, though in Italy. The shareholders who have voting rights and are able to proof their entitlement, according to the regulations in force, may participate. The shareholders may be represented in the shareholders' meeting, according to the law.

1.2 Within the program aimed at complying with the obligation of Fondazione Monte dei Paschi di Siena to lose the control of the Bank, the shareholders' extraordinary meeting, on 14 June 2003, approved, inter alia, the conversion of part of the ordinary shares owned by the Fondazione Monte dei Paschi di Siena into preferred shares, so that the participation of the Fondazione decreased to 49% of the Bank's ordinary share capital. Moreover, a new provision was inserted in the Charter according to which if a banking foundation, in an ordinary meeting, as assessed by the chairman of the meeting during the meeting itself or immediately before any voting procedures, is able to exercise a voting right expressing the majority of the shares on the basis of the shares deposited by the present shareholders and entitled to vote, the chairman makes the event known and excludes the banking foundation from voting, only referring to the shares representing the difference plus one share between the ordinary share deposited by said foundation and the overall amount of the ordinary shares deposited by the other shareholders who are present and entitled to vote.

1.3 Nowadays there are no shareholders' meeting rules approved by the shareholders' meeting (art. 2364, par. 1, no. 6 of the Italian Civil Code). The Board of Directors opted to adopt rules (http://www.mps.it/investors/down/Regolamento) allowing for some flexibility to quickly introduce the necessary amendments, if any, after the first applications of the rules.

Taking into account that:

- Article 12, Paragraph 3 of the Bank's Charter provides that "the shareholders' meeting shall be chaired by the Chairman of the Board of Directors, or in the event in which the Chairman is absent or unable to chair the meeting, by the person replacing him, pursuant to art. 23 of the Bank's Charter, or by a director elected by the shareholders attending the meeting in the event in which the Chairman and Deputy Chairman/Chairmen are absent or unable to chair the meeting";

- Pursuant to paragraph 4 of Article 12 of the Charter "the Chairman of the shareholders' meeting is responsible for ascertaining the regular constitution of the meeting and the right of the attendees to vote and to participate in the meeting as well as the power to direct the meeting, to coordinate the discussion, to establish the means for individual votes – which are to occur in any event by open vote – and to proclaim the results of the voting, putting them in the minutes";

The Board of Directors approved rules for the shareholders' meeting which are based on a set of sample rules drawn up jointly by the ASSONIME Association and Italian Bankers' Association and indicated its consent that such rules be adopted as his ex-ante determination of the manner in which he shall exercise the management and control powers vested with him by the Charter and thus that this set of rules be considered as an act of the Chairman in relation to the rules of conduct by which he shall abide during the shareholders' meeting for the exercise of his responsibility. The Board of Directors furthermore deliberated that the publication of the rules for the shareholders' meetings adopted by the Chairman must be insured by filing he same with the Bank's Head Office as of the date of any shareholders' meeting. Documentation for the shareholders meeting is also to be filed along with the rules for the meeting. Such information is made available to the shareholders pursuant to Article 130 of Legislative Decree n. 58/98. The rules shall also be disclosed through special mention in the notice of the shareholders' meeting.

2. THE BOARD OF DIRECTORS

2.1 The Board of Directors is made up of a number of members established by the ordinary shareholders' meeting and which, however, is between nine and seventeen. The directors hold the office for three consecutive years and may be reelected. The elections take place with list voting as further better detailed in the paragraph 2.9 concerning appointment procedures.

According to the Charter, the directors must not have other qualifications than those required by the current legal provisions; in particular, they have to comply with the provisions as per art. 2387 of the Legislative Decree no. 385/1993 and the Regulation no. 161 of 18/3/1998 of the Ministry of Treasury, Budget and Economic Planning.

The Board of Directors immediately informs the Board of Statutory Auditors about any activity carried out and about the most important economic and financial transactions both in the parent company and in the subsidiaries; in particular, the Board reports about any possible conflict of interests, if any.

The Board of Directors may nominate directors to an Executive Committee and one or more Managing Directors setting the limits of their authority and of other powers.

2.2 Powers The Charter assigns to the Board of Directors all powers of ordinary and extraordinary administration for the achievement of the corporate purpose other than those powers specifically vested with the shareholders pursuant to the law or the Charter. More specifically, the Charter exclusively empowers the Board of Directors:

- to formulate the strategy for the Bank and the banking group over which the Bank is head and to approve the plans in relation thereto;

- to oversee the correct and consistent implementation of the aforementioned strategies and plans within the operations of the Bank and of the banking group;

- to determine the principles for the general organization of the Bank and to approve the organizational structure for the same;

- to set forth the general guidelines for the structure and operations of the banking group determining the criteria for the coordination and management of the subsidiary companies belonging to the group, and for the execution of the directives handed down by the Bank of Italy;

- to draw up the financial statements and to submit them to the shareholders' meeting;

- to pass resolutions on the establishment of consulting committees having also proposing tasks towards the Board;

- to appoint the Chief Executive Officer.

2.3 Delegated authority. The Board of Directors has passed resolutions vesting authority with the Executive Committee and lending as well as current operational authority with the Chief Executive Officer and other top managers of the Bank.

Pursuant to Article 8, Paragraph 7 of the Charter "the decisions taken by the persons vested with authority shall be communicated to the Board of Directors, in accordance with the terms and conditions set by the Board of Directors". For example, a monthly report is contemplated informing about all decisions taken by the Executive Committee.

2.4. Meetings The Bank's Charter provides that the Board of Directors meets "usually once a month". The meetings, however, actually take place more often: during 2004, for example, the Board held 33 meetings.

The Bank has also adopted the practice of sending the directors all the documentation and information to be reviewed and approved by the Board of Directors for each meeting as of the date on which the meeting agenda is communicated, or as soon as possible thereafter.

2.5 Composition of the Board The directors currently serving on the Board were appointed by the shareholders' meeting held on 26 April 2003 which provided that the number of the directors is sixteen with two Deputy Chairmen for the 2003-2004-2005 financial years; the mandate for all directors expires on the day of the shareholders' meeting called to approve of the financial statements for the year ending 31 December 2004. Eight directors are appointed on the basis of a proposal of the Fondazione Monte dei Paschi di Siena; the other eight directors are proposed by 70 shareholders of the Bank who are members of a shareholders' agreement expiring on the date of the aforementioned meeting.

The Board of Directors currently consists of following members:

Pier Luigi Fabrizi	Chairman
Stefano Bellaveglia	Deputy Chairman
Emilio Gnutti	Deputy Chairman
Fabio Borghi	Director

Francesco Gaetano Caltagirone	Director
Turiddo Campani	Director
Massimo Caputi	Director
Francesco Saverio Carpinelli	Director
Giuseppe Catturi	Director
Luca Fiorito	Director
Lorenzo Gorgoni	Director
Andrea Pisaneschi	Director
Carlo Querci	Director
Roberto Rossi	Director
Ivano Sacchetti	Director
Girolamo Strozzi	Director

Positions held by members of the Board of Directors in other financial, banking and insurance companies, and other significant positions held are indicated as follows:

Pier Luigi Fabrizi

Deputy Chairman of Banca Nazionale del Lavoro Spa, Director of Banca Agricola Mantovana Spa, Director of Unipol Assicurazioni Spa.

Stefano Bellaveglia

Chairman of Monte Paschi Asset Management SGR Spa, Deputy Chairman of HOPA Spa, Director of Monte Paschi Banque s.a.

Emilio Gnutti

Chairman of Hopa Spa, Chairman and Managing Director of G.P. Finanziaria Spa, Chairman of Holinvest Spa, Managing Director of Fingruppo Holding Spa, Deputy Chairman of Sorin Spa, Director of Unipol Assicurazioni Spa, Director of ASM Brescia Spa, Director of Olimpia Spa, Director of Finsoe Spa

Fabio Borghi

Director of Banca Monte Parma Spa

Francesco Gaetano Caltagirone

Chairman of Caltagirone Spa, Chairman of Caltagirone Editore Spa, Chairman of Messaggero Spa, Chairman of Eurostazioni Spa, Director of Cimentas Spa (Istanbul), Director of Grandi Stazioni Spa, Director of Aaborg Portland a/s.

Turiddo Campaini

Chairman of Unicoop – Firenze Scarl

Massimo Caputi

Managing Director of Sviluppo Italia Spa, Managing Director of Fondi Immobiliari Italiani SGR Spa, Deputy Chairman of Banca Agricola Mantovana SpA, Director of Acea Spa, Director of Linificio e Canapaficio Nazionale SpA.

Francesco Saverio Carpinelli

Chairman of MPS Banca per l'Impresa, Chairman of MPS Venture SGR Spa, Deputy Chairman of Intermonte Securities SIM Spa, Deputy Chairman of Monte Paschi Banque s.a.

Giuseppe Catturi

Chairman of Consum.it Spa, Deputy Chairman of MPS Finance Banca Mobiliare Spa, Director of Banca Toscana Spa

Luca Fiorito

Chairman of Paschi Gestioni Immobiliari Spa, Director of MPS Finance Banca Mobiliare Spa, Director of MPS Leasing & Factoring SpA.

Lorenzo Gorgoni

Deputy Chairman of Monte Paschi Asset Management SGR Spa, Director of Banca Agricola Mantovana Spa

Andrea Pisaneschi

Deputy Chairman of Monte Paschi Vita Spa,Director of Banca Agricola Mantovana SpA, Director of Intermonte Securities Sim Spa

Carlo Querci

Deputy Chairman of Banca Monte Parma Spa, Director of Banca Toscana Spa

Roberto Rossi

Chairman of Consorzio Operativo Gruppo MPS, Director of Finsoe Spa

Ivano Sacchetti

Deputy Chairman and Managing Director of Finsoe Spa, Deputy Chairman and Managing Director of Unipol Assicurazioni Spa, Deputy Chairman and Managing Director of Quadrifoglio Vita Spa, Chairman of Unipol Banca Spa, Chairman of Unipol Merchant Spa, Managing Director of Aurora Assicurazioni Spa, Chairman of MMI (Insurance against damage – life insurance) Spa, Director of Banca Agricola Mantovana Spa.

Girolamo Strozzi

Director of MPS Tenimenti Spa

The shareholdings owned by the Directors, the Auditors and the Chief Executive Officer in Banca Monte dei Paschi di Siena S.p.A. (BMPS) and in the subsidiaries are hereunder detailed:

Surname and name	**Company**	**Shares owned at the end of the preceding financial year**	**Shares purchased**	**Shares sold**	**Shares owned at the end of the current financial year**
BELLAVEGLIA Stefano	M.P.BANQUE	1(°)			1(°)
GNUTTI Emilio	BMPS BMPS	3,000,000 27,144,316	 4,128,597		3,000,000 (*) 31,272,913(°°)
CALTAGIRONE Francesco Gaetano	BMPS	92,925,000	22,575,000		115,500,000 (°°)
CAMPAINI Turiddo	BMPS	20,000			20,000 (**)
CARPINELLI Francesco Saverio	M.P.BANQUE	1(°)			1(°)
GORGONI Lorenzo	BMPS	14,595,394			14,595,394 (*)
VITTIMBERGA Giuseppe	BMPS	1,210			1,210 (**)
FABRETTI Pietro	BMPS	5,500			5,500 (*)
TONINI Emilio	BMPS	21,000		21,000	

(°) Shares assigned because of the office

(°°) Indirect ownership

(*) Direct ownership

(**) Owned by the spouse

2.6 Executive Directors. All members of the Bank's Board of Directors are to be considered as "non-executive directors" since the position of managing director, though contemplated by the Bank's Charter, has not been filled and there are no directors with managerial responsibilities within the Bank.

2. 7 Independent Directors In the light of the provisions of art. 3.2 of the Code, the Board of Directors confirmed that the current directors of the Bank are to be considered "independent" inasmuch as the same (as also communicated by each of them) do not maintain – either directly or indirectly – any significant economic relationships with the Bank or with its subsidiaries, or any investment relationships of a magnitude which would allow them to exercise control or significant influence over the Bank and are not close relatives of executive directors of the company or of other persons being in the aforementioned positions.

The Board of Directors also confirmed that the composition of the same Board corresponds to the provisions of art. 3.1 of the Code on the "Independent Directors".

2.8 The compensation to the Directors. The compensation is based on a shareholder resolution passed on 26 April 2003 and consists of three components: annual compensation, meeting attendance fees and daily allowances. The current compensation scheme does not provide for any form of variable compensation linked to the Bank's earnings and/or the achievement of specific objectives, nor is there any form of stock option plan.

2.9 Procedures for the appointment of directors. Further to the amendments to the Charter adopted by the shareholders' meeting of 14 June 2003 appointments to the Board of Directors are currently based on lists submitted by the shareholders; each of them may submit or participate in submitting one list only and each candidate may come up for election only in one list otherwise is subject to ineligibility. The lists submitted by the shareholders must be deposited with the Bank's head office and published, at their expense, on at least three Italian newspapers, two of which economic, with nationwide circulation, at least ten days before the date fixed for the shareholders' meeting on first call.

Only shareholders holding alone or together with other shareholders shares totally representing 1.5% at least of the share capital with voting right in the ordinary shareholders' meeting are entitled to submit lists. Together with the lists also the statements of each candidate accepting the candidacy and stating, under their responsibility, that, on one hand, there are neither ineligibility nor incompatibility and, on the other hand, that they own the qualifications necessary for each position must be deposited.

Each shareholder having voting right may vote one list only. The procedure to nominate the directors is the following:

- a) from the list which has obtained the majority of the shareholders' votes the directors representing half of those to be elected are chosen in the progressive order of the same list rounding off to the lowest figure, in case of fractional number;

- b) the remaining directors are chosen from the other lists; to this purpose the votes obtained by the same lists are then divided by one, two, three, four, etc. according to the number of directors to be elected. These quotients are progressively assigned to candidates of each list according to the order respectively provided for. The quotients assigned to the candidates of the various lists are listed in a single decreasing classification. Those obtaining the highest quotients shall be elected.

If more than one candidate has obtained the same quotient the candidate of the list which has not yet elected any director or the smallest number of directors shall be elected.

If none of such lists has elected yet any director or all have elected the same number of directors, within these lists the candidate of the list with the highest number of votes shall be elected. In case of parity of list votes and of quotients the shareholders' meeting as a whole shall vote again and the candidate obtaining the simple majority of vote shall be elected.

3. EXECUTIVE COMMITTEE

3.1 In accordance with the Bank's Charter the Board of Directors may nominate a minimum of five directors and a maximum of nine directors to an Executive Committee. The members of the

Executive Committee include the Chairman and the two Chairmen (and the Managing Director o Managing Directors, if nominated) as well as other directors chosen annually in the first meeting of the Board of Directors following the annual meeting of the shareholders for the approval of the financial statements.

With the appointment of the Executive Committee the Board of Directors vests the committee with lending authority as well as with other powers.

Pursuant to the Charter, the Board of Directors specified on 29 April 2004 that the directors to the Executive Committee must be eight. The members include the Chairman,the two Deputy Chairmen, and the directors Massimo Caputi, Francesco Saverio Carpinelli, Giuseppe Catturi, Lorenzo Gorgoni and Andrea Pisaneschi.

In 2004 the Executive Committee held 48 meetings.

3.2 The delegated authorities were assigned to the Executive Committee in May 2003 when the committee was appointed by the Board of Directors, were further reviewed in July 2003 and later modified and integrated in October 2004 in the light of the experience. In view of the extension of the delegated authorities the Committee has been vested with powers concerning personnel, equity investments, credit granting, bad and doubtful loans, overhead expenses and profit and loss accounts.

The resolutions taken by the Executive Committee are communicated to the Board of Directors with a monthly report.

3.3 The Executive Committee may, in a matter of necessity and urgency, authorize any business or transaction that would normally be authorized by the Board of Directors (other than business or transactions to be authorized exclusively by the Board of Directors), with the obligation of providing notice thereof at the first meeting of the Board of Directors thereafter.

4. OTHER COMMITTEES WITH THE RESPONSIBILITY OF PROVIDING CONSULTATIVE INPUT AND PROPOSALS TO THE BOARD OF DIRECTORS

4.1 COMPENSATION COMMITTEE

With a resolution passed on 1 March 2001, the Board of Directors set up a Compensation Committee and approved its regulations, amended on 8 May 2003 with further provisions as per Self-Discipline Code for Quoted Companies. Principal task of the Committee is to submit to the Board of Directors, in the absence of the persons involved, proposals regarding compensation to directors vested with special powers and compensation to senior executives, including compensation by means of stock options plans or other assignment of shares.

With the aforementioned resolution of 8 May 2003 the Board of Directors specified that the directors to the Committee must be four and appointed: Andrea Pisaneschi, Carlo Querci (acting as the committee coordinator), Roberto Rossi and Ivano Sacchetti.

As provided by the applicable regulations, the Chairman of the Board of Statutory Auditors or a person delegated by the same is to participate in the committee's work. The Chief Executive Officer, the Deputy Chief Executive Officers, Executives or other employees of the Bank or even third parties may be invited to take part in the committee's work whenever deemed appropriate, including with respect to specific matters of business.

The Committee may also cooperate with external free-lancers, at the expense of the bank.

4.2 INTERNAL CONTROL COMMITTEE

The Committee was established pursuant to a resolution of the Board of Directors passed on 1 March 2001 which also set its regulations, subsequently amended; the latest of these amendments took place on December 2004 in order to better specify "the relationships between Board of Directors, Chairman, Committee and Internal Auditing". On this occasion, it was also provided that the Committee should draw up a summarizing document to accompany strategy and management issues underlined by the reports of the Internal Audit or by the inspection reports and by information documents (relevant project, reporting for Supervisory Authorities, planning).

The committee has the responsibility of providing consultative input and proposals to the Board of Directors with respect to initiatives for setting up a suitable system of internal controls.

The committee consists of four members (directors Giuseppe Catturi, acting as coordinator, Fabio Borghi, Massimo Caputi and Girolamo Strozzi). The Chairman of the Board of Statutory Auditors or his substitute and the Chief Executive Officer or his substitute participate in the committee's work. The Deputy Chief Executive Officers, Executives or other employees of the Bank or even third parties may be invited to take part in the committee's work whenever deemed appropriate, also with respect to specific matters of business.

The Committee may also use external free-lancers, at the expense of the bank.

The committee is charged with:

- assisting the Board of Directors in the execution of its responsibility with regard to: (i) strategic orientation, risk management policy and organizational structure; (ii) the consistency of the internal controls system vis-à-vis the pre-defined risk propensity; and (iii) the functionality, efficacy and efficiency of the controls system;

- evaluating the adequacy of the internal controls system;

- evaluating the work plan prepared by the Responsible for Internal Controls and reviewing the periodic reports generated by the same;

- evaluating, together with the Board of Directors and the independent auditors, the adequacy of the Bank's accounting principles and the congruity for the purpose of the preparation of the consolidated financial statements;

- evaluating proposals submitted by independent auditors covering bids for the independent audits of the Bank's financial statements, as well as the work plan drawn up for the audit and the results disclosed in the report and in the letter to the management;

- referring to the Board of Directors, at least every six months (at the time of the approval of the annual and semi-annual financial statements), regarding the activity carried out and the adequacy of the internal controls system;

- overseeing the observance and periodic update of the corporate governance rules, reporting thereon to the Board of Directors and formulating the relative proposals needed, if any;

- carrying out other assignments mandated by the Board of Directors, and in particular, with regard to the relationships between the Bank and the independent auditors.

During 2004 the Committee held 14 meetings, analyzing specific issues related to its own activities such as supervising the Internal Controls System, monitoring significant projects, Audit planning and reporting, meeting with the persons in charge with Corporate Center Units and with Group Companies, both in compliance with the provisions of the Code concerning Internal Controls and as a Supervisory Body, as per Legislative Decree no. 231/2001.

4.2.1 The organization Model pursuant to the Legislative Decree no. 231/2001 of BMPS (231 Model)

The Legislative Decree 231 of 8 June 2001 introduced the principle of "Administrative Responsibilities of the Companies" for crimes committed for the benefit of the Company by top managers or by staff supervised or directly managed by them.

The Decree also provides the exemption from this responsibility if the company proves the adoption and the implementation of a model of organization, management and control apt to prevent the crimes provided for by the Decree as well as the establishment of a Supervisory Body with control and operating powers and the task of monitoring the activities of the model.

In compliance with the regulations, on 14 February 2004, the Board of Directors of BMPS passed the resolution approving the Organization Model as per Decree no. 231 (231 Model) as a set of operating rules and as a code of conduct adopted inside BMPS in view of specific activities and the related risks.

BMPS assigned the task of Supervisory Body to the Internal Control Committee: its autonomy and independence are already guaranteed by its independent and non-executive directors and is strengthened by the assignment of specific operating and control powers.

BMPS, as the Parent Company, deemed it essential that all companies of the group adopted similar "Models" in compliance with the guidelines set up in the specific Directive ("Implementation of the Legislative Decree no. 231/2001 of 13.4.2004).

In this regard, each company autonomously prepares its ""231 Model" with reference to the Decree 231/2001, the Guidelines of the Association of reference and the 231 Model of the Parent Company, with the necessary adjustments in consideration of the specific organization and size. Similarly, each company establishes its own Supervisory Body, it being understood that the BMPS Internal Controls Committee, as Supervisory Body of the Parent Company, issues the guidelines to implement the models of the companies of the group and co-ordinates the relative Supervisory Bodies.

4.3 CORPORATE RESPONSIBILITY COMMITTEE

This Committee, established with the Board of Directors' resolution of 28/10/2004, focuses on the corporate responsibility in the bank's operating activity, particularly as to environmental issues, customers satisfaction, staff professional skills and all stakeholders' interests.

The Committee is made up of four members (directors Luca Fiorito, the co-ordinator, Francesco Saverio Carpinelli, Andrea Pisaneschi and Girolamo Strozzi); the Chairman of the Board of Auditors (or another auditor appointed by him) and the Chief Executive Officer (or a delegate) take part in the meetings. If deemed appropriate, also with relation to the issues discussed, also the Deputy Chief Executive Officers, Senior Executives, other bank's employees and also third parties may be invited to take part in the meetings.

The Committee can use external staff, at the bank's expenses, as advisors.

A special regulation is currently being prepared containing, among other things, a more detailed description of the activity of the Committee.

4.4. THE COMMUNICATION COMMITTEE

With resolution of 28/10/2004 the Board of Directors modified the composition of the Committee, as established by the "Regulation no. 1- Organization of Banca MPS", stating that the Committee shall be made up of the Chairman of the Bank (who chair the meetings), the Deputy Chairman, as deputy, two directors (currently Massimo Caputi and Lorenzo Gorgoni), the Chief Exectuive Officer and the Manager in charge of the Communication Area, acting as speaker and secretary.

The above-mentioned resolution also defined the Committee's tasks:

- to guide and approve the communication strategies and budgets at Group's level;

- to approve the general yearly Communication Plan verifying then the results;

- to define the communication steps to be taken in critical situations or extraordinary events, integrating and coordinating them with the activities already taking place;

- to study and approve the guideline proposals of the Group communication;

- to redefine the guidelines and the market positioning of the Bank's economic magazines.

In relation with the issues discussed the Deputy Chief Executive Officers, Senior Executives, other bank's employees and also third parties may be invited to take part in the meetings.

The Committee meets quarterly, before submitting key reports on the economic trend of the Bank; it also meets summoned by the Chairman to approve the Communication Plan or in other particular cases.

Given that the Code specifications are addressed to the shareholders who have the right of proposing and appointing directors and given the composition of the shareholders the

Board has decided not to set up the "Committee for the proposal of appointments" to directors position.

As to the current Directors appointed by the Shareholders' meeting of 26 April 2003, the shareholders who wished to propose candidates for appointment to the Board of Directors or to the Board of Statutory Auditors were requested to deposit (including though a specific indication in the notice of the shareholders' meeting) the proposed candidates and/or the lists with the Bank's Head Office at least ten days prior to the meeting with extensive information on the personal and professional attributes of the candidates with the notice that the candidates for appointment to the Board of Directors are also qualified to be appointed as independent pursuant to art. 3 of the Self-Discipline Code of the quoted companies.

5. THE MANAGING DIRECTOR (OR THE MANAGING DIRECTORS)

The Managing Director is provided for by the Charter but has not been appointed yet.

6. THE CHAIRMAN OF THE BOARD OF DIRECTORS

The Chairman represents the Bank towards third parties, is responsible for convening and chairing the shareholders' meetings as well as the meetings of the Board of Directors and of the Executive Committee determining the agenda thereof.

The Board of Directors has not delegated any authority to the Chairman, but the Chairman may, in a matter of necessity or urgency and if the Executive Committee cannot act, authorize any business or transactions which is the responsibility of the Board of Directors or of the Executive Committee (except business or transaction for which the Board of Directors is exclusively responsible), with obligation of providing notice thereof at the first meeting of the competent Board thereafter.

The Chairman is also empowered to promote and sustain legal proceedings upon proposal of the Chief Executive Officer and within the limits established by the Board of Directors. Should the Chairman be absent or unable to exercise such authority, it may be exercised by the Deputy Chairman, Mr. Bellaveglia, whom the Board of Directors has indicated in the first meeting subsequent to the shareholders' meeting at which the two Deputy Chairmen were appointed; should the Chairman or the designated Deputy Chairman be absent or unable to exercise such authority, it may be exercised by the other Deputy Chairman, Mr. Gnutti.

7. BOARD OF STATUTORY AUDITORS

7.1 The Board of Statutory Auditors is made up of three effective auditors and two alternate auditors; the auditors' mandate lasts for three years and can be reconfirmed.

The Auditors must have all professional requirements and the reliability provided for by the current regulations.

7.2 Procedures for the appointment of auditors. Appointments to the Board of Auditors is based on lists submitted by the shareholders. The lists submitted by the shareholders must be deposited with the Bank's head office and published, at their expense, on at least three Italian newspapers two of which economic, with nationwide circulation, at least ten days before the date fixed for the shareholders' meeting on first call. Each of them may submit or participate in submitting one list only and each candidate may come up for election only in one list otherwise is subject to ineligibility.

Only shareholders holding alone or together with other shareholders shares totally representing 1.5% at least of the share capital with voting right in the ordinary shareholders' meeting are entitled to submit lists. Together with the lists also the statements of each candidate accepting the candidacy and stating, under their responsibility, that, on one hand, there are neither ineligibility nor incompatibility and, on the other hand, that they own the qualifications necessary for each position must be deposited.

Each shareholder having voting right may vote one list only. The procedure to nominate the auditors is the following:

- a) the votes obtained by each list are divided by one, two, three, four, five. The quotients are progressively assigned to the candidates of each list according to the order respectively provided for;

- b)the first two candidates of the majority list shall be elected as effective auditors whereas the third candidate of the same list shall be the alternate auditor;

- c) the candidates of the minority lists are listed in a single decreasing classification based on the obtained quotients; the candidate with the highest quotient shall be the third effective auditor, whereas the second, the alternate auditor;

- d) in case of parity of quotient for the last auditor to be elected, in the minority list the candidate with the highest number of votes shall be elected and, in case of parity of votes, the oldest candidate. If an elected candidate cannot accept the position, the first candidate of the non-elected ones in the list of the candidate who has not accepted shall be elected;

- e) the first candidate of the list which has obtained most votes shall be the Chairman; in case of parity of votes among two or more lists the Chairman shall be the oldest auditor.

At least one of the effective auditors and at least one of the alternate auditors must be registered in the Chartered Accountants' Register and have exercised the legal control of accounts for not less than three years.

Maximum two effective auditors and one alternate auditor may be appointed even if they are not qualified as aforementioned but have an overall working experience of at least three years in:

a) management or control or executive tasks in companies with share capital not inferior than euro two million, or

b) professional activities or university permanent teaching in legal, economic, financial, credit, insurance, technical and scientific subject matters, strictly linked with the company's activities, or

c) in executive tasks with government agencies or public bodies working in credit, financial and insurance fields or anyhow in sectors strictly related with the Company's activity,

while with "strictly related" subject matters are meant those referred to the Company's activities as provided for by the Charter.

If the list is made up of three or more candidates, the third candidate and at least one of the first two must have the aforementioned qualifications; if the list is made up of less than three candidates, at least the first of them must have the same qualifications.

7.2 Composition of the Board The Board of Statutory Auditors is made up of:

Giuseppe Vittimberga - Chairman

Pietro Fabretti – Effective Auditor

Leonardo Pizzichi – Effective Auditor

Stefano Mendicino – Alternate Auditor

Marco Turillazzi – Alternate Auditor

The Bank's Charter provides that the members of the Board of Auditors are not allowed to work as effective auditor in more than five companies not belonging to the MPS Banking Group and quoted on the Italian official markets as well as in other banks other than those of MPS Banking Group and subsidiaries jointly controlled.

8 CHIEF EXECUTIVE OFFICER

8.1 In accordance with the Charter, the Chief Executive Officer:

- is empowered to sign on behalf of the Bank for all matters of ordinary administration, and oversees the Bank's organization structure which he is responsible for;
- executes all transactions and acts of ordinary administration;
- submits proposals and reports to the Board of Directors or the competent committees;
- arranges for the execution of resolutions by the Bank's Board of Directors as well as the coordination of the activity of the subsidiary companies belonging to the MPS Group, in conformity with the general strategies and criteria established by the Board of Directors;
- is the senior manager of human resources.

8.2 The Chief Executive Officer exercises the powers vested with him by the Board of Directors in the case of lending authority and in the ordinary management of other operations, carrying out his functions with the support of the Deputy Chief Executive Officers, Senior Executives and other executives.

9. TRANSACTIONS WITH RELATED PARTIES

In accordance with the provisions of the Code, the Bank adopted a Code of Conduct for transactions with related parties which sets the internal regulations applicable to the same. In general, the concept of "related parties" is based on the following criteria:

a) Group correlation, which regards relationships of control, interconnecting relationships and relationships of significant influence which directly affect the Bank and the MPS Group;

b) Direct correlation, which involves corporate officers (directors and statutory auditors), the Chief Executive Officer, and Executives vested with powers conferred by the Board of Directors (Deputy Chief Executive Officers, the General Manager of the bank division, the Heads of the areas of the Corporate Center and of bank division business units who have independent authority for credit approval);

c) Indirect correlation, which involves the family members of the physical persons who are considered "related parties".

In addition, transactions with related parties (i.e. transactions effected by the Bank – including through subsidiary companies – with related parties) have been subdivided between: Ordinary Transactions (transactions without any particular elements). Significant Transactions (transactions which require public disclosure in accordance with Article 71 bis of the CONSOB Resolution n. 11971), Material Transactions (transactions which, though they cannot be considered as "Significant Transactions", have atypical and/or unusual elements).

The Ordinary Transactions are approved in accordance with the limits of authority established by the current system of the delegation of authority within the Bank. Significant Transactions and Material Transactions must instead be approved by the Board of Directors (without prejudice, however, to the powers provided by the Bank's Charter for exercising authority in urgent situations).

Subsidiary companies must adopt the Rules approved by the parent company in relation to any transactions effected by the subsidiaries with "related parties" of the Bank. Subsidiary companies are to adopt such Rules with regard to their respective structures of approval authority. Any such transactions are to be communicated expressly to the parent company in a timely manner.

The obligations of banking representatives set forth in Article 136 of Legislative Decree n. 385 of 1 September 1993 (Italy's Banking Consolidation Act) remain unchanged.

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All transactions with related parties within the Banking Group are settled on the basis of mutual economic advantage and anyway of market conditions, as the transactions with other related Parties within the Code application framework.

None of these transactions implied disclosure obligations to the market according to art. 71 bis if the Consob regulation n. 11971.

10. MANAGEMENT OF SENSITIVE INFORMATION

Since long, the Bank introduced internal rules in relation to "information which could remarkably affect the price of listed financial products". The internal rules dictate the standards of conduct in relation to sensitive information which could affect the Bank's stock price. In relation to this information, the Bank has maintained operational procedures for the management of information that could affect the stock price since the date of the initial quotation of the shares. On the basis of these procedures, the Chairman, upon his own initiative or upon recommendation of Senior Management, reviews, and evaluates situations which might warrant communication to the market (whether obligatory or deemed to be suitable). The drafts of press releases, if any, issued in this regard are normally discussed and approved by the Board of Directors. In conformity with prevailing laws and CONSOB regulations, instructions have been provided to all MPS Group companies regarding information which must be sent to the parent company in order to allow the parent company to meet the obligations for public disclosure established by Article 114 of the Consolidated Law on Financial Intermediation. The results of the analysis of the information supplied by the subsidiary companies are presented to Senior Management and to the Chairman's office for any feedback which needs to be communicated to the company or companies concerned.

11. CODE OF CONDUCT FOR INTERNAL DEALING

In relation to specific regulations issued by Borsa Italiana S.p.A. for internal dealing, the Bank, acting on a resolution of the Board of Directors of 19 December 2002, adopted a "Code of conduct for internal dealing". The provisions of the code are aimed at ensuring transparency in all transactions involving the shares or other listed financial instruments of the Bank or of its subsidiaries, and the financial instruments connected to the same (including unlisted instruments), executed by "Material Persons", and namely (i) those persons who, by virtue of their professional positions, have the capacity to affect the decision-making process of the Bank and the MPS Group, and thus to influence the strategies pursued by the same, and (ii) those persons who have considerable knowledge of the Bank's and the MPS Group's strategies, such as to facilitate their decisions to invest in the referenced financial instruments.

The regulations for internal dealing expressly define "Material Persons", directors, statutory auditors and chief executive officers. Incorporating these definitions, the Bank's code of conduct for internal dealing as to the BMPS parent company also includes the following as Material Persons: the Deputy Chief Executive Officers, the General Manager of the banking division, the Heads of the areas of the Corporate Center, and the Head of the Institutional Communications Unit at the parent company, and the chairmen, managing directors and chief executive officers of the main subsidiary companies. The principal subsidiary companies to which the provisions of the code of conduct for internal dealing apply are: Banca Toscana S.p.A., Banca Agricola Mantovana S.p.A. and MPS Finance – Banca Mobiliare S.p.A.

Finally, the code of conduct for internal dealing has: (i) established thresholds for the amounts of transactions (including cumulative amounts) carried out in a calendar quarter by "Material Persons", which must be reported to the Bank (reporting which is to be effected (a) after the close of the quarter if the amount is more than or equal to EUR 25,000, or (b) immediately after the conclusion of any transaction that would put the amount above EUR 125,000); and (ii) identified the so-called Black-Out Periods during which Material Persons may not effect the transactions referenced above, for any amounts (including on a cumulative basis) of more than EUR 25,000. The full text of the code of conduct for internal dealing is published on the Bank's Internet site:

http://www.mps.it/investors/down/CODICE%20DI%20COMPORTAMENTO.pdf

12. THE INTERNAL CONTROLS SYSTEM

12.1 The Bank has equipped itself with an internal controls system which complies with the directives if the regulatory authorities and the recommendations of the Basel Committee; moreover it is in line with the provisions of the Code and responds well to the various needs indicated by the Code and the specific regulations of the banking system.

In this regard, the Bank has set up a "Basel 2 Control Committee" to coordinate the activities aimed at analyzing, planning and verifying any steps necessary to comply with the Basel regulations, also in order to use, subject to the confirmation of the Supervisory Authorities, the internal models of assessment and management of credit, market and operating risks.

In order to ensure the alignment between the controls system and the operating strategies and mission of the MPS Group, the "Rules for controls at a group level" were approved by the Board of Directors. The Internal Controls Area assumed the internal audit task of the Parent Company Banca BMPS and is not directly under the authority of any operating area but reports directly to the Chief Executive Officer, supporting the corporate governance of the Board of Directors and Senior Management, providing periodic feed back on its activity to the Board of Directors, to the Internal Controls Committee and to the Board of Statutory Auditors. The Head of the Area regularly takes part in the meetings of the Internal Control Committee.

The Board of Directors has also approved the new organization of the Internal Audit strengthening the links between the Board and the Internal Control Committee with the Internal Audit (s. 4.2) as well as with the Board of Statutory Auditors, as standard practice. Consistently, the Internal Control Area provides for the evolution of the total controls system and assesses its efficiency and operating consistence.

In order to evaluate the functionality of the internal controls system, the relationships and compatibilities between processes, risks and controls were studied, and the risks within the process activity were identified by main areas and by principal MPS

Group companies. In this manner, it was possible to determine the significance and reliability of the governance measures in place and the correct calibration of controls in relation to the magnitude of risk. Thereafter, it was possible to pinpoint the business and infrastructural risks inherent to the various processes, to minimize such risks through the improvement of processes and controls, and to vest responsibility for managing and monitoring operational risks with the process owners.

Within the MPS Group, the Risk Management Department oversees the coordination of the functions of controlling the risks of the MPS Group Companies the consistency in the definition and use of data bases in relation to market parameters, and the identification , measurement and monitoring of the overall risk profile.

Moreover, the operating structures establish the line monitoring systems, i.e. inside their processes, consistently with the general control guidelines.

In conclusion, the changes and operational dynamics affecting the Bank and the MPS Group in recent years have dictated the development of a new "controls culture" capable of proving timely and more efficient/effective than in the past. In embracing this new culture, the MPS Group has employed sophisticated methodologies and systems in relation to the uniform risk profiles expressed by the various business lines. Such methodologies are supported by techniques which are much more pertinent to the specifically identified needs for governance and controls.

13 .INVESTORS RELATIONS

Since the public listing of shares, the Bank has taken steps to build a well-balanced relationship with the shareholder base, and in particular, with institutional investors. Two specific units have been established in this regard:

- Investor Relations, which is part of the Planning, Control and Cost Management Area (investor.relations@banca.mps.it - tel.: 0577296477-299798-296476, fax 0577296757 –294075);
- Corporate Relations, which is part of the General Secretary's Office (segreteria.societario@banca.mps.it - tel.: 0577294577 –294652, fax 0577296396).

The principles of the Guidebook for Market Disclosure[9] are already implemented in the operating activity concerning the Bank's corporate communication as issuer of formally listed securities.

For example, there a web site providing on-line information, in Italian and in English, regarding the Corporate Governance, financial statements, key data, ratings, press releases, corporate events, etc.

In particular, to foster the relationship with shareholders and institutional investors inside the Bank's internet site a section (http://www.mps.it/investors/assemblee) was inserted in which the whole documentation regarding the next shareholders' meeting as well as the past meetings cab be found.

[9] Drawn up in June 2002 by the Forum on corporate disclosure with the participation of Assonime (Italian Association of Joint Stock Companies), Borsa Italiana (Italian Stock Exchange), Assogestioni (Investment Fund Association) and Anasf (Italian Association of Financial Promoters)

THE MPS GROUP'S COMMITMENT TO SOCIAL RESPONSIBILITY

The MPS Group strongly pursued its commitment to support sustainability with a view toward ensuring respect for the environment, the quality of life and, more generally speaking, placed emphasis on the individual through a steady process of improvement matching growth objectives and value creation (the typical values of any market-oriented company) with the system of values expressed by the territories and the communities of reference. **Focus on the different aspects of social responsibility is a distinctive feature of the actions of the MPS Group,** as a consequence of the strong geographical franchise of the Group banking companies.

In the last few years, this emphasis further increased in the awareness of the positive repercussions produced on the Group and in terms of better relations with the different categories of stakeholders. In line with the strategical guidelines illustrated in the **Charter of Values** and the **Corporate mission**, the Group adopted a socio-environmental policy which continued also in 2004 with the implementation of different social responsibility initiatives in relation to: policies and strategies, organization and management actions, products and services, communications.

THE STRATEGICAL GUIDELINES

- The Charter of Values of the MPS Group outlines the principles which inspire the behaviour of the MPS Group: ethics of responsibility, customer orientation, focus on changes, entrepreneurial skills and productivity, passion for professional skills, team spirit and co-operation.
- The Parent Company has the Mission of "creating value to its shareholders, in the short-term and in the long-term, giving priority to customer satisfaction, personal professional development and the stakeholders' interest".

POLICIES AND STRATEGIES

Internal conduct codes, such as the Code of Conduct, the Self-Discipline Code for Listed Companies and the Organizational Model in compliance with Legislative Decree 231/2001, are the first cornerstones laid by the Group for ensuring business practices and individual behaviours in accordance with the values established and the ethical principles shared.

With regard to the policies of sustainability, they mostly concern ecological issues. In 1998 BMPS became **the first Italian bank** to have signed the **UNEP Statement by Banks on the Environment and Sustainable Development** (UNEP-FI), and prepared the Bank's "Charter of Environmental Policy" which is modelled on the Statement.

Following are the main initiatives undertaken on **the front of justice and social progress**:
- the decision made in 2000 by the Parent Company to **gradually disengage from the arms business** in accordance with Law 185 of 1990. This decision was extended in 2001 to the other Group Banks;
- the participation in 2002 in **"Global Compact", a UN initiative for promoting corporate social responsibility** in support of the protection

of human rights and the workers, environmental protection and fight against corruption.

From the standpoint of strategies, in order to ensure organicity and consistency to the MPS Group socio-environmental activities, in 2004 the Group **started a Social Responsibility Strategical Plan,** a medium-term programme with the purpose of integrating corporate responsibility with the Group strategical planning processes, as a prerequisite for the creation of value in time.

☐ ORGANIZATION AND MANAGEMENT INITIATIVES

In order to implement the policies of social responsibility outlined, the Group activated specific organization and management systems.

The **Environmental Policy Unit of the Corporate Center** has been in charge of general co-ordination on the issues of sustainability since 2001.

The Bank's Top Management has been supported since 2001 by an Advisory Board consisting of international scientific and economic experts. In 2004 the Advisory Board was transformed into a **Corporate Social Responsibility Committee**, which consists of four directors from the Parent Company with the participation of other Group managers and outside consultants.

With regard to organization, a distinctive feature of the MPS environmental activity is represented by MPS Banca Verde (now **MPS Banca per l'Impresa**), **the "product factory" specialized in the supply of corporate products and services in the areas of energy and environmental protection**.

Particular emphasis is placed on the issues of quality, environment, health, safety and labour relations by introducing various management systems in line with the major certification standards of reference. In particular, BMPS and MPS Banca Verde (the first Italian bank which also secured the **Registration in compliance with the EMAS EU Regulation**) obtained **ISO 14001 environmental certifications** and MPS Banca Verde was the first bank in the world to have obtained the **ethical-social certification** in 2004 for compliance with the requirements of SA 8000.

☐ ETHICAL FINANCE PRODUCTS AND SERVICES

With a view to meeting the customers' expectations and social propensity, the MPS Group offers a wide range of ethical investment instruments.

- **Ethical funds**: in 2004 the Group launched the new Ducato Etico System (*see the section covering the "Retail Area"*), with Monte Paschi Asset Management SGR setting up a specific independent Ethical Committee and co-operating with SAM - Sustainable Asset Management, one of the main international players in the area of socially responsible investments.

- **Microcredits**: in addition to the long-standing co-operation with Arciconfraternite di Misericordia and the Region of Tuscany in the area of solidarity microcredits and the fight against usury, the preliminary stage of the "microcredit" project has been finalized. The project, which will be implemented in 2005, as the UN international year of microcredit, contemplates to set up a company dedicated to microcredit and owned not only by Banca MPS but also by others.

- **Charity finance**: Montepaschi Vita, which matches a revaluable single premium insurance policy with a humanitarian goal, launched Sostegno, the first "Socially useful" policy in co-operation with Comunità di Sant'Egidio, a non profit association dedicated to helping and assisting non self-sufficient or needy people.

With reference to the development of new products in support of the "non profit" world, which is becoming more and more important in the domestic and international economic scenario, the MPS Group launched the **"Third Sector Project"**, illustrated in the section covering "The corporate market". The new service integrates the rich portfolio of ethical loans and investments supplied by the Group banks and companies. Operating in this direction, **MPS Banca per l'Impresa** became the leader in the area of renewable energy (in particular, wind and biogas) and entered into many agreements with local authorities and institutions for the purpose of supporting the companies in obtaining quality and environmental certifications. The most innovative products of the Group companies include the **Environment risk advisory**, a facility supporting the companies in the evaluation of environmental risk.

SOCIO-ENVIRONMENTAL COMMUNICATIONS

Banca MPS and other Group Companies have published **their socio-environmental reports** for a few years. These reports highlight the leading values in the MPS Group responsible behaviour and management with respect to the general expectations of the stakeholders, and illustrate the results achieved in the years of reference and the projects for future improvement. In 2004 BMPS released its fourth Socio-environmental Report. In comparison with the past versions, the Report has an annex containing a summary of the main socio-environmental initiatives undertaken by the other Group Companies.

PARTNERSHIP

Banca MPS and other Group Companies participate in an array of initiatives and partnership projects with the objective of promoting sustainable development and corporate social responsibility.
Following are the major initiatives undertaken in 2004:

- the **Consumer Lab programme**, an agreement with the Consumers' Associations where the MPS Group plays the role of forerunner in the Italian banking industry (*see box*).
- the completion of the activities in relation to the **ETHMA "Ethics e Market" project** - in partnership with ADICONSUM, an initiative funded by the European

THE "CONSUMER-LAB" PROGRAMME

- The Protocol signed in November 2004 contemplates the creation of a joint laboratory (Consumer-Lab) which consists of the representatives of the MPS Group and the Consumers' Associations, and acts as a connection centre for the study and the proposals concerning the initiatives aiming at improving customers' relations. The programme to be implemented hinges on four projects: the preparation of the Guidelines for customer-oriented contractual rules and conditions; the co-operation with the Consumers' Associations for the MPS Group staff training programmes; the design of products and services for particular customer brackets (the elderly, the handicapped , immigrants etc.); the definition of guidelines for customer-oriented reporting.

Commission for the promotion of demand and the enhancement of the quality of supply of ethical funds.

- with reference to a **protocol signed by the International Labour Organization - ILO,** the co-operation for the implementation of the Project promoted by the Ministry of Foreign Affairs, "Sustainable Development through Global Compact", through the planning of a series of conferences targeted at the SMEs in relation to social responsibility.

SUSTAINABILITY RATINGS

In 2004 the programme of updating of the sustainability ratings assigned to Banca MPS was developed. As a result, the Bank's shares were confirmed as a component of the **Dow Jones Sustainability Index World** (the global index which certifies corporate performance and commitment in relation to sustainable development) and the **Ftse4good**, produced by the Financial Times Stock Exchange, the world leader in the supply of investors' global indices.

THE ETHIBEL SUSTAINABILITY INDEX

- As of 31 March 2004, Banca MPS was included in Ethibel, the sustainability index managed by a Belgian rating agency (Ethibel) which measures the financial performance of the companies listed in the major international financial centres and characterized by their socio-environmental commitment and the excellent results achieved in the management of socio-environmental issues. The Ethibel sustainability index incorporates 180 companies, including only 4 Italian companies (BMPS, AEM, Merloni, Telecom), and represents the benchmark for many asset management products which make socially reponsible investments.

COMMUNITY CULTURAL EVENTS AND CONFERENCES

The activity of organizing community events continued in 2004, with a special focus on art exhibitions, concerts and sponsorships by funding numberless cultural, scientific and sport programs.

The principal **sponsorships** included: Accademia Musicale Chigiana, Santa Maria della Scala for the 2004 cultural events, Teatro del Maggio Musicale Fiorentino on the Opening of the 67th Maggio Musicale, Associazione Festival dei Due Mondi di Spoleto for the 2004 Festival dei Due Mondi, Fondazione Teatro Regio di Parma for the 2004/2005 opera season, Fondazione Festival Pucciniano for the 2004 Puccini Festival and Associazione Palatina Onlus (non-profit association) for Todi Arte Festival - 2004. The MPS Group also supported the Hotel Association of Chianciano Terme in funding the building of the local Convention Center and continued to sponsor the excavations of Orvieto executed by the University of Macerata. The main cultural initiatives for 2005 embrace the exhibition "An Invitation to Palazzo Chigi Saracini – Secrets and Splendour of an Art Collection" which will be held in Siena from 22 January to 15 June 2005.

In the world of **sports**, BMPS acted as the sponsor of AC Siena (football club) and Mens Sana Basket Siena, the Italian basket champion in 2003-2004, in addition to the financial backing granted to unprofessional and juvenile sports associations.

In terms of **meetings and conferences**, the MPS Group orchestrated and sponsored several conferences for the purpose of promoting its role as an active partner of the world of corporates. The conferences covered topical issues for the business world in co-operation with the the major market players. The meetings arranged in 2004 include the "VI International Forum of the SMEs" – Prato, 15 and 16 October 2004 and the Conference on "Banks, Corporates and the Territory" - Siena 20 October 2004.

A major commitment went to **publishing** with the publication of the 2004 coffee-table books dealing with "The Landscape of Tuscany: Human Action and the Birth of a Myth" and the marble floors of the Cathedral of Siena. As to economic publications, the Bank continued to produce "Economic Studies and Notes". The Bank also continued to publish the three yearly issues of another English-language publication, "Economic Notes-Review of Banking, Finance and Monetary Economics", which is printed and distributed under an agreement with the publishing company Blackwell of Oxford. The activity of this Review also included the sponsorship of two Conferences: the former in co-operation with the Department of Political Economy of the University of Siena covered the issue of Quantitative Finance and the latter, in co-operation with the Department of Economics of the University of Verona, was focused on the management of financial risks.

Aside from producing positive returns in terms of the MPS Group's image, the **relationships of cultural-scientific co-operation** between the Group banks and companies and universities and research institutes offer prime access to highly qualified human resources.

MATERIAL EVENTS SUBSEQUENT TO YEAR-END

FOllowing is a summary of the most significant events which occurred in the first months of 2005.

In January 2005, the Board of Directors of BMPS approved the 2005 Group Budget which is in line with the directives of the Business Plan dated November 2003 and contemplates the reallocation of capital toward more structural forms of business, the relocation of the foreign network and the recovery of MPS Banca Personale. In this framework, priority is given to the development of the customer portfolio and the improvement of the Group market position in business segments such as consumer credit and asset management. From the standpoint of profitability, the main objectives are a substantial growth of the results from core banking operations and a decline in the cost/income ratio.

In February 2005, the Boards of Directors of Banca MPS, Banca Agricola Mantovana and Banca Toscana acknowledged the proposition from the Special Manager of Parmalat Spa in relation to a lawsuit against the Banks with respect to a request of relinquishment as an action for bankrupcty revocation. In this regard, the Banks think they have always behaved properly and instructed their lawyers to safeguard their interests, wherever applicable. In relation to the above-mentioned proposition, the issues mentioned in the summons in support of the Banks' awareness of Parmalat insolvency in the year before the beginning of the proceedings are not at all probative and univocal. Therefore, if it will be confirmed in the Court that the news concerning the Parmalat Group insolvency were unexpected, a prerequisite for the lawsuit would be missing. Given that the Group Banks did not require to recover their exposures during the "period under suspicion", it is impossible to objectively quantify the risk of revocation. As a result, as of 31.12.04 the Group Banks did not make any provisions to cover the risk of revocation.

In February 2005, the Board of Directors of MPS Banca per l'Impresa resolved to purchase 15% of the share capital of Nuovi Cantieri Apuania Spa (a well-known and reputable company operating in the design and building of ships of up to 50,000 shipping tons) by underwriting a portion of the capital increase intended for new partners. This acquisition was made so as to enable the company to play a primary role in the field of marine engineering.

OUTLOOK FOR 2005

In an operating scenario which is still characterized by uncertainty, and in line with the projects set forth by the 2003-2006 Business Plan, the Budget guidelines for the year of 2005 give priority to:

- the monitoring and development of customers' relations
- stability of operating expenses
- the containment of the cost of borrowing
- the search for appropriate capital absorption ratios and their return

As the decisive tools for achieving the targets of development planned, both in terms of an increase in traded volumes and the relative growth of operating profitability.

Business development in the first months of 2005 is in line with the projections built into the budget for the year.

Siena, 30 March 2005

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MPS

MONTE DEI PASCHI DI SIENA
BANKING GROUP

CONSOLIDATED
FINANCIAL STATEMENTS -
NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2004

FORM AND CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements as of 31 December 2004 have been prepared in accordance with laws and regulations in effect in Italy, and include the following:

Balance Sheet;
Profit and Loss Statement;
Notes to the Financial Statements;

The notes to the financial statements are made up as follows:

Part A - Valuation Criteria
Part B - Information on the Consolidated Balance Sheet
Part C - Information on the Consolidated Profit and Loss Statement
Part D - Other Notes

The following supplemental information is also provided:

Statement of Changes in Consolidated Shareholders' Equity
Reconciliation of Parent-Company Earnings and Net Equity and Consolidated Earnings and Net Equity
Statement of Consolidated Financial Position

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet, Guarantees and Commitments, Consolidated Profit and Loss Statement

CONSOLIDATED BALANCE SHEET

(in EUR)

	ASSETS		31 December 2004
10	Cash and cash on deposit with central banks and post offices		**615,959,528**
20	Italian government securities and similar instruments eligible for refinancing with central banks		**42,364,689**
30	Amounts due from banks		**11,355,927,053**
	a) sight	366,451,831	
	b) other	10,989,475,222	
40	Customer loans		**74,394,310,827**
	including:		
	loans with third-party funds under administration	16,193,278	
50	Bonds and other fixed-income securities		**15,177,939,680**
	a) of public issuers	5,651,261,589	
	b) of banks	4,631,784,324	
	- including: own securities	1,216,280,065	
	c) of financial institutions	2,714,784,348	
	- including: own securities		
	d) of other issuers	2,180,109,419	
60	Shares, quotas and other equity securities		**1,769,524,747**
70	Equity investments		**2,246,987,741**
	a) valued with net equity method	438,555,404	
	b) other	1,808,432,337	
80	Equity investments in Group companies		**538,140,368**
	a) valued with net equity method	537,533,182	
	b) other	607,186	
90	Positive consolidation differences		**603,615,269**
100	Positive net equity differences		**213,351,235**
110	Intangible assets		**274,002,679**
	including:		
	- start-up costs	2,937,658	
	- goodwill	1,456,540	
120	Fixed assets		**1,982,659,191**
	including: assets under financial lease	394,637,014	
130	Unpaid subscribed capital		**-**
	including: called-up capital		
140	Own shares		**727,430**
	(nominal value 177,151)		
150	Other assets		**18,730,948,990**
160	Accrued income and prepayments		**1,421,340,501**
	a) accrued income	1,191,631,237	
	b) prepayments	229,709,264	
	including: issuing discounts	76,100,902	
	TOTAL ASSETS		**129,367,799,928**

	LIABILITIES AND SHAREHOLDERS' EQUITY		(in EUR) 31 December 2004
10	Due to banks		**15,227,526,061**
	a) sight	1,492,656,608	
	b) time or requiring advance notice of withdrawal	13,734,869,453	
20	Customer deposits		**49,231,884,064**
	a) sight	41,470,736,098	
	b) time or requiring advance notice of withdrawal	7,761,147,966	
30	Other borrowed funds backed by negotiable instruments		**32,552,175,463**
	a) bonds	25,604,151,848	
	b) certificates of deposit	6,530,743,375	
	c) other instruments	417,280,240	
40	Third-party funds under administration		**30,334,454**
50	Other liabilities		**17,778,636,381**
60	Accrued liabilities and deferred income		**1,304,695,982**
	a) accrued liabilities	988,527,106	
	b) deferred income	316,168,876	
70	Staff severance indemnity reserve		**422,565,487**
80	Reserves for risks and other charges:		**1,482,469,734**
	a) pension fund and similar obligations	490,083,583	
	b) reserve for taxes	251,505,128	
	c) consolidation reserve for risks and future charges		
	d) other reserves	740,881,023	
90	Reserve for loan losses		**277,076,560**
100	Reserve for general banking risks		**61,330,273**
110	Subordinated debt		**4,561,122,786**
120	Negative consolidation differences		**4,866,712**
130	Negative net equity differences		**1,570,219**
140	Minority interests		**34,102,422**
150	Share capital		**1,935,272,832**
160	Additional paid-in capital		**522,925,054**
170	Reserves:		**3,381,762,741**
	a) legal reserve	357,137,033	
	b) reserve for own shares or quotas	727,430	
	c) statutory reserves	1,095,312,397	
	d) other reserves	1,928,585,881	
180	Revaluation reserves		**43,782,770**
190	Profit (loss) carried forward		**6,320**
200	Profit (loss) for the year		**513,693,613**
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**129,367,799,928**

GUARANTEES AND COMMITMENTS

	Account		(in EUR) 31 December 2004
10	Guarantees released		**5,754,764,355**
	Including:		
	Acceptances	123,271,673	
	other guarantees	5,631,492,682	
20	Commitments		**9,038,793,677**
	including:		
	commitments to sell with the obligation to repurchase		
30	Commitments for credit derivatives		**3,960,090,764**

CONSOLIDATED PROFIT AND LOSS STATEMENT

(in EUR)

	Account		31 December 2004
10	Interest and similar income		**4,421,355,446**
	including:		
	- on customer loans and advances	3,595,188,561	
	- on debt securities	590,001,638	
20	Interest expense and other expense on borrowed funds		**1,996,901,860**
	Including:		
	- on customer deposits	452,446,473	
	- on other borrowed funds backed by negotiable instruments	950,651,779	
30	Dividends and other income		**239,924,033**
	a) on shares, quotas and other equity securities	206,836,641	
	b) on equity investments	33,087,392	
	c) on equity investments in Group companies		
40	Commissions earned		**1,565,906,335**
50	Commission expense		**224,913,584**
60	Profit (loss) on financial transactions		**(96,051,244)**
65	Net charges on investment of pension and similar funds		**(23,445,433)**
70	Other operating income		**531,211,724**
80	Administrative expenses		**2,820,539,118**
	a) personnel expense	1,758,670,284	
	Including:		
	- wages and salaries	1,233,501,142	
	- social-welfare charges	345,792,210	
	- staff severance indemnity reserve	88,456,948	
	- pension fund and similar obligations	33,814,225	
	b) other administrative expenses	1,061,868,834	
85	Covering of net charges on investment of pension and similar funds		**(23,445,433)**
90	Valuation adjustments to fixed and intangible assets		**371,541,336**
100	Provisions for risks and charges		**65,900,959**
110	Other operating expenses		**49,267,960**
120	Valuation adjustments to loans and provisions for guarantees and commitments		**865,071,463**
130	Recoveries on loans and on provisions for guarantees and commitments		**305,079,833**
140	Provisions to loan loss reserve		**26,898,203**
150	Valuation adjustments to non-current financial assets		**16,990,509**
160	Recoveries on non-current financial assets		**1,030,271**
170	Profit (loss) on investments valued with net equity method		**78,287,663**
180	Profit (loss) from ordinary operations		**608,719,069**
190	Extraordinary income		**332,651,460**
200	Extraordinary charges		**197,773,759**
210	Extraordinary profit (loss)		**134,877,701**
230	Change in reserve for general banking risks		**(1,100,000)**
240	Income taxes		**(215,578,771)**
250	Minority interests profit (loss) for the year		**13,224,386**
260	Profit (loss) for the year		**513,693,613**

COMPARATIVE FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

ASSETS (in EUR 000's)

		31/12/2004		31/12/03		Absolute Change	% Change
10	Cash and cash on deposit with central banks and post offices		**615,960**		**670,899**	**(54,939)**	(8.19)
10	Italian government securities and similar instruments eligible for refinancing with central banks		**42,365**		**163,339**	**(120,974)**	(74.06)
30	Amounts due from banks		**11,355,927**		**8,551,100**	**2,804,827**	32.80
	a) sight	366,452		442,556		**(76,104)**	(17.20)
	b) other	10,989,475		8,108,544		**2,880,931**	35.53
40	Customer loans and advances		**74,394,311**		**70,404,992**	**3,989,319**	5.67
	including:						
	loans with third-party funds under administration	16,193		15,224		**969**	6.36
50	Bonds and other fixed-income securities		**15,177,940**		**17,014,240**	**(1,836,300)**	(10.79)
	a) of public issuers	5,651,262		7,297,000		**(1,645,738)**	(22.55)
	b) of banks	4,631,784		4,226,318		**405,466**	9.59
	- including: own securities	1,216,280		1,154,290		**61,990**	5.37
	c) of financial institutions	2,714,784		2,111,475		**603,309**	28.57
	- including: own securities						
	d) of other issuers	2,181,110		3,379,447		**(1,199,337)**	(35.49)
60	Shares, quotas and other equity securities		**1,769,525**		**1,127,598**	**641,927**	56.93
70	Equity investments		**2,246,987**		**2,157,090**	**89,897**	4.17
	a) valued with net equity method	438,555		439,337		**(782)**	(0.18)
	b) other	1,808,432		1,717,753		**90,679**	5.28
80	Equity investments in Group companies		**538,140**		**464,278**	**73,862**	15.91
	a) valued with net equity method	537,533		464,278		**73,255**	15.78
	b) other	607				**607**	-
90	Positive consolidation differences		**603,615**		**668,688**	**(65,073)**	(9.73)
100	Positive net equity differences		**213,351**		**244,241**	**(30,890)**	(12.65)
110	Intangible assets		**274,003**		**373,117**	**(99,114)**	(26.56)
	including:						
	- start-up costs	2,938		4,566		**(1,628)**	(35.65)
	- goodwill	1,457		3,732		**(2,275)**	(60.96)
120	Fixed assets		**1,982,659**		**2,138,911**	**(156,353)**	(7.31)
	including: assets under financial lease	394,637		481,611		**(86,974)**	(18.06)
130	Unpaid subscribed capital				**-**		
	including: called-up capital						
140	Own shares		**727**		**15,909**	**(15,182)**	(95.43)
	(nominal value 177,151)						
150	Other assets		**18,730,949**		**17,754,713**	**976,236**	5.50
160	Accrued income and prepayments		**1,421,341**		**1,240,001**	**181,340**	14.62
	a) accrued income	1,191,632		991,172		**200,460**	20.22
	b) prepayments	229,709		248,829		**(19,120)**	(7.68)
	including: issuing discounts	76,101		74,988		**1,113**	1.48
	TOTAL ASSETS		**129,367,800**		**122,989,116**	**6,378,684**	5.19

CONSOLIDATED BALANCE SHEET
LIABILITIES AND SHAREHOLDERS' EQUITY (in EUR 000's)

			31/12/04		31/12/03	Absolute Change	% Change
10	Due to banks		**15,227,526**		**15,057,974**	**169,552**	1.13
	a) sight	1,492M657		2,254,814		**(762,157)**	(33.800)
	b) time or requiring advance notice of withdrawal	13,734,869		12,803,160		931,709	7.28
20	Customer deposits		**49,231,884**		**47,011,348**	**2,220,536**	4.72
	a) sight	41,470,736		38,771,431		**2,699,305**	6.96
	b) time or requiring advance notice of withdrawal	7,761,148		8,239,917		**(478,769)**	(5.81)
30	Other borrowed funds backed by negotiable instruments		**32,552,175**		**30,851,712**	**1,700,463**	5.51
	a) bonds	25,604,152		23,999,964		**1,604,188**	6.68
	b) certificates of deposit	6,530,743		6,021,286		**509,457**	8.46
	c) other instruments	417,280		830,462		**(413,182)**	(49.75)
40	Third-party funds under administration		**30,334**		**30,742**	**(408)**	(1.33)
50	Other liabilities		**17,778,637**		**15,425,291**	**2,353,346**	15.26
60	Accrued liabilities and deferred income		**1,304,696**		**1,349,426**	**(44,730)**	(3.31)
	a) accrued liabilities	988,527		978,047		**10,480**	1.07
	b) deferred income	316,169		371,379		**(55,210)**	(14.87)
70	Staff severance indemnity reserve		**422,565**		**426,504**	**(3,939)**	(0.92)
80	Reserves for risks and other charges:		**1,482,470**		**1,861,473**	**(379,003)**	(20.36)
	a) pension fund and similar obligations	490,084		430,381		**59,703**	13.87
	b) reserve for taxes	251,505		647,248		**(395,743)**	(61.14)
	c) consolidation reserve for risks and future charges			-			
	d) other reserves	740,881		783,844		**(42,963)**	(5.48)
90	Reserve for loan losses		**277,077**		**311,105**	**(34,028)**	(10.94)
100	Reserve for general banking risks		**61,330**		**60,744**	**586**	0.96
110	Subordinated debt		**4,561,123**		**4,474,993**	**86,130**	1.92
120	Negative consolidation differences		**4,867**		**4,888**	**(21)**	(0.43)
130	Negative net equity differences		**1,570**		**1,570**	**-**	-
140	Minority interests		**34,102**		**34,765**	**(663)**	(1.91)
150	Share capital		**1,935,273**		**1,935,273**	**-**	-
160	Additional paid-in capital		**522,925**		**522,925**	**-**	-
170	Reserves:		**3,381,763**		**3,141,895**	**239,868**	7.63
	a) legal reserve	357,137		335,005		**22,132**	6.61
	b) reserve for own shares or quotas	727		15,909		**(15,182)**	(95.439
	c) statutory reserves	1,095,313		1,065,813		**29,500**	2.77
	d) other reserves	1,928,586		1,725,168		**203,418**	11.79
180	Revaluation reserves		**43,783**		**43,843**	**(60)**	(0.14)
190	Profit (loss) carried forward		**6**		**124**	**(118)**	(95.16)
200	Profit (loss) for the year		**513,694**		**442,521**	**71,173**	16.08
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**129,367,800**		**122,989,116**	**6,378,684**	5.19

GUARANTEES AND COMMITMENTS
(in EUR 000's)

			31/12/2004		31/12/03	Absolute Change	% Change
10	Guarantees released *including:*		5,754,764		**6,063,770**	**(309,006)**	(5.10)
	Acceptances	123,272		121,900		**1,372**	1.13
	other guarantees	3,631,492		5,941,870		**(310,378)**	(5.22)
20	Commitments *including:*		9,038,794		**8,674,359**	**364,435**	4.20
	commitments to sell with the obligation to repurchase	-		184,409		**(184,409)**	
30	Commitments for credit derivatives		3,960,091		**2,545,399**	**1,414,692**	55.58

CONSOLIDATED PROFIT AND LOSS STATEMENT
(in EUR 000's)

			31/12/2004		31/12/03	Absolute Change	% Change
10	Interest and similar income		4,421,355		**4,680,942**	**(259,587)**	(5.55)
	including:						
	- on customer loans and advances	3,595,189		3,748,313		**(153,124)**	(4.09)
	- on debt securities	590,002		599,197		**(9,195)**	(1.53)
20	Interest expense and other expense on borrowed funds		1,996,901		**2,237,751**	**(240,850)**	(10.76)
	including:						
	- on customer deposits	452,446		615,717		**(163,271)**	(26.52)
	- on other borrowed funds backed by negotiable instruments	950,652		923,307		**27,345**	2.96
30	Dividends and other income		239,924		**390,483**	**(150,559)**	(38.56)
	a) on shares, quotas and other equity securities	206,837		358,754		**(151,917)**	(42.35)
	b) on equity investments	33,087		31,729		**1,358**	3.28
	c) on equity investments in Group companies			-			
40	Commissions earned		1,565,906		**1,525,391**	**40,515**	2.66
50	Commission expense		224,914		**209,829**	**15,085**	7.19
60	Profit (loss) on financial transactions		(96,051)		**21,787**	**(117,838)**	(540.86)
65	Income on investment of pension and similar funds		(23,445)		**21,215**	**(44,660)**	(210.51)
70	Other operating income		531,212		**536,103**	**(4,891)**	(0.91)
80	Administrative expenses		2,820,539		**2,862,736**	**(42,1979**	(1.47)
	a) personnel expense	1,758,670		1,794,655		**(35,985)**	(2.01)
	including:						
	- wages and salaries	1,233,501		1,263,365		**(29,864)**	(2.36)
	- social-welfare charges	345,792		344,926		**866**	0.25
	- staff severance indemnity reserve			92,265			
	- pension fund and similar obligations			34,255			
	b) other administrative expenses	1,061,869		1,068,081		**(6,212)**	(4.13)
85	Provisions for income on investment of pension and similar funds		(23,445)		**21,215**	**(44,660)**	(210.51)
90	Valuation adjustments to fixed and intangible assets		371,541		**437,749**	**(66,208)**	(15.12)
100	Provisions for risks and charges		65,901		**171,830**	**(105,929)**	(61.65)
110	Other operating expenses		49,268		**35,071**	**14,197**	40.48
120	Valuation adjustments to loans and provisions for guarantees and commitments		865,071		**892,239**	**(27,168)**	(3.04)
130	Recoveries on loans and on provisions for guarantees and commitments		305,080		**195,631**	**109,449**	55.95
140	Provisions to credit risk reserve		26,898		**48,028**	**(21,130)**	(44.00)
150	Valuation adjustments to non-current financial assets		16,991		**89,393**	**(72,402)**	**(80.99)**
160	Recoveries on non-current financial assets		1,030		**6,983**	**(5,953)**	(85.25)
170	Profit (loss) on investments valued with net equity method		78,288		**31,810**	**46,478**	146.11
180	Profit (loss) from ordinary operations		608,720		**404,504**	**204,216**	50.49
190	Extraordinary income		332,651		**467,905**	**(135,254)**	(28.91)
200	Extraordinary charges		197,774		**453,997**	**(256,223)**	(56.44)
210	Extraordinary profit (loss)		134,877		**13,908**	**120,969**	869.78

230	Change in reserve for general banking risks		(1,100)	**300,000**	**(301,100)**	(100.37)
240	Income taxes		(215,579)	**(267,841)**	**52,262**	19.51
250	Minority interests profit (loss) for the year		13,224	**8,050**	**5,174**	64.27
260	Profit (loss) for the year		513,694	**442,521**	**71,173**	16.08

The notes to the consolidated financial statements include the following:

Part A - Valuation Criteria

Description of valuation criteria and criteria for the preparation of the consolidated financial statements

Part B - Information on the Consolidated Balance Sheet

Section 1 - Loans
Section 2 - Securities
Section 3 - Equity investments
Section 4 - Fixed assets and intangible assets
Section 5 - Other assets
Section 6 - Liabilities
Section 7 - Reserves
Section 8 - Capital, reserves, provision for general banking risks and subordinated debt
Section 9 - Other liabilities
Section 10 - Guarantees and commitments
Section 11 - Concentration and distribution of assets and liabilities
Section 12 - Funds management and other transactions for the account of third parties

Part C - Information on the Profit and Loss Statement

Section 1 - Interest income and interest expense
Section 2 - Commissions earned and commission expense
Section 3 - Profits and losses from financial transactions
Section 4 - Administrative expenses
Section 5 - Valuation adjustments, recoveries and provisions
Section 6 - Other items
Section 7 - Additional notes to the profit and loss statement

Part D - Other notes

Section 1 - Directors and Statutory Auditors

Attachments

- Statement of Changes in Consolidated Shareholders' Equity
- Reconciliation of Parent-Company Earnings and Net Equity and Consolidated Earnings and Net Equity
- Statement of Changes in Consolidated Financial Position

PART A

VALUATION CRITERIA

VALUATION CRITERIA AND CRITERIA FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004

The valuation criteria indicated hereunder conform with the criteria provided by prevailing Italian laws and with the criteria adopted in the preparation of the 2003 consolidated financial statements.

These criteria are in conformity with those used by the parent company, Banca Monte dei Paschi di Siena S.p.A., in the preparation of its financial statements.

The figures in the consolidated financial statements are presented in thousands of euros.

AREA OF CONSOLIDATION

The consolidated financial statements include the financial statements of the parent company, Banca Monte dei Paschi di Siena S.p.A., and those of the banking and financial services subsidiaries and other subsidiary companies mainly, or exclusively, performing activities incidental to those of the Parent Company. Subsidiaries in liquidation were not consolidated.

Following are several significant transactions occurring in 2004:

Transactions effected by the parent company:

- the merger by incorporation of the subsidiary Banca Steinhauslin & C. S.p.A.;
- the transfer of the subsidiary Ba.Sa. Servizi S.p.A to the subsidiary MPS Immobiliare S.p.A;
- the transfer of the subsidiary MPS Commercial Paper and its resulting cancellation from the consolidated data;
- the transfer of Mantovana Ireland Ltd., which was previously consolidated by the parent company, to Montepaschi Ireland Ltd;
- the transfer of the affiliated company IBA Vienna and its resulting cancellation from the consolidated data;
- the liquidation of the subsidiary E-Idea S.p.A;

moreover,

- the merger of the subsidiary Banca Verde S.p.A. into the subsidiary MPS Banca per l'Impresa S.p.A;
- the partial split-off of MPS Finance Banca Mobiliare S,p.A. concerning the transfer of the operating unit called "Capital Market" to MPS Banca per l'Impresa S.p.A.;
- the merger by incorporation of the subsidiary Ba.Sa Servizi S.p.A. into the subsisiary MPS Immobiliare S.p.A.;

transactions effected by the subsidiary Banca Agricola Mantovana S.p.A:

- the transfers of the subsidiaries Linear Compagnia Ass. S.p.A. and Unisalute to the subsidiary Finsoe S.p.A;
- the transfer of the subsidiary Aida S.p.A. and its resulting cancellation from the consolidated data.

FINANCIAL STATEMENTS USED FOR CONSOLIDATION

The consolidated financial statements have been prepared on the basis of the financial statements of the consolidated companies as of 31 December 2004, as approved by the respective Boards of Directors. As to Banca Agricola Mantovana Group, MPS Asset

Management and MPS Banca per l'Impresa their respective consolidated statements were used.

The financial statements of the subsidiaries have been consolidated using the line-by-line method, with the full consolidation of the assets, liabilities, guarantees, commitments and income and expense accounts of the subsidiaries.

Investments in Banca Popolare di Spoleto S.p.A. and Banca del Monte di Parma S.p.A., which are jointly controlled institutions pursuant to Article 35 of Legislative Decree No. 87/92, have been consolidated using the proportional method.

The financial statements of the companies included in the consolidation which were prepared on the basis of accounting principles differing from those used for the consolidated financial statements or which include adjustments and provisions solely for tax purposes, have been restated to conform to the accounting principles used in the preparation of the consolidated statements.

For the purpose of consolidation, leasing transactions are recorded with criteria based on the financial method.

Financial statements denominated in foreign currencies were translated into euros on the basis of the following criteria:

- Assets, liabilities, income and expenses were converted into euros using the spot exchange rates prevailing at year end;
- The balances in the shareholders' equity accounts have been translated at the historical rate applied upon the initial consolidation. Any currency translation differences as a result of the conversion of the accounts into euros at the exchange rate in effect as of the date the consolidated financial statements are booked in the account, "Other reserves".

INVESTMENT CONSOLIDATION PRINCIPLES

The book value of investments in subsidiaries has been eliminated against the corresponding portion of net equity, with the related assets and liabilities consolidated on a line-by-line or proportional basis and with any differences ascribed, wherever possible, to the assets and liabilities of the subsidiaries.

Any residual negative differences are recorded as "Negative consolidation differences". Positive differences are netted first against "Revaluation reserves", with any remaining balance recorded as "Positive consolidation differences". The positive differences are offset with the amount of pre-existing negative differences, and those not offset are normally amortized over a period of 10 years, which is considered as the investment pay-back period. In the case of the Banca Agricola Mantovana Group, which was later merged into Banca Monte dei Paschi di Siena, such period is expected to be 20 years.

The portions of consolidated net equity and of the annual profit attributable to minority interests are disclosed separately in the balance sheet and profit and loss statement under "Minority interests" and "Income attributable to minority interests".
Assets and liabilities, guarantees and commitments, and income and expenses relating to intercompany transactions have been eliminated, with any differences from suspense accounts and any exchange differences being recorded under "Other assets/liabilities" and "Extraordinary income/expense".

Profits and losses on transactions between the companies included in consolidation – except for transactions involving securities, foreign currency and other financial instruments executed at normal market conditions – are eliminated if they refer to assets which are still on the balance sheet.

As provided by Article 34 of Legislative Decree No. 87/92, the financial statements include profits and losses on infragroup transactions involving securities, foreign currency and other financial instruments, and executed at normal market conditions.

Dividends, valuation adjustments and recoveries concerning investments in companies included in consolidation have been eliminated.

1. LOANS, GUARANTEES AND COMMITMENTS

1.1 LOANS

Loans and advances to customers and banks are recorded at the total amount actually disbursed. Mortgage loans, deposits with third parties, long-term loans and other subsidies are stated at the equivalent of the residual principal amount. Loans include accrued and past-due interest settled at year end. Interest accrued and unpaid at year end is recorded in the profit and loss statement with the offsetting entry to "Accrued income".

Loans are stated at their estimated realizable value, which is determined by taking into account the solvency of the debtor as well as any difficulties in the servicing of debt by countries in which the debtors are resident. Estimated loan losses are computed based on analyses of outstanding loans whose collection may be at risk, with such analyses supplemented by evaluations of country risk.

- Non-performing loans (i.e. loans made to borrowers who are insolvent or in a comparable situation) and watch-list credits (i.e. loans made to borrowers in temporary difficulties) are analyzed by taking into account the financial condition of each borrower and the existence of any collateral or guarantees;
- Loans to countries at risk and loans to residents in countries having difficulties in servicing debt are valued in accordance with the directives of the Bank of Italy and the Italian Bankers Association with respect to the country of the counterparty;
- Performing loans are estimated on the basis of the Bank's ordinary risk;
- Past-due interest is mostly written off completely.

The determination of the estimated realizable value of loans also takes into account the existence of certain credit-risk hedging transactions effected through credit derivatives in which the Group acts as the party purchasing protection.

The writedown of loans is effected by means of a direct charge to the carrying value; any writedown may later be reversed should the reasons therefor no longer apply.

1.2 GUARANTEES AND COMMITMENTS

Guarantees and commitments are valued as follows:

- Agreements covering loans and deposits to be funded: at the value of the underlying contract;
- Irrevocable credit lines: at the value of the residual amount available;
- Other guarantees and commitments: at the value of the contractual commitment of the Bank.

Specific credit risks inherent to the guarantees and commitments are valued in accordance with the criteria adopted for valuing loans. Any estimated losses are recorded in the account "Reserve for risks and charges - other reserves". Any capital losses on credit derivatives contracts belonging to the banking book in which the Group acts as the party selling protection are also ascribed to the aforementioned reserve.

2. SECURITIES AND OFF-BALANCE-SHEET TRANSACTIONS (excluding transactions in foreign currency)

Transactions involving securities are recorded as of the settlement date; securities denominated in foreign currencies are converted into euros at the exchange rate prevailing at year end.

The cost value of securities is determined according to the weighted daily average cost method, with any issuing premiums and discounts recorded in accordance with prevailing laws.

Transfers between the trading portfolio and the investment portfolio and vice versa are effected at the value resulting from the application, as of the date of the transaction, of the evaluation methods of the portfolio of origin.

2.1 INVESTMENT SECURITIES

Securities held for long-term investment purposes are valued at purchase or subscription cost adjusted for any issuing or trading premiums and discounts accrued.

The criterion for the recognition of issuing premiums and discounts is considered along with the criterion for the pro-rata recognition of trading premiums and discounts in a strict sense; both types of premiums and discounts are included in the account "Interest and similar income".

The value of investment securities is written down to reflect permanent impairment of value as a result of the solvency of the issuer and the debt-servicing capacity of the issuer's country of residence. Any writedown taken may later be reversed should the reasons therefore no longer apply.

2.2 TRADING ACCOUNT SECURITIES

Securities held for trading purposes or for the purposes of the Group's treasury management are valued as follows.

Securities quoted on official markets in Italy or abroad are valued on the basis of market prices prevailing as of the close of the final trading session of the year.

Investments in mutual funds are stated at market value as calculated by the funds management companies; this criterion is consistent with that adopted for the valuation of securities traded in organized markets.

Securities not listed on official markets are valued as follows:

- Unlisted debt securities are valued at the lower of cost and "normal value"; normal value is objectively determined by the present value of expected cash flows on the securities, and by taking into account current yields on securities with similar maturity dates as of the end of the year;
- Unlisted equity securities are valued at cost, adjusted to reflect any significant decreases in value;
- Debt or equity securities having an economic relationship with derivatives contracts are valued in accordance with the valuation criterion adopted for the derivatives contracts.

Any gains or losses recorded on the valuation of the trading account securities are booked to Account 60 "Profits/losses from financial transactions".

Any adjustments made may later be reversed should the reasons therefore no longer apply.

2.3 OWN SHARES

The investment in own shares has been fully offset by a restricted reserve set up in accordance with Article 2357 ter of the Italian Civil Code. Shares purchased for trading purposes are valued at market value in compliance with the criteria adopted for the valuation of securities traded in organized markets and belonging to the trading portfolio, whereas those acquired as a long-term investment are valued at cost.

2.4 OFF-BALANCE-SHEET TRANSACTIONS (excluding those relating to foreign currency)

2.4.1 Commitments for securities transactions to be settled

Contracts covering the purchase or sale of securities which have not been settled as of the date of the financial statements are reported as commitments on the basis of contractual amounts. Such contracts are valued as follows:

- Purchase commitments are valued at the lower of settlement price and market value, using the criteria adopted for the portfolio to which the securities will be added;
- Sale commitments are valued at the lower of the settlement price and the book value of the securities.

2.4.2 Derivatives contracts (on securities, interest rates, indices and other assets, excluding foreign currencies)

The valuation of derivative contracts depends on the purpose for which the contracts are executed.

Derivatives used for trading purposes are valued at market value, determined as follows:

- in the case of contracts quoted in organized markets, by using the market value as of the close of the year;
- in the case of contracts not quoted in organized markets, whose parameters of reference are prices, quotes or indices reported on information circuits normally used at an international level and in any case, parameters that may be objectively determined, by using the financial value as determined on the basis of the quotations of the aforementioned parameters reported as of the close of the year;
- in the case of other contracts, by taking into account any other specific elements determined in an objective and standard manner.

Derivatives used for hedging assets and liabilities and off-balance-sheet assets and liabilities are valued in accordance with the hedged assets and liabilities, as indicated as follows:

- at market value, if used to hedge securities belonging to the trading portfolio;
- at cost, if used to hedge interest-bearing assets or liabilities other than trading account securities, in accordance with the accounts being hedged.

The differentials and margins on contracts for hedging interest-bearing assets and liabilities other than trading account securities are calculated as part of the interest margin. If the hedging is related to specific assets and liabilities, such differentials and margins are allocated in accordance with the accrual of interest on the underlying assets and liabilities; in the case of general hedging, the differentials and margins are accrued to the interest margin in accordance with the duration of the contracts.

Any gains or losses recorded on the valuation of the derivatives contracts are accrued to Account 60 – "Profits/losses from financial transactions" in the profit and loss statement. The balancing entries are made to Account 150 - "Other assets" and Account 50 - "Other liabilities", without any offsetting of the gains and losses.

Master netting agreements are taken into account only for determining the absorption of capital required for regulatory purposes, without any significance insofar as financial statement reporting is concerned.

Derivatives contracts involved in long-term investment transactions which may eventually involve the purchase of securities to be classified as investments are valued with the criteria used for valuing investment securities.

2.4.3 REPURCHASE AGREEMENTS

Repurchase agreements are reported as funding or lending transactions, with the relative income and expense recorded in the "Interest and similar income" and "Interest expense and other expense on borrowed funds" accounts in the profit and loss statement on an accrual basis.

3. EQUITY INVESTMENTS

Investments in non-consolidated subsidiaries and in companies where the Group exerts significant influence have been valued in accordance with the net equity method. The net equity of such companies and the differences with respect to the carrying values of the investments are determined pursuant to the criteria described in hereinabove in "Consolidation criteria.". The aforementioned differences are indicated as "Positive net equity differences" or "Negative net equity differences" and if positive, the amounts are amortized over a ten-year period, which is considered the investment pay-back period.

Other shareholdings are considered as long-term investments and are valued at cost, inclusive of revaluation required by the law, ancillary charges and any writedowns to reflect permanent impairment of value on the investment whether in relation to a decrease in shareholders' equity or market trends.

Dividends and the tax credits in relation thereto are recognized at the time they are effectively realized.

4. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES (including off-balance-sheet transactions)

Transactions in foreign currency are reported as of the settlement date.

Profits and losses from transactions denominated in foreign currency are reported using the exchange rates prevailing at the date of the transaction.

Assets and liabilities denominated in foreign currency or denominated in euros and indexed to a foreign currency are converted into euros by using the spot exchange rates prevailing at the end of the year; cross-exchange rates with the U.S. dollar as of year end were used for converting unlisted currencies into euros.

Off-balance-sheet spot transactions are converted into **euros** using spot rates prevailing at year end.

Off-balance-sheet forward transactions and derivative contracts are valued as follows:

- in the case of trading transactions, at the forward rate as of year end for corresponding maturities;
- in the case of hedging transactions, at a value consistent with the assets and liabilities hedged; the spot-forward exchange-rate differential is accrued to interest income or interest expense over the life of the contracts.

The result of such valuations is accrued to the profit and loss statement.

5 FIXED ASSETS

Fixed assets are recorded at purchase cost, which is increased to reflect any ancillary charges or costs for improvements. In the case of buildings, the original cost may be revalued in accordance with specific laws.

The values disclosed are net of accumulated depreciation determined on the basis of maximum rates allowed by law, and reflect the estimated useful life of the assets.

6 INTANGIBLE ASSETS

Intangible assets are recorded at purchase or production cost, including any ancillary charges. Amortization is computed with reference to the residual useful life of the assets, as described hereunder:

- Costs sustained for capital increases and for the parent company's stock market listing and other deferred charges are amortized on a straight-line basis over a period of five years;
- Costs sustained for commissions paid on bond issues are amortized in relation to the relative redemption schedules;
- Costs incurred for the purchase and third-party production of software are amortized on a straight-line basis over five years;
- Any other deferred charges are amortized over a maximum period of five years.

7 ACCRUALS AND DEFERRALS

Accruals and deferrals are calculated in accordance with the matching principle, on the basis of the conditions applicable to the individual accounts to which the amounts refer. No provisions are made to adjust such accounts directly.

8. OTHER INFORMATION

8.1 DUE TO BANKS AND CUSTOMERS

Savings deposits, certificates of deposit and current-account deposits of customers and banks are stated at nominal value, including interest paid as of 31 December 2004. Interest accrued on certificates of deposit and time deposits maturing after 31 December 2003 has been recorded as interest expense, with the offsetting entry to "accrued liabilities".

8.2 STAFF SEVERANCE INDEMNITY RESERVE

The staff severance indemnity reserve includes all amounts due to full-time employees as of the end of the year in accordance with prevailing laws and labor contracts.
The reserve fully covers the Bank's commitments to employees as of the year end.

8.3 RESERVES FOR RISKS AND OTHER CHARGES

- Pension fund and similar obligations

Pension funds have been established to cover commitments to employees entitled to a pension and include pension funds established by the parent company as well as several subsidiaries.

- Reserve for taxes

The reserve represents a realistic estimate of tax liabilities to be paid, in accordance with prevailing tax regulations and fiscal practices in the countries where the Group operates.

For the Group companies concerned by consolidated taxation the reserve for taxes of the parent company includes the provisions for taxes due from the Bank and for the Companies Income Tax (IRES) due from the other Group companies. As to tax consolidation, agreements concerning clearings of tax profit and loss transfers have been underwritten between the Bank and the consolidated subsidiaries. These flows are calculated applying the taxable income of the consolidated companies to the current Companies Income Tax .

The reserve also includes deferred tax liabilities relative to consolidation adjustments when it is probable that such liabilities will be liquidated for the account of one or more of the consolidated companies.

- Deferred taxes

The Bank of Italy, with its directive of 3 August 1999, and CONSOB, with its memorandum of 30 July 1999, mandated the application of the Italian Accounting Principle No. 25 approved by the Italian Association of Professional Accountants ("Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri"). Pursuant to this accounting principle, deferred tax assets and deferred tax liabilities are recorded, respectively, in the balance sheet accounts, "other assets" and "reserve for taxes". In respect of the general principle of prudence, deferred tax assets are recognized only to the extent that there is reasonable certainty of sufficient taxable income being realized in future years so as to allow for full absorption of the taxes in the specific years in which the amounts prepaid due to timing differences become deductible for tax purposes. This determination must be made at the end of every financial year in order to ensure the condition of recoverability.

- Other reserves

Other reserves include provisions made to cover risks on guarantees released and commitments undertaken, and reserves to cover liabilities which are probable or certain but whose amount or settlement date were unknown as of the date of the financial statements.

8.4 RESERVE FOR LOAN LOSSES

The reserve covers only potential risks and therefore is not used for adjusting the value of any assets.

8.5 RESERVE FOR GENERAL BANKING RISKS

The reserve has been set up in accordance with Article 11, Paragraph 2 and 3 of Legislative Decree 87/92, in order to cover risks on general banking business.

8.6 PROFIT AND LOSS STATEMENT

Interest and commission income and expense are recognized in accordance with the accrual accounting method. Interest income and expense include other income and charges of the same nature, including issuing premiums and discounts on trading and investment securities.

The criteria used for the determination of accruals and deferrals make reference to the concept of allocation of income and expenses applicable to two or more years.

8.7 CURRENCY OF ACCOUNT

All amounts in the balance sheet and the profit and loss statement are denominated in euros, whereas the amounts in the notes to the financial statements are denominated in thousands of euros.

In the schedules attached to the financial statements, specific indication is given of any amounts denominated in other currencies.

Comments regarding events occurring after the date of the financial statements, relationships between other Group companies, and future developments are provided in the Report of the Board of Directors.

PART B

INFORMATION ON THE

CONSOLIDATED BALANCE SHEET

SECTION 1 - LOANS

Amounts due from banks and customers are stated at the estimated realizable value.

1.1 Composition of Account 30 - Amounts due from banks

	31/12/2004	31/12/2003
a) Amounts due from central banks	739,254	941,645
b) Bills eligible for refinancing with central banks	3,550	4,120
c) Credit for financial lease contracts		-
d) Repurchase agreements	6,994,912	5,074,526
e) Securities lending		

The balance reflected in a) includes mandatory reserves in the amount of EUR 723,676,000.

The composition of the account is as follows:

	31/12/2004	31/12/2003
Sight	366,452	442,556
Current accounts	205,491	319,219
Demand deposits	55,211	44,002
Other accounts	105,750	79,335
Time or requiring advance notice of withdrawal	10,989,475	8,108,544
Bank of Italy and other central banks	739,254	914,302
Time deposits	2,338,840	1,240,343
Loans and subsidies	745,637	791,626
Mortgage loans		-
Repurchase agreements	6,994,912	5,074,526
Other	170,832	87,747
Total	11,355,927	8,551,100

Cash credits to banks are summarized in the following table and include past-due interest

31/12/2004

	Total Outstanding	Total Valuation Adjustments	Net Exposure
A. Doubtful loans	297,005	5,095	291,910
A.1 Non-performing loans	5,759	3,988	1,771
A.2 Watch-list credits	99	99	-
A.3 Loans in the process of restructuring	-	-	-
A.4 Restructured loans	-	-	-
A.5 Unsecured loans exposed to country risk	291,147	1,008	290,139
B. Performing loans	11,064,017	1	11,064,016

31/12/2003

	Total Outstanding	Total Valuation Adjustments	Net Exposure
A. Doubtful loans	314,998	12,233	302,765
A.1 Non-performing loans	9,881	8,650	1,231
A.2 Watch-list credits	112	112	-
A.3 Loans in the process of restructuring	-	-	-
A.4 Restructured loans	-	-	-
A.5 Unsecured loans exposed to country risk	305,005	3,471	301,534
B. Performing loans	8,248,335		8,248,335

1.2 Composition of Account 40 - Customer loans and advances

	31/12/2004	31/12/2003
a) Bills eligible for refinancing with central banks	28,312	26,243
b) Credits for financial lease contracts		-
c) Repurchase agreements	745,964	696,859

The composition of the account is as follows:

	31/12/2004	31/12/2003
Current accounts	11,463,836	11,838,587
Discounted notes	505,904	536,380
Repurchase agreements	745,964	696,859
Mortgages	36,784,590	32,340,133
Advances	3,507,097	3,485,433
Advances and subsidies	11,565,304	13,640,868
Personal loans	1,194,271	1,145,024
Leasing	4,127,793	3,052,883
Transactions with third-party funds	15,692	14,963
Non-performing loans	1,563,948	1,298,616
Other	2,919,912	2,355,246
Total	74,394,311	70,404,992

Customer loans are summarized in the following table:

31/12/2004

	Total Outstanding	Total Valuation Adjustments	Net Exposure
A. Doubtful loans	4,652,667	1,808,875	2,843,792
A.1 Non-performing loans	3,076,783	1,512,835	1,563,948
A.2 Watch-list credits	1,435,987	281,347	1,154,640
A.3 Loans in the process of restructuring			
A.4 Restructured loans	57,340	12,163	45,177
A.5 Unsecured loans exposed to country risk	82,557	2,530	80,027
B. Performing loans	71,842,124	291,605	71,550,519

The amounts in the table include past-due interest

31/12/2003

	Total Outstanding	Total Valuation Adjustments	Net Exposure
A. Doubtful loans	4,174,132	1,531,718	2,642,414
A.1 Non-performing loans	2,508,586	1,209,970	1,298,616
A.2 Watch-list credits	1,490,536	305,689	1,184,847
A.3 Loans in the process of restructuring	21,694	123	21,571
A.4 Restructured loans	60,534	10,900	49,634
A.5 Unsecured loans exposed to country risk	92,782	5,036	87,746
B. Performing loans	68,020,597	258,020	67,762,577

The amounts in the table include past-due interest.

1.3 Secured customer loans and advances

Secured customer loans and advances, including outstandings which are partially secured, are summarized in the following table, which excludes loans to governments and public entities:

	31/12/2004	31/12/2003
a) loans secured by mortgages	26,233,336	20,109,709
b) loans secured by liens on:		
cash deposits	631,751	547,191
Securities	1,661,395	1,460,996
other negotiable instruments	347,286	280,698
	2,640,432	2,288,885
c) loans secured by guarantees of:		
Governments	4,727	4,228
other public-sector entities	37,043	41,331
Banks	549,236	525,322
Other	11,888,372	9,786,838
	12,479,388	10,357,719
Total	41,353,156	32,756,313

1.4 Non-performing loans to customers, including past-due interest

Non-performing loans include EUR 334,383,000 of past-due interest

	31/12/2004	31/12/2003
Nominal value	3,082,542	2,518,467
Valuation adjustments	1,516,823	1,218,619
Book value	1,565,719	1,299,848

1.5 Loans for past-due interest

The nominal value of loans for past-due interest is shown below:

	31/12/2004	31/12/2003
a) Non-performing loans	334,382	254,832
b) Other credits	28,568	28,157
c) Amounts due from taxpayers	416,038	860,723
Total	778,988	1,143,712
Valuation adjustments	778,472	1,114,977
(°)	516	28,735

(°) Past-due interest considered as recoverable by several subsidiaries.

1.6 Detail of valuation adjustments (in principal) to customer loans and amounts due from banks

			31/12/2004
	Nominal Value	Doubtful Amount	Net Amounts
Non-performing loans	2,748,160	1,182,441	1,565,719
Watch-list credits and past-due amounts	1,465,374	265,556	1,199,818

Country risk	373,704	3,538	370,166
Total	4,587,238	1,451,535	3,135703
Lump sum adjustment		291,608	(1)
		1,743,141	

(1) The amount results from EUR 268,606,000 for lump sum reserve plus EUR 23,000,000 for a specific item entered as an asset and includes EUR 75,000,000 covering risks related to the car industry.

31/12/2003

	Nominal Value	Doubtful Amount	Net Amounts
Non-performing loans	2,263,635	963,787	1,299,848
Watch-list credits and past-due amounts	1,544,719	288,667	1,256,52
Country risk	397,787	8,507	389,280
Total	4,206,141	1,260,961	2,945,180
Lump sum adjustment		258,020	
		1,518,981	

Trend of doubtful loans to customers

Description/Category	Non-Performing Loans	Watch-list Credits	Loans in the Process of Restructuring	Restructured Loans	Unsecured Loans to High-Risk Nations
A. Total outstanding as of 31/12/2003	2,508,586	1,490,536	21,694	60,534	92,782
A.1 including: past-due interest	254,406	22,254	-	542	43
B. Increases	1,195,439	1,108,042	-	18,097	27,787
B.1 new performing loans	509,835	937,521	-	10,376	17,791
B.2 past-due interest	91,249	11,448	-	-	-
B.3 transfer from other categories of doubtful loans	425,374	8,436	-	6,545	-
B.4 other increases	168,981	150,637	-	1,176	9,996
	627,242	1,162,591	21,694	21,291	38,012
C. Decreases	6,222	189,228	5,000	-	733
C.1 reclassified as performing loans	255,520	28,285	-	-	-
C.2 cancellations	335,283	493,343	6,562	21,166	37,205
C.3 recoveries	9,365	-	-	-	-
C.4 sales					
C.5 transfer to other categories of doubtful loans	605	429,492	10,132	125	74
C.6 other decreases	20,247	22,243	-	-	-
D. Total outstanding as of 31/12/2004	3,076,783	1,435,987	-	57,340	82,557
D.1 including: past-due interest	333,887	18,329	-	542	-

Trend of total valuation adjustments to customer loans

Description/Category	Non-Performing Loans	Watch-list Credits	Loans in the Process of Restructuring	Restructured Loans	Unsecured Loans to High-Risk Nations	Performing Loans
A. Initial valuation adjustments	1,209,969	305,688	123	10,900	5,036	258,020
A.1 including: past-due interest	230,687	21,172-	-	542	43	1,385
B. Increases	705,396	172,938	-	9,519	248	175,462
B.1 valuation adjustments (°)	552,775	156,218	-	9,188	137	155,592
B.1.1 including: past-due interest	88,584	9,913	-	-	-	4,091
B.2 use of loan loss reserves	31,148	395	-	-	-	237
B.3 transfer from other categories	109,147	7,787	-	331	111	4,558
B.4 other increases	12,326	8,447	-	-	-	15,075
C. Decreases	402,530	197,280	123	8,256	2,754	141,877
C.1 recoveries – valuation adjustments	73,576	44,786	9	359	1,021	87,862
C.1.1 including: past-due interest	6	-	-	-	-	-
C.2 cash recoveries	26,878	24,329	37	7,884	1,276	12,571
C.2.1 including: past-due interest	7,127	6,135	-	-	-	589
C.3 cancellations	251,650	25,496	-	-	-	19,165
C.4 transfer to other categories	-	-	-	-	-	-
C.5 other decreases	196	99,620	77	13	457	21,662
	50,230	3,049	-	-	-	617
D. Final valuation adjustments	1,512,835	281,346	-	12,163	2,530	291,605
D.1 including: past-due interest	333,887	18,329	-	542	-	9,181

(°) Item B.1 Non-performing loans includes adjustments for EUR 33,410,000 made by the parent company relative to non-performing securitizations carried out in prior years.

Trend of doubtful loans to banks

Description/Category	Non-Performing Loans	Watch-list Credits	Loans in the Process of Restructuring	Restructured Loans	Unsecured Loans to High-Risk Nations
A. Total outstanding as of 31/12/2003	9,881	112	-	-	305,005
A.1 including: past-due interest	426	-	-	-	-
B. Increases	69	-	-	-	167,707
B.1 new performing loans	-	-	-	-	-
B.2 past-due interest	69	-	-	-	-
B.3 transfer from other categories	-	-	-	-	-
B.4 other increases	-	-	-	-	167,707
C. Decreases	4,191	13	-	-	181,565
C.1 reclassified as performing loans	-	-	-	-	304
C.2 cancellations	1,468	-	-	-	1,596
C.3 recoveries	2,723	6	-	-	176,030
C.4 sales	-	-	-	-	-
C.5 transfer to other categories	-	-	-	-	-
C.6 other decreases	-	7	-	-	3,635
D. Total outstanding as of 31/12/2004	5,759	99	-	-	291,147
D.1 including: past-due interest	495				

Trend of total valuation adjustments to loans to banks

Description/Category	Non-Performing Loans	Watch-list Credits	Loans in the Process of Restructuring	Restructured Loans	Unsecured Loans to High-Risk Nations	Performing Loans
A. Initial valuation adjustments	8,650	112	-	-	3,471	-
A.1 including: past-due interest	426	-	-	-	-	-
B. Increases	69	-	-	-	759	-
B.1 valuation adjustments	69	-	-	-	759	-
B.1.1 including: past-due interest	69	-	-	-	-	-
B.2 use of loan loss reserves	-	-	-	-	-	-
B.3 transfer from other categories	-	-	-	-	-	-
B.4 other increases	-	-	-	-	-	-
C. Decreases	4,731	14	-	-	3,222	.
C.1 recoveries – valuation adjustments	540	7	-	-	373	-
C.1.1 including: past-due interest	-	-	-	-	-	-
C.2 cash recoveries	2,723	7	-	-	2,375	-
C.2.1 including: past-due interest	-	-	-	-	-	-
C.3 cancellations	1,468	-	-	-	474	-
C.4 transfer to other categories	-	-	-	-	-	-
C.5 other decreases	-	-	-	-	-	-
D. Final valuation adjustments	3,988	98	-	-	1,008	-
D.1 including: past-due interest	495					

1.7 Composition of Account 10 - Cash and cash on deposit with central banks and post offices

	31/12/2004	31/12/2003
Notes and coins	456,758	475,208
Money orders and bank drafts	30,754	44,598
Cash on deposit with Bank of Italy and central banks	39,808	64,565
Cash on deposit with post offices	88,640	86,528
Other		-
Total	615,960	670,899

SECTION 2 - SECURITIES

Securities held by the Bank are reported in the balance sheet as follows:

31/12/2004

	Investment Securities	Trading Securities	Total
20 Treasury bonds and similar instruments eligible for refinancing	8,488	33,877	42,365
50 - Bonds and other fixed-income securities	3,632,378	11,545,562	15,177,940
60 - Shares, quotas and other equity securities	3,664	1,765,861	1,769,525
Total	3,644,530	13,345,300	16,989,830

31/12/2003

	Investment Securities	Trading Securities	Total
20 Treasury bonds and similar instruments eligible for refinancing	10,695	152,644	163,339
50 Bonds and other fixed-income securities	3,948,802	13,065,438	17,014,240
60 Shares, quotas and other equity securities	4,066	1,123,532	1,127,598
Total	3,963,563	14,341,614	18,305,177

2.1 Investment securities

The holdings in the investment securities portfolio are made up as follows:

	31/12/2004		31/12/2003	
	Book value	Market value	Book Value	Market Value
1. Debt securities	3,640,866	3,584,697	3,959,498	3,984,522
1.1 Government securities	752,297	786,061	756,474	771,152
- Listed	739,083	772,275	742,222	755,924
- Unlisted	13,214	13,786	14,252	15,228
1.2 Other securities	2,888,569	2,798,636	3,203,024	3,213,370
- Listed	1,897,477	1,867,339	2,123,682	2,179,722
- Unlisted	991,092	931,297	1,079,342	1,033,648
2. Equity securities	3,664	3,484	4,065	3,280
- Listed	2,584	2,404	4,065	3,280
- Unlisted	1,080	1,080		
Total	3,644,530	3,588,181	3,963,563	3,987,802

Investment securities incorporate latent capital losses of EUR 56,349,000 as computed on the basis of average prices for the six-month period prior to the date of the financial statements.
The risk resulting from investment securities referring to securitization carried by banks of the Group is hedged by total rate of return swap contracts through the "Class" transaction; therefore, part of the above-mentioned latent capital losses is offset by latent capital gains on total rate of return swaps of hedging.

2.2 Annual changes in investment securities

	31/12/2004	31/12/2003
A. Opening balance	3,963,563	4,452,635
B. Increases	817,695	2,370,880
B.1 Purchases	618,860	1,367,774
B.2 Recoveries in value	-	1,770
B.3 Transfers from trading account portfolio	-	400,348
B.4 Other changes	198,835	537,988
C. Decreases	1,136,728	2,796,952
C.1 Sales	-	109,692
C.2 Redemptions	836,509	1,045,474
C.3 Valuation adjustments	3,370	34,322
including: permanent writedowns	3,198	29,001
C.4 Transfers to trading account portfolio	-	1,190,208
C.5 Other changes	296,849	417,256
D. Closing balance	3,644,539	3,963,563

Point B.1 is fully made up of purchases replacing expired securities
Points B.4 and C.5 mainly include the accruals of issuing and trading discounts and foreign-exchange differences.

2.3 Trading account securities

Trading account securities include the following:

	31/12/2004		31/12/2003	
	Book value	Market value	Book Value	Market Value
1. Debt securities	11,579,439	11,608,082	13,218,082	13,247,455
1.1 Government securities	4,075,928	4,076,250	6,393,022	6,393,092
- Listed	4,069,519	4,069,745	6,371,701	6,371,712
- Unlisted	6,409	6,505	21,321	21,380
1.2 Other securities	7,503,511	7,532,194	6,825,060	6,854,363
- Listed	4,688,150	4,688,150	3,585,331	3,624,676
- Unlisted	2,815,361	2,844,044	3,239,729	3,229,687
2. Equity securities	1,765,861	1,762,925	1,123,532	1,123,770
- Listed	1,471,598	1,471,598	897,390	893,708
- Unlisted	294,263	291,327	226,142	230,062
Accrued interest				
Total	13,345,300	13,371,369	14,341,614	14,371,225

The market value is roughly EUR 26,069,000 higher than book value due to potential gains which are not posted to the Profit & Loss account on unlisted securities unrelated to derivatives.

Trading account securities have reported revaluations and recoveries in value for EUR 242,569,000 as well as value adjustments for EUR 81,624,000.

Trading account securities as of 31.12.2004 are inclusive of the securities relative to defined contribution pension plan set up for eligible employees as of 1.1.1991 and securities of the defined contribution pension plan of the Tax Collection Service.

2.4 Annual changes in trading account securities

	31/12/2004	31/12/2003
A. Opening balance	14,341,614	12,457,952
B. Increases	182,020,017	189,439,502
B.1 Purchases	180,891,703	186,435,349
- Debt securities:	170,632,425	176,985,279
Government securities	149,287,756	145,639,117
Other securities	21,344,669	31,346,162
- Equity securities	10,259,278	9,450,070
B.2 Revaluations and recoveries in value	242,569	199,802
B.3 Transfers from investment securities portfolio	-	1,190,208
B.4 Other changes	885,745	1,614,143
C. Decreases	183,016,331	187,555,840
C.1 Sales and redemptions	182,200,613	185,964,355
- Debt securities:	172,621,408	176,629,717
Government securities	151,799,939	144,192,001
Other securities	20,821,469	32,437,716
- Equity securities	9,579,205	9,334,638
C.2 Valuation adjustments	81,624	106,733
C.3 Transfers to investment securities portfolio	-	400,348
C.4 Other changes	734,094	1,084,404
D. Closing balance	13,345,300	14,341,614

Trading account securities are inclusive of securities relative to the defined contribution pension plan set up for eligible employees as of 1 January 1991 and to defined contribution pension plan of the Tax Collection Service. Accordingly, the values reported in the table are inclusive of changes relative to the mentioned plan.

Revaluation and valuation adjustments (points B.2 and C.2) were charged to Account 60 “Profit (loss) on financial transactions”, except for those concerning the securities of the aforementioned pension plan, which were charged to Account 65 “Income on investment of pension and similar funds”.

Points B.4 and C.4 are inclusive of issue discounts and rate of exchange differences.

SECTION 3 – EQUITY INVESTMENTS

Equity investments of the MPS Group are summarized in the table below:

	31/12/2004	31/12/2003
Investments in Group companies valued with net equity method	537,533	464,278
Investments in Group companies valued at cost	607	-
Investments in other companies valued with net equity method	438,555	439,337

Investments in other companies valued at cost	1,808,432	1,717,753
Total	2,785,127	2,621,368

3.1 Significant equity investments

Details of significant equity investments held by the MPS Group are reported in the following tables.

		COMPANY	HEAD OFFICE	TYPE (°°)	NET EQUITY	PROFIT/ LOSS	SHAREHOLDING		VOTING (%)	BOOK VALUE
							Investing Co.	% Held		
		A.1 Companies included in the consolidation (fully consolidated)								
A.0		BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Siena		6,587,815	610,478				xxx
A.1		BANCA TOSCANA S.p.A.	Florence	1	1,124,990	90.057	A.O.	100.000	100.000	xxx
A.2		BANCA PER L'IMPRESA S.p.A.	Florence	1	484,435	49,383	A.O.	83.046	99.845	xxx
							A.1	16.799		
	2.1	MPS VENTURE SGR. S.p.A.	Florence		8,012	246	A.2	70.000	100.000	
A.3		BANCA 121 PROMOZIONE FINANZIARIA	Lecce	1	120,231	(49,769)	A.0	100.000	100.000	xxx
A.4		MPS GESTIONE CREDITI S.p.A.	Siena	1	108,044	6,959	A.0	99.500	100.000	xxx
							A.1	0.500		
A.5		MPS LEASING E FACTORING S.p.A.	Siena	1	286,244	(13,584)	A.0	86.916	100.000	xxx
							A.1	6.647		
							A.7	6.437		
A.6		MPS FINANCE BANCA MOBILIARE S.p.A.	Siena	1	217,841	34,257	A.0	100.000	100.000	xxx
A.7		GRUPPO BANCA AGRICOLA MANTOVANA	Mantua	1	907,201	77,044	A.0	100.000	100.000	xxx
	7.1	BANCA AGRICOLA MANTOVANA S.p.A.	Mantua	1	892,637	72	A.0	100.000	100.000	xxx
	7.2	BANCA AGRICOLA MANTONVA RISCOSSIONI S.p.A.	Mantua	1	1,026	(69)	A.7	100.000	100.000	xxx
	7.3	PADANA RISCOSSIONI S.p.A.	Mantua		3,661	536	A.7	54.538	99.766	
							A.33	45.228		
	7.4	PADANA IMMOBILIARE S.p.A.	Mantua		26,162	4,780	A.7	100.000	100.000	
	7.5	AGRISVILUPPO S.p.A.	Mantua		11,676	42	A.7	97.802	99.069	
							A.2	1.267		
A.8		MPS ASSET MANAGEMENT SGR S.p.A.	Milan	1	105,124	42,014	A.0	79.430	100.000	xxx
							A.1	6.192		
							A.7	10.550		
							A.3	3.828		
	8.1	MPS ALTERNATIVE INVESTMENTS SGR S.p.A.	Milan	1	8,814	2,355	A.8	100.000	100.000	
	8.2	MPS ASSET MANAGEMENT IRELAND LTD	Dublin		22,920	18,514	A.8	100.000	100.000	
A.9		MONTE PASCHI IRELAND LTD	Dublin	1	127,573	(230)	A.0	100.000	100.000	xxx
A.10		INTERMONTE SECURITIES	Milan	1	95,537	41,420	A.6	33.954	67.908	xxx

		SIM S.p.A.						A.7	33.954			

A.11		MONTE PASCHI FIDUCIARIA S.p.A.	Siena	1	1,356	11	A.0 A.1	86.000 14.000	100.000	
A.12		ULISSE S.p.A.	Milan	1	80		A.0	60.000	60.000	
A.13		ULISSE 2 S.p.A.	Milan	1	100		A.0	60.000	60.000	
A.14		ULISSE 3 S.p.A.	Milan	1	100		A.0	60.000	60.000	
A.15		CONSUM.IT S.p.A.	Florence	1	64,836	21,451	A.0 A.1	70.000 30.000	100.000	
A.16		MPS TENIMENTI FONTANA FREDDA E CHIGI SARACINI S.p.A.	Siena	1	47,369	310	A.0	100.000	100.000	
A.17		MPS IMMOBILIARE S.p.A.	Siena	1	1,325,307	27,958	A.0	100.000	100.000	
A.18		MARINELLA S.p.A.	La Spezia	1	46,027	(1,324)	A.0	100.000	100.000	
A.19		G.IMM. ASTOR Srl	Lecce	1	1,686	121	A.0	52.000	52.000	
A.20		PASCHI GESTIONI IMMOBILIARI S.p.A.	Siena	1	5,938	75	A.0	100.000	100.000	
A.21		G.I. PROFIDI SIM S.p.A.	Rome	1	2,656	(674)	A.0	100.000	100.000	
A.22		CONSORZIO OPERATIVO GRUPPO MPS	Siena	1	140,246		A.0 A.1 A.2 A.3 A.4 A.5 A.6 A.7	99.776 0.028 0.056 0.028 0.028 0.028 0.028 0.028	100.000	
A.23		ITALRISCOSSIONI S.p.A.	Rome	1	9,838	(106)	A.0	100.00	100.000	
A.24		G.E.R.I. T. S.p.A.	L'Aquila	1	2,736	273	A.0	99.978	99.978	
A.25		MONTE PASCHI SERIT S.p.A.	Palermo	1	15,202	4,801	A.0	100.000	100.000	
A.26		SO.RI.T S.p.A.	Foligno	1	505	(911)	A.0 A.32	54.593 20.000	74.593	
A.27		BANCA MONTE PASCHI BELGIO S.p.A.	Brussels	1	54,492	5,172	A.0 A.1	77.531 22.469	100.000	
A.28		MPS PREFERRED CAPITAL I LLC	Delaware	1	29,338	(284)	A.0	100.000	100.000	
A.29		MPS PREFERRED CAPITAL II LLC	Delaware	1	44,973	(2,836)	A.0	100.000	100.000	
A.30		MONTE PASCHI BANQUE S.A.	Paris	1	81,483	(2,764)	A.0 A.1	70.175 29.825	100.000	
	30.1	MONTE PASCHI CONSEIL FRANCE	Paris				A.30	99.840	99.840	
	30.2	MONTE PASCHI INVEST FRANCE S.A.	Paris				A.30	99.973	99.973	
	30.3	M.P. ASSURANCE S.A.	Paris				A.30	99.600	99.600	
	30.4	S.N.C. IMMOBILIARE POINCARE	Paris				A.30	100.000	100.000	
	30.5	IMMOBILIARE VICTOR HUGO	Paris				A.30	100.000	100.000	
A.31		MONTE PASCHI LUXEMBOURG S.A.	Brussels	1	938	178	A.0 A.30	99.200 0.800	100.000	
		A.2 Companies included in the consolidation (consolidated with proportional method)								
A.32		BANCA POPOLARE DI SPOLETO S.p.A. *(book value: 20% of nominal value)*	Spoleto	1	24,539	1,434	A.0	20.000	20.000	
A.33		BANCA MONTE PARMA S.p.A. *(book value: 41% of nominal value)*	Parma	1	56,244	970	A.0	41.000	41.000	
A.34		S.E.I.T S.p.A. *(book value: 40.205% of nominal value)*	Parma	1	1,201	12	A.33	40.205	40.205	
		B. Group companies valued with net equity method (detail of Account 80 a)								
B.1		MONTE PASCHI VITA S.p.A.	Rome	1	440,761	42,896	A.0 A.1	91.523 8.477	100.000	365,664
B.2		MONTEPASCHI ASSICURAZIONE DANNI S.p.A.	Rome	1	40,773	7,704	A.0	100.000	100.000	40,773

B.3	DIPRAS S.p.A.	Rome	1	1,241	351	A.0	100.000	100.000	1,241
B.4	MONTEPASCHI LIFE LTD.	Dublin	1	106,503	25,191	A.0	40.000	100.000	106,503
						B.1	60.000		
B.5	MPS NET S.p.A.	Siena	1	15,123	(5,885)	A.0	99.000	100.000	15,020
						A.2	1.000		
B.6	SAN PAOLO ACQUE S.r.l.	Lecce	1	194	(27)	A.0	100.000	100.000	194
B.7	MAGAZZINI GENERALI FIDUCIARI MANTOVA S.p.A.	Mantua	1	8,129	(58)	A.7	100.000	100.000	8,138
B.8	MPS PROFESSIONAL S.p.A.	Siena	1	(383)	(,806)	a.0	100.000	100.000	-
	Total								537,533

		C. Other companies valued with net equity method (detail of Account 70 a)								
C.1	(**)	BANQUE DU SUD	Tunis	8	99,167	-	A.0	14.961	14.961	15,581
C.2		AEROPORTO SIENA S.p.A.	Siena	8	(319)	(1,418)	A.0 A.1	20.000 20.000	40.000	-
C.3	(**)	FIDI TOSCANA S.p.A.	Florence	8	70,362	-	A.0 A.1 A.2	13.530 10.468 5.181	29.179	20,531
C.4		FINSOE S.p.A.	Florence	8	948,087	18,172	A.0	39.000	39.000	359,090
C.5		LE ROBINIE S.r.l.	Reggio Emilia	8	4,106	-	A.7	20.000	20.000	821
C.6		QUADRIFOGLIO VITA S.p.A	Bologna	8	75,264	13,440	A.7	50.000	50.000	43,532
		Total								438,555

(*) Code 1 indicates majority of voting rights in the Ordinary Shareholders' Meeting; code 8 indicates associated companies

(**) The data are relative to the financial statements as of 30 December 2003

Companies valued at cost

	Company	*Registered Office*	*% Held*	*Book Value*
	Banks			
1	Alpha Bank Romania S.A.	Bucharest	3.501	3,352
2	Banca della Ciociaria S.p.A.	Frosinone	10.072	4,846
3	Banca dell'Umbria S.p.A.	Perugia	0,024	25
4	Banca d'Italia	Rome	2.503	4
5	Banca Nazionale del Lavoro S.p.A.	Rome	4.418	300,176
6	Banca per il Leasing Italease S.p.A.	Milan	4.096	13,931
7	Banca Popolare Etica S.c.a.r.l.	Padua	0.177	28
8	Cassa di Risparmio di Savona S.p.A.	Savona	0.546	1,198
9	Ist. per il credito sportivo	Rome	10.811	27,372
10	Istituto Centrale Banche Popolari Italiane	Rome	0.082	31
11	Mercobank S.A.	Buenos Aires	0.118	-
12	S.E.V. S.p.A.	Rome	0.125	10
13	U.B.A.	Lagos	2.400	485

Financial Services

14	121 Fund Management Limited	Dublin	100.000	-
15	3R Management SGECR S.A.	Madrid (E)	10.000	-
16	Agenzia Sviluppo Lazio S.A.	Rome	1.869	915
17	Brasilinvest & Partners SA	São.Paulo	0.839	-
18	Cattolica Popolare Scarl	Molfetta (BA)	0.048	14
19	Centro sviluppo S.p.A.	S. Christoph	4.002	41
20	Colomba Invest SIM S.p.A.	Rome	0.810	14
21	Commerfin S.c.p.a.	Rome	15.000	156
22	Confidi Coop Marche S.c.r.l.	Ancona	4.388	52
23	Euronext N.V.	Amsterdam	.	4
24	Europay Belgium	Brussels	0.244	2
25	European Investment Fund	Luxembourg	0.250	1,000
26	Europrogetti & Finanza S.p.A.	Rome	10.113	869
27	Evoluzione 94 S.p.A.	Milan	4.315	696
28	Fabbrica Immobiliare SGR S.p.A.	Rome	45.000	2,250
29	Factorit S.p.A.	Milan	3.418	1,667
30	Farmafactoring S.p.A.	Milan	11.000	1,230
31	Fin. Promo. Ter.Scpa	Rome	14.393	230
32	Finaosta S.p.A.	Aosta	0.563	560
33	Fincalabra S.p.A.	Catanzaro	3.306	264
34	Finpuglia S.p.A.	Bari	0.767	80
35	Gepafin S.p.A.	Perugia	4.333	10
36	Iccrea Holding S.p.A.	Rome	0.011	50
37	Istifid	Milan	0.345	4
38	M.A.S. MPS Assets Securitisation S.p.A.	Rome	10.000	10
39	Mantegna Finance II S.r.l.		7.000	1
40	Mantegna Finance S.r.l.	Mantua	7.000	1
41	Markfactor S.p.A.	Brescia	10.000	331
42	Nuova Fin S.p.A.	Spoleto	19.434	213
43	Santorini Investment Ltd Partnership	Edinburgh	49.000	328,690
44	SI Holding S.p.A.	Rome	6.079	1,232
45	SICI			1,507
46	Siena Mortagages 00-1 S.p.A.	Milan	7.000	7
47	Siena Mortagages 01-2 S.p.A.	Milan	7.000	7
48	Siena Mortagages 02-3 Srl	Conegliano (TV)	9.100	1

49	Siena Mortgages 03-4 S.r.l.	Rome	10.000	1
50	Simest S.p.A.	Rome	1.059	1,562
51	SO.FIN.IND. S.p.A.	Naples	15.000	1,986
52	Sofinco S.p.A.	Modena	7.051	2,200
53	Spoleto Crediti e Servizi Scar	Spoleto	28.877	30,000
54	Spoleto Mortgages S.r.l.	Rome	10.000	-
55	Sviluppo Holding S.r.l.	Perugia	30.000	3
56	Tiziano Finance S.r.l.	Conegliano (TV)	10.000	10
57	Total Return SGR S.p.A.	Mantua	15.000	210
58	Trinità Capm Ltd SGR	London	20.000	1,003
59	Ulisse 4 S.r.l.	Milan	7.000	-
60	Union Capital Sim S.p.A. (in liquidation)	Milan	.	298
61	Visa Belgium	Brussels	0.572	-
				379,381
	Other			
62	4Sale Italian (in liquidation)	Siena		
63	A.S.I. Azienda Serv. Inform. S.p.A.	Mantua	2.593	
64	A.S.I.A. Agenzia di Sviluppo Ionio Alcantara S.p.A.	Taormina (ME)	8.024	10
65	ABE Clearing Company's Account	Paris	1.000	1
66	Abi Energia	Rome	3.704	1
67	Abruzzo Sviluppo S.p.A.	Pescara	5.845	32
68	Acque Blu Arno Basso S.p.A.	Rome	8.000	1,523
69	Aeroporto di Firenze S.p.A.	Florence	2.993	224
70	Aeroporto di Reggio Emilia Srl	Reggio Emilia	0.215	9
71	Aeroporto G. Marconi S.p.A.	Bologna	0.136	3
72	Agenzia di Pollenzo S.p.A.	Bra (CN)	0.443	77
73	Agenzia Occupazione Area Nord Barese Ofantina	Barletta	4.094	4
74	Agra-Aiproco Scarl	Vignola (MO)	13.391	500
75	Agricola Poggio Bonelli S.r.l.	Castelnuovo Ber.ga (SI)	100.000	3,343
76	Agrifactoring S.p.A. (in liquidation)	Rome	2.500	
77	Agriform Scarl	Sommacampagna	11.899	775
78	Alerion Industries S.p.A.	Rome	7.948	15,096
79	Alexa S.p.A.	Florence	11.000	1,430
80	Ama International S.p.A.	Rome	12.183	1,331
81	Ambiente e Territorio S.p.A.	Foggia	3.682	5
82	Arcea Lazio S.p.A.	Rome	5.000	210
83	Argentario Approdi e Servizi S.p.A.	Porto Santo Stefano	8.896	350
84	Assicurazioni Generali S.p.A.	Trieste	1.583	453,609
85	Autocamionabile della Cisa S.p.A.	Noceto (PR)	0.010	2
86	B.I.C. Umbria S.p.A.	Terni	1.470	20
87	Bank Card Company	Brussels	0.008	2
88	Banksiel S.p.A.	Milan	2.085	467
89	Banksys S.A.	Brussels	0.087	5
90	Bassilichi S.p.A.	Florence	11.592	385
91	Bell S.à.r.l.	Luxembourg	7.872	8,100
92	Beta Prima S.r.l.	Siena	34.069	360

93	Bid. It. S.p.A.	Barletta	7.572	-
94	Bilanciai International S.p.A.	Campogalliano	3.753	516

95	Bilanciai Soc. Coop. r. l.	Campogalliano (MO)	3.753	516
96	Bios S.p.A.	Milan	12.936	54,231
97	Borsa Italiana S.p.A.	Milan	10.360	41,570
98	C.I.R. Cooperativa Italiana Ristorazione S.C.	Reggio Emilia	16.369	2,580
99	C.S.P. BIC Livorno S.r.l.	Leghorn	2.079	7
100	Calp S.p.A.	Colle Val d'Elsa (SI)	1.465	1,104
101	Camporlecchio Educational S.r.l.	Rome	40.000	200
102	Cantine Riunite	Reggio Emilia	25.134	1,498
103	Caseificio Sociale del Parco Scarl	Ramiseto (RE)	33.115	200
104	CDO.Net S.p.A.			607
105	Cedacrinord S.p.A.	Colecchio (PR)	6.099	154
106	Cefris S.C.p.A.	Gioia Tauro (RC)	0.401	1
107	Centrale dei Bilanci S.r.l.	Turin	8.460	3,966
108	Centrale GPA S.p.A.	Pesaro	16.315	15
109	Centrale Rischi Finanziaria CRIF S.p.A.	Bologna	2.525	65
110	Centralia S.p.A.	Milan	8.546	-
111	Centro Affari e Convegni Arezzo	Arezzo	11.394	1,579
112	Centro Agro Alimentare Bologna S.c.p.A.	Bologna	0.550	265
113	Centro Agro-alimentare di Parma S.r.l.	Parma	8,810	184
114	Centro Agroalimentare Napoli S.c.p.A.	Naples	3.862	821
115	Centro Ass.za Tecnica Confcomm.Pistoia Scarl	Pistoia	8.551	1
116	Centro Prom.e Svil.Terr.ed Agenzia Loc.Form. Srl	Senigallia (AN)	2.500	3
117	Centro Ricerche e Servizi Srl	Mantua	10.000	5
118	Centro Torri S.r.l.	Parma	1.826	-
119	Cepim - Centro Padano Interscambio Merci S.p.A.	Fontevivo (PR)	9.850	808
120	Cestud	Rome		448
121	Cevalco S.p.A.	Venturina (Li)	1.367	17
122	Charme Investments Sca	Luxembourg	16.230	11,039
123	Cisfi S.p.A.	Naples	1.275	560
124	CMST S.p.A. (in liquidation)	Rome	45.000	23
125	Co.Ce.Me. S.r.l	Canicattì	7.147	-
126	Colle Promozione S.p.A.	Colle Val d'Elsa (SI)	12.000	31
127	Compagnia Invest. e Sviluppo C.I.S. S.p.A.	Villafranca di Verona	4.000	2,411
128	CONIT S.p.A.	Rome	10.000	10
129	Cons. per lo Sviluppo dell'Area Conca Barese Scrl	Molfetta (BA)	4.000	4
130	Consorzio Abi Lab	Rome	9.091	1
131	Consorzio Agrario Prov.le Siena	Siena	49.591	37
132	Consorzio Agrario Provinciale Scrl	Parma	9.886	8
133	Consorzio Aree Industriali Lamezia Terme	Lamezia Terme (CZ)	2.339	8
134	Consorzio Cassamercato	Milan	6.286	7
135	Consorzio Commercianti del Centro Comm.le Sidoli	Parma	3.846	-
136	Consorzio Etruria Scrl	Montelupo Fiorentino (FI)	24.237	1,549
137	Consorzio Intesa Aretina	Arezzo	2.000	374
138	Consorzio Latterie Sociali Mantovane	Mantua	28.032	2,066

139	Consorzio Patti Chiari	Rome	2.260	17
140	Consorzio Siat Scarl	San Severo (FG)	2.500	13
141	Consorzio Toscana Salute	Florence	15.000	4
142	Cooplink S.p.A.	Siena	48.250	424
143	Crossing Europe GEIE	Siena	30.500	46
144	D.A.I.C.A.P. Scpa (in liquidation)	Foggia	11.000	-
145	Dada S.p.A.	Florence	4.023	3,666
146	Docutel Communication Services S.p.A.	Siena	15.000	75
147	E d.C S.p.A.	Incisa Valdarno (FI)	2.000	100
148	Ecc Holding S.r.l.	Rome	18.650	6,732
149	Ecu Sim SpA (in liquidation)	Milan	2.301	-
150	E-IDEA (in liquidation)	Siena		
151	El.En S.p.A.	Calenzano (FI)	9.932	6,485
152	Elsacom N.V.	Amsterdam	4.423	-
153	Elsag Back Office Services S.p.A.	Siena	15.000	155
154	Elsag Banklab	Rome	-	-
155	E-MID S.p.A.	Milan	5.850	350
156	Emprimer S.p.A.	Milan	6.305	90
157	Energia Italiana S.p.A.	Milan	8.000	17,428
158	Engineering Informatica S.p.A.	Rome	2.000	5,340
159	Ente Morale S.Lorenzo da Brindisi	Brindisi	14.645	5
160	ERVET Emilia Romagna Valor. Economica Territorio S.p.A	Bologna	2.250	351
161	Euro Torri S.c.r.l.	Parma	0.216	-
162	Eurobic Toscana Sud S.p.A.	Poggibonsi (SI)	15.678	84
163	Eurochianti S.c.r.l.	Castelnuovo B.ga (Si)	4.327	2
164	Euros S.p.A.	Rome	0.266	-
165	EX.T.R.E.ME. S.r.l.	Palermo	2.000	1
166	Exporters Insurance Co Ltd	Hamilton (Bermude)	0.082	90
167	F.A.R. Maremma Scarl	Arcidosso	6.587	6
168	F.D.L. Servizi Srl	Bari	5.000	10
169	Fidenza S.c.r.l.	Fidenza (PR)	1.480	-
170	Fiera di Galatina e del Salento SpA	Galatina (LE)	7.143	52
171	Fiera Millenaria di Gonzaga S.r.l.	Gonzaga	6.000	9
172	Fiere di Parma S.p.A.	Parma	1.108	94
173	FIME Finanz. Meridionale S.p.A. (in liquidation)	Rome	1.933	-
174	Fioroni Sistema S.p.A.	Perugia	1.384	8
175	Firenze Expò & Congress Centro Fier. e Congr. S.p.A.	Florence	4.727	1,035
176	Firenze Mostre S.p.A.	Florence	8.889	174
177	Firenze Parcheggi	Florence	25.580	4,981
178	Floramiata S.p.A.	Piancastagnaio (SI)	4.564	103
179	Florentia Bus S.p.A.	Florence	14.948	696
180	Foire Int.le de Liege S.C.	Liège	0.001	-

181	Foligno Nuova S.p.A.	Foligno	1.667	2
182	Fondazione L.E.M.	Leghorn	13.991	103
183	Fondazione Mezzogiorno Sud Orientale	Bari	33.333	162
184	Fondazione Mezzogiorno Tirrenico	Naples	33.333	539
185	G.A.L. Marsica	Civitella Roveto	0.900	2
186	G.A.L. Terra dei Messapi Srl	Mesagne (BR)	9.524	2
187	G.P.D. Global Project Developers S.p.A. (in liquidation)	Rome	15.837	-
188	Galileo Holding S.p.A.	Venice	5.540	-
189	Grosseto Sviluppo S.p.A.	Grosseto	15.620	150
190	Hopa S.p.A.	Brescia	9.590	333,347
191	I.Am It S.p.A. (in liquidation)	Siena	100.000	-
192	I.S.B.E.M. Scpa	Brindisi	13.401	93
193	I.T.S. Intesa S.p.A.	Salerno	7.538	-
194	Idroenergia Scarl	Aosta	0.333	4
195	Immobiliare Abbiatense	Abbiategrasso	2.000	5
196	Immobiliare Lombarda S.p.A.	Milan	0.727	712
197	Immobiliare Novoli S.p.A.	Florence	5.000	1,033
198	Immobiliare Ve-Ga S.p.A.	Milan	20.030	6
199	Impianti S.r.l. (in liquidation)	Milan	13.817	2
200	In Comune S.p.A.	Siena	15.663	111
201	Informatica Umbra S.r.l.	Spoleto	8.333	3
202	Iniziative Immobiliari S.r.l.	Gavirate (VA)	13.869	5,323
203	Interporto Bologna S.p.A.	Bologna	1.678	240
204	Interporto Campano S.p.A.	Naples	0.094	26
205	Interporto Civitavecchia P.L. S.p.A.	Civitavecchia	0.537	50
206	Interporto Toscano A.Vespucci	Leghorn	36.303	8,370
207	Ist. Encicl. Banca e Borsa S.p.A.	Rome	3.499	25
208	Isveimer S.p.A. (in liquidation)	Rome	0.002	-
209	IT City S.p.A.	Parma	15.000	733
210	Ital Tbs S.p.A.	Trieste	7.592	3,030
211	Kerself S.p.A.	Correggio (RE)	20.033	2,168
212	Lineapiù S.p.A.	Prato	2.000	1,160
213	Lucandocks S.p.A.	Potenza	2.000	26
214	Lucchini S.p.A.	Milan	4.717	12,437
215	Macello Coop.Lav.Carni S.c.r.l.	Pegognaga (MN)	8.619	300
216	Manfredonia Sviluppo S.c.p.a (in liquidation)	Foggia	12.097	66
217	Mantova Expo S.r.l.	Mantua	6.619	26
218	Mantova Interporto S.p.A.	Mantua	4.167	26
219	Marina Blu S.p.A.	Rimini	30.001	4,132
220	Marina di Stabia S.p.A.	Castellamare di Stabia(NA)	15.833	5,162
221	Mattatoio Valle Umbra Sud S.p.A.	Foligno	1.375	3
222	Meliorconsulting S.p.A.	Rome	5.000	40
223	Moda Mediterranea S.p.A.	Bari	12.376	25

224	Moliseinnovazione Soc.Cons.a r.l.	Campobasso	3.530	24
225	MTS Mercato Titoli di Stato S.p.A.	Rome	5.000	1,413
226	Murgia Sviluppo SpA	Altamura (BA)	5.000	5
227	Napoli Orientale S.p.A.	Naples	9.798	52
228	Net Service Val Parma S.r.l.	Parma	12.500	2
229	Newco S.p.A.	Neaples	20.000	6
230	Newcolle S.r.l.	Colle Val d'Elsa (SI)	12.000	767
231	Nomisma S.p.A.	Bologna	6.073	337
232	Oglio Po Terre D'Acqua S.c.r.l.	Calvatore (CR)	6.276	3
233	Ombrone S.p.A.	Rome	14.990	2,989
234	P.B. S.r.l.	Milan	7.851	11
235	Pacchetto Localizzativi Brindisi S.p.A.	Brindisi	16.823	75
236	Par. Fin S.p.A. (bankrupt)	Bari	1.783	-
237	Parco Scientifico e Tecnologico di Salerno S.p.A.	Salerno	1.000	13
238	ParmAbitare S.r.l.	Parma	2.000	1
239	Pastis - C.N.R.S.M. Scpa (in liquidation)	Brindisi	10.063	208
240	Patto 2000 Scrl	Città della Pieve (PG)	7.937	23
241	Patto della Piana S.p.A.	Gioia Tauro (RC)	3.608	4
242	Patto di Foggia Scpa	Foggia	8.000	8
243	Patto Terr.le Area Metropolitana Bari S.p.A.	Bari	0.300	2
244	Patto Territoriale Polis Srl	Monopoli	6.296	10
245	Patto Territoriale Sele Picentino S.p.A.		2.052	8
246	Piaggio & C. S.p.A.	Pontedera	0.205	785
247	Polo Universitario Aretino S.c.a.r.l.	Arezzo	6.522	8
248	Polo Universitario Colle V.Elsa S.c.r.l.	Colle Val D'Elsa	7.389	8
249	Polo Universitario Grossetano	Grosseto	5.405	5
250	Porto industriale di Livorno S.p.A.	Leghorn	15.963	2,912
251	Porto Intermodale Ravenna Sapir S.p.A.	Ravenna	0.006	
252	Pro.Mo.Mar S.p.A.	Puntone, Scarlino (GR)	11.000	2,397
253	Profingest Scuola per dirigenti di impresa e banca	Bologna	0.461	2
254	Progeo S.c.r.l.	Reggio Emilia	16.842	645
255	Progetti S.r.l.	Prato	15.000	5
256	Promart S.r.l.	Naples	5.000	1
257	Promem S.p.A.	Bari	4.321	30
258	Promo Piana S. cons. a r.l.	Campi Bisenzio (FI)	4.918	1
259	Promozione Svil. Latina S.p.A.	Latina	1.081	1
260	Promozione Sviluppo Val di Cecina S.r.l.	Cecina (LI)	17.905	18
261	R.E.A. Regional Energy Agency S.p.A.	Florence	3.000	4

262	Reggio Sviluppo S.p.A.	Reggio Calabria	0.909	6
263	Residence La Pinetina S.r.l.	Rome	34.667	6
264	S P F Studio Progetti e Servizi Finanziari S.r.l.		10.000	9
265	S.A.Cal. S.p.A.	Lamezia T.	0.600	34
266	S.A.S.E. S.p.A.	Perugia	1.862	6
267	S.E.A.M. Soc.Es.Aeroporto Mar. S.p.A.	Grosseto	1.930	-
268	S.E.P. Società Economica Parmense S.r.l.	Parma	5.000	1
269	S.F.I.R.S. S.p.A.	Cagliari	0.177	266
270	S.I.A. S.p.A.	Milan	1.585	501
271	S.I.T. S.p.A.	Rome	20.000	206
272	S.S.B. S.p.A.	Milan	7.693	343

273	S.T.A. S.p.A.	Reggio nell'Emilia	15.000	2,192
274	S.T.B. Società delle Terme e del Benessere S.p.A.	Prato	15.000	4,618
275	Santa Lucia S.p.A.	San Gimignano (SI)	5.000	7
276	Saped Servizi S.p.A.	Siena	15.000	13
277	Serin - Serv. Ind. SpA (bankrupt)	Sissa (PR)	50.000	-
278	Servizi Cimiteriali Cesano Boscone	Cesano Boscone (MI)	10.000	121
279	Siena Ambiente S.p.A.	Siena	14.000	2,246
280	Siena Parcheggi S.p.A.	Siena	16.667	773
281	Sistema Interportuale Jonico Salentino SpA	Lecce	9.343	46
282	Siteba S.p.A.	Rome	6.161	696
283	Skillpass S.p.A. (in liquidation)	Rome	12.500	277
284	SO.GE.A.P. - Aeroporto Parma - Soc. gestione S.p.A.	Parma	5.616	100
285	SO.GE.SI. S.p.A. (in liquidation)	Palermo	10.000	-
286	SO.PR.I.P. Soc. Prov. Insediamenti Produttivi S.p.A.	Parma	2.417	9
287	SO.V.IM. Organismo di Attestazione S.p.A.	Florence	12.048	77
288	Soc. Aeroporto Toscano	Pisa	4.948	328
289	Soc. Gest. Patto Terr. Agro Nocerino Sarnese	Nocera Inferiore	2.379	30
290	Soc. per lo Sviluppo del Basso Tavoliere Scrl	Foggia	13.333	2
291	Soc. Prom. Area Sud Basilicata S.p.A.	Latronico (PZ)	0.150	2
292	Società Cons. Matese per l'Occupazione	Campobasso	1.001	5
293	Società Italiana di Monitoraggio S.p.A.	Rome	33.333	559
294	Sodim Srl (in liquidation)	Lecce	100.000	-
295	Sofiser S.r.l.	Reggio Emilia	2.030	97
296	Soggetto Interm Locale Appennino Centrale S.c.ar.l	Sansepolcro (Ar)	1.790	6
297	Start S.p.A.	Borgo S.Lorenzo (FI)	2.828	1
298	Sviluppo Italia Liguria S.p.A. (Bic Liguria)	Genua	0.759	41
299	Sviluppo Sele - Tanagro S.p.A.	Oliveto Citra (SA)	10.000	45
300	Sviluppumbria S.p.A.	Perugia	15.868	771
301	Swift	Brussels	0.220	80
302	Tamleasing S.p.A. (in liquidation)	Milan	0.116	-
303	Taranto Sviluppo Scpa (in liquidation)	Taranto	15.000	-
304	Tein Plc (in liquidation)	London	100.00	-
305	Toscana Gas S.p.A.	Pisa	1.132	1,239
306	Tra.In S.p.A.	Siena	13.821	1,304
307	Trasporti Ferroviari Casentino S.r.l.	Poppi (AR)	3.090	77
308	Unicarni S.c.r.l.	Reggio Emilia	7.302	775
309	Valdarno Sviluppo S.p.A.	Cavriglia	12.574	90

310	Venafro Sviluppo S.p.A.	Venafro (IS)	10.000	15
311	Veronamercato S.p.A.	Verona	2.598	861
312	VoloRosso S.r.l.	Bologna	48.000	710
	Total			1,078,200

3.2 Assets and liabilities with respect to Group companies

Assets and liabilities with respect to Group companies were of an immaterial amount as of the date of the financial statements and referred to holdings in insurance companies valued under the net equity method.

3.3 Assets and liabilities to companies in which investments are held (other than Group companies)

	31/12/2004	31/12/2003
A. **Assets**:	1,247,436	1,425,767
1. Due from banks	51,900	66,429
including: subordinated amounts	-	-
2. Due from financial institutions	344,294	479,133
including: subordinated amounts	322,619	289,990
3. Due from other customers	585,171	537,716
including: subordinated amounts	9,478	9,748
4. Bonds and other debt securities	266,071	342,489
including: subordinated amounts	36,774	92,281
B. **Liabilities**	773,742	704,208
1. Due to banks	13,518	47,897
2. Due to financial institutions	288,110	200,030
3. Due to other customers	391,460	353,969
4. Liabilities backed by securities	80,654	88,312
5. Subordinated liabilities	-	14,000
C. Guarantees and commitments	159,173	283,238
1. guarantees released	74,350	91,692
2. commitments	84,823	191,546

3.4 Composition of Account 70 - Equity investments

The breakdown of other equity investments by industry is provided in the table below:

	31/12/2004	31/12/2003
a) In banks	366,041	321,481
1. listed	300,661	245,601
2. unlisted	65,380	75,880
b) In financial institutions	759,299	781,040
1. listed	-	16,424
2. unlisted	759,299	746,616
c) Other	1,121,647	1,054,569
1. listed	482,063	483,164
2. unlisted	639,584	571,405
Total	2,246,987	2,157,090

3.5 Composition of Account 80 - Equity investments in Group companies

Investments in Group companies by business sector are as follows:

	31/12/2004	31/12/2003
a) In banks		-
1. listed		-
2. unlisted		-
b) In financial institutions		-
1. listed		-
2. unlisted		-
c) Other	538,140,	464,278
1. listed		-
2. unlisted	538,140	464,278
Total	538,140	464,278

3.6 Annual changes in equity investments

Annual changes in equity investments are summarized in the following two tables.

3.6.1 Equity investments in Group companies

	31/12/2004 Valued with Net Equity Method	Other	31/12/2003 Valued with Net Equity Method	Other
A. Opening balance	464,278	-	439,262	145,511
B. Increases:	132,642	607	113,353	-
B.1 Purchases	70,000	607	3,205	-
B.2 Recoveries	-	-	-	-
B.3 Revaluations	-	-	-	-
B.4 Other changes	62,642	-	110,148	-
C. Decreases:	59,387	-	88,337	145,511
C.1 Sales	-	-	-	132,396
C.2 Valuation adjustments	-	-	-	5,531
including: permanent writedowns	-	-	-	
C.3 Other changes	59,387	-	88,337	7,584
D. Closing balance	537,533	607	464,278	-

As far as further information about equity investments in Group companies the Report of the Board of Directors (section "Investments") has to be referred to.

3.6.2 Other equity investments

	31/12/2004 Valued with Net Equity Method	Other	31/12/2003 Valued with Net Equity Method	Other
A. Opening balance	439,337	1,717,753	62,555	1,541,376
B. Increases:	23,528	156,546	377,518	240,828
B.1 Purchases	-	139,596	179,307	52,266
B.2 Recoveries	-	1,010	-	6,982
B.3 Revaluations	-	-	-	
B.4 Other changes	23,528	15,920	198,211	181,580
C. Decreases:	24,310	65,867	736	64,451
C.1 Sales	-	51,903	-	14,911
C.2 Valuation adjustments	-	2,178	-	49,540
including: permanent writedowns		-		-
C.3 Other changes	24,310	11,786	736	-
D. Closing balance	438,555	1,808,432	439,337	1,717,753

SECTION 4 – FIXED AND INTANGIBLE ASSETS

Fixed assets

Fixed assets consist of the following:

	31/12/2004	31/12/2003
Buildings used in core business	1,406,597	1,459,333
Other buildings	483,320	539,111
Furniture and equipment	92,742	140,467
Total	1,982,659	2,138,911

4.1 Annual changes in balances of fixed assets

The annual changes in the fixed asset accounts are summarized in the table below:

	31/12/2004	31/12/2003
A. Opening balance	2,138,911	2,135,218
B. Increases:	293,372	361,857
B.1 Purchases	237,281	306,183
B.2 Recoveries	-	36,519
B.3 Revaluations	15,693	19,155
B.4 Other changes	10,398	-
C. Decreases:	449,624	358,164
C.1 Sales	4,628	15,317
C.2 Valuation adjustments	115,879	141,806
Depreciation	115,879	141,806
permanent writedowns	-	-
C.3 Other changes	329,117	201,041
D. Closing balance	1,982,659	2,138,911
E. Total revaluations	165,294	32,569
F. Total adjustments	1001,142	926,266
Depreciation	984,411	905,656
permanent writedowns	16,731	20,610

Intangible assets

Intangible assets consist of the following:

	31/12/2004	31/12/2003
Start-up costs	2,938	4,566
Commissions for placement of debentures	23,561	20,794
Leasehold improvements	35,480	25,342
Software (1)	177,468	220,849
Goodwill	1,457	3,732
Other	33,099	97,834
Total	274,003	373,117

(1) The software programs are mainly imputable to the MPS Group's Operating Consortium.

4.2 Annual changes in the balances of intangible assets

The annual changes in the intangible asset accounts are summarized in the table below:

	31/12/2004	31/12/2003
A. Opening balance	373,117	434,296
B. Increases:	92,094	167,554
B.1 Purchases	88,479	144,193
B.2 Recoveries	-	23
B.3 Revaluations	-	-
B.4 Other changes	3,615	23,338
C. Decreases:	191,208	228,733
C.1 Sales	42	237
C.2 Valuation adjustments	160,341	193,907
- amortization	160,341	163.907
- permanent writedowns	-	-
C.3 Other changes	30,825	34,589
D. Closing balance	274,003	373,117
E. Total revaluations	-	-
F. Total adjustments	792,852	614,809
- amortization	784,502	606,131
- permanent writedowns	8,350	8,678

SECTION 5 - OTHER ASSETS

5.1 Composition of Account 150 - Other assets

Other assets consist of the following:

	31/12/2004	31/12/2003
Amounts due from taxpayers – tax collection service	2,345,230	2,592,165
Due from the Treasury	1,144,167	977,190
Third-party checks held for collection	423,336	422,596
MPS checks held for collection	160.928	275,290
Clearing balances with branches	58,707	84,546
Valuation adjustments on foreign currency transactions	254	5,422
Security deposits	21,813	10,060
Balances on foreign exchange transactions	113,095	5
Non-banking operating assets	47,378	611
Assets subject to litigation not related to lending transactions	9.106	15,176
Subsidies for interest-subsidized loans	-	-
Deferred tax assets (°)	429,156	463,224
Option premium	1,567,063	1,869,133
Off-balance-sheet transaction revaluation	10,093,070	7,560,692
Other	2,317,646	3,478,603
Total	18,730,949	17,754,713

(°) See note in Section 7.4 – Reserve for taxes

The "revaluation of off-balance-sheet transactions" includes the entries offsetting the revaluation of forward foreign exchange contracts for derivatives outstanding as of the end of the period. The criteria for such accounting treatment are set forth in Part A, Section 1 of the notes to the financial statements.

5.2 Composition of Account 160 - Accrued income and prepayments

Accrued income and prepayments consist of the following

	31/12/2004	31/12/2003
Accrued income:		
Interest on owned securities	173,229	184,468
Interest on loans and advances to banks	47,405	48,116
Interest on loans and advances to customers	172,418	90,815
Differentials on hedging transactions	740,780	617,278
Tax collection commissions	133	172
Other	57,667	50,323
	1,191,632	991,172
Prepayments:		
Differentials on hedging transactions	13,855	15,936
Costs	6,931	5,521
Issuing discounts	76,101	74,988
Other	132,822	152,384
	229,709	248,829
Total	1,421,341	1,240,001

5.3 Adjustments to accrued income and prepayments

No adjustments have been made directly to the accounts

5.4 Distribution of subordinated loans

The Group holds the following assets whose repayment is subordinated to the respective borrowers' repayment of other obligations.

	31/12/2004	31/12/2003
Amounts due from banks		-
Customer loans and advances (°)	419,282	380,958
Bonds and other fixed-income securities	1,142,352	954,418
Total	1,561,634	1,335,376

(°) The balance includes EUR 118,777,000 relative to subordinated loans granted by the parent company to several special-purpose companies set up for the credit securitization transactions.

SECTION 6 - LIABILITIES

6.1 Composition of Account 10 - Due to banks

	31/12/2004	31/12/2003
a) Repurchase agreements	7,126,754	6,646,976
b) Pledged securities	426,127	231,612

Funding from banks consists of the following amounts:

	31/12/2004	31/12/2003
Sight	1,492,657	2,254,814
Current accounts	515,408	439,046
Demand deposits	795,365	1,605,861
Other	181,884	209,907
Time or requiring advance notice of withdrawal	13,734,869	12,803,160
Time deposits	4,855,714	4,950,635
Deposits received from central banks		-
Borrowings from central banks	355,330	241,987
Borrowings from banks	274,322	183,440
Borrowings from international institutions	449,120	443,186
Re-financing from medium-term and other specialized lenders (Artigiancassa)	11,841	19,361
Repurchase agreements	7,126,754	6,878,587
Pledged securities	426,661	-
Other	235,661	86,074
Total	15,227,526	15,057,974

6.2 Composition of Account 20 - Customer deposits

	31/12/2004	31/12/2003
a) Repurchase agreements	4,497,887	4,453,711
b) Securities lending	327,429	216,521

Customer deposits consist of the following amounts:

	31/12/2004	31/12/2003
Sight	41,470,736	38,771,431
Current accounts	37,800,516	34,977,093
Demand deposits	3,356,904	3,461,475
Other	313,316	332,863
Time or requiring advance notice of withdrawal	7,761,148	8,239,917
Saving deposits	800,844	629,757
Current accounts	1,468,308	2,829,150
Repurchase agreements	4,825,315	4,670,233
Securities lending	21,836	16,415
Other	644,845	94,362
Total	49,231,884	47,011,348

6.3 Composition of Account 30 - Other borrowed funds backed by negotiable instruments

Other borrowed funds backed by negotiable instruments include:

	31/12/2004	31/12/2003
Bonds	25,604,152	23,999,964
Certificates of deposit	6,530,743	6,021,286
Other securities	417,280	830,462
Total	32,552,175	30,851,712

The other securities include cashier checks and bank drafts still outstanding.

6.4 Composition of Account 40 - Third-party funds under administration

	31/12/2004	31/12/2003
Funds in EUR	30,334	30,742

The account includes liabilities for funds provided by public-sector entities which are earmarked for specific uses in accordance with special laws.

SECTION 7 - RESERVES

This section summarizes the liabilities in Accounts 70, 80, and 90.

7.1 Composition of Account 90 - Reserve for loan losses

The reserve for loan losses has been calculated in accordance with Article 20, Paragraph 6 of Legislative Decree No. 87/92. The reserve, which is subject to taxation, does not represent an adjustment to a specific asset item and covers only potential credit risks.

7.2 Change in the reserve for loan losses

	31/12/2004	31/12/2003
A. Opening balance	311,105	354,515
B. Increases	26,898	120,073
B.1 Provisions	26,898	48,028
B.2 Other changes	-	72,045
C. Decreases	60,926	163,483
C.1 Usage	33,281	124,905
C.2 Other changes	27,645	38,578
D. Closing balance	277,077	311,105

7.3 Composition of Sub-Account 80 d) - Reserves for risks and other charges: other reserves

	31/12/2004	31/12/2003
Provisions for guarantees and commitments	31.671	49,228
Reserve for philanthropic activities	1,163	1,067
Reserve for risks and other charges:	708,047	733,549
- pending litigation	133,599	141,481
- charges on renewal of contracts	-	155
- action for revocation	178,518	184,932
- tax collection activities	121,690	127,662
- provisions for losses on equity investments	8.548	6,877
- Interbank Guarantee Fund	55	133
- Interbank Deposit Protection Fund	-	-
- Securities issued by high-risk nations	8,071	11,783
- Other (1)	257,566	260,226
Total	740,881	783,844

(6) The account “Other” includes EUR 81,000,000 to cover risks, if any, related to savings plans and structured products.

Provisions for guarantees and commitments

	31/12/2004	31/12/2003
Opening balance	49,228	47,003
Provisions	680	4,707
Usage	(17,975)	(2,072)
Other changes	(262)	(410)
Total	31,671	49,228

The provisions for guarantees and commitments have been made to cover losses of value as calculated in accordance with the criteria provided in Article 20, Paragraph 7 of Legislative Decree 87/92.

Reserve for philanthropic activities

The reserve has been established to cover quotas of earnings set aside for philanthropic activities and community services. Changes in the reserve are summarized in the following table:

	31/12/2004	31/12/2003
Opening balance	1,067	681
Allocation of prior-year profits	1,291	3,113
Use of the reserve	(1,195)	(2,727)
Closing balance	1,163	1,067

Reserve for risks and other charges

Changes in the reserve are summarized in the following table:

	31/12/2004	31/12/2003
Opening balance	733,549	568,977
Provisions	108,952	164,288
Increases	1,479	185,731
Usage	(135,933)	(43,372)
Other changes	-	(142,075)
Total	708,047	733,549

The balance of the Statement of Changes substantially concerns the settlement of disputes arising from savings plans and lawsuits.

7.4 Composition of Sub-Account 80 b) – Reserve for taxes "

	31/12/2004	31/12/2003
Income tax	157,915	460,596
Other taxes	39,471	62,484
Deferred taxes	54,119	124,168
Total	251,505	647,248

The reserve includes provisions necessary to cover current fiscal charges as well as deferred charges and substitution taxes. The reserve is deemed sufficient to meet the Group's fiscal obligations as calculated in accordance with prevailing laws.

In light of current tax disputes outstanding and possible disputes relative to tax returns still subject to audit, no further liabilities are expected to arise with respect to existing provisions.

The Group is also in a position to realize significant tax benefits related to one-seventh and one-ninth of losses on credits computed in accordance with Article 3, Paragraphs 103, 107 and 108 of Law 549/95).

Following are the changes in the account balance during the year:

	31/12/2004	31/12/2003
Opening balance	647,248	746,179
Provisions:	230,110	512,264
Income tax	177,757	498,301
Other taxes	3,110	4,516
Other provisions	49,243	9,447
Other increases	4,306	117,806
Usage for payments made during the year	(479,038)	(695,658)
Other changes	(151,121)	(33,343)
Foreign-exchange differences and other changes	-	-
Closing balance	251,505	647,248

Deferred tax assets offset by entries to the Profit and Loss Statement

		31/12/2004		31/12/2003
Opening balance		426,047		489,196
Increases		119,825		337,253
- deferred taxes booked during the year	90,126		218,216	
- other increases	29,699		119,037	
Decreases		138,028		400,402
- deferred taxes cancelled during the year	128,461		306,489	
- other decreases	9,567		99,913	
Closing balance		407,844		426,047

Deferred tax assets offset by entries to the Balance Sheet

		31/12/2004		31/12/2003
Opening balance		37,177		44,060
Increases		-		8,107
- deferred taxes booked during the year	-		8,107	
- other increases	-			
Decreases		15,865		14,990
- deferred taxes cancelled during the year	15,865		14,210	
- other decreases	-		780	
Closing balance		21,312		37.177

The account includes deferred tax assets relative to the fifths of the losses arising from the securitization transactions set up pursuant to Article 6 of Law n. 130/99. .

Deferred tax liabilities offset by entries to the Profit and Loss Statement

		31/12/2004		31/12/2003
Opening balance		136,661		186,624
Increases		49,924		132,483
- deferred taxes booked during the year	47,661		8,306	
- other increases	2,263		124,177	
Decreases		128,087		182,446
- deferred taxes cancelled during the year (*)	6,390		178,767	
- other decreases	121,697		3,679	
Closing balance		58,498		136,661

(*) The decrease in comparison with the preceding year is mainly due to the new regulation no longer providing taxation of dividends collected during the current financial year and booked in the preceding year if related to companies subject to separate taxation

Deferred tax liabilities offset by entries to the Balance Sheet

		31/12/2004		31/12/2003
Opening balance		-		-
Increases		-		-
- deferred taxes booked during the year	-		-	
- other increases	-		-	
Decreases		-		-
- deferred taxes cancelled during the year	-		-	
- other decreases	-		-	
Closing balance		-		-

7.5 Composition of Account 80 a) – Pension fund and similar obligations

The changes in the account balance over 2004 are summarized below:

	31/12/2004	31/12/2003
Opening balance	430,381	396,639
Usage	(30,350)	(39,426)
Provisions	39,255	21,093
Other changes *	50,798	52,075
Total	490,084	430,381

* The item "other changes" include provisions to defined contribution plans.

7.6 Composition of Account 70 – Staff severance indemnity reserve

The changes in the account balance during the year are summarized below:

	31/12/2004	31/12/2003
Opening balance	426,504	434,202
Indemnities paid	(31,851)	(33,620)
Advances under Law 297/82	(8,553)	(11,972)
Provisions	80,571	85,020
Transfer to the supplemental pension fund		
Other changes	(44,772)	(47,126)
Total	422,565	426,504

The staff severance indemnity reserve includes all amounts due to the employees as of the end of the year in accordance with prevailing laws and labor contracts. The "other changes" item mainly covers amounts designated by employees for transfer to pension funds.

SECTION 8 - CAPITAL, RESERVES AND RESERVE FOR GENERAL BANKING RISK

This section includes the following items:

Shareholders' equity accounts

	31/12/2004	31/12/2003
Reserve for general banking risks	61,330	60,744
Negative consolidation differences	4,867	4,888
Negative net equity differences	1,570	1,570
Share capital	1,935,273	1,935,273
Additional paid-in capital	522,925	522,925
Reserves:		
- legal reserve	357,137	335,005
- reserve for own shares	727	15,909
- statutory reserve	1,095,313	1,065,813
- other reserves	1,928,586	1,725,168
Revaluation reserves	43,783	43,483
Profit (loss) carried forward	6	124
Profit (loss) for the year	513,694	442,521
Total shareholders' equity	6,465,211	6,153,783

Other assets:

	31/12/2004	31/12/2003
Positive consolidation differences	603,615	668,688
Positive net equity differences	213,351	244,241
Total	816,966	912,929

The Statement of Changes in Consolidated Shareholders Equity is presented as an attachment to these notes.

8.1 Reserve for general banking risks

The table below summarizes the changes in the reserve:

	31/12/2004	31/12/2003
Opening balance	60,744	360,812
Provisions	5-212,500	-
Usage	(1,400)	(300,068)
Other changes	(514)	
Closing balance	61,330	60,744

8.2 Subordinated debt

	Issuer	Maturity	Currency	Interest	Net Countervalue Outstanding
1	Banca Monte dei Paschi di Siena S.p.A.	01/12/05	EURO	variable	148,804
2	Banca Monte dei Paschi di Siena S.p.A.	01/12/05	EURO	fixed	154,876
3	Banca Monte dei Paschi di Siena S.p.A.	12/03/09	EURO	variable	418,636
4	Banca Monte dei Paschi di Siena S.p.A.	15/05/07	EURO	fixed	90,000
5	Banca Monte dei Paschi di Siena S.p.A.	15/05/07	EURO	variable	90,000
6	Banca Monte dei Paschi di Siena S.p.A.	07/07/15	EURO	variable	30,000
7	Banca Monte dei Paschi di Siena S.p.A.	20/07/15	EURO	variable	25,000
8	Banca Monte dei Paschi di Siena S.p.A.	21/12/10	EURO	variable	300,000
9	Banca Monte dei Paschi di Siena S.p.A.	18/05/11	EURO	variable	250,000
10	Banca Monte dei Paschi di Siena S.p.A.	20/07/11	EURO	variable	250,000
13	Banca Monte dei Paschi di Siena S.p.A.	20/12/07	EURO	variable	53,100
14	Banca Monte dei Paschi di Siena S.p.A.	20/06/05	EURO	variable	100,000
15	Banca Monte dei Paschi di Siena S.p.A.	31/12/07	EURO	variable	6,900
16	Banca Monte dei Paschi di Siena S.p.A.	24/09/15	EURO	variable	400,000
17	Banca Monte dei Paschi di Siena S.p.A.	24/09/15	EURO	variable	200,000
18	Banca Monte dei Paschi di Siena S.p.A.	02/10/06	EURO	fixed	600,000
19	Banca Monte dei Paschi di Siena S.p.A.	01/06/14	EURO	Variable	250,000
20	Banca del Monte di Parma	19/11/08	EURO	fixed	23,339
21	Banca Popolare di Spoleto S.p.A.	01/05/06	EURO	Variable	14,165
22	MPS Leasing e Factoring S.p.A.	31/12/09	EURO	variable	53,757
23	Banca per l'Impresa S.p.A.	01/06/10	EURO	variable	52,546
					3,511,123

Basic provisions of subordinated debt agreements

Prepayments

The subordinated debt agreements do not include any provisions for prepayment. In addition, the agreements have no provisions for the conversion into equity or into other types of liabilities. The subordinated debt issues have been structured and placed in accordance with the Bank of Italy requirements, and may be included as Tier 2 capital for the computation of capital-adequacy ratios. The following conditions are expressly provided:

- Should the Group companies be placed in liquidation, the debt would be reimbursed only after debtors with higher ranking claims have been satisfied;
- The term of the loans is no less than five years;
- The prepayment of the debt may only take place upon the Group companies' initiative and must be approved by the Bank of Italy.

Subordination conditions

Should the issuer be liquidated, the issuer's loans may be paid out only after the repayment of all other higher-ranking claims and unsecured debt, but before the payment of any participating loans.

Preference shares

Issuer	Maturity Date	Currency	Yield	Net Countervalue Outstanding
MPS Preferred Capital I LLC	07/02/2031	EURO	Fixed	350,000
MPS Preferred Capital II LLC	30/12/2033	EURO	variable	700,000

8.3 Negative consolidation differences

Negative consolidation differences are the result of the consolidation of the following companies:

	31/12/2004	31/12/2003
MPS Banca Verde	3,353	3,353
Other companies	1,535	1,535
Total	4,887	4,888

8.4 Negative net equity differences

The differences refer to companies valued with net equity method, as detailed in Section 3. The accounting principles adopted for determining such differences are indicated in Section 1, Part A.

8.5 Minority interests

	31/12/2004	31/12/2003
Opening balance	34,765	807,605
Profit (loss) for the year	13,224	8,050
Changes in the area of consolidation	(7,021)	(83,904)
Collected dividends	(7,802)	26,625
Other changes	936	(723,611)
Total	34,102	34,765

The changes in the area of consolidation are mainly attributable to the sale of Aida SpA, which was sold by the subsidiary BAM in 2004.

8.6 Share capital

	Par Value	Number	31/12/2004 Value in EUR
Ordinary shares	0.64	2,448,491,901	1,567,035,816.64
Savings shares	0.64	9,432,170	6,036,588.80
Preferred Shares	0.64	565,939,729	362,201,426.56
			1,935,272,832.00

	Par Value	Number	31/12/2003 Value in EUR
Ordinary shares	0.64	2,448,491,901	1,567,035,816.64
Savings shares	0.64	9,432,170	6,036,588.80
Preferred Shares	0.64	565,939,729	362,201,426.56
			1,935,272,832.00

8.7 Composition of Account 160 - Paid-in capital

	31/12/2004	31/12/2003
Paid-in capital	522,925	522,925

8.8 Composition of Account 170 - Reserves

	31/12/2004	31/12/2003
Legal reserve	357,137	335,005
Reserve for own shares or quotas	727	15,910
Statutory reserves	1,095,313	1,065,813
Other reserves	1,928,586	1,725,167
Total	3,381,763	3,141,895

8.9 Composition of Account 180 - Revaluation reserves

	31/12/2004	31/12/2003
Revaluation reserves	43,783	43,843

The revaluation reserves for the account of minority interests amounted to EUR 36,000 at the end of 2004 and at EUR 45,000 at the end of 2003, with the amounts computed on the basis of the Group's relative holdings in the consolidated companies.

8.10 Positive consolidation differences

Positive consolidation differences are the result of the consolidation of the following companies:

	31/12/2004	31/12/2003
Gruppo Banca Agricola Mantovana	552,329	591,780
Banca Popolare di Abbiategrasso S.p.A.	6,176	12,352
G.I. Profidi SIM S.p.A.	48	72
Intermobiliare Securities Sim S.p.A.	2,963	4,111
Banca Monte Paschi Belgio	1,716	2,574
Banca Popolare di Spoleto S.p.A.	6,772	8,707
MPS Banca Verde S.p.A.	-	526
MPS Merchant S.p.A.	-	2,305
Banca Monte Parma S.p.A.	33,611	42,014
Banca C. Steinhauslin & C. S.p.A.	-	4,247
Total	603,615	668,688

The accounting principles adopted for determining such differences are indicated in Section 1, Part B.

8.11 Positive net equity differences

The differences refer to the companies valued with net equity method, as detailed in Section 3. The accounting principles adopted are indicated in Section 1, Part B. Positive net equity differences are amortized over 10 years.

8.12 Composition of Account 120 - Own shares

	Shares n.	Par Value	Nominal value	31/12/2004	31/12/2003
Banca Monte dei Paschi di Siena		0.64			14,453
MPS Finance Banca Mobiliare	245,727	0.64	157,265	646	1,402
Banca Agricola Mantovana	31,073	0.64	19,886	81	54
Total			177,151	727	15,909

Own shares are held mainly for trading purposes within the limits established by special resolutions of the Boards of Directors. As of the financial statements of 31 December 2004, own shares are valued at market prices, with the investment offset completely by a restricted reserve in the same amount established pursuant to Article 2357 ter of the Italian Civil Code.

8.13 Capitalization and capital adequacy

Category/Amounts	31/12/2004	31/12/2003
A. Calculation of capital for regulatory purposes		
A.1 Total Tier 1 capital	6,000,116	5,498,781
A.2 Total Tier 2 capital	2,945,600	3,136,347
A.3 Deductions	(795,615)	(821,307)
A.4 Capital for regulatory purposes	8,159,101	7,813,821
B. Capital required for regulatory purposes		
B.1 Credit risks	5,988,589	5,804,109
B.2 Market risks	791,722	696,293
including:		
- risks on trading securities portfolio	*788,552*	*690,576*
- exchange-rate risks	*3,170*	*5,717*
B.2.1 Subordinated debt	700,000	600,000
B.3 Other requirements	339,589	308,846
B.4 Total capital required for regulatory purposes	7,119,900	6,209,248
Surplus capital	1,739,201	1,604,573
C. Risk-weighted assets and capital adequacy ratios		
C.1 Risk-weighted assets	88,998,749	85,115,601
Total credit risks	*74,857,361*	*72,551,363*
Market risk °	*9,896,525*	*8,703,663*
C.2 Tier 1/risk-weighted assets	6.74	6.50
C.3 Capital for regulatory purposes/ risk-weighted assets	9.95	9.89

° Total capital requirement multiplied by the reciprocal of the minimum obligatory coefficient for credit risks

Solvency coefficient for credit risks	10.90	10.77

SECTION 9 - OTHER LIABILITIES

9.1 Composition of Account 50 - Other liabilities

Following are the principal amounts in the account:

	31/12/2004	31/12/2003
Liabilities related to tax collection activity	638,287	1,259,132
Sums available to customers	475,672	254,437
Clearing balances with branches	186,647	101,378
Items relating to foreign currency transactions	118,426	14
Third-party sums due to fiscal authorities and social-welfare institutions	216,611	170,329
Third-party sums for security deposits	5,568	449,059
Non-banking liabilities	13,522	-
Deferred tax liabilities (*)	58,498	136,662
Valuation adjustments to foreign currency transactions	5,908	1,544
Amounts relating to securities transactions	622,411	15,116
Option premiums	1,617,961	5,164,802
Adjustments to the value of off-balance-sheet transactions (**)	10,235,808	4,269,274
Other (***)	3,583,318	3,603,544
Total	17,778,637	15,425,291

(*) S. note to the Section 7.4 “Reserve for taxes”

(**) The "adjustments to the value of off-balance-sheet transactions" includes the offsetting accounting entries for the revaluation of forward foreign exchange commitments relative to derivatives contracts in effect as of the end of the period, as indicated in the criteria described in Part A, Section 1 of these notes.

(***) The “other” includes the accounting entries still to be assigned, for the Parent Company, related to the tax collection service amounting to EUR 224,604,000 and to the debts to suppliers for EUR 170,632,000.

9.2 Composition of Account 60 - Accrued liabilities and deferred income

Accrued liabilities and deferred income consist of the following:

	31/12/2004	31/12/2003
Accrued liabilities:		
Interest due on customer deposits	14,804	11,439
Interest on securities issued	431,081	460,830
Interest on certificates of deposit	32,796	29,317
Interest on amounts due to banks	40,783	47,541
Differentials on hedging transactions	279,815	299,293
Administrative expenses	85,247	60,618
Other	104,001	69,009
	988,527	978,047
Deferred income:		
Discount portfolio	5,797	20,566
Differentials on hedging transactions	76,429	112,781
Commissions	11,624	11,004
Other	222,319	227,028
	316,169	371,379
Total	1,04,696	1,349,426

9.3 Adjustments with respect to accrued liabilities and deferred income

No adjustments have been made directly to the accounts.

SECTION 10 – GUARANTEES AND COMMITMENTS

10.1 Composition of Account 10 – Guarantees released

	31/12/2004	31/12/2003
a) Endorsement credits of a commercial nature:		
Documentary credits	315,327	337,837
Bankers acceptances	43,839	42,510
Endorsements and sureties	2,418,557	2,592,517
Other	191,568	308,752
	2,969,291	3,281,616
b) Endorsement credits of a financial nature:		
Acceptances	79,433	79,389
Endorsements and sureties	2,236,076	2,290,376
Other	448,390	359,754
	2,763,899	2,729,519
c) Assets pledged under guarantees:		
Third-party bonds	21,574	52,635
Total	5,754,764	6,063,770

10.2 Composition of Account 20 – Commitments and Account 30 - Commitments for credit derivatives

	31/12/2004	31/12/2003
a) Commitments to disburse funds for which usage is certain:		
Mortgage loans to be disbursed to customers	34.845	69,808
Loans and deposits to be funded to banks	9,52	6,376
Commitments to purchase securities	1,886,043	2,720,143
Installments coming due (tax collection)		
Other commitments and risks (°)	5,123,051	3,674,559
	7,053,291	6,470,886
b) Commitments to disburse funds for which usage is not certain:		
Available margins on lines of credit to banks	241.023	359,258
Available margins on lines of credit to customers	3.532.784	3,792,254
Interbank Deposit Protection Fund	89,219	76,544
Other commitments (°°)	2,082,568	520,816
Total	12,998,885	11,219,758

(°)The amount mainly covers credit derivatives contracts in which the Group acts as seller of protection.
(°°) The amount includes put options put into place by the parent company as part of the public tender offer for BAM.

Credit risk on guarantees and commitments is estimated using the criteria adopted for cash loans; such risk has been quantified in the amount of EUR 31,671,000, which is posted to liabilities under a specific reserve for risks and charges.

10.3 Assets pledged to guarantee the Group's own liabilities

Fixed-income securities have been pledged as follows:

	31/12/2004	31/12/2003
Guarantees for advances from the Bank of Italy	397,387	451,595
Guarantees for repurchase agreements	8,213,676	9,166,263
Guarantees for issuance of cashier checks	108,497	132,864
Other	172,208	102,653
Total	8,891,768	9,853,375

10.4 Available margins on lines of credit

The Group has the following availability under credit lines in effect as of year end:

	31/12/2004	31/12/2003
a) Central banks	717,124	884,675
b) Other banks	157,611	3,329
Total	874,735	888,004

10.5 Forward transactions

Forward transactions at the end of the year are summarized in the following table:

Types of Transactions	Hedging	Trading	Other
1. Sales and purchases			
1.1 Securities:			
Purchases		1,886,143	
Sales		1,235,634	
1.2 Foreign exchange:			
Currency against currency	3,087,180	86,898	
Purchases against euros	5,301,576	133,163	
Sales against euros	928,610	423,702	
2. Deposits and loans:			
to be disbursed	11,022	9,304	42,307
to be received	13,124		376,064
3. Derivatives contracts:			
3.1 With exchange of principal			
a) Securities:			
Purchases (1)	2,420,592	5,614,341	778,028
Sales (2)	265,858	7,273,868	447,700
b) Foreign exchange:			
Currency against currency	10,794	14,925,580	
Purchases against euros	224,910	7,962,051	
Sales against euros	132,639	6,841,749	
c) Other negotiable instruments:			
Purchases			288,822
Sales			
3.2 Without exchange of principal:			
a) Foreign exchange			
Currency against currency			
Purchases against euros	9,471	202,691	
Sales against euros	3,205	267,119	
b) Other negotiable instruments:			
Purchases (3)	37,024,522	269,277,826	2,072,046
Sales (3)	29,393,975	290,096,822	4,058,729

1)Other" mainly includes:

a) put options put into place by the parent company as part of the acquisition of Banca Agricola Mantovana for EUR 608,585,000, expired in March 2002 and extended for three years; further to the merger by incorporation of Banca

Agricola Mantovana, in the first quarter of 2003, the aforementioned options has underlying BMPS shares because of the adopted share exchange.

b) Put options on Banca Monte Parma shres for EUR 164,443,000.

2)The amounts of the column "Other" are fully made up of the option in the bond loan convertible in shares of the Banca Nazionale del Lavoro, issued by the Bank in 2004. The risk resulting from the conversion option (underlying shares no. 188,309,510) is partly covered (no.102,546,030 shares) by BNL shares owned by the Bank in the equity investments portfolio and, for the remaining part, by the purchase of a hedging option. The Bank also owns, in the trading portfolio, the equivalent convertible loan issued by Banca Popolare Vicentina for EUR 203,900,000, which was fully covered both as to rate risk and to the option.

3) "Other" includes swap put into place by the parent company as part of the acquisition of the former Banca Agricola Mantovana for EUR 402,471,000 (s. note 1 letter a).

10.6 Credit derivatives contracts

	31/12/2004		31/12/2003	
Types of Transactions	Trading	Other	Trading	Other
1. Purchase of protection				
1.1 With exchange of capital	1,732,561	-	3,518,207	-
1.2 Without the exchange of capital	94,980	193,492	61,000	60,883
2. Sale of protection				
1.1 With exchange of capital	2,646,379	-	517,874	26,000
1.2 Without the exchange of capital	380,019	895,693	131,762	321,985

SECTION 11 - DISTRIBUTION AND CONCENTRATION OF ASSETS AND LIABILITIES

11.1 Material risks

	31/12/2004	31/12/2003
Amount	3,012,077	3,645,178
Number	3	4

The amount refers to exposure to "groups of customers" which has been appropriately weighted in accordance with prevailing regulations.

11.2 Distribution of customer loans and advances by principal categories of borrowers

The distribution of customer loans by principal categories of borrowers is provided in the following table:

	31/12/2004	31/12/2003
a) Governments	1,222,136	1,346,429
b) Other public-sector entities	2,808,687	2,939,797
c) Non-financial companies	43,056,477	40,581,642
d) Financial institutions	3,519,841	5,392,744
e) Family-owned businesses	6,075,669	5,752,143
f) Other	17,711,501	14,392,237
Total	74,394,311	70,404,992

11.3 Distribution of loans to non-financial companies and resident family-owned businesses

The distribution of loans to non-financial companies and resident family-owned businesses by economic sector is summarized in the following table:

	31/12/2004	31/12/2003
a) Commercial services, recoveries and repairs	8,022,822	7,686,762
b) Construction and public works	4,124,405	4,875,340
c) Farming, forestry and fishery	3.819.463	3,423,429
d) Textiles, leather footwear, and apparel	2,502,743	2,657,807
e) Food and beverage products	2,260,102	2,133,941
f) Other	25,109,118	23,229,633
Total	46,838,653	44,006,912

11.4 Distribution of guarantees released by principal categories of counterparties

Guarantees are subdivided as follows, according to the nature of the counterparty who is guaranteed:

	31/12/2004	31/12/2003
a) Governments	422	6,801
b) Public-sector entities	51,903	211,198
c) Banks	310,624	290,392
d) Non-financial companies	4,389,041	4,517,423
e) Financial institutions	351,043	228,005
f) Family-owned businesses	134,211	161,664
g) Other	517,520	648,287
Total	5,754,764	6,063,770

11.5 Geographic distribution of assets and liabilities

The geographic distribution of the balances of the principal asset and liability accounts is shown in the following table:

Account	Italy	Other EU Countries	Other Countries	Total
	85,613,310	13,554,995	3,571,763	102,740,068
1. Assets				
1.1 Amounts due from banks	3,863,644	6,348,750	1,143,534	11,355,928
1.2 Customer loans and advances	72,148,346	1,863,997	381,968	74,394,311
1.3 Securities	9,601,320	5,352,248	2,046,261	16,989,829
2. Liabilities	84,762,853	10,966,664	5,873,525	101,603,042
2.1 Due to banks	7,532,406	3,867,423	3,827,697	15,227,526
2.2 Customer deposits	45,835,026	3,007,041	389,816	49,231,883
2.3 Other borrowed funds backed by negotiable instruments	27,922,600	3,673,563	956,012	32,552,175
2.4 Other	3,472,821	418,637	700,000	4,591,458
3. Guarantees and commitments	12,842,248	5,040,562	870,839	18,753,649,

11.6 Distribution of maturities of assets and liabilities

The maturity distribution of the balances of the principal asset and liability accounts and of off-balance-sheet transactions is shown in the following table:

DISTRIBUTION OF ASSETS AND LIABILITIES BY MATURITY
(in EUR 000's)

Account	Residual Maturity								Total
	Sight	To and including 3 months	To and including 12 months	Up to 5 years		Over 5 years		Unspecified Maturity	
				Fixed rate	Indexed rate	Fixed rate	Indexed rate		
Assets:									
1.1 Government bonds subject to financing	8,432	2,673	9,013	1,065	9,124	1,484	10,574	-	42,365
1.2 Amounts due from banks	388,324	8,270,412	1,565,684	297,593	1,875	38,985	28,754	764,300	11,355,927
1.3 Customer loans and advances	14,874,353	11,278,612	9,627,517	4,733,124	12,560,141	3,833,539	15,030,378	2,456,647	74,394,311
1.4 Bonds and other fixed-income securities	178,406	880,679	3,926,680	2,112,777	3,645,511	1,912,973	1,562,281	958,633	15,177,940
1.5 Off-balance-sheet transactions	48,171,382	135,051,603	1203757,418	120,440,407	4,400,575	58,673,648	1,618,417	-	489,113,450
TOTAL ASSETS	63,620,897	155,483,979	135,886,312	127,584,966	20,617,226	64,460,629	18,250,404	4,179,580	590,083,993

Liabilities:									
2.1 Due to banks	1,556,007	11,145,433	1,894,697	55,544	59,238	416,607	100,000	-	15,227,526
2.2 Customer deposits	41,955,366	6,908,103	346,904	18,201	-	1,603	1,274	433	49,231,884
2.3 Other borrowed funds backed by negotiable instruments: including:	548,999	5,284,560	4,055,500	6,828,973	10,374,973	2,541,109	2,832,563	85,846	32,552,175
- Bonds	77,239	718,934	2,442,995	6,539,730	10,365,735	2,541,109	2,832,563	85,846	25,604,151
- Certificates of deposit	79,480	4,565,626	1,612,505	264,243	8,890	-	-	-	6,530,744
- Other securities	392,280	-	-	25,000	-	-	-	-	417,280
2.4 Subordinated debt	-	820	487,771	677,220	603,766	900,000	1,191,546	700,000	4,561,123
2.5 Off-balance-sheet transactions	46,022,996	143,690,936	121,819,468	112,963,128	4,702,328	59,012,172	901,073	10,900	489,123,001
TOTAL LIABILITIES	90,083,368	167,029,852	128,604,340	120,543,066	15,739,957	62,871,491	5,026,456	797,179	590,695,709

11.7 Foreign-currency-denominated assets and liabilities

The consolidated balance sheet includes the following assets and liabilities denominated in foreign currencies:

	31/12/2004	31/12/2003
a) Assets		
1. Amounts due from banks	2,491,518	1,131,233
2. Customer loans and advances	1,706,415	1,871,100
3. Securities	1,147,235	1,330,473
4. Equity investments	18,509	350,779
5. Other	10,499	14,603
	5,374,176	4,698,188
b) Liabilities		
1. Due to banks	3,842,651	2,989,439
2. Customer deposits	1,508,112	1,791,080
3. Other borrowed funds backed by negotiable instruments	3,540,828	3,291,766
4. Other		
	8,891,591	8,072,285

11.8 Securitized assets

Securities with underlying assets

Pursuant to the note no. 178890 of 25 July 2001 of the Bank of Italy, information concerning investment securities, securitization and servicer activity follows.

Securitized loans include mortgage loans, leasing, securities and other and tranches related to portfolio securities are reported.

11.8 A Investment securities secured by loans of the MPS Group

Senior securities

	Total Outstanding	Valuation adjustments	Net Exposure
Securities			
1 Non-performing loans	-		-
2 Watch-list credits			-
3 Other assets	127,507	166	127,341

Mezzanine securities

	Total Outstanding	Valuation adjustments	Net Exposure
Securities			
1 Non-performing loans	-		-
2 Watch-list credits			-
3 Other assets	70,442	(3,192)	67,250

Junior securities

	Total Outstanding	Valuation adjustments	Net Exposure
Mortgages			
1 Non-performing loans	20,325	(3,579)	16,746
2 Watch-list credits			
3 Other assets	10,678		10,678
Securities			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	67,962		67,962
Other			
1 Non-performing loans	352,593		352,593
2 Watch-list credits			-
3 Other assets			-

11.8 B Trading securities secured by loans of the MPS Group

Senior securities

No securities of this type are included in the MPS Group's portfolio

Mezzanine securities

	Total Outstanding	Valuation adjustments	Net Exposure
Mortgages			
1 Non-performing loans	-		-
2 Watch-list credits			-
3 Other assets	10,300	117	10,417
Other			
1 Non-performing loans	2,280	(7)	2,273
2 Watch-list credits			
3 Other assets	4,965	(8)	4,957

Junior securities
No securities of this type are included in the MPS Group's portfolio

11.8 C Investment securities secured by loans of third-party institutions

Senior securities

	Total Outstanding	Valuation adjustments	Net Exposure
Mortgages			
1 Non-performing loans			
2 Watch-list credits	952		952
3 Other assets			
Credit cards			
1Non-performing loans			
2Watch-list credits			
3 Other assets	6,975		6,975
Securities			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	49,824		49,824
Other			
1 Non-performing loans	6,010		6,010
2 Watch-list credits			
3 Other assets	44,606		44,606

Mezzanine securities

	Total Outstanding	Valuation adjustments	Net Exposure
Mortgages			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	3,173		3,173
Securities			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	3,176		3,176
Other			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	34,552		34,552

Junior securities

No securities of this type are included in the MPS Group's portfolio

11.8 D Trading securities secured by loans of third-party institutions

Senior securities

	Total Outstanding	Valuation adjustments	Net Exposure
Mortgages			
1 Non-performing loans	11,218	(32)	11,186
2 Watch-list credits			
3 Other assets	32,723	26	32,740
Leasing			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	31,260	(42)	31,216
Securities			
1 Non-performing loans	48,500	1,500	50,000
2 Watch-list credits			
3 Other assets	316,348	(5,896)	310,452
Other			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	36,792		36,792

Mezzanine securities

	Total Outstanding	Valuation adjustments	Net Exposure
Mortgages			
1 Non-performing loans	10,000	(55)	9,945
2 Watch-list credits	27,000	180	27,180
3 Other assets	19,952	187	20,139
Leasing			
1 Non-perfoming loans			
2Watch-list credits			
3 Other assets	3,000	30	3,030
Securities			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	39,693		39,693
Other			
1Non-performing loans	3,519	31	3,550
2 Watch-list credits			
3 Other assets	25,811	(6)	25,805

Junior securities

	Total Outstanding	Valuation adjustments	Net Exposure
Mortgages			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	8,910	90	9,000
Leasing			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	6,500	65	6,565
Securities			
1 Non-performing loans			
2Watch-list credits			
3 Other assets	7,038	(325)	6,713
Other			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	14,540	258	14,798

11.8 E Underlying assets of the MPS Group

	Book value
Non-performing loans	682,115
Watch-list credits	
Other assets	1,212,289
Total	1,894,404

11.8 F Underlying assets of third-party institutions

	Book value
Non-performing loans	
Watch-list credits	
Other assets	613,556
Total	613,556

11.8 G Distribution of securitized credits by type and ranking

	Total Outstanding	Valuation adjustments	Net Exposure
Mortgages			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets			
Securities			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets			
Other			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets			

11.8 H Geographical distribution of debtors

	Italy	EU countries	Other countries
Total	24,741	20,778	15,448

11.8 I   Collateral backing securitized credits

	Total
a) Mortgages	
b) Liens on:	
1. cash deposits	
2. securities	-
3. other negotiable instruments	-
c) Guarantees of:	
1. governments	-
2. other public-sector entities	-
3. banks	-
4. other	-

11.8 L Distribution of credits assigned, by sector of economic activity

Sector	Total
Other sectors	
Agricultural products	
Energy products	
Minerals, iron ores and others	
Minerals and mineral-based products	
Chemical products	
Metal products	
Farm and industrial equipment	
Office and data processing machines	
Electric equipment and supplies	
Transport means	
Food and beverages	
Textile products, leather and footwear	
Paper, paper products	
Rubber products	
Other industrial products	
Construction and public works	
Trade, repairs and product recycling	
Hotels and utilities	
Internal transport services	
Maritime and air transport	
Communication services	
Other sale services	
Total	

11.8 M Transfer price of securitized loans

	Total
a) Transfer price: principal	
b) Transfer price: interest	
Total	

11.8 N Servicing

Collections by individual securitization transaction

	Total
Mantegna 1	77,707
Mantegna 2	44,863
MPS Assets Securitisation	422,812
Seashell II S.r.l.	71,576
Seashell Securities Plc	-
Segesta S.p.A.	143,908
Se gesta 2 S.p.A.	52,491
Siena Mortgages 03-4 S.r.l.	187,488
Siena Mortgages 00-1 S.p.A	92,875
Siena Mortgages 01-2 S.p.A.	143,822
Siena Mortgages 02-3 S.r.l.	193,219
Tiziano Finance S.p.A.	68,707
Ulisse 2 S.p.A.	77,113
Ulisse 3 S.p.A.	34,801
Ulisse S.p.A.	36,404
Gonzaga	82,863
Total	1,730,649

The above amounts were collected by the parent company and by Banca Toscana as the servicer for the related transactions.

11.8 O Credit enhancement

	Excess Spread	Subordinated assets	Total
Siena Mortgages 00-1 S.p.A.	39,086		39,086
Siena Mortgages 01-2 S.p.A.	31,921		31,921
Siena Mortgages 02-3 S.r.l.	63,746		63,746
Siena Mortgages 03-4 S.r.l.	82,244	10,176	92,420
MPS Assets Securitisation S.p.A.	68,655	51,183	119,838
Mantegna Finance 2 S.r.l.	9,748	7,977	17,725
Seashell II S.r.l.	18,644	4,592	23,236
Ulisse 3 S.p.A,		44,849	44,849
Total	314,044	118,777	432,821

SECTION 12 - FUNDS MANAGEMENT AND OTHER TRANSACTIONS FOR THE ACCOUNT OF THIRD PARTIES

12.1 Securities trading

	31/12/2004	31/12/2003
a) purchases	12,492,214	16,265,484
1. settled	12,492,214	16,265,484
2. unsettled		-
b) sales	12,389,213	16,102,864
1. settled	12,389,212	16,102,859
2. unsettled	1	5

12.2 Portfolio management

	31/12/2004	31/12/2003
Portfolios under management	9,638,011	10,239,026
Total	9,638,011	10,239,026

12.3 Administration and safekeeping of securities

The following table provides a summary of securities under administration and in safekeeping with the Group:

	31/12/2004	31/12/2003
a) Securities of third parties held in custody (excluding portfolio management)	158,635,108	173,857,878
1. Securities issued by the Bank		-
2. Other securities	*158,635,108*	*173,857,878*
b) Securities of third parties held by others	74,365,706	61,962,866
c) Own securities in third-party custody	15,154,513	12,894,485

The amounts reflected above are stated at nominal value of the securities on deposit.

Own securities on deposit with third parties include securities sold subject to repurchase.
.

12.4 Collections for the account of third parties: debit and credit adjustments

	31/12/2004	31/12/2003
a) Debit adjustments		
1. Current accounts	100,466	99,881
2. Head office portfolio	5,770,887	5,490,373
3. Cash	389	437
4. Other accounts	951,131	902,882
b) Credit adjustments		
1. Current accounts	279,044	255,197
2. Notes and other documents	12,277,608	11,578,020
3. Other accounts	46,658	49,527

12.5 Other transactions

	31/12/2004	31/12/2003
a) Third-party portfolio accepted for collection	1,590,978	6,178,434
b) Tax collection activity	3,388,568	3,600,443
Taxpayers amounts due for collection		
- amounts coming due		-
- amounts overdue and advanced to the Tax Authorities	3,388,568	3,600,443
Taxpayers amounts not yet due for collection received and not yet collected	82,888,413	96,176,983

Temporary relief and allowances for EUR 2,655,804,000 are available in respect of overdue amounts already advanced to the Tax Authorities.
A rough estimate of the underlying risk on the installments to be collected is provided by the reserve for risks and future charges, Section 7, "Reserves".

SEPARATE STATEMENT OF SPECIAL-PURPOSE COMPANY
ULISSE - Statement as of 31 December 2004
12.6 Summary of securitized assets

EEC Code	Description	31/12/2004	31/12/2003
A.	**SECURITIZED ASSETS**	**162,914**	**188,234**,
A1	Loans	162,914	188,234
A2	Securities		
A3	Other		
B.	**EMPLOYMENT OF FUNDING COMING FROM MANAGEMENT OF CREDITS**	**3,779**	**4,902**
B1	Debt securities		
B2	Equity securities		
B3	Other		
B3.1	Amounts due from banks	3,720	4,859
B3.2	Receivables for taxes withheld on interest income	22	16
B3.3	Other	37	27
	Total balance	30,551	24,295
	TOTAL ASSETS	**197,244**	**217,431**
C.	**SECURITIES ISSUED**	**188,437**	**213,322**
	Class A	54,177	79,062
	Class B	36,500	36,500
	Class C	36,500	36,500
	Class D	61,260	61,260
D.	**FINANCING RECEIVED**		
E.	**OTHER LIABILITIES**	**8,807**	**4,109**
E1	Accrued interest payable on securities issued	539	633
E2	Due to suppliers of services	250	413
E3	Other liabilities	21	-
E4	Reserve for risks and charges	3,689	-
E5	Interest payable notes class D	4,308	3,063
	TOTAL LIABILITIES	**197,244**	**217,431**
F.	**INTEREST PAYABLE ON SECURITIES ISSUED**	**6,111**	**6,999**
G.	**COMMISSIONS ACCRUED TO TRANSACTION**	**2,440**	**2,062**
G1	Servicing commissions	2,204	1,887
G2	Commissions on other services	236	175
H.	**OTHER CHARGES**	**9,035**	**5,739**
H1	Capital losses on credits transferred	-	18
H2	Administrative expenses	85	132
H3	Services of rating agencies		-
H4	Charges on accessory financial transactions	5,262	5,584
H5	Provisions for risks	3,688	-
H6	Foreign-exchange losses		-
H7	Interest notes class D 2001		
H8	Extraordinary charges		5
	TOTAL CHARGES	**17,586**	**14,800**
I.	**INTEREST GENERATED FROM SECURITIZED ASSETS**	**235**	**178**
L.	**OTHER REVENUES**	**11,095**	**6,860**
L1	Interest earned from banks		
L2	Foreign-exchange gains		
L3	Capital gains on credits	11,083	6,847
L4	Extraordinary income	12	13
	SECURITIZATION RESULTS	**6,256**	**7,762**
	TOTAL REVENUES	**17,586**	**14,800**

SEPARATE STATEMENT OF SPECIAL-PURPOSE COMPANY
ULISSE 2 - Statement as of 31 December 2004
12.6 Summary of securitized assets

EEC Code	Description	31/12/2004	31/12/2003
A.	**SECURITIZED ASSETS**		
A1	Loans	414,450	453,129
A1.1	Non-performing loans	414,450	453,129
A2	Securities		
A3	Other		
B.	**EMPLOYMENT OF FUNDING COMING FROM MANAGEMENT OF CREDITS**		
B1	Debt securities		
B2	Equity securities		
B3	Other:	15,928	19,490
B3.1	Capitalized costs	25	51
B3.2	Liquid assets	14,686	18,121
B3.3	Taxes withheld	1,194	1,059
B3.4	Accrued income on swaps	8	244
B3.5	Prepayments	15	15
	TOTAL ASSETS	**430,378**	**472,619**
C.	**SECURITIES ISSUED**		
C1	Category A securities		40,832
C2	Category B securities	2,280	30,000
C3	Category C securities	328,970	328,970
D.	**FINANCING RECEIVED**		
E.	**OTHER LIABILITIES**		
E1	Due to management company	14	15
E2	Due to Banca MPS - residual transfer price		
E3	Due to Banca MPS - servicing commissions	1,177	768
E4	Due to Banca MPS - interest on transfer price	5,816	5,816
E5	Due to Banca MPS - collections (not pertaining to the SPV)	121	37
E6	Due to suppliers	37	38
E7	Other liabilities		1
E8	Reserve for risks and charges		
E9	Accrued interest payable on Class A securities		236
E10	Accrued interest payable on Class B securities	17	4,080
E11	Accrued interest payable on Class C securities	91,817	61,152
E12	Accrued liabilities on swaps	129	674
	TOTAL LIABILITIES	**430,378**	**472,619**
F.	**INTEREST PAYABLE ON SECURITIES ISSUED**	**32,472**	**33,825**
G.	**COMMISSIONS ACCRUED TO TRANSACTION**	**4,445**	**3,546**
G1	Servicing commissions		
G2	Commissions on other services		
H.	**OTHER CHARGES**	**46,800**	**61,572**
H1	Amortization of capitalized costs	25	26
H2	Chargeback of costs of company management	99	103
H3	Interest expense on credit payment extensions		
H4	Estimates of losses on credits	40,028	51,434
H5	Losses on credits	3,506	1,520
H6	Interest rate swaps	2,880	8,317
H7	Other expenses	262	172
I.	**INTEREST GENERATED FROM SECURITIZED ASSETS**	**49,745**	**60,320**
L.	**OTHER REVENUES**	**33,972**	**38,623**
L1	Recoveries of value	32,505	32,131
L2	Interest rate swaps	914	4,240
L3	Other	553	2,252
	RESULT OF SECURITIZATION TRANSACTION		

SEPARATE STATEMENT OF SPECIAL-PURPOSE COMPANY
ULISSE 3 - Statement as of 31 December 2004
12.6 Summary of securitized assets

EEC Code	Description	31/12/2004	31/12/2003
A.	**SECURITIZED ASSETS**	**98,325**	**114,331**
A1	Loans	98,325	114,331
A2	Securities		-
A3	Other		-
B.	**EMPLOYMENT OF FUNDING COMING FROM MANAGEMENT OF CREDITS**	**54,411**	**56,008**
B1	Debt securities	44,754	44,754
B2	Equity securities		-
B3	Other:	9,657	11,254
B3.1	Amounts due from banks	8,673	10,352
B3.2	Amounts due from inland revenue with taxes withheld	674	613
B3.3	Unearned income and prepaid expenses	277	264
B3.4	Sundry credits	5	5
B3.5	Amounts due from SPV	28	20
	TOTAL ASSETS	**152,736**	**170,339**
C.	**SECURITIES ISSUED**	**61,728**	**91,421**
C1	Category A securities	2,148	31,841
C2	Category B securities	40,000	40,000
C3	Category C securities	19,580	19,580
D.	**FINANCING RECEIVED**	**44,849**	**44,849**
E.	**OTHER LIABILITIES**	**46,159**	**34,069**
E1	Reserve Fund	39,892	27,279
E2	Assignment debts	3,097	3,059
E3	Due to SPV	26	24
E4	Sundry liabilities	404	404
E5	Accrued expenses	2,214	2,867
E6	Reserve for risks and charges	436	436
	TOTAL LIABILITIES	**152,736**	**170,339**
F	**INTEREST PAYABLE ON SECURITIES ISSUED**	**2,114**	**4,369**
F1	Interest payable class A1	769	2,824
F2	Interest payable class A2	953	1,153
F3	Interest Payable class B	392	392
G.	**COMMISSIONS ACCRUED TO TRANSACTION**	**1,837**	**1,743**
G1	Servicing commissions	1,753	1,661
G2	Commissions on other services	35	33
G3	Corporate services fees	28	28
G4	Rating fees	21	21
H.	**OTHER CHARGES**	**4,664**	**5,814**
H1	Expenses for portfolio management	119	150
H2	Interest expense on limited recourse loan	499	1,229
H3	Swap negative differentials	2,330	3,959
H4	Legal and administrative services	3	4
H5	Extraordinary losses	415	319
H6	Losses on credits	1,298	153
H7	Reserve for risks and charges advance		-
I.	**INTEREST GENERATED FROM SECURITIZED ASSETS**	**20,093**	**19,487**
I1	Past-due interest income	5,434	5,476
I2	Extraordinary income from recoveries	14,659	14,011
I3	Expense recovery		-
L.	**OTHER REVENUES**	**1,225**	**1,825**
L1	Interest income from banks	228	656
L2	Financial interest income	992	1,165
L3	Extraordinary income	5	4

	RESULT OF SECURITIZATION TRANSACTION	**12,703**	**9,386**

PART C

INFORMATION ON THE CONSOLIDATED PROFIT AND LOSS STATEMENT

SECTION 1 – INTEREST INCOME AND EXPENSE

1.1 Composition of Account 10 - Interest and similar income

Interest and similar income was realized as follows:

	31/12/2004	31/12/2003
a) Interest earned on amounts due from banks	233,360	329,999
including:		
Amounts due from central banks	*20,117*	*21,708*
b) Interest earned on customer loans and advances	3,595,189	3,748,313
including:		
loans using third-party funds under administration	*844*	*1,144*
c) Interest earned on debt securities	590,001	599,197
d) Other interest income	2,805	3,433
e) Positive balance of differentials on hedging transactions		-
Total	4,421,355	4,680,942

1.2 Composition of Account 20 - Interest expense and other expense on borrowed funds

Interest expense and other expense on borrowed funds were realized as follows:

	31/12/2004	31/12/2003
a) Interest expense on amounts due to banks	322,936	507,568
b) Interest expense on amounts due to customers	445,420	607,768
c) Interest expense on other borrowed funds backed by negotiable instruments	892,635	916,728
including:		
on certificates of deposit	*83,985*	*83,985*
d) Interest expense on third-party funds under administration	7,026	7,949
e) Interest expense on subordinated debt	238,106	137,588
f) Negative balance of differentials on hedging transactions	90,778	60,150
Total	1,996,901	2,237,751

1.3 Composition of Account 10 - Interest and similar income

	31/12/2004	31/12/2003
Interest and similar income on foreign-currency-denominated assets	107,954	107,448

1.4 Composition of Account 20 - Interest expense and other expense on borrowed funds

	31/12/2004	31/12/2003
Interest and other expense on liabilities denominated in foreign currency	130,050	121,516

SECTION 2 - COMMISSIONS

2.1 Composition of Account 40 - Commissions earned

Commissions earned consist of the following amounts:

		31/12/2004		31/12/2003
a) Guarantees released		39,023		40,013
b) Credit derivatives		714		667
c) Trading, management and advisory services		730,273		817,759
1.Securities trading	51,138		51,174	
2.Foreign-exchange trading	46,476		48,844	
3.Asset management	315,391		367,278	
3.1 individual portfolios under management	*30,937*		*59,673*	
3.2 investments in mutual funds	*284,454*		*307,605*	
4. Securities safekeeping and administration	45,123		20,382	
5. Custodian bank	25,096		29,061	
6. Securities placement	55,956		83,952	
7. Order taking	41,794		52,477	
8. Advisory services	11,773		5,958	
9. Distribution of services to third parties:	137,526		158,633	
9.1 Asset management:				
a) individual portfolios under management			-	
b) investments in mutual funds			-	
9.2 Insurance products	*78,705*		*89,873*	
9. 3 Other products	*58,821*		*68,760*	
d) Collection and payments services		128,261		45,903
e) Servicing for securitization transactions		19,558		16,235
f) Tax collection services		283,340		254,971
g) Other services		364,737		349,843
- Commissions on loans to customers	50,552		91,824	
- Recoveries, expenses and other profits on customer loans	187,412		168,920	
- Commissions claimed from banks	9,556		4,483	
- Safe-deposit boxes	2,583		2,266	
- Commissions for services to subsidiaries and associated cos.	10,214		-	
- Commissions on services to third parties	9,101		12,733	
- Other	95,319		69,257	
Total		1,565,906		1,525,391

2.2 Detail of Account 40 – Commissions earned

Following is a breakdown of commissions earned based on distribution channel.

		31/12/2004		31/12/2003
a) Branches:		496,258		588,033
Asset management	313,347		364,690	
Securities placement	50,832		69,583	
Third party's services and products	132,079		153,760	
b) Other distribution channels:		12,615		21,830
Asset management	2,043		2,588	
Securities placement	5,125		14,369	
Third party's services and products	5,447		4,873	

2.3 Composition of Account 50 - Commission expense

Commission expense consists of the following amounts:

		31/12/2004		31/12/2003
a) Guarantees released		1,590		1,145
b) Credit derivatives		810		822
c) Trading and intermediation		51,741		65,887
Securities trading	16,259		17,122	
Foreign-exchange trading	61		68	
Asset management	358		133	
Own portfolio	*358*		*133*	
Third-party portfolios			-	
Securities safekeeping and administration	13,667		17,523	
Securities placement	2,967		3,423	
Off-site offer of securities, products and services	18,429		27,618	
d) Collection and payment services		24,377		14,121
e) Other services		146,396		127,844
Commissions on endorsement credits	26		9	
Commissions paid to brokers	9,378		6,872	
Commissions on services to third parties	63,021		22,382	
Commissions paid to banks	8,846		2,463	
Tax collection commissions			-	
Commissions on securities transactions			-	
Other	65,125		96,118	
Total		224,914		209,829

SECTION 3 - PROFITS AND LOSSES ON FINANCIAL TRANSACTIONS

3.1 Composition of Account 60 – Profits/losses on financial transactions

31/12/2004

Account	Securities	Foreign-Currency	Other
A.1 Revaluations	534,429a		5,442,687i
A.2 Writedowns	(371,760)b		(5,727,780)l
B. Other profits/losses	(212,560)c	(6,475)h	245,408m
Total	(49,891)	(6,475)	(39,685)
1. Government securities	8,134d		
2. Other debt securities	133,967e		
3. Equity securities	(11,939)f		
4. Securities-related derivatives	(180,053)g		

Securities:

a) Securities revaluation: EUR 253,054,000 and derivatives revaluation: EUR 281,375,000:
b) Securities writedowns: EUR -81,950,000, concerning securities to be received and delivered: EUR -1,266,000 and writedowns of securities derivatives: EUR -288,544,000;
c) other profits and losses on securities: EUR -30,785,000 (including own shares for EUR -69,000 and securities to be delivered and received: EUR -256,000) and on derivatives: EUR -181,775,000.
d) Revaluations: EUR 4,529,000; writedowns: EUR -4,097,000; other profits and losses: EUR 7,702,000;
e) revaluations: EUR 171,241,000; writedowns: EUR -48,236,000; other profits and losses. EUR 10,962,000;
f) revaluation: EUR 68,393,000; writedowns: EUR -32,105,000; other profits and losses: EUR -48,227,000;
g) revaluation: EUR 290,266,000; devaluation: EUR -287,322,000; other profits and losses: EUR -182, 997,000.

Foreign currencies:

h) Net result of derivatives on foreign currencies: EUR -9,952,000; revaluations of foreign branches endowment funds: EUR -4,086,000; other profits/losses on foreign currency trading: EUR 7,563,000.

Others:

i) revaluations of interest rate derivatives: EUR 5,423,258,000 (swaps: EUR 4,781,282,000; options: EUR 459,762,000; futures and forwards: EUR 1,425,000; credit derivatives: EUR180,789,000); moreover, revaluations include gold operating activities for EUR 19,429,000;
l) writedowns of interest rate derivatives: EUR 5.700,590,000 (swaps: EUR 4.907,110,000.options: EUR 526,883,000, futures and forwards. EUR 1,739,000, futures on commodities: EUR 54,000, credit derivatives: EUR 264,804,00); writedowns on gold operating activities are also included: EUR 27,190,000;

m) differentials and liquidated net premiums on interest rate derivatives: EUR 243,592,000 (swaps: EUR 263,564,000; options: EUR -17,074,000; futures and forwards: EUR 2,399,000; futures: EUR 945,000, derivatives: EUR 6,242,000); profits/losses on gold operating activities (EUR 1,816,000) are also included.

			31/12/2003
Account	Securities	Foreign-Currency	Other
A.1 Revaluations	487,755		934,047
A.2 Writedowns	(502,734)		(961,836)
B. Other profits/losses	(41,965)	(9,901)	116,421
Total	(56,944)	(9,901)	116,421
1. Government securities	21,135		
2. Other debt securities	138,045		
3. Equity securities	169,307		
4. Securities-related derivatives	(385,431)		

SECTION 4 – ADMINISTRATIVE EXPENSES

4.1 Average number of employees by category

	31/12/2004	31/12/2003
a) Executives	594	592
b) Managers	5,466	5,457
c) Remaining personnel	21,044	21,820
Total	27,104	27,869

Composition of Account 80 - Administrative expenses

	31/12/2004	31/12/2003
a) Personnel expense	1,758,670	1,794,655
- wages and salaries	1,233,501	1,263,365
- social-welfare charges	345,792	344,926
- staff severance indemnity reserve	88,457	92,266
- pension fund and similar obligations	33,814	34,255
- other	57,106	59,843
b) Other administrative expenses	1,061,869	1,068,081
- stamp duties	129,295	131,132
- rental costs for bank premises	96,245	95,414
- cost of external consultants	91,282	92,923
- maintenance of personal and real property	43,714	49,507
- postage	61,662	60,587
- sundry rentals	17,663	22,955
- information and surveys	42,756	34,435
- advertising	41,178	41,506
- cable, telephone and telex	26,325	27,827
- security	28,072	28,340
- indirect taxes	28,919	29,421
- cleaning	19,902	20,805
- transport	33,676	34,515
- electricity, heating and water	26,995	25,428
- employee vehicle and travel expenses	27,811	29,299
- cable rental for data transfer	12,445	17,622
- data processing by third parties	56,010	62,111
- insurance	33,231	23,676
- local property tax	11,932	11,388
- stationery and printing	9,054	11,631
- entertainment expense	9,874	9,085
- membership dues	9,270	8,575
- condominium fees	8,156	5,953
- information service	13,527	15,858
- fees to Directors and Statutory Auditors	10,562	8,730
- equipment rental	38,778	16,149
- subscriptions and purchase of publications	2,063	2,198
- fixed fees for tax collection services	833	4,482
- new software and rental of software	62,114	70,753
- other	68,525	75,776
Total	2,820,539	2,862,736

SECTION 5 – VALUATION ADJUSTMENTS, RECOVERIES AND PROVISIONS

5.1 Composition of Account 120 – Valuation adjustments to loans and provisions for guarantees and commitments

	31/12/2004	31/12/2003
a) Valuation adjustments to loans	864,391	887,532
including:		
- Lump-sum writedowns for country risk	890	2,115
- Other lump-sum adjustments	48,268	60,371
b) Provisions for guarantees & commitments	680	4,707
including:		
- Lump-sum writedowns for country risk		1,207
- Other lump-sum adjustments	410	615
Total	865,071	892,239

5.2 Composition of Account 90 - Valuation adjustments to fixed and intangible assets

	31/12/2004	31/12/2003
a) Intangible assets	255,662	295,944
Amortization of positive consolidation differences	65,073	71,365
Amortization of positive net equity differences	30,248	30,671
Amortization of other intangible assets	160,341	193,908
b) Fixed assets	115,879	141,805
Depreciation of buildings	48,467	51,928
Depreciation of furniture and equipment	67,412	89,877
Total	371,541	437,749

Positive consolidation differences are amortized over a period of up to 10 years, which is considered as the investment pay-back period. In the case of the Banca Agricola Mantovana Group, such period has been extended to 20 years.

Intangible assets are amortized on a straight-line basis in accordance with the principle of prudence.

Depreciation on fixed assets is calculated by applying the maximum ordinary rates allowed by law. Depreciation rates are considered as reasonable and represent the residual useful life of the assets.

5.3 Composition of Account 100 - Provisions for risks and charges

	31/12/2004	31/12/2003
Annual provision	65,901	171,830

The provisions are credited to the reserves for risks and other charges, shown in the table reported in Section 7.

5.4 Composition of Account 130 – Recoveries on loans and on provisions for guarantees and commitments

	31/12/2004	31/12/2003
Loans	286,935	190,925
Provisions for guarantees and commitments	18,145	4,706
Total	305,080	195,631

5.5 Composition of Account 140 – Provision to loan loss reserves

	31/12/2004	31/12/2003
Annual provision	26,898	48,028

5.6 Composition of Account 150 – Value adjustments to non-current financial assets

	31/12/2004	31/12/2003
Equity investments	4,440	55,071
Securities	12,551	34,322
Total	16,991	89,393

5.7 Composition of Account 160 – Recoveries on non-current financial assets

	31/12/2004	31/12/2003
Equity investments	1,030	6,982
Securities		1
Total	1,030	6,983

SECTION 6 - OTHER PROFIT AND LOSS ACCOUNTS

6.1 Composition of Account 70 - Other operating income

	31/12/2004	31/12/2003
Rental and similar income	30,783	26,904
Expenses recovery & other income: deposits and current accounts	202,408	177,401
Recovery of stamp duties	120,602	108,156
Premiums received	27,211	1,678
Recoveries of expenses on mortgage loans	37,311	32,158
Other (°)	112,897	189,806
Total	531,212	536,103

6.2 Composition of Account 110 - Other operating expenses

	31/12/2004	31/12/2003
Expenses on redemption of assets under financial lease	2,681	2,641
Options	26,516	779
Other operating expenses	20,071	31,651
Total	49,268	35,071

6.3 Composition of Account 190 - Extraordinary income

	31/12/2004	31/12/2003
Profit on disposal of fixed assets	6,727	5,600
Gains on disposal of equity investments (*)	37,284	282,364
Profit on disposal of investment securities	498	27
Other (1)	288,142	179,914
Total	332,651	467,905

(*) The amount is inclusive of EUR 121,523,000 related to the reversal of value adjustment on equity investments carried out by the parent company as of 31.12.2003 in compliance with tax regulations plus EUR 29,548,000 resulting from agricultural activities of Mps Tenimenti, a subsidiary.

6.4 Composition of Account 200 - Extraordinary charges

	31/12/2004	31/12/2003
Non-banking operating expenses	977	27,072
Losses on robberies	3,794	17,757
Losses on disposal of fixed assets	51	257
Loss on disposal of non-current financial assets	2,865	3,121
Loss on sale of investment securities	2,211	101
Other (*)	187,876	405,689
Total	197,774	453,997

(*) The total amount includes the Solidarity Fund and the Early Retirement Plan detailed in the Report of the Board of Directors, plus EUR 25,492,000 resulting from the agricultural activities of Mpa Tenimenti.

6.5 Composition of Account 240 - Income taxes

	31/12/2004	31/12/2003
Current taxes	(155,773)	(399,310)
Change in deferred tax assets	(16,444)	75,422
Change in deferred tax liabilities	(43,362)	56,047
Total	(215,579)	(267,841)

SECTION 7 - OTHER INFORMATION ON THE PROFIT AND LOSS STATEMENT

7.1 Geographical distribution of income

31/12/2004

	Italy	EU Countries	Other Countries	Total
Interest and similar income	4,215,511	177,241	28,603	4,421,355
Dividends and other income	238,602	1,322	-	239,924
Commissions earned	1,540,142	24,070	1,694	1,565,906
Profits from financial transactions	(89,998)	(6,280)	227	(96,051)
Other operating income	529,232	1,973	7	531,212
Total	6,433,489	198,326	30,531	6,662,346

31/12/2003

	Italy	EU Countries	Other Countries	Total
Interest and similar income	4,356,550	289,628	34,764	4,680,942
Dividends and other income	390,265	218	-	390,483
Commissions earned	1,447,132	62,886	15,373	1,525,391
Profits from financial transactions	18,409	2,400	978	21,787
Other operating income	419,004	116,919	178	536,103
Total	6,631,362	472,051	51,293	7,154,706

PART D

OTHER INFORMATION

SECTION 1 – BOARD OF DIRECTORS AND BOARD OF STATUTORY AUDITORS

1.1 Compensation

	31/12/2004	31/12/2003
a) Directors	6,567	6,825
b) Statutory Auditors	1,895	1,920

1.2 Loans to and guarantees released on the account of Directors and Statutory Auditors

	31/12/2004	31/12/2003
a) Directors	949	2,724
b) Statutory Auditors	353	371

MONTE DEI PASCHI DI SIENA BANKING GROUP
Piazza Salimbeni, 3 – Siena, Italy

Registered Office: Piazza Salimbeni, 3 - Siena

Registered with the Court of Siena under No. 9782 on 23 August 1995
Registered with the Register of Banks under No. 325 Cod. No. 1030.6
Member of Italian Interbank Deposit Protection Fund

The General Manager of the General Accounting	The Chief Executive Officer
F. Spampani	E. Tonini
The Chairman of the Board of Directors	The Auditors
P.L. Fabrizi	G. Vittimberga,
	P. Fabretti, .
	L. Pizzichi

ATTACHMENTS TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

	Share Capital	Paid-in Capital	Provision for General Banking Risks	Negative Cons. Diff.	Negative Net Equity Diff.	Legal Reserve	Statutory Reserves	Reserves for Own Shares	Other Reserves	Reval. Reserves	Profit (loss) to be carried forward	Profit for the Year	TOTAL
Consolidated net equity as of 31 December 2002 (as approved by the Board of Directors)	1,675,023	522,925	360,812	21,343	1,570	271,231	974,813	10,418	1,115,832	14,405	70	581,813	5,550,255
Net profit allocation						63,744	91,000		209,154		54	(363,982)	-
Dividends distributed by the Parent Company									-			(217,831)	(217,831)
Share capital increase – BAM and BT merger	260,250												260,250
Usage of extraordinary reserve for losses on junior securities									(44,222)				(44,222)
Usage of reserve for general banking risks			(300.000)										(300,000)
Usage of extraordinary reserve for stock granting									(34,908)				(34,908)
Securitization effects									52,963				52,963
Usage of reserve set up under Law 213/1998 to cover losses on investments									(8,788)	-			(8,788)
BAM and BT merger surplus									490,100				490,100
Change in reserve for own shares								5,491	(5,491)				-
Change in area of consolidation				(16,455)	-					-			(16,455)
Marinella real estate revaluation (Law 342/2000)										27,391			27,391
Other changes			(68)						(49,472)	2,047			(47,493)
Profit for the year									-			442,521	442,521

Consolidated net equity as of 31 December 2003	1,935,273	522,925	60,744	4,888	1,570	355,005	1,065,813	15,909	1,725,168	43,843	124	442,521	6,153,783
Net profit allocation						22,132	29,500		222,222		(118)	(273.736)	
Dividends distributed by the Parent Company												(168,785)	(168,785)
Usage of extraordinary reserve for stock granting									(45,648)				(45,648)
Securitization effects									26,726				26,726
Usage of reserve set up under Law 213/1998 to cover losses on investments													
BAM and BT merger surplus													
Change in reserve for own shares								(15,182)	15,182				
Charities									(2,791)				(2,791)
Other changes			586	(21)					(12,272)	(60)			(11,767)
Profit for the year												513,694	513,694
Consolidated net equity as of 31 December 2004	1,935,273	522,925	61,330	4,867	1,570	357,137	1,095,313	727	1,928,586	43,783	6	513,694	6,465,211

RECONCILIATION OF PARENT-COMPANY EARNINGS AND NET EQUITY AND CONSOLIDATED EARNINGS AND NET EQUITY

	31/12/2004		31/12/2003	
	Shareholders'Equity	*Profits and losses*	*Shareholders' Equity*	*Profits and Losses*
Balances as reported in parent-company financial statements	6,587,815	610,478	6,150,138	221,200
Effects of line-by-line consolidation of subsidiaries	78,455	440,403	(81,476)	442,113
Excess of net equity over carrying value for subsidiaries consolidated with net equity method	149,397	73,041	162,207	42,216
Amortization of positive consolidation and net equity differences	(95,212)	(95,212)	(102,176)	(102,176)
Reversal for dividends distributed by subsidiaries		(19,334)	-	(29,703)
Reversal for dividends accrued by subsidiaries	(255,244)	(255,244)	(215,348)	(215,348)
Reversal for extraordinary dividends				(156,219)
Reversal for valuation adjustments, net of tax, complying with tax regulations		(240,438)	240,438	240,438
Total	6,465,211	513,694	6,153,783	442,521

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

	31/12/2004	31/12/2003
SOURCES OF FUNDS:		
Net profit for the period	513,694	442,521
Provision for general banking risk reserve	586	(300,068)
Provision for staff severance indemnity reserve	80,571	85,020
Provision for pension fund	90,053	73,168
Provisions for loan losses: increase	26,898	120,073
Total funds generated from operations	711,802	420,714
Increases:		
Due to customers	2,220,536	(2,768,451)
Due to banks	169.552	(5,458,341)
Debts represented by securities	1.700.463	3,377,020
Other Liabilities	2.353.346	(1,793,048)
Subordinated liabilities	86,130	1,198,878
Decreases:		
Cash and sight deposits	54,939	162,775
Positive changes in consolidation area and net equity	95,963	(42,152)
Fixed assets	255.,366	57,486
TOTAL SOURCES OF FUNDS	7,648,097	(4,485,119)
USES OF FUNDS		
Payment of dividends	168,785	217,831
Payment of staff severance indemnities	84,510	92,718
Payment of pension benefits	30,350	39,426
Use of reserve for loan losses	60,926	163,483
Other changes in balance sheet accounts	34,067	(667,922),
Increases:		
Investments	163,759	432,664
Own shares	(15,182)	(5,492)
Other assets	976,236	(1,677,606)
Unearned and differed income	181,340	8327,9409
Decreases:		
Third-party funds under administration	408	5,712
Accrued liabilities and prepaid expenses	44,730	325,789
Other liabilities	42,963	(167,183)
Reserve for taxes	395,793	98,931
Minority interests	663	772,840

TOTAL USES OF FUNDS	2,169,298	(696,749)
Difference	5,478,799	(4.148,370)
CHANGES IN INTEREST-BEARING USES OF FUNDS		
Increases:		
Customer loans and advances	3,989,319	1,933,022
Amounts due from banks	2,804,827	(7,475,982)
Securities and certificates of deposit	(1,315,37)	1,394,590
Total	5,478,799	(4,148,370)

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

Report of the auditors in accordance with article 156 of legislative decree no. 58 of 24 February 1998

To the shareholders of
Banca Monte dei Paschi di Siena S.p.A.

1 We have audited the consolidated financial statements of the Monte dei Paschi di Siena Group as at and for the year ended 31 December 2004. These financial statements are the responsibility of the parent company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The responsibility for the audit of the financial statements of certain subsidiary and associated companies, representing 24% and 24% of consolidated assets and consolidated interest income and other similar income, respectively, rests with other auditors.

Reference should be made to the report dated 10 April 2004 for our opinion on the prior year consolidated figures which are presented for comparative purposes as required by law.

3 In our opinion, the consolidated financial statements of the Monte dei Paschi di Siena group as at and for the year ended 31 December 2004 comply with the Italian regulations governing their preparation; therefore they are clearly stated and give a true and fair view of the financial position and results of the group.

4 As described in the notes to the consolidated financial statements, in previous years, the parent company partly charged directly to reserves and partly deferred to future years the write-down of junior securities and the effects of the losses incurred following a number of non-performing loan securitisation transactions. This treatment is permitted by Law no. 130/1999 as an alternative to fully charging the profit and loss account of the year in which the write-down is recorded or the losses are incurred as required by correct

accounting principles. The accounting treatment applied and the related effects on the consolidated financial statements are described in the notes thereto.

Florence, 13 April 2005

KPMG S.p.A.

(signed on the original)

Roberto Todeschini
Director of Audit