ANNUAL REPORT 2003

Siena, 25 March 2004

TABLE OF CONTENTS

2003 FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

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*

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 Giorgio Primavera
Assistant Chief Executive Officer	Antonio Vigni
Assistant Chief Executive Officer	Pier Luigi Corsi

Independent Auditors	KPMG S.p.A.

Note: as of 1 January 2004 Mr. Pier Giorgio Primavera retired and was replaced by Mr. Pier Luigi Corsi as Deputy CEO; as of 1 January 2004 Mr. Rossano Bagnai was appointed Assistant Chief Executive Officer.

A BRIEF OVERVIEW ON 2003 OPERATIONS

In 2003 the macroeconomic scenario still evidenced some critical indications which affected all banking activities, though at different levels, and the operations of the financial intermediaries both in terms of traditional lending (spread reduction and deterioration of the quality of the loan portfolio), asset management (deterioration of business confidence with the customers shifting their investments into shorter-term and more stable investments, in particular at the end of the year with reference to Parmalat, Cirio bonds etc. ...)

Operating against this backdrop, the MPS Group achieved appreciable operating and earnings results by significantly curtailing costs and further expanding the volumes of customers' funding and lending, with primary income progressing considerably.

- In the activity of **asset management**, the Group commercial networks realized important results. The networks achieved solid placement volumes (+48.5% as a whole) increasing with respect to the appreciable volumes recorded in 2002. This enabled the MPS Group to consolidate its market shares in the main segments. Indirect funding (roughly EUR 106 billion), which was driven by funds management (+14.1%), rose by 4.4% (+2.2% growth with respect to direct funding);
- With respect to the **lending business**, the MPS Group focused mainly on building business in the medium- and long-term components which recorded solid growth (loan disbursements +8.4%; special credit lending +1.6%). The Group is increasingly promoting the sale and marketing of new corporate products (EUR 4.5 billion) for the management of the financial risks of businesses and public entities. As a whole, as of 31 December 2003 **total loans** amounted to **EUR** 70.4 billion (+ 2.8% year on year);
- In this framework, the Group's traditional conservative lending policy confirmed good asset quality, with the net doubtful loans/total customers loans ratio (1.8%) well below the industry average, estimated at 2.2%.

As a result of these dynamics, the Group achieved appreciable results which gradually improved over the year, with the **interest margin+commissions from customers** aggregate growing by 2.8% with respect to 2002, mainly due to the steady expansion of interest margin (+6.1%).

It is worthwhile highlighting the declining trend of administrative expenses, which decreased by 4% with respect to 2002, as a result of sharp governance actions and the efforts made to cut costs. Operating costs in particular fell by 7.6% year on year.

Given these dynamics, the growth of gross operating profit stood at 7.7% (+17.9% net of "non-traditional" banking income components) and the cost/income ratio improved reaching 2.5 percent.

Considering adjustments and provisions (characterized by rigorous and selective standards), consolidated net profit came to EUR 442.5 million and the Group ROE, net of adjustments to paid goodwill, almost reached 10% (9.5%).

Capital ratios were strengthened significantly (Tier 1 ratio stood at 6.5% and the overall solvency ratio equalled 9.89%) and benefited from the reduction of capital absorption and the issue of capital instruments (EUR 1.3 billion) at the end of the year.

THE DEVELOPMENT OF THE MPS GROUP IN 2003 AND THE NEW BUSINESS PLAN

In 2003 the Group executed numerous corporate transactions aimed at making the Group structure compliant with its strategies and consolidating its position in some strategic fields. These transactions included:

- The merger by incorporation of Banca Agricola Mantovana and Banca Toscana into BMPS (and the consequent spin-off of the incorporated assets to two new wholly-owned commercial banks with the same name);
- The set-up of MPS Immobiliare Spa, a company headquartered in Siena and wholly owned by BMPS, which incorporated almost all of the Group's real estate and property;
- The continuation of the plan to reorganize the Group's Irish-law companies, with the approval of the merger between Monte Paschi Ireland and Mantovana Ireland Ltd;
- The set-up of a Monegasque-law bank dedicated to private banking with the subsequent spin-off of the assets of the Monaco branch of MP Banque;
- The finalization of the merger by incorporation of Ticino Vita into Monte Paschi Vita.

On 13 November 2003, the Board of Directors of Banca Monte dei Paschi di Siena approved the new 2003-2006 Business Plan. This Plan is in line with past Plans and its key objectives include further emphasis on development and the improvement of income. In this framework, the Group focused on the retail market and on the SMEs and Public Entities segments and also envisaged to further consolidate its presence in the private banking market.

■ **KEY OBJECTIVES OF THE BUSINESS PLAN**

	2006
ROE	14%
Cost/income ratio%	57%
Net adjustments and provisions on loan losses	61 b.p.
Core Tier 1	7.0%
Net profit	> 950 Eur million

(*) Incl. Depreciation & amortization

In order to achieve the objectives set in the Plan, the Group shall leverage:

- The growth of the productivity of sales and marketing, to be pursued through specialization of production/distribution structures by markets and customer segments;
- The improvement of management efficiency, to be pursued by streamlining expenses, both administrative expenses and personnel costs, as already done in the past two years ;
- The optimization of risk management and capital ratio strengthening.

After the approval of the Plan, the MPS Group inaugurated roughly 40 strategic projects, including 14 new projects. Some of these projects involve major transactions of Group reorganization in order to (i) bring the structure in line with the strategies adopted, (ii) simplify the governance procedures and (iii) free up capital for other strategic investments.

- GROWTH OF THE PRODUCTIVITY OF SALES

The MPS Group's strategic undertakings in this area have been aimed at improving the quality of service to the customers through platforms specialized by segments.

- Private Banking
    - Late in 2003 the activities aiming at strengthening the specialized service model for catering to the Group's customers were inaugurated with the key objective of achieving a leading market position. Following are the principal aspects of these activities:

      - the Private Banking Unit was set up in 2004 within the Corporate Center;

      - the procedures for the merger of Banca Steinhauslin into the Parent Company have been started;

      - other specialized distribution structures were created in all of the Group Banks (today there are more than 60 Private Banking Centers).
- Retail Market
    - *Affluent Customers*. The "Carattere" service model, which was already addressed to Upper Affluent Customers in 2003, is being extended to Lower Affluent Customers. This service model includes the placement within the commercial banks of specialized personnel dedicated to financial consulting and the development of sophisticated methodologies of Personal Financial Planning. Today the Group can rely on 2,100 relationship managers for Affluent customers.
    - *Family*. The CRM system for managing market campaigns and customer relationships was on line at all of the branches of the MPS Group's banks as of the end of the first half of 2003. Other initiatives which are still under way include the migration of low-value added transactions to remote banking channels. A specific model for managing this segment of customers which is based on the identification of homogeneous customer clusters is being tested by the Group Banks. This model suggests specific products or services for each cluster.
- Corporate Market
    - *SMEs*. SME service centers have been developed within the Group. The centers are dedicated to promote relationships with middle market firms and are manned by account managers. As of today there are roughly 50 SME Centers with 300 account managers already trained.
    - *Small Businesses*. Likewise, the MPS Group is placing specialized managers for this segment in the commercial network and developing a specific range of products to suit the needs of this clientele. As of today over 1,000 specialized managers have been trained.
    - *Local and Municipal Governments and public-sector entities*. A project aimed at promoting specialized facilities and dedicated service models is being implemented.

- *Large Corporate*. Efforts have continued in order to concentrate all relationships into one Group unit which is staffed with highly specialized professionals and will be responsible for co-ordinating the commercial management of these customers.
- *Creation of a Bank for Corporate Finance*. In order to consolidate the Group's positioning in the Corporate market (especially SMEs and public-sector entities), a bank for corporate finance is being created by integrating MPS Merchant, Banca Verde and MPS Finance. The new Bank will disburse loans to businesses operating in the agricoltural, environmental, manufacturing and services sectors and provide corporate finance facilities to the Group's customers.

IMPROVEMENT OF EFFICIENCY

During 2003, the Group placed a strong emphasis on expense containment and efficiency gains, with actions taken to shift professional resources away from low value added activity and to streamline administrative expenses.

As outlined by the Business Plan, the most important projects in this area regarded:

- The organizational review and optimization of operating processes within the Group commercial networks, partly undertaken at Banca Toscana and being extended to Banca MPS-Commercial Bank Division;
- Centralization of back-office operations for the network and the head offices in specific Group units within the Operating Consortium;
- Completion of the centralization of purchasing and the revision of the principal agreements for the supply of goods and services by the Group Purchasing Unit;
- Actions to curb administrative expenses through the benchmarking of expense items and specific actions on the costs which are subject to major variations;
- Reduction of the responsibility centres for costs and consolidation of centralized mechanisms of control.

In compliance with the guidelines of the new Business Plan, projects to boost the efficiency of Head Offices structures (Corporate Center, Head Offices, Major Branches) are being inaugurated with the objective of better utilizing human resources in the sales and marketing areas.

RISK MANAGEMENT AND CAPITAL CONSOLIDATION

In 2003 projects have been undertaken to optimize credit risk management and to improve the monitoring of market and operating risks.

- *Credit risks*. Work continued on defining and extending the projects of review of the loan management processes (disbursement, trend control, recovery) in a logic of specialization by customer segment. In particular, the Commercial Bank Division (BMPS) continued to develop the projects concerning loan disubrsement to Small Businesses. This project has already been carried out at Banca Toscana and is under way in the network of Banca Agricola Mantovana. Trend control procedures have been designed and are being tested in some Groups of branches of the BMPS Commercial Bank Division and Banca Toscana.

- *Market risks and operating risks*. Projects for building internal models for managing/mitigating market and operating risks and calculating their capital absorption ratios are being completed in accordance with Basle II-compliant indications and methodology .

- *Capital consolidation.* Between the end of 2003 and the first months of 2004 the issue of FRESH Convertible Preferred Securities (Floating Rate Equity-linked Subordinated Hybrid for the amount of EUR 700 million) was finalized with the objective of consolidating capital (Tier 1 capital) also in light of expected growth as a consequence of the implementation of the Business Plan.

☐ OTHER AREAS

Important strategic initiatives were also undertaken in compliance with the Business Plan and include:

- *International Affairs.* A plan of development of the Group's foreign network is being prepared. This entails the streamlining of the present network (branches, representative offices) in view of better supporting the internationalization of Italian SMEs. In this respect, the Group will focus on specific areas such as Eastern Europe, the Mediterranean area and South-East Asia countries (e.g. China and India which have a high growth potential);
- *Growth.* The Group is planning to open roughly 150 banking facilities in three years with further emphasis being placed on the areas characterized by a higher marketing potential;
- *Operating Systems.* Value Based Management techniques for the capital invested in different business areas are being introduced and the Group central IT system is being strengthened;
- *Equity Investments.* The portfolio of non strategic equity investments is being streamlined.

CONSOLIDATED REPORT ON OPERATIONS

MPS GROUP: KEY DATA AND RATIO ANALYSIS

million euro

Profit and loss aggregates	31/12/2003	31/12/2002 restated	Chg.%
Total banking income	4.681,3	4.710,8	-0,6
Net operating income	1.483,6	1.377,1	7,7
Net income	442,5	581,8	-23,9
Net income adjusted for goodwill	545,4	670,3	-18,6

Balance sheet aggregates	31/12/2003	31/12/2002	Chg.%
Direct funding - including subordinated debt	82.338	80.531	2,2
Indirect funding	105.937	101.489	4,4
including: Funds under management	*42.264*	*37.035*	*14,1*
including: Funds under administration	*63.674*	*64.455*	*-1,2*
Customer loans and advances	**70.405**	**68.472**	**2,8**
Consolidated shareholders' equity	**6.154**	**5.550**	**10,9**

Credit quality indicators (%)	31/12/2003	31/12/2002
Net non-performing loans / Customer loans and advances (%)	1,8	1,5
Watchlist credits / customer loans and advances (%)	1,7	1,7

Profitability ratios (%)	31/12/2003	31/12/2002
Non interest income/Total banking income	46,8	50,2
Cost/Income ratio % (excluding depreciations and amortization)	61,2	62,1
Cost/Income ratio % (including depreciations and amortization)	68,3	70,8
Cost/Income ratio % (including depreciations and amortization) (°)	66,2	68,6
R.O.E. (net equity as of end of period)	8,3	11,5
R.O.E.(*)	7,7	10,7
Adjusted ROE (%) (*)	9,5	12,4

(°) excl. Tax Collection area

(*) average net equity

Solvency ratios (%)	31/12/2003	31/12/2002
Total capital ratio %	9,9	8,8
Tier 1 Ratio %	6,5	6,1

Share data	31/12/2003	31/12/2002
Number of shares outstanding	2.448.491.901	2.607.791.591
Number of preferred shares outstanding	565.939.729	-
Number of savings shares outstanding	9.432.170	9.432.170
Ordinary share price during the year:		
- average	2,42	2,87
- low	1,93	1,73
- high	2,85	3,88

Operating structure	31/12/2003	31/12/2002	Abs. Chg.
Number of banking employees (end of period)	24.343	24.872	-529
Number of total employees (end of period)	26.881	27.517	-636
Number of branches in Italy (*)	1.835	1.827	8
Number of foreign branches and foreign representative offices	38	37	1
Number of customers with online connections to the Group banks	689.838	731.394	-41.556

(*) data include facilities of specialized units MPS Merchant and MPS Banca Verde

RECLASSIFIED BALANCE SHEET AND RECLASSIFIED PROFIT AND LOSS STATEMENT

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

- Earnings relative to equity-swap transactions have been eliminated from "dividends and other income" (account 30) and reclassified as "profits and losses from financial transactions". The costs of funding equity-swap transactions have been eliminated from "interest expense and other expense on borrowed funds" (Account 20) and reclassified as "profits and losses from financial transactions" . Tax credit relative to "dividends from equity investments" has also been eliminated from account 30 and reclassified as "income taxes", since the tax regulations have changed as of the financial year of 2004;
- "Net commissions" consists of "Commissions earned" (Account 40) and "Commissions expense" (Account 50). Earnings and losses relative to trading of securities for the account of customers have been netted out of "profits and losses from financial transactions" (Account 60) and are reported as part of "net commissions";
- "Other operating income" (Account 70) and "other operating expense" (Account 110) as well as Accounts 65 and 85 have been aggregated and reported as part of "Other net income";
- "Net adjustments to non-current financial assets" includes part of "Valuation adjustments to loans" (Account 120) in relation to interest accrued and not cashed on some junior securities.

In 2002 the provision to write down the investment in Banca Nazionale del Lavoro was reclassified as "Extraordinary income(charges)". Besides, as a result of the amendments to the accounting and reporting criteria of commissions expense on the placement of securities by MPS Finance Spa (during the second half of 2002), the 2002 results for "net commissions" have been restated in order to facilitate the comparison on an annual basis with 2003 results, which are fully compliant with the new standard.

MPS Group

Reclassified Consolidated Balance Sheet (in EUR mn)

ASSETS	31/12/2003	31/12/2002 restated	Changes Abs	Changes %
Cash on hand and deposits with central bank and post office	671	834	-163	-19,5
Loans:				
a) Customer loans and advances	70.405	68.472	1.933	2,8
b) Amounts due from banks	8.551	16.027	-7.476	-46,6
Trading Account Securities	14.342	12.458	1.884	15,1
Non-current assets				
a) Investment securities	3.964	4.453	-489	-11,0
b) Equity investments	2.621	2.189	433	19,8
c) Fixed assets and intangible assets	2.512	2.570	-57	-2,2
Positive consolidation differences & positive net equity differences	913	871	42	4,8
Own shares or quotas	16	10	5	52,7
Other assets	18.995	21.000	-2.006	-9,6
Total Assets	**122.989**	**128.883**	**-5.894**	**-4,6**

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2003	31/12/2002 restated	Changes Abs	Changes %
Liabilities				
a) Customer deposits and borrowed funds backed by negotiable instruments	77.863	77.254	609	0,8
b) Due to banks	15.058	20.516	-5.458	-26,6
Reserves for specific use				
a) Pension funds	427	434	-8	-1,8
b) Staff severance indemnity reserve	430	397	34	8,5
c) Other reserves for risks and charges	784	617	167	27,1
d) Reserve for taxes	647	746	-99	-13,3
Other liabilities	16.805	18.930	-2.125	-11,2
Reserve for loan losses	311	355	-43	-12,2
Subordinated debt	4.475	3.276	1.199	36,6
Minority interests	35	808	-773	-95,7
Shareholder's equity:				
a) Share capital	1.935	1.675	260	15,5
b) Paid-in capital	523	523	0	0,0
c)Reserve for general banking risks	61	361	-300	-83,2
d) Negative consolidation and net equity differences	6	23	-16	-71,8
e) Reserves	3.186	2.387	799	33,5
f) Profit (loss) for the year	443	582	-139	-23,9
Total Liabilities and Shareholders' Equity	**122.989**	**128.883**	**-5.894**	**-4,6**

MPS Group
Reclassified Consolidated Balance Sheet (in EUR mn)

ASSETS	31/12/2003	30/09/2003	30/06/2003	31/03/2003	31/12/2002
Loans:					
a) Customer loans and advances	70.405	69.802	70.616	67.606	68.472
b) Amounts due from banks	8.551	9.321	11.421	12.999	16.027
Trading Account Securities	14.342	13.749	14.787	15.103	12.458
Non-current assets					
a) Investment securities	3.964	3.978	4.065	4.259	4.453
b) Equity investments	2.621	2.702	2.575	2.730	2.189
c) Fixed assets and intangible assets	2.512	2.524	2.562	2.666	2.570
Positive consolidation differences & positive net equity differences	913	954	972	849	871
Other assets	19.682	20.294	21.246	24.282	21.844
Total Assets	**122.989**	**123.323**	**128.245**	**130.493**	**128.883**

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2003	30/09/2003	30/06/2003	31/03/2003	31/12/2002
Liabilities					
a) Customer deposits and borrowed funds backed by negotiable instruments	77.863	74.282	74.481	73.759	77.254
b) Due to banks	15.058	18.649	21.302	23.576	20.516
Reserves for specific use	2.288	1.986	1.962	2.310	2.194
Other liabilities	16.805	18.012	20.610	20.699	18.930
Reserve for loan losses	311	368	363	361	355
Subordinated debt	4.475	3.676	3.267	3.330	3.276
Minority interests	35	25	23	36	808
Shareholder's equity:	6.154	6.324	6.236	6.422	5.550
Total Liabilities and Shareholders' Equity	**122.989**	**123.323**	**128.245**	**130.493**	**128.883**

MPS Group
Reclassified profit and loss statement - (in EUR mn)

	31/12/2003	31/12/2002 restated	Changes Abs	Changes %
Net Interest Income	**2.489,6**	**2.346,6**	**142,9**	**6,1**
Net commissions	1.333,2	1.370,5	-37,3	-2,7
Basic Income	**3.822,7**	**3.717,1**	**105,6**	**2,8**
Dividends and tax credit	111,5	212,7	-101,1	-47,5
Earnings of companies valued with net equity method	31,8	36,3	-4,5	-12,3
Profit (loss) from financial transactions	214,1	189,1	25,1	13,3
Other operating income	501,0	555,7	-54,7	-9,8
Non Interest Income	**2.191,7**	**2.364,2**	**-172,5**	**-7,3**
Total Banking Income	**4.681,3**	**4.710,8**	**-29,5**	**-0,6**
Administrative expenses				
- personnel expenses	-1.794,7	-1.800,0	5,4	-0,3
- other administrative expenses	-1.068,1	-1.127,5	59,4	-5,3
o/w indirect taxes	171,9	173,8	-1,9	-1,1
Total administrative expenses	**-2.862,7**	**-2.927,5**	**64,8**	**-2,2**
Gross Operating Profit	**1.818,5**	**1.783,3**	**35,3**	**2,0**
Valuation adjustments to fixed and intangible assets	-334,9	-406,2	71,3	-17,6
Net Operating Profit	**1.483,6**	**1.377,1**	**106,6**	**7,7**
Goodwill admortization	-102,9	-88,5	-14,4	16,2
Provisions for risks and charges	-171,8	-42,4	-129,5	ns.
Valuation adjustments to loans net of recoveries	-682,3	-438,0	-244,3	55,8
Provision to loan loss reserve	-48,0	-90,0	42,0	-46,6
Writedowns to non-current financial assets	-96,7	-27,6	-69,1	ns.
Profit (losses) from ordinary operations	**381,9**	**690,6**	**-308,7**	**-44,7**
Extraordinary income (charges)	13,9	53,3	-39,4	ns.
Change in reserve for general banking risks	300,0	85,0	215,0	ns.
Income taxes	-245,2	-157,1	-88,2	56,1
Profit for the period before minority interests	**450,6**	**671,9**	**-221,3**	**-32,9**
Minority interests	-8,1	-90,0	82,0	-91,1
Net profit for the period	**442,5**	**581,8**	**-139,3**	**-23,9**

MPS Group
Quarterly profit and loss statement
(in EUR mn)

	Year 2003				Year 2002 restated value as of (*)			
	4Q03	3Q03	2Q03	1Q03	4Q02 Restated	3Q02 Restated	2Q02 Restated	1Q02 Restated
Net Interest Income	**609,8**	**626,0**	**625,1**	**628,7**	**624,7**	**576,5**	**564,4**	**581,0**
Net commissions	358,0	321,0	368,4	285,8	397,9	324,5	322,0	326,0
Basic Income	**967,8**	**947,0**	**993,5**	**914,4**	**1.022,7**	**901,1**	**886,4**	**907,0**
Dividends and tax credit	12,5	3,8	94,8	0,5	10,5	-1,0	190,0	13,1
Earnings of companies valued with net equity method	-5,4	18,4	6,3	12,6	15,8	8,6	2,2	9,7
Profit (loss) from financial transactions	-19,1	93,6	34,0	105,6	136,7	-34,4	-37,0	123,7
Other operating income	186,3	104,6	98,6	111,6	124,1	79,7	181,7	170,2
Non Interest Income	**532,3**	**541,4**	**602,0**	**516,0**	**685,0**	**377,5**	**659,0**	**642,7**
Total Banking Income	**1.142,0**	**1.167,4**	**1.227,1**	**1.144,7**	**1.309,8**	**954,0**	**1.223,4**	**1.223,6**
Administrative expenses								
- personnel expenses	-458,7	-437,8	-444,1	-454,1	-469,0	-439,0	-457,3	-434,8
- other administrative expenses	-235,2	-279,4	-276,7	-276,8	-295,9	-283,1	-279,4	-269,1
Total administrative expenses	**-693,9**	**-717,2**	**-720,7**	**-730,9**	**-764,9**	**-722,1**	**-736,7**	**-703,8**
Gross Operating Profit	**448,1**	**450,2**	**506,4**	**413,8**	**544,8**	**231,9**	**486,7**	**519,8**
Valuation adjustments to fixed and intangible assets	-83,3	-83,3	-91,6	-76,8	-158,3	-88,7	-85,7	-73,4
Net Operating Profit	**364,8**	**367,0**	**414,8**	**337,0**	**386,5**	**143,2**	**401,0**	**446,4**
Goodwill admortization	-25,6	-25,8	-29,3	-22,2	-24,6	-21,3	-22,0	-20,6
Provisions for risks and charges	-95,4	-20,9	-38,9	-16,6	-15,5	-9,1	-16,4	-1,4
Valuation adjustments to loans net of recoveries	-330,4	-107,2	-146,4	-98,3	-180,4	-92,7	-104,5	-60,4
Provision to loan loss reserve	-26,8	-10,1	-2,8	-8,3	-70,8	-5,6	-3,4	-10,2
Writedowns to non-current financial assets	-39,9	-3,4	-52,5	-1,0	-8,6	-2,7	-7,6	-8,7
Profit (losses) from ordinary operations	**-153,2**	**199,6**	**144,9**	**190,6**	**86,6**	**11,7**	**247,1**	**345,2**
Extraordinary income (charges)	26,3	-14,1	-23,9	25,6	6,6	18,0	16,5	12,2
Change in reserve for general banking risks	300,0	0,0	0,0	0,0	85,0	0,0	0,0	0,0
Income taxes	2,4	-107,3	-56,9	-83,4	109,2	-8,8	-90,7	-166,8
Profit for the period before minority interests	**175,5**	**78,2**	**64,0**	**132,8**	**287,4**	**21,0**	**172,9**	**190,5**
Minority interests	-4,8	-0,8	-1,2	-1,3	-25,9	-12,9	-19,6	-31,6
Net profit for the period	**170,7**	**77,4**	**62,9**	**131,6**	**261,5**	**8,1**	**153,3**	**158,9**

(*) The data for the first three quarters of 2002 exclude the figures for such period for the subsidiary banks, Cassa di Risparmio di Prato and Cassa di Risparmio di San Miniato, both of which were sold in the fourth quarter. Besides the first three quarter 2002 includes the values of "Sorit", society earlier valued with net equity metod, the contoll of which has been required in the fourth quarter 2002.

OVERVIEW OF ECONOMY AND INDUSTRY TRENDS

MACROECONOMIC SCENARIO

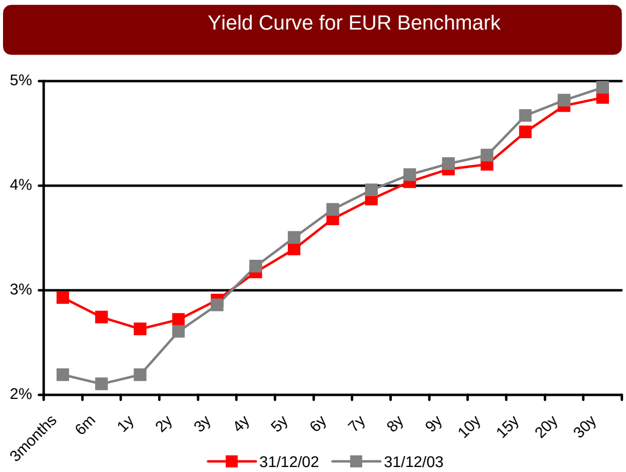
THe year of 2003 was characterized by widespread signs of recovery in the principal economic areas of the world, although the indications of improvement in the Eurozone following the stagnation of the first half of the year were still weak. However, the pace of growth was compromised by high uncertainty, intensified geopolitical tensions, the increase in the prices of raw materials and marked potential risk factors (growing public deficit, trade and foreign currency tensions).

GDP in the USA expanded by more than 3%, driven by tax reliefs and an expansive monetary policy which were flanked by the increase in public expenditure and the depreciation of the US dollar. The contribution of Asia to international expansion was particularly meaningful, with China growing by 10% and the Japanese economy being boosted by private investments and exports. A few countries in Latin America have seemingly overcome the economic crisis and Eastern Europe is still expanding (growth rate in the ten countries joining the European Union in May 2004: +3%) .

■ GROWTH RATES IN THE WORLD'S LEADING ECONOMIES

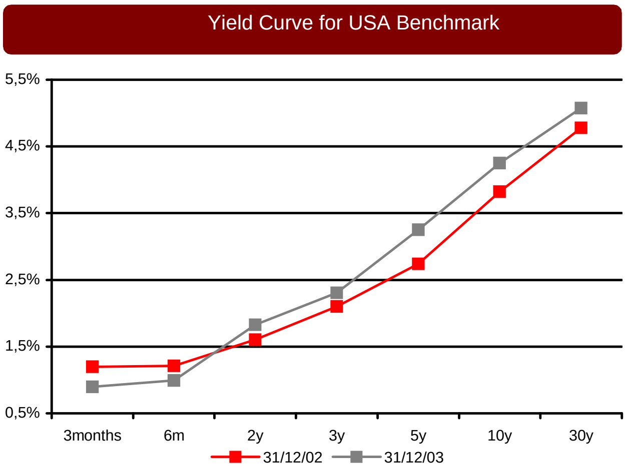
	2001	2002	2003
United States	0,3	2,4	3,1
Eurozone	1,4	0,8	0,4
Italy	1,8	0,4	0,3
Germany	0,8	0,2	-0,1
France	1,8	1,2	0,2
Japan	0,4	0,1	2,6

The performance of the Eurozone improved only in the second half of the year, with limited consumption and declining investments. The public deficit/GDP ratio increased to roughly 4% in France and Germany. The appreciation of the euro (19% with respect to the US dollar) might jeopardize the opportunities of participating in the recovery of international trade.



Italy's GDP was affected by the negative trend of exports (Italy's market share of exports in international trade dropped) and investments; the growth of consumption accelerated as a result of the satisfactory growth of employment and available income, flanked by the revival of equity markets.

The three main central banks adopted an expansive monetary policy, though in different manners. In June the Federal Riserve Bank lowered the reference rate from 1.25% to 1%, hitting its low since 1958. During the first half of 2003, the European Central Bank cut the "refi" rate from 2.75% to 2%. The Bank of Japan repeatedly injected liquidity in the markets in order to put an end to price deflation. In Italy, short-term rates fell to 2% (from 2.7%) which is a negative level in real terms (the harmonized inflation rate at year end was 2.6%). Medium-/long-term interest rates fluctuated and rose at year end to the levels recorded in December 2002 (4.4% for ten-year Treasury Bills).



As of the second quarter, the leading equity markets indices registered a significant recovery, which was indicative of the improvement of economic expectations and further decrease in interest rates. In 2003, the MSCI world index was up by approximately 30%. The NewYork and Tokyo Stock Exchanges closed the year with the respective indices augmenting by 25% and the European equity markets climbed by 15% on average. The performance of the Milan Stock Exchange was in line with the European average, with trading volumes increasing by 6.5% and capitalization reaching almost 38% of the GDP in light of a decrease in listed companies. The amounts of capital raised through the market also increased.

The improvement of the economic situation and the increasing needs of financing the public deficit exacerbated the weakness of the major bond markets which were troubled by some events of default. The situation encouraged the flow of capital toward the corporate market and Treasury Bills of emerging countries.

In the foreign-exchange markets, the USdollar/euro exchange rate hovered at year end just below 1.25 (1.04 at the end of 2002); the appreciation of the Japanese yen was lower than the euro as a result of the efforts of the Bank of Japan. The other Asian currencies (with particular reference to the Chinese renminbi) were aligned to the US dollar trend.

BANKING INDUSTRY TRENDS

The operating scenario for banks was characterized by the reduction of the spread of traditional banking activities, the high demand for medium-/long-term loans and the conservative investment decisions of the investors who partially changed the mix of their portfolios shifting to higher-risk products.

The pace of growth of direct funding decelerated in view of the revival of mutual investment funds and a more favourable scenario. Annual growth stood at 5.5% (8.9% in 2002) and was adversely affected by the slowdown of the demand for highly-liquid bank products despite the declining opportunity cost. Current accounts grew by 7.7% on an annual basis (over 11% in 2002), bonds increased by 7% (9.7% in 2002). The expansion of savings deposits remained buoyant at 6%; repurchase agreements declined considerably by 3.6% with CDs continuing to decrease.

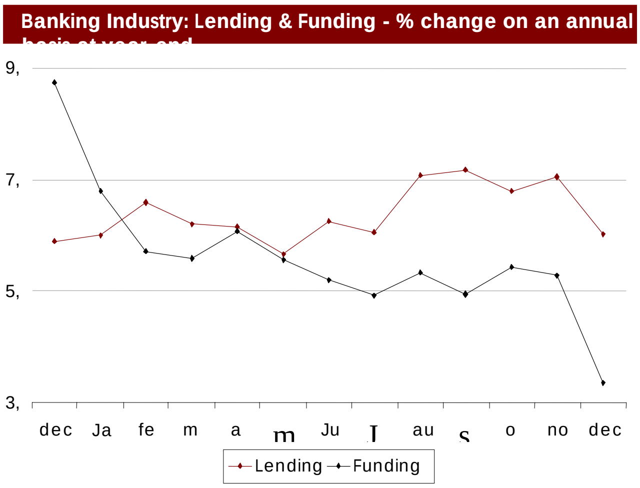
After a two-year negative trend, mutual investment funds showed signs of recovery topping EUR 25 billion. The major contribution came from liquidity funds (more than EUR 15 billion) and bond funds (EUR 10.6 billion) despite the deceleration experienced in the last few months. New investments in *hedge funds* (EUR 3 billion), driven by lower minimum subscription fees (EUR 500,000), and opportunity funds (roughly EUR 6 billion) were also positive, with equity funds showing signs of recovery and attracting new capital only in the second half of the year. As a result of the strong performances of investment funds (over 10% with respect to equity funds), the aggregate “funds under management” (+9.2%) recovered the losses of 2002. Among the distribution channels, the major contribution to funding came from the branches (more than 60%).

■ NET FUNDING FROM MUTUAL INVESTMENT FUNDS (€ MLN)

	TOTAL	Equity Funds	Bond Funds	Other
1Q 2003	8660	-6226	9630	5256
2Q 2003	11663	-100	7450	4313
3Q 2003	5801	1236	260	4539
4Q 2003	-1303	3768	-6523	1452
TOTAL	25109	-1322	10583	15848

In the bancassurance business (including post offices) total funds sourced grew by 17% and almost reached EUR 38 billion. This is attributable to an increase in traditional products, which accounted for 46% of funding (including 6% from corporate customers), and index-linked policies (from 24.5% to 26%) and a substantial decrease in unit-linked policies (from 35% to 28%) providing a guaranteed return.

Assets in individual portfolios under management by Italian banks started to grow again by 1% after a long period of decline. Net funding showed clear signs of recovery.

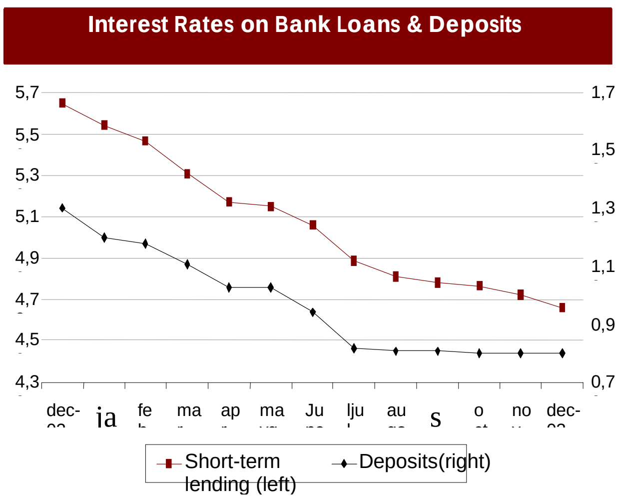


Bank lending activity accelerated moderately (+6.4% on average on an annual basis). The strong performance of medium-/long-term loans (+12.4%) was offset by the standstill in the short-term segment.

Considering the low lending rates and limited propensity to financial investments, retail customers turned to the real estate market, thus boosting the demand for medium-/long-term loans. The process of debt restructuring carried out by large companies also encouraged the demand for longer-term loans.

The stagnation of economy and transactions executed by large companies in the risk- and debt-capital markets were unfavorable to the demand for short-term loans.

Gross non-performing loans, which were adversely affected by the two-year economic stagnation and the default of Parmalat, rose by more than 10%. In terms of sectors, the growth was mainly concentrated with non-financial companies (+15.5%), partly family-owned businesses (+5.8%) and retail customers to a lesser extent (+0.7%). The balances of net non-performing loans increased again in the second half of the year (+8.6% in comparison with 2002) and the ratio of net non-performing loans to total loans remained on par with the levels recorded in the second half of 2002 (abt. 2.2%).



The spread (short-term lending rate less the rate paid on deposits) decreased from 4.36 percent in December 2002 to 3.86; the average annual spread is also falling sharply (from 4.34 percent to 4.08 percent).

The markdown calculated with respect to one-month EURIBOR (from 1.71 to 1.34 percent in

December) and the markup (from 2.65 to 2.52 percent) were squeezed further.

Lending rates proved to be highly sensitive to the trend of the financial markets and decreased by roughly 1%. The rates on deposits have touched bottom (0.8% in December). Considering the rates on medium-/long-term loans, in 2003 the spread fell below 3%, by roughly 30 basis points in comparison with 2002.

The trend of bank interest rates compromised the growth of bank interest margins which are expected to remain virtually steady. Overall profitability was positively influenced by the growth of income from services and cost control policies, but was still affected by the high levels of provisions and valuation adjustments. The ROE kept steady on the levels of 2002 (approx. 6.5%).

REGULATORY ISSUES

The tax reform of companies and the reform of company law are in force effective 1 January 2004. The new tax regulations for companies entail: (i) Group consolidated taxation, (ii) new rules on dividends, (iii) *participation exemption* and the fight against *thin capitalization*, (iv) 33% tax rate, (v) the elimination of the Dit and the substitute tax on extraordinary transactions and (vi) transparency for large corporations. The new company law is based on the regulations in force in Anglo-saxon markets. The new law provides for an increasing statutory autonomy with reference to corporate organization and the sources of finance, and a consolidation of controls and governance instruments in support of the different *stakeholders*.

With respect to the issues of transparency , the Italian Bankers' Association has undertaken initiatives aimed at giving the customers clear information and details about the products supplied (aka "Clear Pacts").

The Finance Act for 2004 provides for the review of the terms and conditions for the revaluation of company capital goods and the reduction of the tax rate on mutual investment funds specialized in SMEs. In compliance with the provisions of the Basle Accord for the recognition of the status of guarantor, the structure of Confidi has been changed in order to encourage capitalization and its transformation into several financial entities. In addition, investment income paid by foreign insurance companies (operating under conditions of freedom of services rendered) with respect to life policies underwritten by residents shall be subject to taxation similarly to investment income paid by domestic insurance companies.

The regulations concerning real estate funds have been amended in so far as the partners of an asset management company and other companies belonging to the same Group are allowed to transfer real estate (not exceeding 60% of value of the fund) to third parties. The favourable review of tax regulations in the matter incorporates that income cashed by the investors shall be subject only to a 12.5% tax rate.

The Basle Committee has published the third draft of the accord on bank capital requirements which introduces changes in the management of loans granted to SMEs by reducing the relative criteria for capital requirements. The deadline for the final version of the accord (which is expected to include comments from banks and credit institutions, at least partly) has been postponed to June 2004, but the Accord will come into force at the end of 2006.

☐ THE MPS GROUP COMPLIANCE WITH IAS ACCOUNTING STANDARDS

Pursuant to EU Regulation no.1606 of 19 July 2002, as of 2005 all EU companies with shares listed in an organized market shall be obliged to prepare consolidated financial statements in compliance with the International Accounting Standards (IAS), now International Financial Reporting Standards (IFRS). According to the above-mentioned EU Regulation, the first IAS-compliant consolidated financial statements will be published in 2005. Banca Monte dei Paschi di Siena, which is obliged to draw up quarterly consolidated reports, shall comply with the rules as of 31 March 2005.

In this framework of substantial change in the accounting standards, the MPS Group inaugurated a specific project of transition to IAS standards in November 2002. Compliance to the new international accounting standards contemplates three steps: Analysis, Design and Conversion.

The first step (Analysis) was completed in February and mostly involved:

- Identification and valuation of the accounting impacts stemming from the introduction of the IAS and subsequent definition of the accounting components and manuals to be adjusted in order to be compliant with the innovations introduced;
- Compliance of the organizational aspects (operating structures and models), processes and systems in relation to the IAS;
- Identification of the guidelines for the conversion of the systems;
- Evaluation of the impacts on banking business (in particular on the financial products offered to corporate customers) by outlining the guidelines necessary for re-stating product policies.

In light of the comments stemming from this activity, the Group prepared a Master Plan of the actions needed for compliance with the new standards and identified the relative details, responsibilities within the Group and implementation priorities.

The enforcement of the IAS will impact not only the Parent Company but also its subsidiaries. Therefore, the impact on the whole Group will be monitored during the implementation of the project by the Group companies in accordance with the priorities given.

The stage of Design which will involve more than 100 Group staff was inaugurated in March 2004 and will be completed at the end of the first half of 2004 for the purpose of promoting implementation actions necessary for making the Group IAS-compliant by the first quarter of 2005.

OVERVIEW OF OPERATIONS

OPerating against a critical backdrop in 2003, the MPS Group adopted a conservative and selective stance in terms of sales, marketing and lending policies. These difficulties exacerbated in the last quarter of the year as a result of extraordinary events (e.g. Parmalat crisis) and other turbulences which characterized the financial industry (Cirio bonds, Argentina Treasury Bills etc. ...).

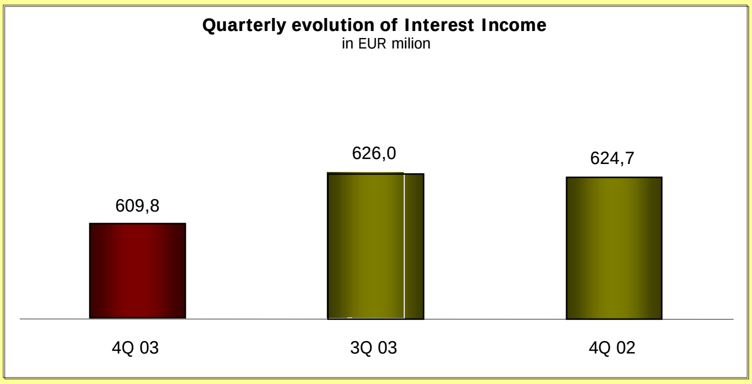
The MPS Group strategies aimed at ensuring continuity of the marketing policies started in 2002 and effectively cutting expenses. These marketing policies placed accent on the consolidation and improvement of the bank-customer relationship and the appropriate monitoring of profitability. Moreover the major reorganization carried out in 2003 enabled the Group to further progress in the implementation of its principal projects.

CAPITAL AGGREGATES

Given the difficult scenario which manifested in 2003, **the MPS Group achieved appreciable results with respect to the traditional banking business which improved steadily over the year. Excluding the impact of extraordinary external events, these results are in line with the development planned.**

TOTAL BANKING INCOME

The core component of total banking income (interest margin+commissions paid by the customers) recorded a 2.8% increase in comparison with 2002 with the quarterly growth accelerating gradually over the year.

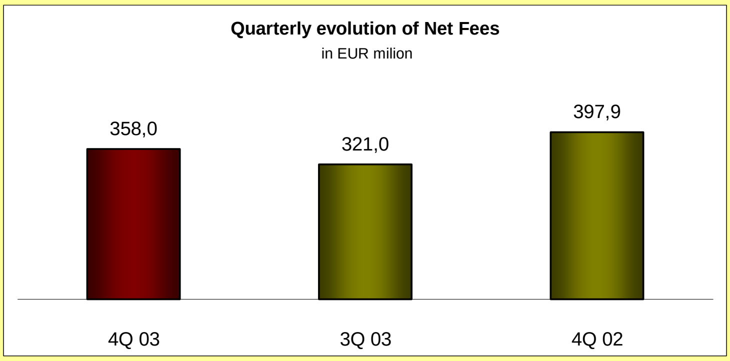


The interest income in Q4 of 2003 incorporates (at the level of the Parent Company adjustmentsin the amountof EUR 12 millionrelativeto therenegotiatio of subsidized loans of prior years (see par. "Capital aggregates" in the BMPS annual report) Net of this component, the decrease with respect to Q3 of 2003 (- and Q4 of 2002 (- incorporates the effects of the contraction of the spread on short- maturities which intensified at the end of the

- The **net interest income** expanded by EUR 142.9 million or 6.1% incorporating a greater contribution of the lending and deposit-taking business with ordinary customers as a result of higher volumes, the growth of the spread on medium-/long-term loans and steady spreads on short-term maturities, though in view of strong pressure on the markdown. **The Group succeeded in containing the reduction of the spread on short-term maturities (47 bp as of 31/12/2002) against a 50 bp decrease for the industry**. A positive contribution also came from financial management and ALM policies.

A review of the individual **Business Units** shows appreciable gains at the specialized product companies with annual growth topping 20%. The commercial networks grew in the range of 2%-9%. Additional information is contained in the section covering "Operations by Business Area".

▪ **<u>Net fees</u>** declined as a whole by 2.7%. However, the trend improved in comparison with the prior six months (+3.8%), as a result of gradually growing income from assets managed for the customers and services rendered**,** although reflecting the deterioration of the market framework which affected the customers' investment decisions and portfolio turnover.



Net fees in Q4 advanced by 11.5% with respect to Q3, progressing by 4.5% in comparison with the quarterly average of 2002.

After eliminating income from tax collection activity (which is not part of traditional banking business) and incorporating the commissions on current account, in addition to the dividends and financial income posted by MPS Finance with respect to structured innovative financial products, the aggregate includes:

- A 2.8% increase in commissions from funds management which reached EUR 443 million and were boosted by hefty placement flows;
- The sound performance of commissions from traditional banking services (+7.5% or EUR 810 million);
- A decrease of 22% in income from the placement of innovative financial products (EUR 142 million) which consist, as shown in the section covering funds management, of capital and return guaranteed products with a lower risk profile.
- A 28.6% deceleration of income from trading transactions (orders placed by the customers in the amount of EUR 180 million) incorporating lower trading volumes in the equity market and minor business opportunities in the capital market.

The service margin consists of the following :

- the significant rebound of **<u>profits/losses from financial transactions</u>** which totalled EUR 214.1 million (EUR 189.1 million in 2002) and incorporated the positive contribution from structured innovative financial products designed by MPS Finance, in light of a conservative and selective management policy;
- the reduced contribution coming from "**Dividends**" which fell by EUR 101.1 million in comparison with 2002, when the account was boosted by the extraordinary dividends paid by Hopa and San Paolo Imi which totalled EUR 65 million, net of the relative tax credits. The equity investment in San Paolo Imi was sold during 2002.
- The contraction in **<u>other income</u>** (EUR 54.7 million), which incorporates lower income from securitization transactions (EUR 83 million with respect to EUR 147.5 million in 2002);

- The reduction of **earnings accrued on investments valued with net equity method** (EUR 4.5 million). The figure incorporates the earnings from the MPV Group (EUR 38.7 million), offset by the losses of MPS.net and other minor subsidiaries.

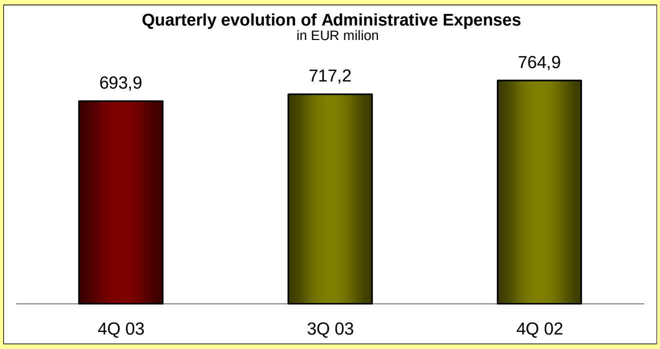
As a whole, **total banking income** was substantially steady (-0.6%) with respect to 2002, with the weight of service margin declining from 50.2% to 46.8%. <u>Excluding the "non traditional" components (e.g. income from securitization transactions) or "non recurring" components (e.g. extraordinary dividend paid by Hopa) from the aggregates of 2002 and 2003, the performance of total banking income is more satisfactory, with the aggregate advancing by 2.2% year on year.</u>

ADMINISTRATIVE EXPENSES

In compliance with the attainment of more efficiency gains in Group operations, in 2003 the Group undertook important initiatives to reduce expenses by consolidating the process of centralization of operations and cost governance, which had been inaugurated in 2002. <u>As a result, administrative expenses declined by a considerable 4% and the cost/income ratio climbed by roughly 2.5 percent.</u> These initiatives mainly concerned other administrative expenses, which had been kept steady in 2002 in comparison with 2001 (+12.8% in 2001), and provisions (- 17.6% year on year).

Administrative expenses (in EUR mln)

	31/12/2003	31/12/2002	Changes Abs	Changes %
Personnel expenses	-1.794,7	-1.800,0	5,4	-0,3
Other administrative expenses	-1.068,1	-1.127,5	59,4	-5,3
Total administrative expenses	**-2.862,7**	**-2.927,5**	**64,8**	**-2,2**
Gross Operating Profit	**1.818,5**	**1.783,3**	**35,3**	**2,0**
Valuation adjustments to fixed and intangible assets	-334,9	-406,2	71,3	-17,6
Net Operating Profit	**1.483,6**	**1.377,1**	**106,6**	**7,7**



Administrative expenses in Q3 2003 decreased with respect to Q3 2003 (-3.2%) and Q4 2002 (-9.3%) and followed the declining trend already shown in prior years.

a) **Personnel expenses** remained in line with prior year's amount at EUR 1,794.7 million. The growing trend of prior years decelerated sharply as a result of several initiatives undertaken to contain the aggregate, in compliance with the Business Plan, incorporating :

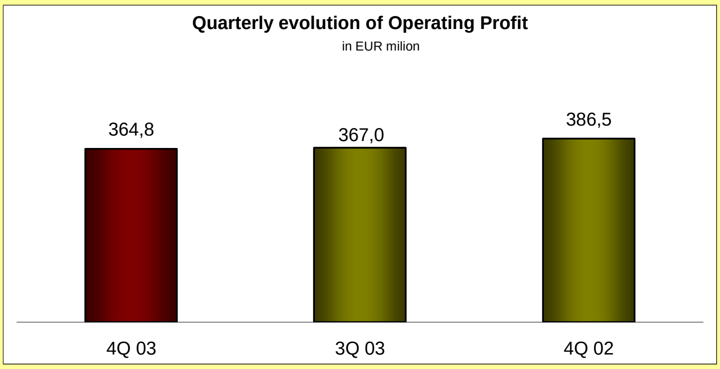
- The reduction in staffing (-636 staff) and the subsequent restructuring under early retirement incentive and Solidarity Plans, which provided for the retirement of senior personnel to be partly replaced by young employees, with benefits in terms of structure renewal and management flexibility;
- actions aiming at impacting other significant costs.

b) **Other administrative expenses were effectively curtailed** (-5.3%) as a result of sharp actions of governance and monitoring of spending undertaken during the year, as well as of initiatives started in prior year (i.e zero-base Budget, review of the payables cycle, set up of an Expense Committee, cost management initiatives). Excluding indirect taxes and production costs of the tax collection activity, the reduction for the aggregate is even more significant. The actual decrease in expenses (7.6%) was determined by the reductions in the expense aggregates relative to Communications & Marketing (-11,3%), Advisory Services (-12.6%) and Services & Logistics (-28.3%).

■ **OTHER ADMINISTRATIVE EXPENSES (in EUR mln)**

	31/12/2003	31/12/2002 restated	Changes Abs	Changes %
Operating Expenses	856,1	926,6	-70,5	-7,6%
Non-income taxes and recoveries on stamp duties	171,9	173,8	-1,9	-1,1%
Production costs (tax collection activity)	40,1	27	13,1	48,5%
Total administrative Expenses	**1068,1**	**1127,5**	**-59,4**	**-5,3%**

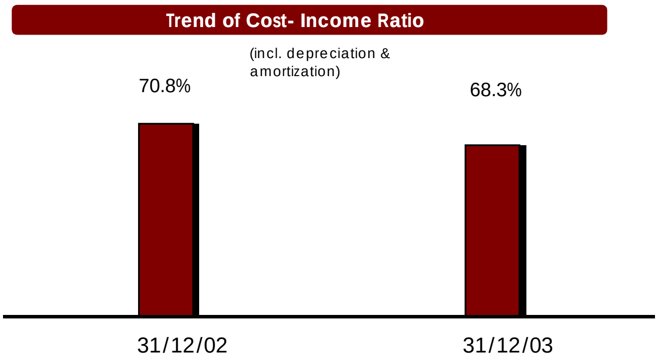
c) **Valuation adjustments to fixed and intangible assets** of EUR 334.9 million (with a 17.6% reduction) include amortization "taken immediately" (EUR 48 million) and carried out at the end of 2002 upon some intangible assets which the Parent Company acquired through the incorporation of a few subsidiaries in 2002 (another EUR 29 million taken on other assets in 2003), in addition to governance actions started with reference to ICT investment planning.



Operating profit in Q4 2003 was in line with Q3 and declined by 5.6% year on year, mostly due to the lower contribution from profits/losses from financial transactions.

At EUR 1,818.5 million, given the effect of the developments indicated above, gross operating profit grew by 2% over 2002. Net of depreciation and amortization, operating profit stood at EUR 1,483.6 million (or a 7.7% increase with respect to 2002). Excluding "non traditional" or "non recurring" components, operating profit progressed by 17.9% year on year. This figure is more indicative of the actual management dynamics.

The cost/income ratio (including depreciation and amortization) stood at 68.3% (or –2.5 percent with respect to December 2002). The cost/income ratio exclusive of depreciation and amortization was 61.2%, moderately falling with respect to the end of 2002 (62.1%).



ADJUSTMENTS AND PROVISIONS

The accounts 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.

- The amortization of positive consolidation and positive net equity differences of EUR 102.9 million increased by EUR 24.4 million due to higher positive net equity differences attributable to consolidation with the net equity method of important strategic investments as of 2003;

- The provisions for risks and charges of EUR 171.8 million (EUR 42.4 million in 2002) incorporate EUR 113 million to cover conservatively assessed potential charges linked with operating risks on the placement of financial plans, and structured products (additional information is provided in the section covering "Commercial operations");

- Net valuation adjustments to loans in the amount of EUR 626 million (EUR 379 million in 2002) include: EUR 125 million of provisions in relation to the Parmalat Group and Parmatour, EUR 23 million of increase in the lump-sum writedowns of performing loans (with the balance of the reserve rising to EUR 258 million), and an annual provision of EUR 33.4 million in relation to the securitization of non-performing loans carried out in prior years in compliance with Law 139/99;

- The provision of EUR 48 million to the loan loss reserve (EUR 90 million in 2002) is taken to boost the ratio of coverage of credit risk; the reserve balance thus stood at EUR 311 million, net of the utilization by the Parent Company;

- Net valuation adjustments to non-current financial assets and other assets in the amount of EUR 96.7 million (EUR 27.6 million in 2002) embrace: a) the writedown of certain holdings in the Parent Company's investment portfolio in the amount of EUR 33 million (additional information is provided in the Notes to the BMPS Financial Statements – Part C- Section 5.3); b) writedowns of interest accrued and not cashed on junior securities (EUR 14 million).

EXTRAORDINARY ITEMS, TAXES AND NET PROFIT

The profitability picture is rounded out by the following elements:

- The balance of extraordinary income of EUR 13.9 million (+ EUR 53.3 million in 2002) incorporates consolidation adjustments in relation to the mergers carried out in the last years and the following elements:

    - The utilization of EUR 70 million of the reserve for general banking risks by the Parent Company, in order to offset the effects of the provisions made with respect to potential charges resulting from financial plans and valuation adjustments in relation to the unexpected deterioration of solvency of certain performing loans (Parmalat Group) (see Notes to the BMPS Financial Statements – Part B – Section 7.2));

    - Extraordinary charges which mainly consist of (i) charges linked with the Early Retirement Incentive Plan for the personnel of the Parent Company and Banca Toscana in the amount of EUR 30.5 million and (ii) charges in the amount of EUR 29.1 million in relation to the personnel participating in the Solidarity Plan in 2003, which were fully booked in the profit and loss statement;

- The use of EUR 300 million of the reserve for general banking risks by the Parent Company in order to provide stability to the profits for the year, in view of potential liabilities to be downsized by setting specific provisions and valuation adjustments in a fiscally efficient manner;

- Overall taxes in the amount of EUR 245.2 million (net of reclassified tax credits) include taxes paid by the subsidiaries subject to consolidation adjusted with deferred taxes concerning writedowns made by the Parent Company exclusively for fiscal reasons (additional information is provided in the section covering “Extraordinary items, taxes and net profit” in the BMPS Financial Statement).

Given the effect of the foregoing (in addition to the decrease in minority interests due to the mergers within the Group carried out in the first quarter of 2003), consolidated net profit for the period came to EUR 442.5 million (EUR 581.5 million in 2002). Quarterly consolidated net profit amounted at EUR 170.7 million. Adjusted to exclude the amortization of goodwill, the net profit was EUR 545.4 million. ROE for the year came to 7.7% including amortization of goodwill, and almost reached 10% (9.5%) exclusive of such component.

THE MPS GROUP COMMERCIAL OPERATIONS

Consistent with the fundamental plans for the year, the MPS Group continued the marketing policy outlined in prior years and successfully combined the priority for developing customer relationships with the implementation of important organizational and commercial initiatives (see the section covering "Operations by Business Area").

1) FUNDS MANAGEMENT

In the activity of **funds management**, the commercial networks of the MPS Group realized important results with solid placement volumes which increased by 48.5% compared with the hefty volumes recorded in 2002. Throughout the year, customers adopted a conservative posture and selected capital-guaranteed, highly liquid products with short-term maturities among the diversified range of products supplied by the networks. In comparison with 2002, the investors changed attitude with respect to the placement of mutual investment funds and their preference mainly went to bond and money-market funds. The volumes of life insurance policies were still considerable. Funds management volumes for the Group are detailed in the following table:

Consolidated Product Placements

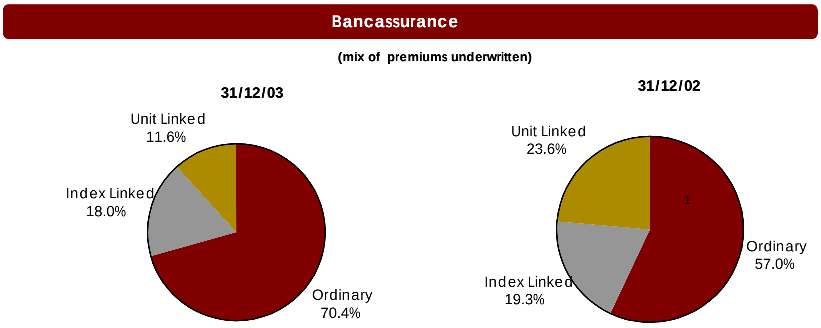
in EUR million

	31/12/03	31/12/02 (*)
Mutual investment Funds /Sicav	1.460	-1.006
Individual portfolios under management	-15	-1.188
Life policies including:	4.076	4.288
Ordinary policies	2.870	2.446
Index Linked	735	829
Unit Linked	471	1.013
Innovative financial products	3.194	3.774
Total	8.715	5.868

(*) The figures for 2002 include the amounts placed by the commercial networks sold at the end of 2002.

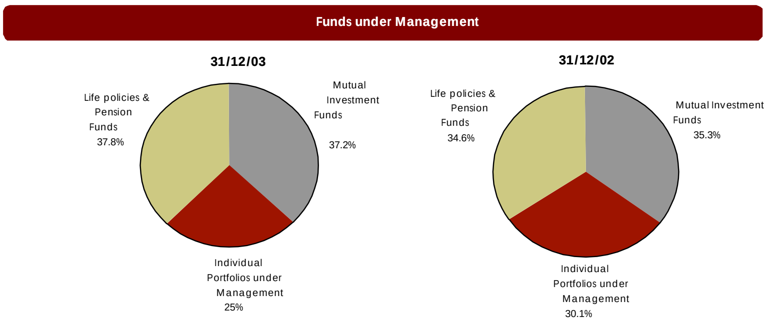
- **<u>Life Insurance Products</u>**

➢ **<u>The MPS Group ranks among the leading players in the "bancassurance and post office" industry with a market share of around 10% and insurance premiums underwritten of EUR 4,076 million</u>**. Ordinary life policies (70.4% of overall premiums underwritten against 57% in 2002) made a strong contribution partly due to the wide range of products available and partly to the overall customer preference for lower risk investments. Index Linked policies accounted for 18%, while the weight of Unit Linked policies decreased from 23.6% to 11.6%. The life insurance company Quadrifoglio Vita Spa (which is 50-percent controlled by Banca Agricola Mantovana) also made a strong contribution with premiums underwritten in the amount of EUR 890 million (+17,5%) in 2003. With reference to the new products marketed by the MPV Group, insurance premiums underwritten in 2003 totalled EUR 2,945 million with recurrent premiums amounting at EUR 234 million (EUR 227 million in 2002).



➢ The **technical reserves** of the Group commercial networks totalled EUR 15,959 million, rising by a significant 24.4% for the year (or more than EUR 3.1 billion in comparison with the end of 2002), with traditional policies making a strong contribution.

➢ Given the developments set forth above, the weight of life policies+pension funds to total funds under management expanded by over 4% in comparison with 31 December 2002.



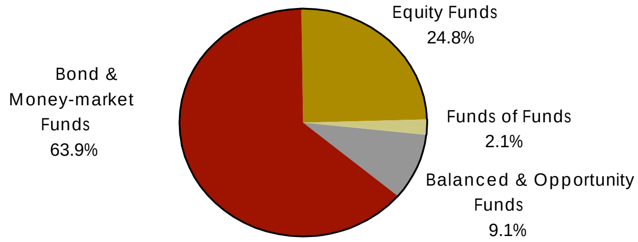
- **Mutual Funds**

➢ **Net flows of mutual funds/SICAVs managed by the MPS Group amounted to EUR 1,460 million** in comparison with net redemptions in the amount of EUR 1,006 million recorded in 2002**. The Group's market share on the total stock of funds managed by the Industry (in relation to funds managed by Italian intermediaries and underwritten by Italian residents) was 5.7%**;

➢ **Mutual funds stock** managed by the MPS Group came to EUR 15,730 million at year end (or +20.5% with respect to 31 December 2002) with the Italian blue-chip index, the MIB30, progressing by 11.8% during the year. The Group market share **climbed from 4.07% in December 2002 to 4.16%.** The figures for 2003 reflect the trend taking shape in 2002 with the investor preference going to lower-risk products. The graph below shows the overall mix of assets of the mutual investment funds and affirms the repositioning of customer assets to bond and money-market funds which account for 63.9% of the total (57% as of 31/12/2002 and 51% as of 30/06/2002).

Mutual Funds

Mix of Funds as of 31.12.03



- **<u>Individual Portfolios under Management</u>**

➢ The figures for 2003 shows a turnaround in comparison with an outflow of roughly EUR 1.2 billion in 2002. The outflows in 2003 are mainly attributable to the shift from funds asset management to other types of AUM investments.

➢ **<u>The stock of individual portfolios under management amounted to EUR</u>** 10,574 million and reflected a 5.2% decrease with respect to 31/12/02.

Given these dynamics and the recovery of the financial markets, the balance of funds under management stood at EUR 42,264 million as of 31/12/2003, rising by 14.1% with respect to 31/12/2002 (+ EUR 300 million in comparison with the amount as of September 2003).

- **<u>Funds under Administration</u>**

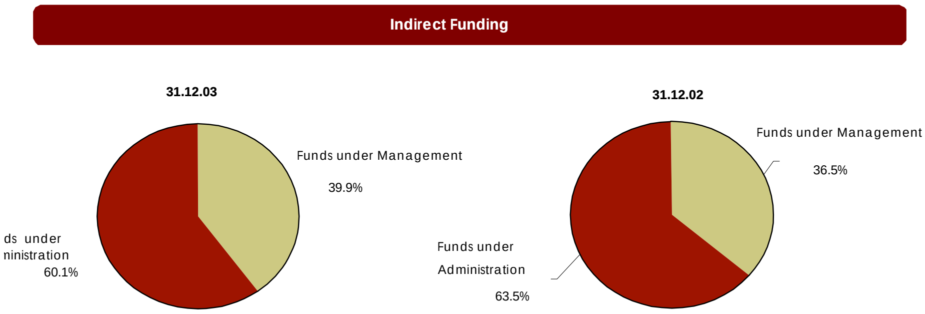
<u>The stock of total funds under administration</u> (EUR 63,674 million) declined by 1.2% with respect to December 2002 and remained virtually stable in comparison with the value reported in September 2003. The aggregate reflects the repositioning to other types of investments and the decision of abandoning low profitable investments with institutional customers in a logic of optimization of cost management.

The **<u>placement of innovative financial products</u>** with Retail and Corporate customers (a hefty EUR 3,194 million) is in line with the Group's strategy to respond to new investment needs of the customers by supplying capital-guaranteed products with short-term maturities.

The MPS Group has never undertaken marketing initiatives involving corporate bonds, in compliance with its strategies and guidelines.

In terms of customers and volumes, the placement of such bonds with retail customers was marginal (Cirio and Parmalat bonds accounted for less than 1%° of total funding as of 31/12/2003) also in light of a minimal involvement of the Group specialized units in the bond managing syndicates.

Considering the dynamics outlined above, **indirect funding** came to EUR 105,937 million as of 31/12/2003 advancing by 4.4% (or roughly EUR 4.4 billion) year on year and rising by approximately EUR 300 million in comparison with the amount reported in September. The weight of funds management increased further from 36.5% in December 2002 to around 40%.



- **Direct Funding**

Direct funding totalled EUR 82,338 million as of 31/12/03 with a **domestic market share of 6.5%**, with the "primary" component (excluding subordinated bonds) growing by 0.8%. The performance for the year incorporates an increase in current accounts and bonds (including issues servicing innovative financial products) and, as already shown during the year, the shift from low-profitable deposits of corporate and institutional customers to other types of investments. The strong 40.4% contraction recorded in the aggregate of repurchase agreements serves to confirm this trend. Subordinated bonds advanced by about EUR 1,200 million during the year as a result of preferred convertible securities (FRESH) issues in the amount of EUR 700 million for the purpose of structurally consolidating Core Tier1. The performance of the aggregate progressed by 2.2% in view of a "Lower Tier 2" securities issue in the amount of EUR 600 million.

BREAKDOWN OF DIRECT FUNDING (in EUR million)

	31/12/2003	31/12/2002	% change Vs.2002	% 31/12/2003	% 31/12/2002
Savings deposits	4.091	4.130	-0,9	5,0	5,1
Current accounts	37.806	37.028	2,1	45,9	46,0
Certificates of deposit	6.021	6.316	-4,7	7,3	7,8
Repurchase agreements	4.670	7.833	-40,4	5,7	9,7
Bonds	24.000	20.588	16,6	29,1	25,6
Other	1.274	1.359	-6,3	1,5	1,7
Sub Total	77.863	77.254	0,8	94,6	95,9
Subordinated bonds	4.475	3.276	36,6	5,4	4,1
Total	82.338	80.531	2,2	100,0	100,0

An analysis of the deposit aggregate (current accounts+savings deposits+CDs) of the domestic network shows expansion (from 18.2% as of 31/12/02 to 19.6%) of the weight of non-financial companies.

Deposits of Resident Ordinary Customers with Italian Branches

In EUR million

	31.12.03	%change Dec03/Dec02	%change 31.12.03	31.12.02
Non-financial companies	7.704	6,6	19,6	18,2
Family-owned businesses	2.549	-1,0	6,5	6,5
Retail customers (*)	23.299	0,5	59,3	58,4
Other (**)	5.714	-15,3	14,6	17,0
Total	**39.267**	**-1,2**	**100,0**	**100,0**

(*) Includes deposits which are not part of the other categories

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

A breakdown of indirect funding within the commercial networks shows appreciable gains of 6.9 percent at Banca Toscana and 12.2 percent at Banca Agricola Mantovana. Direct funding for the Parent Company expanded moderately (+3.2%) and remained stable at Banca Toscana (+0.3%). Banca Agricola Mantovana reported a 9.5% decline in comparison with 31/12/02.

2) LENDING

A) COMMERCIAL OPERATIONS

The lending business was developed during the year pursuant to the directives of selection and reduction of capital absorption issued in the second half of 2002. The MPS Group focused on building business in the medium- and long-term components, thereby promoting the maximum integration between the distribution networks and product factories. New mortgage loans disbursed to retail and corporate customers by the three main Group networks hit a record level of EUR 5,751 million, rising by 8.4% with respect to the significant results of 2002.

MORTGAGE LOANS DISBURSED TO RETAIL AND CORPORATE CUSTOMERS

In EUR million	31/12/03	31/12/02	Change	% change
Monte dei Paschi di Siena (*)	2.685	2.529	156	6,2
Banca Toscana	1.678	1.595	83	5,2
Banca Agricola	1.388	1.180	208	17,6

(*) excl.disbursements for public works

Specialized lending also continued to develop at a fast pace. A marketing plan covering new corporate products engineered by Corporate Finance Solutions (MPS Finance) for the innovative management of financial risks of Corporates and Public Entities produced significant results.

■ Specialized lending and financial products to Corporates

in EUR million	31/12/03	31/12/02 (*)
MPS Finance		
Risk management (1)	4.562	1.676
MPS Merchant		
Disbursements	1.773	1.545
MPS Banca Verde		
Disbursements	791	703
MPS Leasing & Factoring (2)		
Incl.: new leases executed	1.292	1.819
Factoring turnover	3.876	3.711
Consumit		
Disbursements	893	709

(1) The figures for 2003 include the products managed by BMPS.

(2) The figures for 2002 include BMPS direct operations.

(*) The balance for 2002 includes the transactions carried out by the commercia Networks sold at the end of 2002.

As of 31 December 2003 outstanding loans amounted to EUR 70,405 million **with the MPS Group's share of the domestic performing loan market at**

6.2%. The aggregate grew by 2.8% year on year and by roughly EUR 600 million with respect to the third quarter of 2003.

Growth was mainly driven by the medium-/long-term segments with the domestic component advancing by 13.6% in terms of average balance (**where the Group holds a 6.55% market share as of 31/12/03)** and the short-term component dropping by 5.2%. A breakdown of loans by type highlights the growing weight of mortgage loans (up from 42.2% as of 31/12/02 to 45.9%) with their volume rising by 12% year on year (+17.1% including the securitization of mortgage loans carried out at year end in the amount of EUR 1,469 million).

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

	31/12/2003	31/12/2002	% change vs.31/12/2002	% of 31/12/2003	% of 31/12/2002
Current accounts	11.839	13.024	-9,1	16,8	19,0
Advances	3.485	5.440	-35,9	5,0	7,9
Advances & subsidies	13.641	11.761	16,0	19,4	17,2
Personal loans	1.145	1.073	6,7	1,6	1,6
Mortgage loans	32.340	28.875	12,0	45,9	42,2
Loan value of financial leases	3.053	3.543	-13,8	4,3	5,2
Other	3.603	3.744	-3,7	5,1	5,5
Non-performing loans, net	1.299	1.011	28,4	1,8	1,5
Total	70.405	68.472	2,8	100,0	100,0

The geographical distribution of loans shows that customer loans are concentrated in Italy which accounts for 96.4% of total exposure. As a whole, the exposure to borrowers in the European Union amounts to 99.4%. In Italy, loans are concentrated in the areas of the Group traditional franchise, with central Italy accounting for 46.7% (45.1% as of 31/12/02) of loans to ordinary customers of the Italian branches.

The distribution of the loans of Italian branches by sector highlights the predominant weight of loans to support production, with the weight thereof growing from 66.1% to 66.3%.

Loans to Ordinary Resident Customers – Italian Branches

in EUR million

Sector	31.12.03	%change dec03/dec02	% of 31.12.03	% of 31.12.02
Loans for production purposes	42.880	5,5	66,3	66,1
-Non-financial companies	37.496	*5,0*	*58,0*	*58,1*
-Family-owned businesses	5.383	*9,4*	*8,3*	*8,0*
- cottage industries	1.136	*4,0*	*1,8*	*1,8*
- other family-owned businesses	4.248	*11,0*	*6,6*	*6,2*
Retail loans	11.453	4,9	17,7	17,8
Other (*)	10.321	3,7	16,0	16,2
Total	**64.654**	**5,1**	**100,0**	**100,0**

The distribution of the loans for production purposes by sector serves to affirm the traditional wide diversification of the loan portfolio which is a critical part of the Group's lending policy. 57% of the loans of the MPS Group are for individual amounts of less than EUR 2.5 million , while the concentration of risk continues to be relatively limited.

LOANS OUTSTANDING BY AVERAGE AMOUNT

Cash credits, net of non-performing loans

			% of total	
			31/12/2003	31/12/2002
0	-	EUR 75,000	13,5	14,0
EUR 75,000	-	EUR 250,000	15,9	15,1
EUR 250,000	-	EUR 500,000	7,8	7,7
EUR 500,000	-	EUR 2,500,000	19,8	19,6
EUR 2,500,000	-	EUR 50,000,000	24,1	24,3
More than		50,000,000	18,9	19,4
Total			**100,0**	**100,0**

CREDIT SECURITIZATION TRANSACTIONS

The MPS Group effected the following securitization transaction at the end of 2003, as part of its capital management program which is aimed at generating liquidity, reducing debt and improving the level of mismatching of maturities and capital ratios:

- Non-recourse transfer of a portfolio of performing first-mortgage loans on residential properties for an aggregate price of EUR 1,469 million, with the originator banks and respective amounts as follows:

- Banca Monte dei Paschi di Siena: abt. EUR 975 million;
- Banca Toscana: abt. EUR 321 million;
- Banca Agricola Mantovana: abt. EUR 173 million.

B) DOUBTFUL LOANS

The year of 2003 was characterized by a highly uncertain and weak economic scenario which deteriorated in the last months of the year due to the crisis of the Parmalat Group.

PARMALAT

As of 31/12/03, the MPS Group had granted loans to Parmalat Spa (EUR 94.1 million), Eurolat Spa (EUR 12.9 million) and Parmatour Spa (EUR 68.74 million). These positions had been classified among NPLs and provisions were made up to 75% of unsecured debt. The provisions on loans disbursed to Parmatour average 41% of the exposure, with the position being partly secured by collateral.

The exposure to the Parmalat Group recorded by the affiliated company Banca del Monte di Parma Spa was consolidated pro-rata with the proportional method. As a whole, the Parmalat crisis determines an increase in the Group's gross NPLs (in the amount of EUR 176 million) and in gross watchlist credits (EUR 26 million). Its impact on valuation adjustments to loans is around EUR 125 million.

The aggregate of "NPLs+watchlist credits" shows an 18.6% increase year on year which is mostly attributable to Parmalat, although it improved from 1.2% to 0.9% with respect to gross customer loans at the beginning of the year. Excluding the effects of the Parmalat crisis, the ratio would be 0.6%.

Leveraging its traditionally conservative loan-approval policy, the Group maintained credit quality at a good level in 2003. The ratio of non-performing loans and watchlist credits (net of loans with doubftul outcome) to total loans stood at 3.5% in comparison with 3.2% as of 31/12/02, while the ratio of overall loans with doubtful outcome to total loans declined from 3.8% to 3.5%. **The ratio of net NPLs to customer loans of 1.8% was significantly lower than the 2.2% average for the industry and the ratio of gross NPLs to gross customer loans of 3.5% was better than the average level for the industry (4.7%).**

DISTRIBUTION OF LOAN PORTFOLIO BY RISK CATEGORY

Risk category – Net book value		**31/12/2003**	**31/12/2002**	**%**	**%**
In EUR million				**31/12/2003**	**31/12/2002**
Non-performing loans		1.299	1.011	1,8	1,5
Watchlist credits		1.185	1.178	1,7	1,7
Credits pending restructuring		22	-	-	-
Restructured loans		50	56	0,1	0,1
Unsecured loans to high-risk nations	(*)	88	180	0,1	0,3
Total doubtful loans		**2.642**	**2.426**	**3,8**	**3,5**
Performing loans		67.763	66.046	96,2	96,5
Total customer loans & advances		**70.405**	**68.472**	**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 balan
exposure to countries for which no provisions have been planned. The total amount of of doubtful loan includes EUR 7.9 million as of 31/12/02 and EUR 5.0 million as of 31/12/03.

As a result of the MPS Group's traditional rigorous approach to provisions (with a "provisioning" rate of 97 bp, including 18 bp attributable to the Parmalat effect), NPL writedowns reached roughly 60% when including the losses booked to the P&L statement in preceding years. Excluding mortgage loans which are secured by collateral and with a lower degree of doubtful outcomes, this percentage tops 70%. The table below illustrates that the coverage ratio comes at 48.2% (with a 3.1 per cent increase with respect to December 2002) and exceeds 50% with reference to ordinary loans.

COVERAGE OF DOUBTFUL LOANS

	31/12/2003	31/12/2002
% coverage "loans with doubtful outcome NPLs and watchlist credits/ "gross NPLs + gross watchlist credits"	**37.9%**	**35.1%**
% coverage loans with doubtful outcome watchlist credits/gross watchlist credits	**20.5%**	**23.0%**
% coverage "loans with doubtful outcome NPLs"/"gross NPLs"	**48.2%**	**45.1%**

Considering "general reserves" (i.e. lump-sum provisions on performing loans and loan loss reserves which are 0.84% of gross performing loans), the percentage of coverage of gross NPLs equals 71%. The table below provides a summary of credit quality indicators for the main units of the MPS Group.

DOUBTFUL LOANS BY BUSINESS UNIT

Risk category – Net values as of 31/12/03 *lin EUR million*	**Group**	**BMPS**	**BT**	**BAM**	**MPS Merchant**	**MPS Banca Verde**
Non-performing loans	1.299	594	127	198	237	63
NPLs/Total customer loans	1,8%	1,6%	1,1%	2,5%	4,3%	2,6%
% coverage "doubtful loans"/"gross NPLs"	**48,2%**	**48,4%**	**49,9%**	**50,9%**	**19,4%**	**16,0%**
Watchlist credits	1.185	544	251	100	67	43
Watchlist credits/total customer loans	1,7%	1,5%	2,2%	1,3%	1,2%	1,8%
% coverage "doubtful loans"/gross watchlist credits	**20,5%**	**23,5%**	**18,4%**	**22,5%**	**9,6%**	**3,1%**

C) EVENTS LINKED WITH COMMERCIAL OPERATIONS

☐ MAJOR ISSUES

Savings Plans

From 2000 to 2002 the MPS Group launched the long-term Savings Plans, 4You and MyWay. These capital-guaranteed financial instruments consist of a long-term loan (15 or 30 years) disbursed for the purpose of underwriting predetermined amounts of zero-coupon bonds and mutual investment funds. The Plans are completed by an insurance policy (permanent disability or death by accident) securing the underlying loan.

The marketing campaign was flanked by the transmission to the network of the usual information detailing the technical/financial characteristics of the product, its consistency with the customers' profile and solvency with respect to the instalment to be paid. The branches were also given additional information to be circulated among the customers for a better understanding of the product.

Notwithstanding this, and partly due to the exceptionally adverse trend of the major equity markets, a certain category of customers was not satisfied with the products and subsequently applied for anticipated redemption. The applications for redemption received by the Group as of 31.12.2003 were limited with respect to total savings plans placed (about 8%).

Structured Products

The structured products such as BTPTel etc. consist of an investment in Treasury Bills linked with a PUT option sale agreement concerning equities. These instruments were designed and placed by former Banca 121 (aka Banca del Salento).

As a result of the extraordinary transactions carried out and the merger by incorporation of former Banca 121 into BMPS, these products which are held by a very limited number of customers fell within the competence of BMPS.

With reference to the complaints regarding these transactions, criticalities appeared to be attributable to an inadequate evaluation of the customer's risk profile.

☐ COPING WITH THE PROBLEMS

In order to cope with the problems resulting from the above transactions from the economic, legal, communications and risk viewpoints, the MPS Group undertook specific initiatives and set up a centralized Task Force consisting of all Corporate Center Units involved (Legal, Marketing, Communications, Audit, Finance, Lending). The Task Force is operating in accordance with the following guidelines:

- Specific instructions on the subject to the commercial networks;

- Open discussion with Consumers' Associations: a specific protocol document was signed on 7 May 2003 and a case-by-case review of the individual complaints has been started;

▪ - Information to the customers: the Group has implemented a web-site dealing with multi-product savings plans which provides appropriate information on the characteristics of the products and answers to the investors' FAQs.

With regard to the case-by-case review of the individual complaints, 46 meetings had been held as of 31.12.03 and 2,905 cases had been settled (including 2,792 complaints concerning Savings Plans and 113 concerning Structured Products). As of 31.12.2003 the Group had received 6,975 complaints from the Consumers' Associations (including 6,599 complaints concerning Savings Plans and 376 concerning Structured Products). Considering the complaints not received through these Associations, the aggregate total of complaints amounts to 15,164 (around 8% of the contracts executed), including 13,149 savings plans and 2,015 structured products.

☐ EVALUATION OF THE ISSUE FOR THE BALANCE-SHEET PURPOSE

In order to assess the repercussions of the above-mentioned issues, the MPS Group adopted an approach aiming at defining both the charges in relation to "certain losses" (charges on complaints already settled but not booked as of 31.12.2003) and potential charges connected with operating risks in relation to the placement of said products ("potential losses"). Potential losses were quantified on the basis of very conservative criteria and statistics before the preparation of the draft balance-sheet. In this regard, the following amounts were booked to the profit and loss statement:

- EUR 20 million (including 13 million booked by the Parent Company, incorporating the charges of the branch network of former Banca 121, following the merger by incorporation which took place in 2002) for charges booked as of 31.12.2003;
- EUR 113 million to the "Reserve for Future Charges" (including EUR 77 million booked by BMPS, incorporating the charges attributable to former Banca 121) covering non-booked (certain and potential) charges.

This impact was partly offset by using available reserves.

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Some of the customers holding structured instruments issued by Banca 121 before its merger by incorporation into Banca Monte dei Paschi di Siena sued the Bank for fraud. As a result, the Prosecutor's Office of Trani started criminal proceedings against a former director and 22 employees of Banca 121. In December 2003, the Examining Judge of the Court of Trani decided to order the seizure of the contracts in relation to the structured instruments sold by the branches of former Banca 121 operating in the area of Trani.

The order of seizure was cancelled in December 2003 by the Public Prosecutor after Banca Monte dei Paschi di Siena (which had incorporated Banca 121) executed the protocol documents with the Consumers' Associations for the case-by-case review and possible settlement of individual complaints.

With regard to the complaints concerning the above-mentioned structured instruments, the validity of the protocol documents signed with the Consumers' Associations was extended to 30 June 2004 in order to complete the review of all complaints, as expected.

PROFITABILITY BY BUSINESS AREA

Following is a review of the key aspects of the results by Business Area:

RETAIL

The initiatives undertaken in 2003 by the Retail Area were focused on intensifying business relations with the customers through the implementation of new service models and the development of the range and quality of products. This policy is reflected in the appreciable sales volumes achieved with respect to funds management (net flow of funding products topping EUR 6 billion with a strong growth in comparison with 2002) and lending. The increase (5%) recorded by total funding is considerable and is flanked by the growth of lending (mortage loans on residential properties almost doubled year on year and consumer credit rose by 26%). However, from the standpoint of profitability, total banking income fell to roughly 5% mainly due to the reduction of interest margin (the Retail Area holds about 55% of customers' deposits and absorbed the strong decline of the markdown) and the lower contribution of commissions from indirect funding (boom of monetary lines, decrease in the brokerage and innovative finance activity).

Following is a breakdown of activity by subsegment:

- The Commercial Platform of the **Family** segment was re-designed and important projects were inaugurated with respect to payment services, consumer credit and remote banking channels so as to enhance CRM instruments;
- The consolidation of the account manager/customer relation with respect to the **Affluent** segment was flanked by intense marketing activity leveraging the potential of the new personal financial planning service ("Carattere") which enabled the Group to provide high quality products and services;
- The accelerated reorganization of **Private Banking** during the second half of the year will determine further specialization of distribution channels and product innovation dedicated to this segment.

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

- **Banca 121 Promozione Finanziaria:** operating against a critical backdrop, the institution undertook projects for reorganizing the commercial network, motivated the best financial advisors and started a *demarketing* campaign on non-*target customers* in the first half of the year. This determined a decrease in total funding (-7.7%), mostly due to primary funding (-33.4%);
- **Banca C. Steinhauslin & C.:** in 2004 the institution will merge by incorporation into BMPS (additional information is provided in the section covering "Material events subsequent to year-end"). In 2003 the bank continued to acquire new customers and achieved an appreciable increase in total funding (abt. EUR 3,200 million or +53%), which was driven by funds under administration (+15%) and, above all, by funds under management (+68%).
- The life insurance companies (**Monte Paschi Vita,** which incorporated **Ticino Vita** in 2003 **, Grow Life** which started operating as **Monte Paschi**

Life as of February 2004) realized significant net earnings though declining year on year. In 2003 *embedded value* continued to grow and came to EUR 625 million (EUR 725 million considering the contribution from the commercial networks). E*mbedded value* of new production for the year totalled EUR 90 million (only product companies). Rounding out the interests in bancassurance is the property-casualty company **Monte Paschi Assicurazioni Danni** (former Ticino Assicurazioni) which earned a net profit of EUR 5.6 million.

In EUR million

Bancassurance	Monte Paschi Vita		Grow Life	
	31/12/0	% change Vs.2002	31/12/0	% change Vs.2002
Net profit	31	-19.0	16	-36.4
	www.mpv.it		www.growlife.ie	

- **MP Asset Management SGR** increased its market share of new funding and assets managed. From the standpoint of profitability, the company generated a gross operating profit of EUR 93.2 million and a net profit of EUR 52.8 million (advancing by 90%).
- **Consum.it**: Disbursements for the year came to EUR 893 million compared with EUR 709 million for 2002. Disbursements in relation to *revolving* credit cards were also considerable (with more than EUR 100 million of disbursements, M'Honey Card holds a market share of 2.71%, with respect to 1.28% in 2002). Significant progress was also made on the earnings front with net profit rising to EUR 11.1 million from EUR 3.1 million as of 31.12.02).

In EUR million

Retail product companies	MP Asset Management SGR		Consum.it	
	31/12/03	% change Vs.2002	31/12/03	% change Vs.2002
Banking income	150.3	41.3	56.5	50.9
Gross operating profit	93.2	72.2	38.2	88.7
Net profit	52.8	89.7	11.1	263.6
	www.mpsam.it		www.consum.it	

CORPORATE

The Corporate Area significantly boosted its contribution to consolidated profitability in 2003, with more than EUR 7 billion of medium-/long-term loans disbursed which determined an increase in the volume of loans of around 8% in terms of average volumes. The volumes of funding remained virtually steady. The interest margin rose by an impressive 13%, boosted by the development of disbursement volumes and the improvement of the *markup*. The expansion of the service margin (more than 10%) is indicative of the Group's numerous marketing actions and its policy of product innovation, in a logic of principal financial partner of corporates. Banking income reached almost 12%.

The specialized-lending companies supporting the Corporate Area logged significant improvements.

In EUR million

Corporate product Companies	MPS Merchant		MPS Banca Verde		MPS Leasing & Factoring	
	31/12/03	% change Vs.2002	31/12/03	% change Vs.2002	31/12/03	% change Vs.2002
Customer loans	5,536	21.1	2,426	30.2	4,008	21.7
Loans disbursed for the year(*)	1,773	14.8	798	13.5	1,292	-29.0
Factoring turnover					3,876	4.4
	www.mpsmerchant.it		www.bancaverde.it		www.mpslf.it	

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

- **<u>Mps Merchant - Banca per le P.M.I</u>** realized a hefty growth in developing the *Project* and *Acquisition Financing* business. The bank's *core business* was concentrated on loans disbursed (at EUR 1.8 billion or +15%). Improvements were also achieved in terms of profitability with the gross operating profit rising by 29.7%.

- **<u>Mps Banca Verde:</u>** Loans approved and loans disbursed increased by 1% and 16.2% respectively and new disbursements in the amount of EUR 798 million (or 13.5%) were concentrated in serving the agricultural, agro-industry and environmental sectors. On the earnings front, the bank reported a gross operating profit growing by 44.2%.

- **<u>Mps Leasing & Factoring - Banca per i Servizi Finanziari alle imprese</u>** operated as a *captive leasing/factoring* product factory against a backdrop which penalized the Leasing Unit results. The Factoring Unit realized positive results with a turnover of EUR 3.9 billion. The company further expanded production volumes with a gross operating profit rising by 29.8% and a net profit totalling EUR 6 million.

In EUR million

Corporate Product Companies	MPS Merchant		MPS Banca Verde		MPS Leasing & Factoring	
	31/12/03	r% change Vs.2002	31/12/03	%change Vs.2002	31/12/03	% change Vs.2002
Total banking income	107,8	20,4	42,6	24,7	86,8	31,8
Gross operating profit	78,0	29,7	26,1	44,2	55,7	29,8
Net profit	36,4	20,9	12,7	37,8	6,0	-47,5
	www.mpsmerchant.it		www.bancaverde.it		www.mpslf.it	

<u>MPS Finance:</u> the company, which is a "factory" for the supply of financial products to *retail* and *corporate* customers, achieved sizeable production volumes and a considerable growth in the *Corporate area*, with a strong development of hedging operations (interest rate and exchange risk) for SMEs and public entities. Gross operating profit stood at EUR 99.7 million dropping by roughly 16% with respect to 31/12/02. The decline was attributable to lower revenues from the "product factory" activity (i.e. shorter maturities, declining interest spreads) and decreasing business opportunities in the capital market. Accordingly, the net profit for the year fell from EUR 74.1 million in 2002 to EUR 64.2 million.

INTERNATIONAL AFFAIRS

In 2003 the International Affairs Area accounted for 2.6% of consolidated banking income, which remained stable compared with 2.7% recorded in 2002. The performance of the Area is undoubtedly affected by extraordinary events. Direct operations through the foreign branches generated a 27%

increase in total banking income stemming from the positive effects attributable to debt rescheduling of primary borrowers. However, despite this, the MPS Group's foreign banks sustained a reduction in profitability for the year. Monte Paschi Belgio suffered a loss of EUR 24.2 million which was determined by provisions for loan losses and charges in relation to the reorganization started during 2003. Monte Paschi Banque also incurred a loss of EUR 6.1 million, while Banca Monte Paschi (Suisse) virtually broke even.

In EUR million

Foreign banks	Monte Paschi Banque		Banca Monte Paschi Belgio		Banca Monte Paschi (Suisse)	
	31/12/2003 I	%change Vs.2002.	31/12/2003	% change Vs.2002	31/12/2003 I	% change Vs. 2002
Total banking income	51,0	-10,5	14,5	-14,6	5,8	-13,1
Gross operating profit	9,8	-37,3	2,6	-54,0	0,7	-18,6
Net profit	-6,1	n.s.	-24,2	n.s.	0,0	n.s.
	www.montepaschi-banque.fr		www.montepaschi.be		www.montepaschi.ch	

TAX COLLECTION

The performance of the Tax Collection Area improved clearly in 2003 with gross operating losses going from EUR 33 million in 2002 to EUR 17 million. This result was due to :

- An increase in production income, despite the reduced volume of new tax rolls and the delayed activation of massive proccedings;
- An improvement in the financial margin in relation to the decline of interest rates and the partial reimbursement of advances previously made on the basis of the "non-collected for collected" principle;
- An increase in the lump-sum tax remuneration;
- The efficient control of spending (-3.6%).

The tax collection system operates on the basis of ten-year Government licences expiring on 31.12.2004. The Group is committed to undertaking appropriate initiatives in the matter.

A good contribution to the improvement of the results for the Area came from Mps SE.R.I.T. (with a loss of EUR 24.4 million versus EUR 52.5 million in 2002) and the BMPS direct tax collection companies (with a net profit of EUR 2.6 million). The profit and loss statement of such companies is illustrated in the table below.

- **RECLASSIFIED PROFIT AND LOSS STATEMENT- TAX COLLECTION BUSINESS (DIRECT MANAGEMENT)**

- *In EUR million*	31/12/2003	31/12/2002	Change	%
Interest margin	-10	-8	-2	28,9
Service margin	119	119	0	-0,2
Total income	**109**	**111**	**-2**	**-2,2**
Administrative expenses	-108	-106	-2	2,1
including :				
Personnel expense	-73	-72	-1	1,5
Other expenses	-35	-34	-1	3,3
Gross operating profit	**0,7**	**5,4**	**-5**	**n.s.**
Valuation adjustments to fixed & intangible assets	-3,9	-3,8	-0,1	2,6
Operating profit	**-3,2**	**1,6**	**-4,8**	**n.s.**
Extraordinary profit/charges	5,8	-0,5	6,3	n.s.
Profit before income tax	**2,6**	**1,0**	**1,5**	**n.s.**

FINANCE & INVESTMENT BANKING

In order to better outline the activity of the Area in the market**, the Finance & Investment Banking Area** embraces: Proprietary Finance activity carried out by the Parent Company, the Investment Banking activity of **MPS Finance** and brokerage activity of **Intermonte Securities Sim.** The contribution of the Area to the Group's total banking income kept steady**.**

☐ PROPRIETARY FINANCE AND TREASURY ACTIVITY

During 2003 all risk activities (equities, corporate and high-yield bonds, emerging markets bonds) recorded good performances. Meanwhile, the increase in the yields of long-term securities remained moderate as a result of the expansive monetary policies implemented by the Central Banks.

A) PROPRIETARY FINANCE AND SECURITIES PORTFOLIO

Operating against this backdrop, the Parent Company's Proprietary Finance desk maintained a "long" position during the year in the stock market. The position taken in the bond market changed according to the market cycle and generated sound results.

With reference to *trading on the* "c*redit spread"*, the year of 2003 was marked by the excellent performance of the European telecom and high-tech sectors. Investments in equities with a high Beta (e.g. France Telecom, Deutsche Telekom, Telecom Italia, MMO2) ensured high levels of *total return* (*carry+spread movement*). During the second half of the year, the position of the proprietary portfolio which was characterized by a high spread duration became very profitable/strategic, as a result of the *flattening* of the credit curves.

The quantitative desk concentrated on trading in a broad array of instruments (futures on bonds, equità indices and commodities) over a short-term horizon and did not involve the assumption of any strong directional risks.

In July 2003, the MPS Group embarked on "volatility" trading focused on the Eurostoxx50 Index and the companies with higher market capitalization participating in the Index itself. This activity was started for liquidity purpose and in order to benefit by the market best offers and bids.

The market risk on the Group portfolio was limited (see the section covering "Integrated risk management"). As already set forth in the reports on operations of the preceding years, as a result of the merger by incorporation of the subsidiaries Banca Toscana and Banca Agricola Mantovana into Banca Monte dei Paschi di Siena, the investment portfolio of BMPS incorporated certain securities which were classified in the same segment by the two subsidiaries indicated above, excluding the securities whose characteristics were not compliant with the consolidated management criteria of BMPS investment portfolio. These securities have now been transferred to the trading portfolio (additional information is provided in the Notes to the BMPS Financial Statements).

Considering the above-mentioned transactions, **the balance of the Group's owned securities at the end of 2003 amounted to EUR 18,305 million** increasing by roughly EUR 1,400 million with respect to December 2002 and EUR 600 million in comparison with 30 September 2003. The table below provides an overview of the two components making up the aggregate portfolio:

OWNED (EUR

	Banca MPS 31/12/2003	Changes vs 31/12/2002	Group MPS 31/12/2003	Changes vs 31/12/2002
Total Securities including	11.874	1,508	18,305	1.395
Investment portfolio	8.439	827	3,964	-489
Trading portfolio	8.435	681	14,342	1,884

The Group's **investment portfolio** decreased by roughly EUR 500 million versus December 2002, as a result of the merger by incorporation of Banca Agricola Mantovana and Banca Toscana into BMPS (which recorded an increase in the aggregate) and the subsequent spin-off and reallocations. The holdings in the **trading portfolio** were some EUR 1,900 million higher, and concentrated on Government securities (up from EUR 4,700 million to EUR 6,400 million).

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

■ **OWNED SECURITIES** (EUR milion)

	Banca MPS 31/12/2003	Changes vs 31/12/2002	Group MPS 31/12/2003	Changes vs 31/12/2002
Government Securities	2.852	766	7.149	1.308
Bonds and Other fixed income securities	8.341	596	10.028	-199
Shares quotas and other equity	681	147	1.128	213
Totale	**11.874**	**1.508**	**18.305**	**1.395**

B) TREASURY ACTIVITY

The growing development of operations of the MPS Group implied the finalization of projects aimed at outlining and better defining the financial management of centralized Treasury. Financial flows which in the past were managed by the individual banks of the Group converged more and more steadily on the accounts of centralized Treasury with subsequent benefits for the overall management of liquidity. In 2002, the Parent Company increased trading volumes outside the Group and, in so doing, was supported by the synergies being developed with the foreign branches and the subsidiaries. As shown in the table below, the Group's interbank balances reduced in compliance with the policy of optimization of *Risk Weighted Assets*. The net borrowing position in the interbank market decreased by roughly EUR 3 billion with respect to the end of September, but also incorporated a decrease with respect to the beginning of the year.

■ **INTERBANK BALANCES** **(in EUR million)**

	BANCA MPS 31/12/03	Change	%	**MPS GROUP 31/12/03**	Change	%
Amounts due from banks	16.687	-4.058	-19,6	8.551	-7.476	-46,6
Amounts due to banks	13.312	-3.768	-22,1	15.058	-5.458	-26,6
Net borrowing position	3.375	-290	n.s.	-6.507	-2.018	44,9

With reference to *liquidity settlement*, further emphasis was placed on the management of estimated liquidity in order to better match financial flows with the containment of average liquidity requirements, by extending the average life of interbank funding and reducing shorter-term maturities with consequent benefits in overall management. The Bank consolidated its position as a market maker in both the OTC and screen-based markets.

As a result of high volatility of short-term maturities and daily prices, the Forex Proprietary Trading activity focused on the most liquid cross rates (Eur/Usd, Eur/Jpy , Eur/Chf Usd/Jpy and Cable) by exploiting the Group's bargaining power and credit potential with primary counterparties. Spot trading volumes reached EUR 89 billion.

C) ASSET-LIABILITY MANAGEMENT

The year of 2003 was a hectic one with respect to the activity of BMPS in the international markets. As part of the *Debt Issuance Programme*, the Bank launched 16 issues in the amount of roughly EUR 3,500 million through public offering or private placement. Due to their characteristics (i.e. term and/or aggregate amount), some of these issues became real market benchmarks thereby promoting and improving the Bank's and the Group's image.

With regard to the actions undertaken in relation to BMPS Tier II capital, a fixed-rate twelve-year subordinated issue in the amount of EUR 400 million was inaugurated in September with a *call* option at the end of the seventh year. As a result of the structure chosen and favourable market conditions, this issue was re-opened in the last months of the year (fungible securities with the first tranche in the amount of EUR 200 million) thus giving higher liquidity to this kind of bonds and further strengthening capital required for regulatory purposes.

In December 2003, BMPS made an issue of F.R.E.S.H. (Floating Rate Equity-linked Subordinated Hybrid) perpetual convertible bonds in the amount of EUR 700 million. This floating rate subordinated hybrid instrument convertible into BMPS shares was rated by the Bank of Italy as Core Tier I. F.R.E.S.H., which was used successfully for the first time in Italy and for the second time in Europe, contributed to efficiently increase BMPS core capital due to a lower cost of funding with respect to standard hybrid instruments.

EQUITY INVESTMENTS AREA

In compliance with the MPS Group's 2003-2006 Business Plan, the Equity Investments Area was set up early in 2004 in order to manage the Group's portfolio of equity investments in a logic of enhancement of the holdings and support to the Group's activity of acquisition, disposal etc...

In 2003, dividends from equity investments in companies other than Group companies amounted to roughly EUR 32 million. The Group's portfolio of equity investments totalled EUR 2,621 million including EUR 464 million in relation to the MPV Group and other companies. The Parent Company's portfolio of equity investments stood at EUR 7,229 million.

EQUITY INVESTMENTS (in EUR million)	31/12/03	31/12/02	Change
Investments in Group companies	5.189	4.047	1.143
Other investments	2.039	1.392	647
TOTAL	**7.229**	**5.439**	1.790

The principal transactions for the year are summarized below:

INVESTMENTS IN MPS GROUP COMPANIES

The aggregate reflects the major reorganization which took place pursuant to the guidelines of the Group's Business Plan (see the section covering "The development of Operations").

- BANCA AGRICOLA MANTOVANA and BANCA TOSCANA: the Banks finalized the merger by incorporation into BMPS on 30 March 2003 and transferred most of their banking business to two new banks operating under the same name. As a result, BMPS realized profits from equity investments in the amount of EUR 226.7 million;

- MONTE PASCHI VITA Spa: the extraordinary shareholders' meeting held on 26 June 2003 approved the merger by incorporation with Ticino Vita and the capital increase of EUR 18 million servicing the merger. As a result, Banca Toscana now holds an investment in MPV of approximately 8.48%. In accordance with the project of consolidation of MPV's capital, which started with the issue of a subordinated loan in the amount of EUR 50 million, the extraordinary shareholders' meeting resolved to vest the Board of Directors with the authority to increase the share capital by a further EUR 13.9 million, after the merger has taken place and no later than 31 December 2003 (all transactions indicated above already occurred) ;

- Banca Monte Paschi Belgio: capital increase from EUR 26 million to EUR 33.6 million (by resolution of the extraordinary shareholders' meeting of December 2003), fully subscribed by Banca Monte Paschi di Siena through conversion of a prior subordinated loan. BMPS now owns 72.5% of the capital of Banca Monte Paschi Belgio and Banca Toscana holds the remaining 27.5%.

Other principal transactions occurring during the year and involving MPS Group companies are summarized below:

Acquisitions, incorporations, sales

- Purchase in March 2003 of some minority shareholdings previously held by Cariprato in relation to the contract clauses concerning the sale of Cariprato to BPV;

- Incorporation in March 2003 of MPS Immobiliare SPA, a wholly-owned subsidiary of BMPS with a share capital of EUR 1,296 million, which was transferred all of the real property of BMPS, BT and BAM (excluding their historic Headquarters);

- Marinella Spa: partial spin-off of Amministrazioni Immobiliari Spa, as of 1 January 2003, with respect to the business unit of Tenuta di Marinella di Sarzana, to a newly created company, Marinella Spa (established on 24 December 2002), which is 100-percent owned by BMPS and has a share capital of EUR 11.5;

- IBA AG: sale of a 35.02% stake held in this Vienna-based bank.

OTHER TRANSACTIONS

- - Monte Paschi Serit Spa: the shareholders' meetings held in March, May and November 2003 resolved to cover the losses as of the end of 2002 (EUR 52.5 million), as of 31 March 2003 (EUR 9.7 million) and 30 September 2003 (EUR 7.1 million);

- MPS Professional Spa: the loss recorded in 2002 (EUR 1.4 million) was covered by totally using the share capital and with a contribution from the shareholders. The shareholders' meeting held on 7 April 2003 resolved to restore the original share capital (EUR 1 million). The shareholders' meeting held on 10 October 2003 decided to cover the losses as of 30 June 2003 through shareholders' payment;

- E-Idea Spa: in compliance with a resolution taken by the shareholders' meeting held in April 2003, cover of the losses for 2002 (EUR 1.6 million) through reduction of the share capital and its subsequent restoration in the original amount (EUR 3.8 million);

- Ticino Assicurazioni Spa: by resolution of the extraordinary shareholders' meeting of 17 December 2003, the name of the company was changed to MontePaschi Assicurazioni Danni Spa;

- In a logic of tax optimization, the shareholders' meetings of MPS Merchant, MP AM Sgr, MPS Leasing&Factoring, Ticino Assicurazioni, Amministrazioni Immobiliari and MPS Finance held in December 2003 approved the extraordinary distribution to the shareholders of their own retained earnings;

- The liquidation of I-AM.IT Spa and 4 Sale Italia Spa, two companies operating in the Internet sector.

OTHER EQUITY INVESTMENTS

Acquisitions, incorporations, sales

- Purchase in March 2003 of 15,000,000 shares of Assicurazioni Generali for EUR 342 million (1.58%) and execution of an agreement of consultation obligation with Unicredito Italiano and Capitalia;

- FINSOE SPA: purchase in February 2003 from HOPA SpA of 170,281,876 shares for an investment of EUR 179.3 million. As a result, the Group's share climbed to 39%. BMPS also participated, in proportion to its investment, in a capital increase from EUR 457.5 million to EUR 551.6 million aimed at purchasing Winterthur Italia. This transaction was executed together with Unipol and BMPS investment amounted to EUR 107.1 million;

- HOPA: purchase in March 2003 from Fingruppo Holding spa of 20,475,000 shares for a total investment of EUR 52.9 million, with the Group's interest growing to 9.17%;

- Energia Italiana spa. The group of companies consisting of Energia Italiana Spa, Acea and Ellectrabel participated successfully in a bid for the acquisition of 10% of the shares of Interpower Spa. The company had been incorporated during the privatization of the industry of production and supply of electric power. BMPS had purchased 30,000 shares of Energia at EUR 1 per share in February 2003 and participated in two specific capital increases for a total outlay of EUR 14.16 million (or 8% interest);

- Incorporation, as a temporary association of companies (lead manager Acea as the successful bidder for the tender called by ATO no.3 "medio Valdarno" of Florence), of the last of three special-purpose vehicles for purchasing a minority stake (40%) in the public-sector company, “Publiacqua Spa”;

- e.Biscom Spa: sale of a 0.88% interest (total investment held: 1.76%) in the capital of the company;

- writedown for EUR 114.7 million (EUR 77 million excluding the fiscal effect) of the investment held in Santorini Investment Limited Partnership. The Parent Company opted for the writedown in enforcement of tax regulations and for the simultaneous absorption of the writedowns previously made during the year. The capital loss is not deemed to be permanent in view of the quality and volatility of the assets underlying the financial contracts signed by the company. Therefore, the value adjustment posted as of 31 December 2003 in the Parent Company’s balance-sheet was eliminated from the consolidated financial statements due to its fiscal nature, and was booked in the company’s financial statements in compliance with several accounting principles. Santorini is a Scottish financial company established by BMPS which holds 49% and Deutsche Bank AG which owns the remaining 51%, in order to carry out and manage a three-year transaction which might be renewed.

PROFITABILITY BY BUSINESS AREA

During 2003, the "*Value Based Management*" system adopted by the MPS Group was updated with respect to the methods concerning the models of analysis of performance adjusted for risk (RORAC).

New variables such as the 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 the 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 (i) adjustments and provisions on loan losses and (ii) the measurement for regulatory purposes.

Following is a breakdown of the results by Business Area and the major ratios[1] :

Principali Aree di Business	Retail Banking		Corporate Banking		Investment Banking		International		Tax Collection		Totale Gruppo	
	31/12/2003 Importo	Var% su a.p.	31/12/2003 Importo	Var% su a.p.	31/12/2003 Importo	Var% su a.p.	31/12/2003 Importo	Var% su a.p.	31/12/2003 Importo	Var% su a.p.	31/12/2003 Importo	Var% su a.p.
Interest Income	812	-7,6	1.543	12,7	101	95,4	75	-15,4	-25	25,3	2.490	6,1
Non Interest Income	951	-3,5	578	10,3	295	-16,5	48	44,6	250	5,9	2.192	-7,3
Total Banking Income	1.764	-5,4	2.121	12,0	397	-2,1	123	1,1	225	11,0	4.681	-0,6
Operating Profit	390	-7,2	905	17,7	356	-2,2	31	18,0	-22	44,4	1.484	7,7
Cost/Income	77,9%		57,3%		24,4%		74,8%		109,7%		68,3%	
Raroc	19,5%		7,2%		36,8%		neg		neg		9,6%	
% on Capital Absorption	11,8%		65,3%		7,9%		3,7%		0,2%		100,0%	

Despite a 77.9% cost/income ratio, the high return on risk-adjusted capital (Rorac) of Retail Banking benefits from limited absorption of economic capital with respect to credit risk (mortgage loans and consumer credit).

[1] From the viewpoint of methodology, the Rorac for an Area is calculated as the ratio of Nopat to the higher of "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.

INTEGRATED RISK MANAGEMENT

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 Department at the Corporate Center and (iii) auditing controls assigned to Internal Controls Department.

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 risks.

The Corporate Center is charged with ensuring compliance with risk policies and procedures. The Risks Committee within the Corporate Center has the responsibility of evaluating the risk profile of the individual companies of the Group and at a consolidated level, the absorption of capital for both regulatory and profitability purposes. The Committee prepares risk-management policies and verifies the overall observance of the limits on risks assigned at various levels of the operations.

The Finance and Capital Management Committee has been assigned the tasks of: planning the Group funding, identifying initiatives to be adopted for the best risk-return profile for the asset and liability management and defining any capital management actions.

The Internal Control Department of the Corporate Center is charged with defining the regulations applicable to the internal controls system and verifying the actual application and observance thereof.

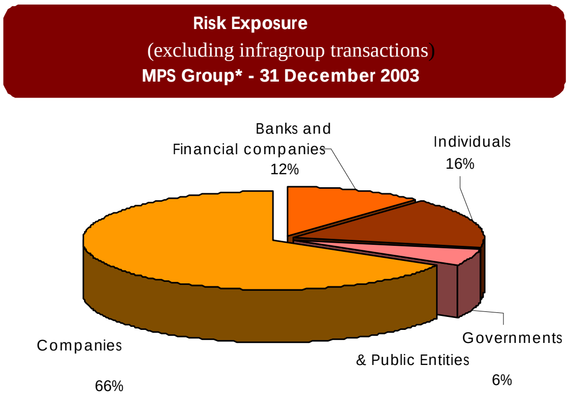
The Risk Management Department of the Corporate Center defines integrated methodologies of analysis for the measurement of overall risks in order to accurately and steadily monitor risks and quantify economic capital. The Department produces daily and periodic reports for monitoring compliance with the 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.

During 2003 work continued on improving compliance with the qualitative and quantitative guidelines delineated by the Basle Committee (Basle 2). The MPS Group Basle 2 Committee has been set up within the Corporate Center and reports directly to the CEO. The Committee focuses on streamlining all projects deemed to be necessary for the adoption of advanced internal rating models and has identified the working groups charged with ensuring compliance with the basic requirements contemplated by the New Accord. To this end, the Group has undertaken development projects in relation thereto. In 2004 the Group will carry out a series of projects to implement and ensure compliance of existing IT instruments and processes with Basle 2 guidelines. Some of these instruments and processes have already been implemented in 2003.

CREDIT RISKS

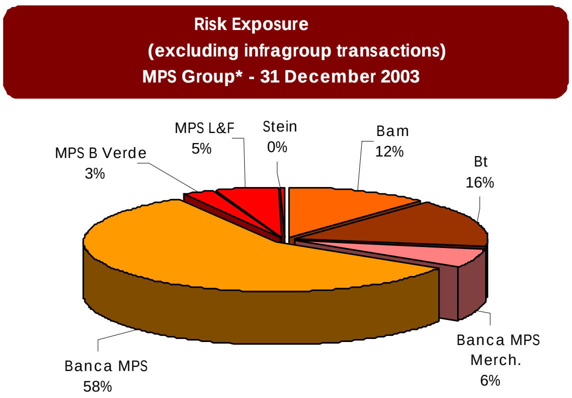
☐ DEVELOPMENTS IN THE MEASUREMENT OF CREDIT RISK

As of the end of December 2003, the MPS Group exposure to credit risk as measured through the use of a Group Loan Portfolio Model remained virtually steady with respect to 2002. Loans to governments and government entities accounted for abt. 6% for the MPS Group and 12% for the Banks and the Financial Companies. Individuals account for 16% on the total of the aggregate, with the remaining 66% consisting of disbursements to companies subdivided into the following segments: Large Corporates, Corporates, Small Businesses and Retail.

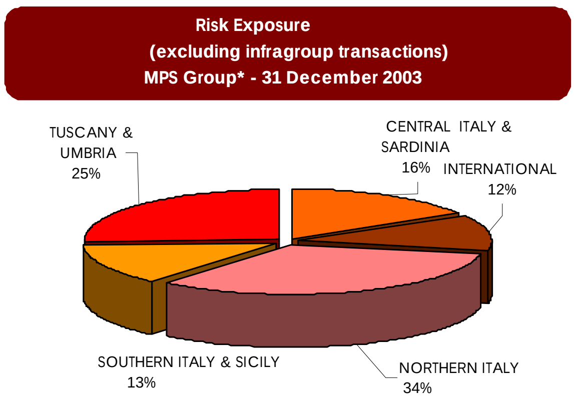


* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca Verde, MPS Merchant,

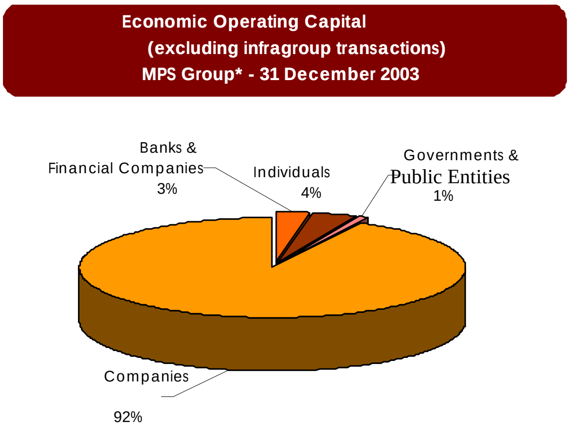
As of year end, Banca MPS accounted for roughly 58% of the MPS Group risk exposure, Banca Toscana for 16% and Banca Agricola Mantovana for 12%. The Group loan portfolio mostly consisted of loans to resident customers. A breakdown of risk loans by domestic geographical area shows that risk loans were concentrated in northern Italy (34%) with Tuscany and Umbria accounting for 25%, central Italy and Sardinia for 16% , southern Italy and Sicily for 13% and foreign borrowers only for 12%. A breakdown by international geographical area indicates that exposures were concentrated in the Eurozone (approx.94%) with non-EURO countries (in particular the United Kingdom) accounting for abt.3% and northern America for less than 1%.



* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca Verde, MPS Merchant, Steinhauslin



* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca Verde, MPS Merchant, Steinhauslin



* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca Verde, MPS Merchant,

Capital absorption calculated in accordance with credit VAR methods based on a confidence level of 99.93% and a holding period of 1 year shows stability of allocation among the various customer categories and Group companies. At Banca MPS, capital absorption is 50% of the Group total, followed by Banca Toscana (19%)and BAM (13%). The segment of "companies" absorbs 92% of the MPS Group economic capital with the remaining 8% being attributable to Individuals, Banks & Financial Companies and Governments & Public Entities.

☐ COUNTRY RISK

In 2003 country risk classifications were reviewed on the basis of the developments in the macroeconomic scenario. In line with the country risk results of the Bank of Italy, the MPS Group recorded significant rating improvements and a higher commission range with respect to the countries which received most trade flows and investments from Italian players. However, decreasing concerns of crisis spillover do not mitigate the risk of isolated crises. Therefore, the activity of careful monitoring of political and macroeconomic risks included the updating of risk-assessment instruments (e.g. country risk reports and analysis of emerging markets are available in the Bank's web-site www.mps.it). The Group has also designed an "alert" system. On the basis of this system, a country is included in the watchlist, upon the occurrence of any criticalities, for a certain period of time at the end of which the country's rating might deteriorate. The watchlist, which incorporates countries and financial institutions to be carefully monitored, is reviewed on a weekly basis and made available to other Group units.

From an operational perspective, the MPS Group has further reduced unsecured exposure to risk nations; in particular, at BMPS (which represents more than 90% of the consolidated assets), unsecured loans (customer loans, outstanding to banks and securities) fell from EUR 440 million in December 2002 to EUR 427 million at the end of 2003. The tables below provide a summary of BMPS' unsecured exposure to high-risk nations by geographic area and type of counterparty (customers/banks):

■ **UNSECURED CREDIT (CASH & SECURITIES) VS.HIGH-RISK NATIONS – in EUR mn**

Geographic area	Gross exposure				Doubtful loans	Net exposure
Cash exposure	customers	banks	securities(*)	**Total**		
Africa	1,4	25	0	26	0,1	26
Latin America	0,3	16	11	27	8,9	18
including Argentina	*0,0*	*5,2*	*10,0*	*15,3*	*6,8*	*8,5*
Including Brazil	*0,3*	*0,1*	*0,0*	*0,4*	*0,0*	*0,4*
North America	0	18	13	31	4,7	27
Australasia	3	291	0	294	1,9	292
Western Europe	0	0	8	8	2,4	6
Eastern Europe and the Balkans	0	17	7	24	1,1	23
Near East	1	15	0	17	0,0	17
Total	**6**	**383**	**38**	**427**	**19**	**408**

(*) 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** *- in EURmn*

Geographic area	Gross exposure				Doubtful loans	Net exposure
	customers	banks	securities(*)	**Total**		
Africa	4,0	22,4	0	26	0	26
Latin America	7,1	9,6	11	27	9	18
including Argentina	*0,1*	*5,2*	*10,0*	*15,3*	*6,8*	*8,5*
Including Brazil	*0,0*	*0,4*	*0,0*	*0,4*	*0,0*	*0,4*
North America	18	0	13	31	5	27
Australasia	57	236	0	294	2	292
Western Europe	0	0	8	8	2	6
Eastern Europe and the Balkans	3	15	7	24	1	23
Near East	3	14	0	17	0	17
Total	**92**	**297**	**38**	**427**	**19**	**408**

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

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

■ **UNSECURED EXPOSURE TO ARGENTINA** *- in EURmn*

Geographic area	Gross exposure				Doubtful loans	Net exposure
	customers	banks	securities (*)	**Total**		
Cash credits	0,1	5,2	10,0	15,3	6,8	8,5
Endorsement credits	0,0	3,4		3,4	1,6	1,8
Total	**0,1**	**8,6**	**10,0**	**18,7**	**8,4**	**10,3**

■ **UNSECURED EXPOSURE TO BRAZIL** *- in EUR mn*

Geographic area	Gross exposure				Doubtful loans	Net exposure
	customers	banks	Securities (*)	**Total**		
Cash credits	0,0	0,4	0,0	0,4	0,0	0,4
Endorsement credits	0,0	0,0		0,0	0,0	0,0
Total	**0,0**	**0,4**	**0,0**	**0,4**	**0,0**	**0,4**

☐ COUNTERPARTY RISK (NON-RESIDENT COUNTERPARTIES)

In the international lending business, the accent has been placed on identifying transactions which not only 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 the credit risk assumed and the market conditions.

Following are the most important initiatives undertaken in 2003:

- Centralized management of the foreign treasury activity in Milan, New York, Hong Kong and London with the subsequent streamlining of loans to international borrowers;
- Issue of Group guidelines to the commercial banks with respect to country risk and bank risk assumption in trade-related activities. As a result, the Group domestic network is enabled to support the exporters in a more homogenous, transparent and efficient manner;
- "on line" distribution to all Group companies of the financial analysis of the counterparties made by the Parent Company at a centralized level;
- start-up of the projects aimed at centralizing the management of loans to foreign banks within the Corporate Center.

MPS GROUP MARKET RISK

☐ MAJOR EVENTS

As a result of the merger and spinoff transactions which involved BAM and BT, the process of streamlining of the trading portfolios of the Group commercial banks was completed in the first half of 2003. The positions left in the subsidiaries' portfolios were transferred to the Parent Company while the branches kept only marginal portfolios managed for customer service purposes. Likewise, the MPS Group pursued the centralization of Treasury activity also with respect to the foreign branches.

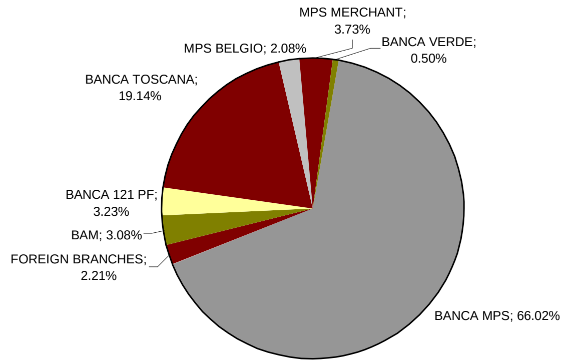
☐ INTEREST-RATE RISK ON THE CONSOLIDATED BANKING BOOK

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, the investment securities portfolio and the use of derivatives instruments providing for risk hedging within this framework. Based on total return, the management of the *Banking Book* is aimed at minimizing the volatility of the interest margin expected over the current year (12 months) or , in other terms, minimizing the volatility of the overall economic value in relation to a change in the structure of interest rates.

The analysis of the change of the economic value of the banking-book assets and liabilities is carried out through the use of shift-sensitivity techniques. The rate shocks considered differ by amount and structure. Deterministic shifts of 25 bp and 200 bp are applied for management purposes. The 200 bp shift is consistent with the directives of the second fundamental aspect of Basle II with reference to both Tier 1 capital and consolidated capital computed for regulatory purposes.

The position of the Parent Company which accounts for more than 66% of the overall interest-rate risk significantly affected the measurement of risk for the MPS Group as of 31 December 2003.

% of Sensitivity of the Banking Book of individual Group banks On overall Sensitivity as of 31.12.03



The increase in the measure of BMPS’ risk highlights a liability-sensitive position, which is sensitive to the reduction of market risks, in compliance with the strategy adopted to benefit from current market expectations of recovery of the economic cycle in the medium-term.

The aggregate sensitivity of the BMPS Banking Book as of 31 December 2003 was higher than at the prior year end and entailed an increase in the sensitivity/Tier 1 capital or total capital computed for regulatory purposes ratio. Sensitivity measures the economic value at risk of the Banking Book.

The strong decline in the interest margin at risk on an annual basis/ interest margin ratio is mostly attributable to the streamlining of centralized Treasury operations both for the foreign branches and at a Group level.

The measure of the MPS Group's risk as of 31.12.2003 reflects the results of the Parent Company, though the liability-sensitive position of BMPS was offset 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).

■ MPS GROUP

Risk indicators for shift of 200 bp	31/12/03	31.12.02
Interest margin at risk / Interest margin	1.3%	3.2%
Economic value at risk / Tier 1 capital	2.6%	2.7%
Economic value at risk / Capital computed for	1.8%	2.0%

The measure of the economic value at risk of the MPS Group Banking Book in December 2003 was virtually in line with the figure recorded at the end of 2002.

In a logic of integrated management of the Group Banking Book, at the end of 2003 and early in 2004 the MPS Group undertook initiatives aimed at matching the Group mismatching with the Parent Company's mismatching, by adopting a neutral risk profile in the other Group banks.

☐ LIQUIDITY RISK

The monitoring of the structural liquidity profile is effected by quantifying the imbalances , by settlement date, in expiring cash flows in the 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 funding which is coordinated by the Finance Area in the Corporate Center and which regards both normal funding through bonds as well as funding through subordinated debt issues, in accordance with the capital management needs.

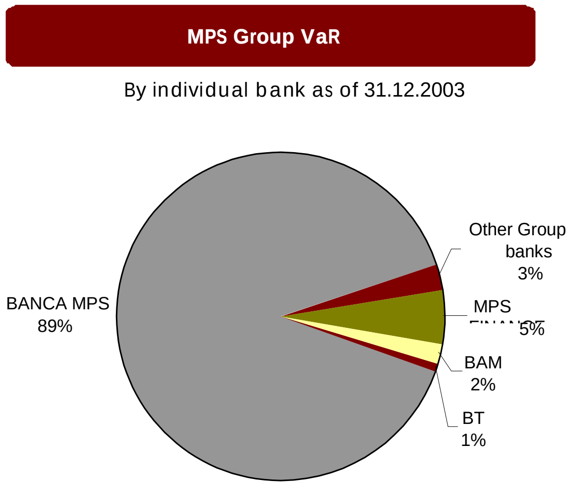
☐ MARKET RISKS ON MPS GROUP TRADING PORTFOLIO

Operating limits for BMPS and the other Group companies which represent independent risk taking centers are expressed in terms of *Value at Risk* (VaR). Levels of authority are established by the Board of Directors of the Parent Company in terms of VaR, on the basis of the maximum acceptable loss limits on a monthly and annual basis; such limits simultaneously consider actual or potential earnings results and the measure of risk on open positions.

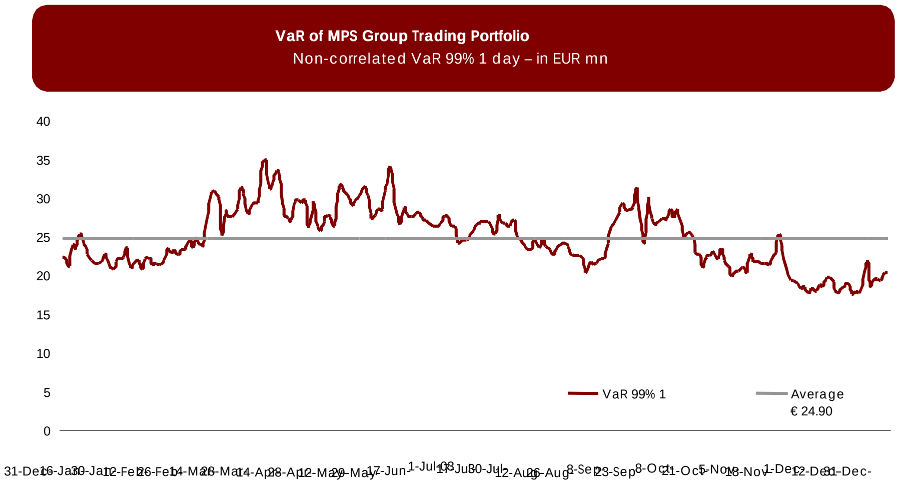
VaR is calculated autonomously by the Risk Management Department by using the Integrated System for Group Risk Management developed by the Department itself, on the basis of a confidence interval set at 99% with a holding period of one business day. The historical simulation method contemplates two-year historical reports and a daily scrolling.

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

As a result of the above-mentioned corporate transactions, VaR is mostly concentrated on the Parent Company and, to a lesser extent, on MPS Finance BM, which account jointly for roughly 94% of total market risks. The overall trend of the Group's risks in 2003 was influenced by the BMPS' VaR dynamics.



As of 31.12.2003 non-correlated VaR (calculated excluding the diversification effect between the VaR measures of the aggregates) amounted to EUR 20.60 million, decreasing in comparison with the EUR 26.29 million recorded at the end of the first half of 2003 and with the EUR 22.22 million as of 31.12.2002.

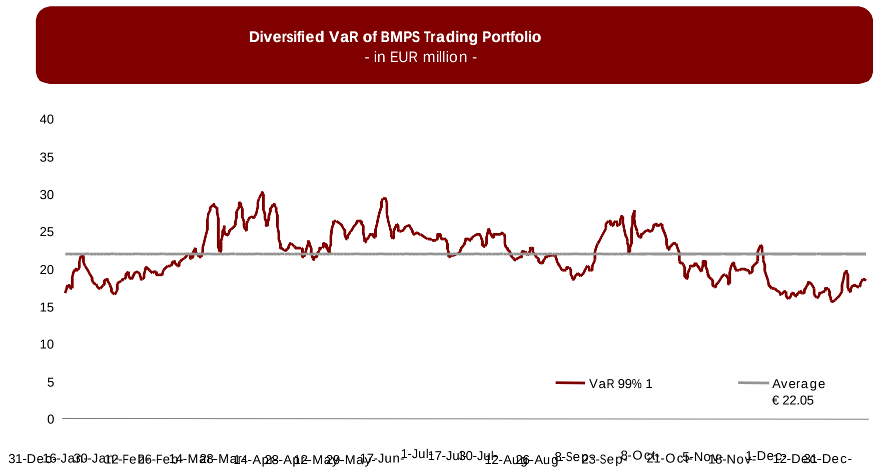


Such scenario reflects an increase in the average value for the Group VaR of about EUR 4 million (from EUR 21 million in 2002 to EUR 24.90 million in 2003), mainly attributable to an increase in overall BMPS' risks, stemming from the mergers by incorporation of the subsidiaries and their subsequent spinoff. As a result, additional "technical" trading portfolios were set up and gradually sold during the first half of the year.

MPS GROUP VAR
TRADING PORTFOLIO

	VaR (EUR mln)	Date
2003 Low	17.74	15/12/2003
2003 High	35.07	01/04/2003
2003 Average	24.90	

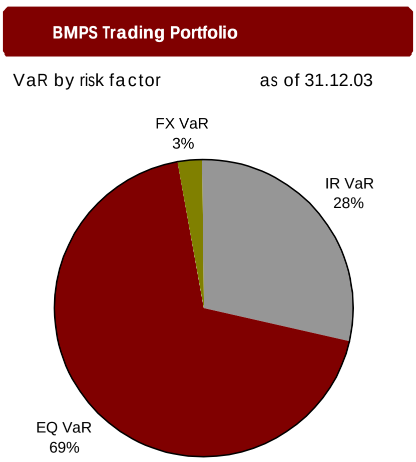
BMPS' overall risks measured in terms of VaR diversified among risk factors fluctuated in 2003 between EUR 16 million and EUR 30 million.



In particular, VaR was at a low on 16 December 2003 (EUR 15.88 mln) and at a high on 1 April 2003 (EUR 30.18 mln).

■ BMPS VaR trading portfolio

	VaR (EUR mln)	Data
2003 low	15,88	16/12/2003
2003 High	30,18	01/04/2003
2003 Avg	22,05	



In the first half of 2003 the VaR was above the average mainly due to the effects of the above-mentioned mergers by incorporation, but also due to specific strategic positions taken in the equity market. The second half of the year was characterized by higher risk containment and the consolidation of portfolio positions. With reference to the Parent Company, the equity risk factor as of 31.12.2003 had a greater weight (EQ VaR roughly 2/3) than *interest rate* factors(IR VaR).

Forex (FX VaR) factors were marginal.

OPERATING RISKS

In 2003 the MPS Group continued with the pursuit of a project aimed at identifying, evaluating and measuring operating risks. The project adopts a dual approach based on:

- Qualitative analysis concentrated on risk and self-assessment techniques of the principal companies within the MPS Group;
- Quantitative analysis based on the systematic collection of data on actual losses and on the measurement of capital at risk through advanced calculation models.

During the year qualitative analysis was completed with respect to 20 companies of the MPS Group, while quantitative analysis was carried out with respect to 11 companies. The analyses allowed for the detection of potential risks and risks which had actually materialized within the main companies of the group, as well as areas where the system of internal controls is deemed excessive or insufficient. The analyses also identified specific mitigation policies for risks in compliance with the requirements of the Basle Committee for the adoption of advanced calculation models.

The MPS Group participated since the beginning in an observation project in relation to the first reporting of Operating Losses, promoted by the Italian Bankers' Association for the creation of the Italian Database of Operating Losses. The Database flow will allow for the integration of the Group's losses with the data for the industry.

On the basis of actual loss data gathered in 2003, an advanced calculation approach is preferable, in terms of capital absorption, to standard methods (BIA and SA approach).

In accordance with risk assessment methods based on process analysis and the necessary controls, the MPS Group has finalized the audit framework project. All Group companies have been provided with audit manuals which are standardized in relation to general principles and analysis methodologies, but specific in relation to individual operating profiles.

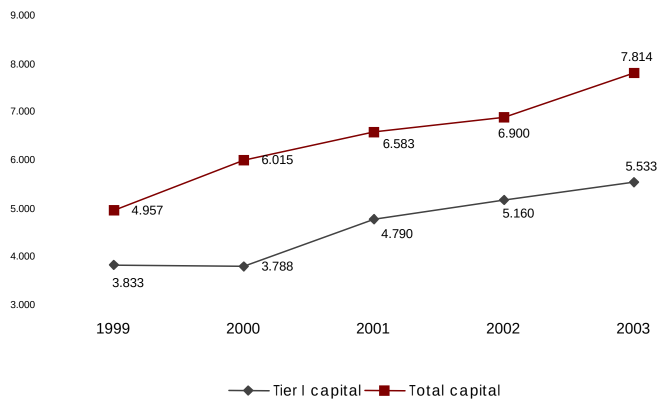
CAPITAL AND CAPITAL REQUIRED FOR REGULATORY PURPOSES

As of 31 December 2003, the MPS Group's capital computed for regulatory purposes amounted to EUR 7,814 million; the aggregate was thus EUR 914 million or 13.25% higher than the comparable figure at the end of 2002.

CAPITAL COMPUTED FOR REGULATORY PURPOSES	GROUP		BMPS	
	In EUR million		In EUR million	
	31/12/03	31/12/02	31/12/03	31/12/02
Tier I capital	5.532,6	5.160,1	5.726,1	4.927,7
Tier II capital	3.102,6	2.530,1	2.845,0	2.617,2
	8.635,1	7.690,2	8.571,1	7.544,9
Deductions	821,3	790,5	860,1	763,1
TOTAL CAPITAL FOR REGULATORY PURPOSES	**7.813,8**	**6.899,7**	**7.710,9**	**6.781,8**

The total capital for regulatory purposes and its components were mainly influenced by (i) the issue of innovative capital instruments (with the simultaneous transfer to Tier II capital of the preferred securities previously issued by BMPS), (ii) the merger by incorporation of the two main subsidiaries of the Group into the Parent Company and the consequent spinoff of their commercial networks, (iii) the different method of evaluation of the investment in FINSOE, (iv) the partial use of the reserve for general banking risks by the Parent Company and finally (v) the capitalization of a portion of unretained earnings.

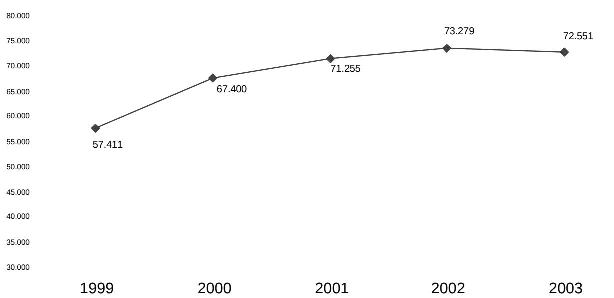
Trend of Capital Computed for Regulatory Purposes



Tier I capital grew by EUR 372 million and Tier II capital rose by roughly EUR 572 million with respect to the end of 2002.

The BMPS capital computed for regulatory purposes climbed to EUR 7,714 million (+ EUR 932 million year on year), with Tier I capital increasing by about EUR 800 million and Tier II capital rising by EUR 231 million. The major changes in the aggregates are attributable to the reasons already outlined for the Group.

Trend of Consolidated Assets Weighted for Credit Risk



Le attiThe Group's assets weighted for credit risk as computed for regulatory purposes totalled EUR 72.6 billion approximately with a 1% decline over the comparable figure at the end of 2002. The reduction of loans to banks and non interest-bearing assets (e.g. negotiable instruments for collection, fixed assets, other assets) was offset by the progress of loans to the private sector (+ 2.04%), with the customers' preference going to mortgage loans, the balance of which increased by about EUR 2.1 billion (+ 39.2%).

RISK ASSETS

(in EUR million)	GROUP		BMPS	
	Weighted value as of:		Weighted value as of:	
	31/12/03	31/12/02	31/12/03	31/12/02
- Balance sheet assets:				
Assets backed by real property guarantees	0,0	0,1		
Loans to governments, central banks and multilateral banks	687,2	711,2	551,8	608,7
Due from banks	1.271,2	2.031,6	3.129,2	3.553,6
Due from investment companies	20,6	0,3	0,0	0,3
Loans to the private sector:				
Residential mortgages – private sector	4.987,8	3.630,3	2.679,9	2.078,5
Non-residential mortgages – private sector	2.447,0	1.710,0	6,8	8,2
Other loans to the private sector	53.120,4	54.003,3	28.187,7	28.982,0
Equity investments weighted at 200%	23,0	21,0	21,0	6,0
Equities, equity investments and subordinated assets	1.788,5	1.502,4	6.368,1	4.680,3
Fixed assets	1.657,3	2.135,2	100,8	1.019,2
Negotiable instruments for collection, accrued income and other assets	1.253,6	1.777,9	580,7	737,2
	67.256,7	**67.523,3**	**41.626,1**	**41.673,9**
- Off-balance-sheet assets:				
Guarantees released, commitments and derivatives contracts	**6.866,1**	**6.958,7**	**4.379,6**	**4.803,9**
- Less: loan amounts classified as "doubtful outcomes" and capital losses	**-1.571,4**	**-1.202,9**	**-976,3**	**-752,8**
Total risk weighted assets	**72.551,4**	**73.279,1**	**45.029,4**	**45.725,0**

At BMPS, risk weighted assets fell by roughly 1.5%, while cash loans remained virtually stable (- EUR 48 million) and the aggregate of "guarantees released, commitments and derivatives contracts" contracted.

Considering market risks, other prudential requirements and subordinated loans of Tier III type covering market risks, the MPS Group's capital position for regulatory purposes at the end of 2003 stood at around EUR 6,209 million (- EUR 17 million). The surplus capital expanded by EUR 932 million or 138.4% in comparison with 31 December 2002 to about EUR 1,605 million.

CAPITAL POSITION	MPS GROUP		BMPS	
	Euro mn		Euro mn	
	31/12/03	31/12/02	31/12/03	31/12/02
Credit risks				
On balance-sheet assets	5,380.5	5,401.9	2.913.8	2.917.2
On off-balance-sheet assets	549.3	556.7	306.6	336.3
- less doubtful loans	(125.7)	(96.2)	(68.3)	(52.7)
Total credit risks	**5,804.1**	**5,862.3**	**3,152.1**	**3,200.8**
Market risks				
On trading securities portfolio	690.6	641.8	302.0	295.8
Including:				
- generic risk on debt securities	334.9	336.8	68.4	71.9
- specific risk on debt securities	155.5	145.4	97.6	87.8
- generic risk on equity securities	61.6	29.6	25.7	26.9
- specific risk on equity securities	41.7	29.0	27.9	22.4
- delta-plus options: gamma factor	0.2	0.1	0.0	0.0
- delta-plus options : vega factor	0.4	0.9	0.0	0.5
- risk on quotas in mutual funds	50.3	40.8	35.3	26.7
- settlement risk				
- counterparty risk	46.0	59.3	47.1	59.7
On concentration				
On foreign currency	5.7	7.5		
Total market risks	**696.3**	**649.3**	**302.0**	**295.8**
Subordinated loans available to cover market risks	600.0	600.0	302.0	295.8
Net market risks	96.3	49.3	-	-
Other requirements	308.8	315.0	266.0	218.2
Total capital required	6,209.2	6,226.7	3,418.0	3,418.9
Capital for regulatory purposes	7,813.8	6,899.7	7,713.9	6,781.8
Surplus capital	**1,604.6**	**673.0**	**4,295.8**	**3,362.9**

Considering market risks and subordinated loans of Tier III type to cover part of the market risks, BMPS' capital position is comparable to the position as of 31 December 2002. The surplus capital thus expanded by EUR 932 million in comparison with 31 December 2002.

CAPITAL ADEQUACY RATIOS	GROUP		BMPS	
	31/12/03	31/12/02	31/12/03	31/12/02
Tier I ratio	6.50%	6.05%	10.77%	9.29%
Total Risk ratio	9.89%	8.79%	15.08%	13.34%

The improvement of the Group's capital position is also reflected in the trend of capital adequacy ratios, with the total risk ratio at about 10% (9.89% versus 8.79% at the end of 2002) and the Tier I ratio at 6.50% versus 6.05% at the end of the prior year. Excluding the amount of preferred securities which is included in Tier I capital, this percentage comes to 6.31% versus 5.64% as of 31 December 2002.

The Tier I ratio and the Total Risk Ratio of BMPS stood at 10.77% (versus 9.29% at the end of 2002) and at 15.08% (versus 13.34% at the end of the prior year), respectively.

INNOVATION, RESEARCH AND DEVELOPMENT

THe focus on innovation in 2003 went to pursuing the program of specialization by market and segment of the production and distribution units, with a view at increasing the efficiency of the Group sales and marketing policies and enhancing the capacity to serve the customers. The changes implemented were based on a customer-oriented logic focused on quality and transparency in a framework of strong customer relationships.

To this end, it is worthwhile highlighting the MPS Group commitment to the Italian Bankers' Association project, "Banks and Corporates". As a result, the MPS Group embarked on the "Clear Pacts" project which provides for a new approach to the relationships between banks and companies. The key objective is the improvement of customer relationships in terms of transparency and clarity in order to enable the customers to better understand and compare the different products and services supplied. The project incorporates eight initiatives concerning investments, services and lending which will be tested and validated/verified by independent third parties.

This action was flanked by the steady development of supply based on the diversification and enhancement of products for the purpose of increasing market franchise and customer loyalty. In addition, the Group specifically focused on enhancing its skills with regard to subsidized loans, which are becoming increasingly important in an era of decentralization of authority on local governments.

■ THE MPS GROUP COMMITMENT TO THE ITALIAN BANKERS' ASSOCIATION PROJECT, "BANKS AND CORPORATES"

The following initiatives have been activated during the year:

- "FARO" – started in October 2003 -: an Internet and telephone service providing the customers with information on the location of the closest ATM facilities .
- List of low-risk and low-return bonds – started in November 2003-: a list of simple, reliable and low-risk bonds selected among the bonds available in the international markets.
- Clear information concerning structured and subordinated bonds – started in November 2003 -: a service providing directions and information to the investors who purchase sophisticated securities. The service also compares risks inherent in sophisticated securities with risks related to simple instruments.
- General criteria for the evaluation of the creditworthiness of SMEs – started in December 2003 - : an instrument used by the banks for evaluating the creditworthiness of corporates and aimed at laying the foundation for improving communications with the SMEs with reference to investment options.

The Group has also launched the project "Compared Current Accounts" which embraces the mapping of the statements of account, the design of a current account portal and a basic A/C scheme.

In line with the new business and service/product models outlined by the Business Plan, the MPS Group continued to develop common IT structures and applications with substantial gains in terms of competitiveness and efficiency. The initiatives aimed at optimising the Group cost profile included a project of integration within the Operating Consortium of the liability management of the product companies IT systems which are still managed directly.

RETAIL MARKET

☐ SERVICE MODELS

The MPS Group retail banking strategy focused on implementing a service model specialized by customer segment through the development of specific commercial platforms.

The service model for the Affluent Segment incorporates the "Carattere" commercial platform, which was expressly designed for affluent customers. By using the platform, the account managers (over 2,100) are able to provide the customer with an accurate analysis of his/her portfolio in terms of asset allocation, risk and return.

■ "CARATTERE" COMMERCIAL PLATFORM

During the year, the platform was implemented with further functions and instruments in order to consolidate its commercial efficiency and support, and integrate its advisory activity:

- Manager's Desktop: a portal enabling the account manager to have an overall perception of the customer portfolio, monitor its trend and have access to the main financial/economic links supporting his/her activity;
- Customer's instrument panel (cruscotto cliente): an instrument enabling the account manager to have an overview of the customer both from the financial viewpoint through the analysis of the risk position and from the standpoint of relationship management;
- Alert: a system of notices reporting all events in relation to the customer portfolio under management to the account manager. Such notices ensure proper follow-up and service quality;
- Portfolio simulation: a program within the Carattere platform enabling the account managers to test and simulate interviews with the customers, for self-instruction purposes.

The Group also laid the foundation for the distribution of a new service model entailing a highly personalized approach by sub-segment. The model is viewed by the customers as a specific endeavor of the Bank to meet their needs. In addition, it seeks all economies of scale resulting from the industrialization of processes and instruments. A personalized service implies optimization of the use of human resources, by setting up a team of Family account managers in the branches and migrating customers to remote channels for executing low-value added transactions. The MPS Group has also created a reference catalogue based on guidelines consistent with the segments and the new commercial approach (in terms of simplicity, low access threshold, minimal advisory need, clear contents). New terms of action have been defined for the direct channels (e.g. mailing and call centers in particular) in accordance with the customers to be contacted and their sub-segments.

The first tests carried out prove that the approach adopted with respect to the Family segment is successful and will be extended to the whole Group network during 2004.

☐ THE MPS GROUP SALES AND MARKETING POLICIES AND PRODUCT INNOVATION

In a market scenario characterized by the customers' conservative posture, the MPS Group has adopted a retail marketing policy focused on consolidating service levels and transparency in customer relationships. Supply was therefore based on personalization and consistency with the customer's risk profile and also on the satisfaction of the customers' needs of protecting the capital invested.

- GPS Carattere is the new range of individual portfolios under management which invest mainly in Irish SICAVs and reproduce the customer's risk/retun profile. Such portfolios are proposed in five different investment lines, with the risk profiles contemplated by Carattere.

The product innovation effort involved several key initiatives in the bancassurance and supplementary social security plans:

- Personalità: a unit-linked policy targeted at affluent customers. Given the broad array of funds available, the customer's portfolio can be personalized in accordance with the risk profile. The policy also gives the customer the opportunity of switching among different funds in order to reproduce his/her asset allocation at any time;

- Lineaforte Shield: the 4 product lines inaugurated are characterized by solutions which partially protect the capital invested in order to benefit from the recovery of the markets;
- Linea Bussola (guaranteed-capital insurance policy) and Terzo tempo (tax-incentive individual social security plan): the two products have been redesigned in line with the new customers' requirements of investment diversification.

In addition, the year of 2003 was marked by the launch of two new insurance policies targeted at the Family segment: Cresco New and Accumulo, devised by Montepaschi Vita and Montepaschi Life (former Grow life) respectively. Cresco New is a guaranteed-capital instrument which invests in bonds, while Accumulo is a unit linked policy mainly investing in equity funds. Both products are extremely flexible long-term savings plan with a simplified structure and are suitable for this category of customers.

The range of products is completed by "Conto Carattere", an account package identified as a component of the service model for affluent customers. The account contemplates the integrated supply of banking (current account, credit cards, securities safe-custody, etc.), insurance, screen-based and leisure-time services (payment facilities in relation to travels, health etc.).

- Payment Systems

From the organizational viewpoint, the Group continued to develop a specific project to migrate low value-added transactions (e.g. bank transfers, A/C balances, reporting) to remote channels. The migration project had the objective of freeing front-office resources and increasing the customers' awareness of the benefits resulting from the use of remote channels (e.g. fast track, no queue in the branch). The MPS Group has thus laid the foundation for new pricing and cost containment policies.

The Group has also completed a project of "intercompany circularity" for ATM self-service facilities. As a result, the customers of the Group Banks will be able to operate directly from any ATM facility of the Group, make withdrawals, giros, bank transfers and other payments from their accounts and enquire about the status of their accounts and securities held in safe custody .

Payment functions available in the Internet banking channel have been increased by introducing the opportunity of making payments of instruments such as Bank and Postal MAVs, RAVs and all Postal Bills which were already payable at the branches of any Group Bank.

With reference to trading operations, the MPS Group now gives its customers the opportunity of buying and selling securities quoted on international Stock Exchanges. In addition, all Group Banks are to be connected with the organized trading system DDT (De@l Done Trading), managed by MPS Finance.

Mobile banking facilities enable the customers to manage their current accounts through their GSM-WAP

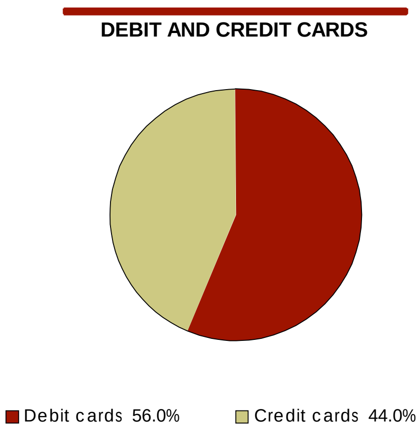
THE MPS GROUP PARTICIPATION IN E-BANKING PROJECTS PROMOTED BY THE ITALIAN BANKERS' ASSOCIATION

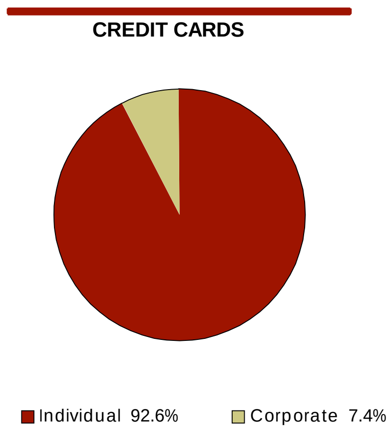
- Bankpass Bills: a new facility for managing and paying bills and commercial invoices through the Internet. The principal value added for the Issuers is the total dematerialization of papers. Retail customers benefit from the creation of a single access to bill payments and their electronic monitoring.
- Bankpass Web: a security system for Internet payments providing the customers with an electronic wallet containing different payment instruments (credit cards and Bancomat debit cards).
- Bankpass Mobile: an e-payment facility based on the use of mobile telephones. The expected start-up of the pilot project has been postponed due to the critical domestic scenario which at the moment prevents any appropriate testing.

mobiles; to buy and sell listed securities, make payments and have access to WAP navigation. The service was also extended to Vodafone Italia users, following a trade agreement with the telephone company. The 'alert' system which notifies the customer of the occurrence of peculiar events by automatically sending an e-mail or via SMS is already available at the other Group Banks and has been extended to BAM.

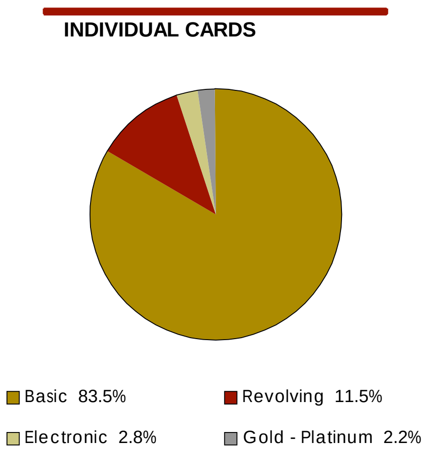
- *Credit and Debit Cards*

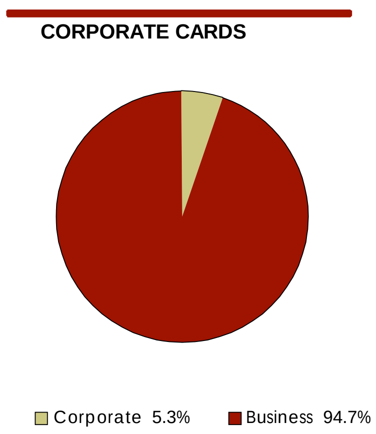
The number of payment cards issued to customers of the MPS Group exceeded 1,800,000 as of 31 December 2003.





The number of credit cards outstanding increased slightly year on year with more than 143,000 new cards issued during 2003 (+ 4% with respect to the prior year). The number of active accounts was 81%. Corporate credit cards rose to 7.4%.





On the individual credit card front, revolving credit cards topped 65,500 active accounts at year-end. This is mostly attributable to the widespread marketing of M'honey Card, issued and managed by Consum.it.

The weight of the business component is growing in the corporate credit card segment.

The MPS Group introduced a new debit card: a pre-paid renewable Bancomat and Pagobancomat card to bearer, marketed under the name "EUROPRIMA". The card was first marketed in December 2003 by the branches of BMPS, Banca Toscana and BAM. The second phase of the project to be implemented at year-end contemplates the release of a pre-paid renewable card operating in the Visa circuit.

Europrima has the objective of giving non-customers a simple payment instrument. The card can be released to adults and under-age teenagers and can be renewed at a centralized level upon instructions by third parties.

- Consumer credit

The Group marketing policy placed further emphasis on the Group's capacity to encourage the customers' propensity to borrow. Highlights include:

- The innovation of supply (mortgage loans and personal loans);

- The centralization of personal loans disbursement in Consum.it.;
- The introduction in the network of new specialized personnel with sales and marketing skills with respect to the disbursement of mortgage loans.

The business of mortgage financing witnessed certain product innovations in 2003 with the Group debuting a new type of loan:

"Mutuo Superfisso": this fixed-rate mortgage loan whose term varies from 10 to 30 years is characterized by fixed instalments over a period, but growing from one period to another. The product is targeted at those customers who expect their earning power to eventually increase.

During 2003 the Group also started the marketing of the new Personal Loan PRS which ranks in the leading positions in the domestic market by service level and terms applied. The product potential contributed to revitalize many tipical corporate relationships (dealers).

In addition, the MPS Group has participated in an innovative procedure of mortgage loans disbursement coordinated by the Italian Bankers' Association. On the basis of this procedure, mortgage loans are disbursed to the highest bidders at forced real estate auctions. As a result, retail customers who are interested in participating in real estate auctions are granted loans more easily, while banks can collect the loans disbursed for the purchase of these properties more rapidly.

"EXPLORING NEW CHANNELS FOR THE RETAIL MORTGAGE LENDING BUSINESS"

This new project aims at increasing market shares by placing banking, financial and insurance products and, in particular, retail mortgage loans through the gradual integration between the direct network and new distribution channels. The credit approval process will be managed by the partner's point of sale (with the support of a scoring system) with the resulting reduction in costs and disbursement time. In order to seek strategic partnerships, the Group has held meetings with primary real estate agents and reached important agreements with Gabetti SpA, Eurofranchising Srl, Domus World Srl and Esponente SpA.

THE PRIVATE-BANKING MARKET

In 2003, Banca Steinhauslin became the Group's specialized product factory in the management of private-banking individual portfolios and consolidated its activity of development and acquisition of new customers outside the Group.

Banca Agricola Mantovana – which started operating fully on the basis of the new private-banking service model – and Banca Toscana – which set up a network of dedicated account managers and opened the first "private" branches – have marketed Banca Steinhauslin's portfolios.

Banca MPS continued to develop the private-banking service model to new customers through the fundamental contribution of individual portfolios under management with prior approval (GPA).

On the marketing front, the Group defined the guidelines for the supply of personalized innovative-finance and insurance products dedicated to the private-banking segment. The following products have been inaugurated:

- Two new flexible lines for individual portfolios under management, in a logic of absolute return;
- One line which provides that funds managed are fiscally treated as "funds under administration";
- A new Irish Sicav (Bright Oak), managed through quantitative approaches.

The roughly EUR 340 million of new funding tapped as a result of the "tax shield" capital repatriation program mostly came from new customers (over 50%).

At the end of 2003, following the presentation of the new 2003-2006 Business Plan for the Group, the Private-banking Area was reorganized with the objective of capturing a leading position in the domestic market (further information is provided in the section covering *"The MPS Group development in 2003 and the new business plan"*).

☐ SERVICE MODELS

The development of the Group Business Plan continued with the implementation of the following projects:

- The service model for the SME segment through the creation of SME centers consisting of teams of dedicated relationship managers with the integrated support of specialized staff from product companies ;
- A similar service model dedicated to the Small Business (SB) segment. The service is based on dedicated managers operating according to a specific marketing approach and on a range of products aimed at meeting the needs of this category of customers.
- As of 31 December 2003, the new models had been applied to roughly 75% of SMEs and SBs at BMPS. The program will be completed in the three commercial banks of the Group in 2004.

In 2003 the MPS Group has finalized the project of centralized management of Large Corporate customers, which will be operated by highly-specialized dedicated staff. As part of the corporate platform, the Group has also developed a project targeted at government entities under the name "Government Entities Project" . After its release to BMPS Commercial Division, the project will be implemented in other two Group banks in 2004.

In addition, the MPS Group has designed innovative CRM instruments supporting the service models. In particular, the Group embarked on a marketing intelligence project for implementing a model of marketing potential assessment structured by type. The project has the dual objective of increasing penetration of the market of existing and potential corporate customers and developing cross-selling.

◆ *The Re-engineering of the Lending Processes*

The MPS Group embarked on several important initiatives aimed at increasing the capacity to service the customers, with particular emphasis placed on the re-engineering of the lending processes. In 2003 the initiatives in this area focused on optimizing lending management in order to pursue:

- The specialization of systems and processes by customer segment;
- The containment of credit risks through the streamlining and standardization of activities, processes and regulations.

During the year, the procedures to be used for initial disbursements to small businesses were gradually released to the MPS Group units. The procedures concerning retail customers and SMEs are being tested. In particular, the new system for disbursements to small businesses will optimize the risk-return trade-off and maximize operating efficiency, thus resulting in better customer service. In consideration of the high number of applications to be processed, the review and approval process will be simple, and will generate a response that includes a credit rating and qualitative assessments of the analysts. The procedures are based on the directives of the new Basle Accord on capital.

Among the initiatives which materialized in 2003 it is worthwhile mentioning the implementation of the Group customers' information file and the creation of a Watch Group for the productive sectors.

☐ THE MPS GROUP SALES AND MARKETING POLICY AND PRODUCT INNOVATION

An extensive effort was undertaken in 2003 in terms of organization, marketing and strategies. The products were grouped in macro-families subdivided by functional purpose and targeted at different categories of customers (small businesses, SMEs, large corporates and Government entities), with a focus on better meeting the requirements of the corporates and keeping a good reputation.

■ SUBSIDIZED LOANS

◆ The MPS Group has enhanced resources and the monitoring of major public incentives within this segment through the following initiatives:

- Establishment 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 present. This initiative is centred on the development of qualified and multi-specialist assistance and advisory services dedicated to SMEs and Government Entities in view of the forthcoming enlargement of the European Union;

- Interest subsidies to the companies investing in security: operations started in 2003 following the adjudication of a contract awarded by the National Institute for Industrial Accidents (INAIL) in 2002, with the MPS Group thus capturing a leading position by number and volume of applications received with respect to the other participants;

- Start-up of the operations of the commercial agreement executed with Fondazione Bellisario for the nationwide support of entrepreneurial initiatives by women.

The volumes of asset/liability management grew substantially with the support of MPS Finance, through the supply of corporate liquidity management instruments and liability management instruments for optimizing the cost of debt and hedging interest-rate and forex risks.

On the front of bancassurance, the Group promoted, with the input of Monte Paschi Vita, the "key man" casualty policy (under different names: iride corporate, trittico corporate, sincronia corporate) aimed at protecting the companies in the event of death of a key manager and/or accidents causing invalidity. The insurance policy "raccolta" which guarantees a severance indemnity to the employee identified as the beneficiary is also very important. The insurance policies linked with the "capex deal" integrated financing, which cover socio-political events and equipment failure, have paved the way for the launch in 2004 of modular multi-specialist policies targeted at sectors with a high actual or expected growth rate (fire, casualty, theft).

The marketing of the new current-account package impres@più turned out to be extremely positive, since it enabled the MPS Group to increase the cross-selling ratio and the number of new accounts, with more than 21,500 impres@più accounts placed as of 31 December 2003. The package, which is marketed principally to the small business segment, offers a series of integrated banking and non-banking services useful to a company's business development.

The first year of full operations of MPS Leasing & Factoring was concentrated on the gradual development of the range of products. The company, which ranks among the top five Italian leasing companies, launched a new nautical lease at the most recent International Boat Show in Genoa with the support of a specific promotional campaign. MPS Leasing & Factoring also takes an active part in international leasing and factoring transactions and has debuted a vineyard lease. This kind of lease represents an attempt to get in touch with the vineyarding world through the lease of land, vineyards and capital goods in relation thereto. In addition, the company released two personalized leasing services such as the balanced lease and the floating-fee lease. In December 2003, in a logic of streamlining of supply, MPS Leasing & Factoring executed an agreement with Leaseplan Italia (ABN AMRO Group), the world leader in the management of corporate car fleets, for inaugurating the "long-term full leasing and rental" in relation to number-plated cars.

The MPS Group has undertaken other important initiatives including the project "Promoting the Internationalization of SMEs" *(additional information is provided in the section covering "International Banking Activity")* and the pursuance of the testing phase of MPS Professional, a Group company with the mission of creating a network for the development of advisory services to SMEs. The service is expected to be extended to the Group commercial banks in April 2004.

The communications efforts in relation to corporate customers were geared toward the consolidation of the results achieved in terms of image-building and brand recognition for the Group. To this end, the Group sponsored the 5th International Forum of SMEs, which was held in Prato on 17-18 October 2003 and coordinated by the Italian Industrialists' Association (Confindustria), the Italian Federation of Trade (Confcommercio) and the Chamber of Commerce of Prato. The Forum is a mainstream event which is attended by business leaders, economists, politicians and bankers from Italy and abroad, and deals with issues and themes relevant to SMEs.

- *Structured Finance and Merchant Banking*

In 2003, the MPS Group continued the programme of consolidation of the Group's excellence centres, MPS Merchant and MPS BancaVerde.

■ PRODUCT INNOVATION IN THE ENVIRONMENTAL AND AGRICULTURAL SECTORS BY MPS BANCA VERDE

- "Energy save": a product designed for satisfying the needs of energy savings and technological innovation of Local Entities and large users of electric energy. This environmental product is principally addressed to Energy save companies (ESCO), with the purpose of introducing this type of initiatives in Italy;
- "Aqua": a product designed for facing the problem of drought, which raises funds for updating and streamlining the networks of water collection, distribution and treatment related to agricolture, agro-industry and local entities/utilities;
- "Ecoturismo": a product conceived for meeting the requirements of a qualified tourism, which raises funds for procuring "ecolabel" certification in the medium-term.

The Group's project financing activity focused on utilities (water, energy, gas, production of energy from renewable sources) and infrastructures. The initiatives undertaken embrace: (i) the Group partnership with Autostrade (in order to execute three major projects for building motorways as provided for by Legge Obiettivo), (ii) the participation in the project "Tranvia Firenze" as mandated lead arranger together with Credit Agricole Indosuez, and (iii) the role of advisor in the project for the "Prato-Signa" motorway. In addition, MPS Merchant acted as a financial advisor in the water industry in relation to the needs linked with the MPS Group investments in the principal Optimal Domains in Tuscany.

In private equity, the closed-end investment funds managed by MPS Venture SGR completed their funding programs, with institutional investors underwriting funds in the aggregate amount of EUR 150 million. The three funds (MPS Venture I, Ducato Venture and MPS Venture Sud, entitled to operate in southern Italy) have intensified their activity with a substantial number of applications under exam and have finalized several investments for an average amount of EUR 6.5 million each. In addition, MPS Merchant participated as a coadvisor, together with Société Générale and Intermonte Securities Sim, in the sale of a 29% interest in ADF (Aereoporto di Firenze) arranged by the public partners.

- Payment systems

With respect to the payment systems in the corporate market, the MPS Group has developed internet corporate banking services (PaschiInAzienda at Banca MPS, BAM Corporate Plus at Banca Agricola Mantovana and Office.net at Banca Toscana), through the release of new functions increasing the Group's presence in e-commerce business. The following new services were activated:

- A new version of online transfers which entails instruments for the management of the addresses' list, in support of the periodic execution of recurrent transfers, and a more sophisticated management of the search of bank codes (Italian Bankers' Association code and individual bank code – CAB);
- Integration with PaschiInCommerce, in order to provide the customers with the opportunity of making Internet payments by bank transfer through PaschiInAzienda, in addition to the more traditional credit-card based payments;
- online payment of Postal Bills (RAV and MAV) and relevant follow-up; the customer is entitled to pay all bills already accepted by the branch online;
- payment of F24 forms by charging third-party current accounts or accounts held with CBI Banks participating in the facility. This service is principally targeted at associations, business consultants, fiscal assistance centers etc… which must make numerous payments on behalf of their customers.

The MPS Group continued to market "PaschiInTesoreria", a service realized to meet the requirements of Government Entities, and has tested another innovative service dedicated to corporates (especially utilities companies) and Government Entities which require a full treasury/cash management service. The Bank also prepares and sends the invoices or other supporting documents in relation thereto and forwards a payment notice to the debtor.

With reference to the project concerning digital signature, BMPS intensified efforts for becoming an "Identrus Live" ("on bording") bank. This means that the bank will be entitled to provide services of digital certification for corporate customers. At the end of January 2004 the Bank was awarded "certification authority" status by the American company Identrus – which manages an international circuit consisting of about 60 banks.

INTERNATIONAL BANKING ACTIVITY

With a focus on supporting the operations of domestic customers, efforts went to developing and monitoring international expansion of Italian companies, and in particular SMEs, in a logic of commercial penetration of new emerging markets and assistance in foreign investment projects.

☐ COMMERCIAL ACTIVITY

The commercial activity of the international banking area was characterized by intensified relationships with Italian export-import insurance entity, SACE, with the full utilization of the ceiling provided for by the existing working agreement. The volumes of export transactions to emerging countries which were financed by the Group during the year topped EUR 135 million. These transactions were covered by SACE insurance or were finalized through innovative services such as online confirmations and the "Exportkey" product. Risks were kept within the limits set by the Group's lending policies, by entering into risk sharing agreements with other players in the industry.

The Group's "Exportkey" product, which allows Italian exporters to negotiate business transactions with counterparties in high-risk countries , with BMPS willing to take on such risk, was flanked by other services supporting Italian customers such as VAT recovery on foreign transactions. In addition, BMPS was appointed as the agent bank for three aid packages amounting to EUR 87 million, two of which went to Tunisia and the third of which went to Algeria. This mandate will help facilitate the objective of further improving the MPS Group's positioning in the Maghreb area. With respect to new products, the MPS Group implemented a new type of non-recourse transfer of credits guaranteed by SACE insurance policies to foreign companies.

■ "PROMOTING THE INTERNATIONAL EXPANSION OF SMES"

◆ With reference to services targeted at the SMEs, the Group has launched the project "Promoting the international expansion of SMEs". The Group signed master agreements covering advisory services and technical assistance for supporting the international expansion of companies with Federexport (the federation of export consortiums), Confservizi International (the confederation of Italian utilities), Anie, in addition to a co-operation agreement with Toscana Promozioni. The Group has therefore the objective of supporting Italian companies in their foreign investment projects since the very beginning, by providing advisory services on a professional basis in selected countries.

The volumes of trade transactions settled through the MPS Group network totalled EUR 49 billion for the "current accounts". The Group thus confirmed its position among the top Italian banking players with respect to foreign trade settlements.

In line with the objectives of increasing the Group's operations and better supporting the companies operating in emerging countries, the correspondent banking activity dedicated efforts to:

- Curtailing processing costs in correspondent relationships: in particular, the effects resulting from enforcement of the new EU regulations on tariffs for cross-border transfers were examined accurately;

- Increasing foreign flows and promoting the Group's image with specific initiatives aimed at attractive areas for Italian companies (e.g. Eastern Europe, Far East, central Asia, southern Mediterranean region, the Americas).

☐ 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 geographic 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 of London, New York and Hong Kong, where the Group further consolidated its activity. These branches ensured operations in the main money centers, international visibility to the MPS brand and diversification of the loan portfolio. The customer desks are located in the foreign branches and support Italian customers in identifying and developing business opportunities, thereby promoting the international expansion of the SMEs and achieving maximum integration with the Group's domestic network. The foreign representative offices located in south eastern Europe (Istanbul and Moscow), in northern Africa (Algiers,

■ COMMERCIAL AGREEMENTS WITH CORRESPONDENT BANKS

The major events occurred during 2003 involved:

◆ Eastern European area: Alpha Bank in Romania, an institution in which BMPS holds a minority interest and to which BMPS has seconded its own personnel; Volksbank with operations in Croatia, Czech Republic, Slovenia and Hungary; and Ludova Bank in Slovakia;

◆ Iberian peninsula: Bancaja Banking Group, with BMPS personnel assigned to an office in Valencia;

◆ Central Asia: Capital Trust Limited in New Delhi, India; Industrial and Commercial Bank of China (ICBC) and China Merchants Bank (CMB), in China which flank the BMPS Representative Offices of Beijing and Shanghai;

◆ Maghreb area and Egypt: Crédit du Maroc with BMPS staff installed in Casablanca and C. I. B. (Commercial International Bank) in Egypt, in addition to BMPS Cairo Representative Office.

Tunis and Cairo) and in China (Beijing and Shanghai) have similar operating objectives. An overview of the project of expansion and streamlining of the MPS Group's foreign network is provided in the section regarding "The MPS Group development in 2003 and the new Business Plan".

On the front of commercial agreements signed with correspondent banks (see box), the MPS Group signed important agreements at the end of 2003 with the Industrial and Commercial Bank of China (ICBC), the first domestic Chinese bank, and with China Merchants Bank (CMB), a leading bank operating in the industrial area of Guangdong.

MPS GROUP'S COMMITMENT TO ENVIRONMENTAL PROTECTION AND SOCIAL RESPONSIBILITY

In 2003, the MPS Group continued to pursue its commitment to support environmental protection and, more in general, to corporate social responsibility, with a view toward securing certification of quality for services and products.

On 26 February 2003, the BMPS Environmental Management System oriented to performing internal controls, reducing consumption and curtailing costs obtained the ISO 14001 certification. Additional progress was made with the project for securing Emas certification which entails huge technical/organizational efforts and impacts the environmental activity of all areas of the Group.

The addition of BMPS to the Dow Jones Sustainability Index rating system (a global index which certifies the performance and commitment of the companies promoting sustainable development) in September 2002 was flanked on 21 March 2003 by the Bank's inclusion in the FTSE4Good system, produced by the Financial Times Stock Exchange, the world leader for the supply of global investors' indices. The addition of BMPS shares in said sustainability indices was subsequently reconfirmed by the annual review of September 2003.

After becoming a member of several international associations and organizations committed to promoting Corporate Social Responsibility, the MPS Group intensified participation in the workshops organized during the year. The participation in these projects will provide an ongoing flow of information in relation to current initiatives, trends and developments under way, both at a national and international level, and will consolidate the good Group's positioning in this area.

The BMPS quality management system, which had already obtained ISO 9001:2000 certification, has been reviewed successfully by the certifying entity Det Norske Veritas (DNV). The certifying entity carried out a "Periodic Maintenance Review" for checking compliance of mortgage loans to individual customers and direct banking services (PaschiHome, PaschiInRete, PaschiInAzienda, PaschiInTel, PaschiInTesoreria) with ISO regulations and confirmed the validity of the certification released.

A project for introducing the MPSafe procedure which is already used by the Prevention and Safety Unit is under way. The project has the objective of incorporating all reporting useful for the monitoring for environmental purposes of all Bank's units. More and more companies outside the MPS Group have shown interest in this product which has been tested successfully at BMPS in a complex scenario.

■ EU PROGRAMS ON ENVIRONMENTAL ISSUES

Projects currently in process include the follow-up of several EU programs on environmental issues:

- Equal and Life: these environmental projects receive structural funds from the European Union; the Bank has offered to serve as a financing partner for the initiatives undertaken under these programs;
- Green Light: with its participation in this program, BMPS aims at reducing energy consumption. Lighting in at least 30% of the bank's branches will be made compliant with the most efficient technological standards before 2006;
- ETHMA Project - "Ethics and Market" - in co-operation with Adiconsum (Consumers' Association): the project is concentrated on promoting social dialogue and corporate social responsibility.

At the end of October 2003, BMPS published its Socio-Environmental Report for the year of 2002 and took on further social responsibility commitments. In particular, in the international year of the disabled, the MPS Group embarked on a project for facilitating material access to the Bank's branches and units (including the Headquarters in Piazza Salimbeni, Siena), banking and financial services, ATMs and Internet banking facilities, both to disabled customers and employees.

From the standpoint of corporate communications, the MPS Group continued to implement a special Group portal, www.paschiambiente.it, dedicated to sustainable development, safety and security of workers and privacy. In 2004 the MPS Group will also draw up a socio-environmental strategic plan for 2004-2006.

The activity of organizing community events continued in 2003, with a special focus on art exhibitions, concerts and sponsorships. Altogether, the MPS Group funded around 600 cultural, scientific and sport programs during the year.

The principal sponsorships included: Accademia Musicale Chigiana, Opera Metropolitana del Duomo di Siena (incorporating a project for emptying and renovating the space in the basement of the Cathedral of Siena), Teatro del Maggio Musicale Fiorentino on the opening of the 66th Maggio Musicale, Associazione Festival dei Due Mondi di Spoleto, Fondazione Festival Pucciniano on its 49th Festival.

In terms of cultural activity, the main initiatives were the sponsorships of the Biccherne show and the exhibition dedicated to Marco Pino in Naples, which included the restoration of several important works painted by the Sienese painter and kept in Naples. The exhibition "Duccio alle origini della Pittura Senese" sponsored by BMPS and the MPS Foundation turned out to be extremely successful and attracted numerous tourists in Siena, in particular during the winter.

Other events sponsored by the MPS Group during the year included the "Pavarotti & Friends" concert in favour of Iraq, an institutional and humanitarian initiative of social solidarity which ensured good visibility to the MPS Group.

A major commitment went to publishing activity in 2003. In addition to the publication of the coffee-table book dealing with Duccio di Buoninsegna, the Group dedicated a volume to the sensational discoveries made in the basement of the Cathedral of Siena. This volume describes the stages of discovery, renovation and the first ascriptions by the experts who are studying the architectural structures and pictorial decorations. In addition, the essay on the painter Marco Pino, which also serves as catalogue for the art exhibition, was completed.

QUALITY MANAGEMENT SYSTEMS

- The governance of service quality represents another important aspect of social responsibility. The periodic reviews for the maintenance of ISO9001:2000 certification which the Bank has already obtained (with respect to direct banking services, Mortgage loans to Individual customers and the Cash module) were completed successfully. The EBTrust certification for the Internet site and the WAP site was confirmed. Steps have been taken for securing ISO9001:2000 certification for the following services:

- Training services: designed by the Knowledge Management and Training Unit and provided by the Unit itself and other Group companies;
- Local Taxes: designed and provided by the Tax Collection Unit. Certification is expected to be obtained in 2004.

- Quality management certification has become an important issue for the MPS Group. MPS BancaVerde, the first Italian credit institution to have obtained ISO 14001certification and EMAS registration, facilitates the companies' participation in the protocols. Response from the firms operating in farming and tourism was immediate, because certification implies an improved management and a competitive advantage in the market.

THE BICCHERNE OF SIENA

- The exhibition – which was a great success and was given much publicity by the media – was inaugurated on 1 March 2002, with the attendance of the President of the Republic of Italy, at Palazzo del Quirinale and it remained at the President's official residence until 10 April. Thereafter, the collection travelled to Washington, D.C., where it was exhibited at the Corcoran Gallery of Art from 1 August to 23 September. On 7 December, the Biccherne returned to Siena for an exhibition at Santa Maria della Scala through 1 June 2003. Another two showings of the collection were held: the first in Brussels, in July 2003, at the start of the Italian Prime Minister's six-month term as President of the European Union and, finally, in Frankfurt in January 2004.

As to economic publications, the Bank and Banca Toscana continued to collaborate on the production of "Economic Studies and Notes". Another English-language publication "Economic Notes-Review of Banking, Finance and Monetary Economics" is printed and distributed under an agreement with the publishing company, Blackwell of Oxford, England.

Aside from producing positive returns in terms of the MPS Group's image, the relationships with universities, research institutes and other academic institutions offer prime access to highly qualified resources.

In addition to the initiatives highlighted in the box, BMPS is a sponsor of the Master's Degree in Economics and Environmental Management (MEMA) offered by Bocconi University in Milan and the Master's Degree in Management and Control of the Environment at the Sant'Anna Institute of Pisa. The FINNAM program, which has been sponsored by BMPS in collaboration with Parco Scientifico e Tecnologico di Salerno e delle Aree Interne della Campania SpA, is aimed at training professionals specialized in environmental innovative finance. The MPS Group's collaboration with academic institutions also includes funding in favour of the university centers in Arezzo and Grosseto as well as contributions to the Richard Goodwin Library of the School of Economics of the University of Siena, for the conservation and modernization of the library and support materials.

■ POST-GRADUATE PROGRAMS IN COLLABORATION WITH THE UNIVERSITY OF SIENA

- Master's Degree in Economics and Banking (MEBS): the degree embraces the comprehensive study of sophisticated economic and financial analysis tools, and operating methodologies; the program contemplates a term for apprenticeship, including with one of the banks or companies of the MPS Group.
- Master's Degree in Financial Institutions Management and New Information Technologies (GINTS), which has been set up by the MPS Group Operating Consortium in collaboration with the Department of Business and Social Studies of the University of Siena and Engineering - Ingegneria Informatica SpA: the program is aimed at developing professionals who can integrate technological knowledge with business skills;
- Master's Degree in Law, which is the by-product of a cooperation between the University of Siena, Oxford University and London University College, and responds to the growing demand for individuals proficient in banking legislation, comparative law and European law;

Master's Degree in Digital Economics and e-Business, in collaboration with various corporate sponsors, including several companies of the MPS Group (BMPS, MPS Group Operating Consortium and MPS.net): the program is focused on training highly-qualified professionals capable of meeting the demands of the marketplace arising from the development of the digital economy.

DISTRIBUTION CHANNELS, HUMAN RESOURCES AND CUSTOMER PORTFOLIO

DISTRIBUTION CHANNELS

In 2003, the MPS Group continued its project geared toward optimizing and streamlining the network both from the qualitative and technological viewpoints. The Group's marketing strategy was still pivoted on diversification among different customer segments and consolidation of electronic banking channels.

The initiatives undertaken were aimed at boosting management efficiency, with priority placed on the network operations. This responds to the need of migrating human resources from low-value added transactions to marketing activities. To this end, the project of reorganization of the Group commercial networks is focused on boosting profitability.

REORGANIZATION OF THE COMMERCIAL BANK NETWORKS

- The project is divided into two stages: (i) boosting the network efficiency through the optimization and realignment of workloads and (ii) re-engineering of the branch processes;
- In 2003, Banca Toscana completed the optimization of workloads and freed up resources to be dedicated to the development of commercial platforms. The re-engineering of the branch processes will be completed in 2004 and extended to the other commercial banks. In addition, the Group has created an instrument for measuring the absorption of resources by working process (transactions, marketing operations, support...). As a result, the network operations will be brought in line with best practice standards, the process criticalities will be identified in detail and the impact of any change will be measured constantly.

TRADITIONAL NETWORKS, ATMS AND POS TERMINALS

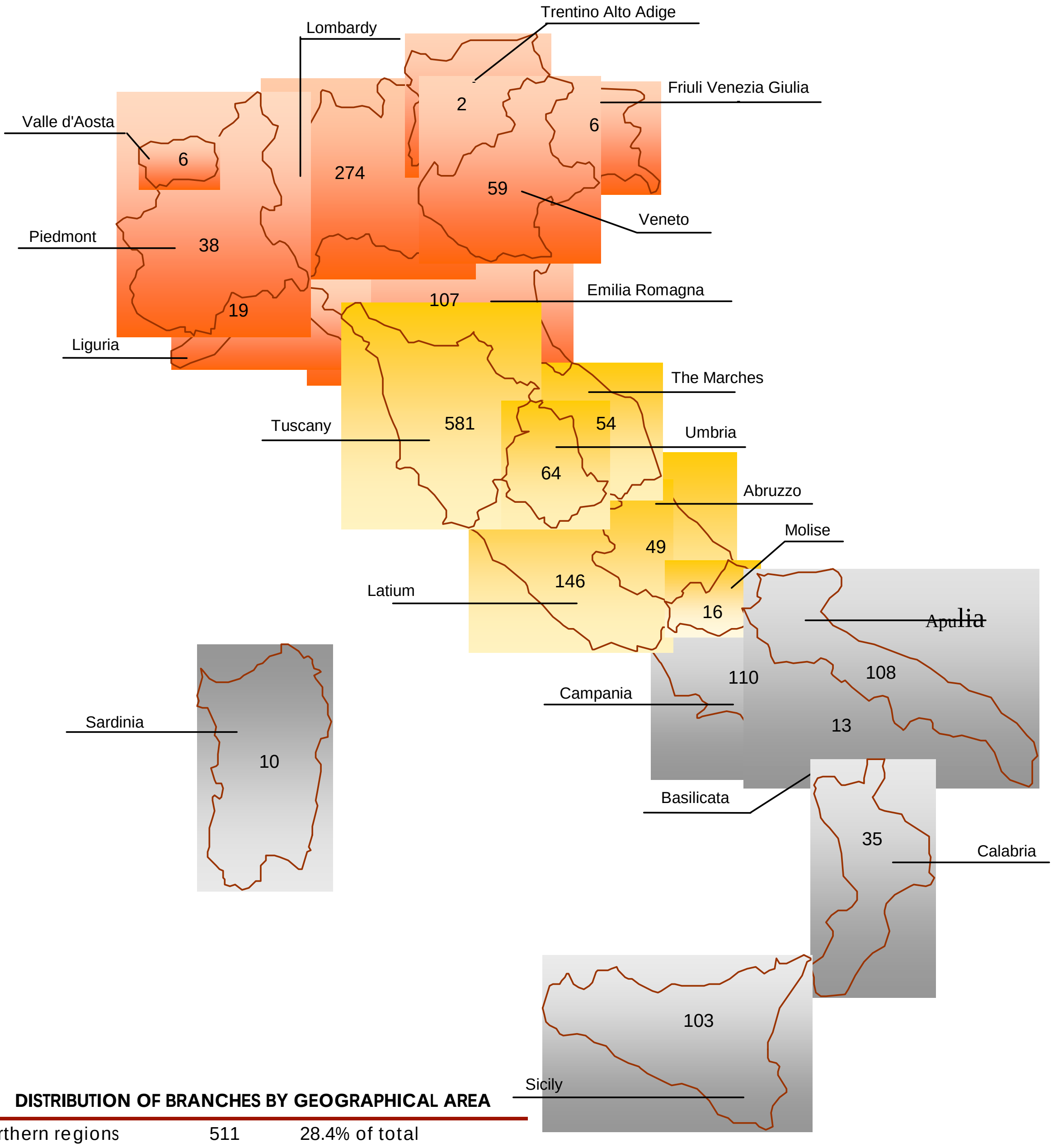
As of 31 December 2003 the MPS Group was operating a total of 1,800 branches in Italy (commercial banks), and another 209 financial boutiques run by Banca 121 Promozione Finanziaria.

MPS GROUP DISTRIBUTION NETWORK

Channel	31.12.03	31.12.02	Change
Domestic branches	1.800	1.791	9
Financial boutiques	209	262	-53
Total domestic sales outlets	2.009	2.053	-44
Foreign offices	38	37	1
Financial advisors	1.352	1.512	-160
ATMs	2.253	2.312	-59
POS terminals	65.355	62.920	2.435

The table shows the hefty growth of POS terminals, a payment instrument which meets the customers' basic needs. ATMs were streamlined during the year through considerable improvements in the services provided to the customers.

MPS GROUP BRANCHES IN ITALY



■ DISTRIBUTION OF BRANCHES BY GEOGRAPHICAL AREA

Northern regions	511	28.4% of total
Central regions	910	50.6% of total
Southern regions and islands	379	21.1% of total
TOTAL	**1.800**	

■ MPS GROUP BRANCH FACILITIES AS OF 31/12/2003

	31.12.03
BMPS	1.082
Banca Toscana	415
Banca Agricola Mantovana	290
Banca Steinhauslin	13
TOTALE	**1.800**

ELECTRONIC BANKING CHANNELS

In 2003, the MPS Group continued to introduce new products and services in the Group banks, and to update the existing e-banking instruments and systems, with a view to migrating low-value added transactions to electronic banking channels and increasing the customers' awareness of the benefits resulting from the use of innovative remote channels.

DISTRIBUTION OF BANKING SERVICES THROUGH ELECTRONIC BANKING CHANNELS

Contracts in effect

Channel	31.12.03	% as of 31.12.03
Internet & Mobile banking	594.309	86,2
TV banking	5.306	0,8
Opifici digitali & other B2B	7.440	1,1
Corporate banking via Internet	82.302	11,9
Internet banking – public entities	481	0,1
TOTAL	689.838	100,0

(*) The aggregate does not include telephone banking contracts

On the front of corporate (internet and remote) banking, the increase in the number of contracts in effect (+ 23,000 contracts in comparison with 31 December 2002) was flanked by the migration to the Internet platform, with appreciable growth in the number of transactions executed and the average number of users with daily Internet connections.

During 2003 further functions were released in order to promote the use of direct banking instruments, as is detailed in the analysis of the developments of the MPS Group activity with respect to payment systems (see the section covering “Innovation, research and development”).

☐ STAFFING

As of 31 December 2003, the MPS Group had a total of 26,881 employees[2] , and thus had a decrease in staffing of 636 on an annual basis:

■ MPS GROUP STAFFING

	31.12.01	31.12.02	31.12.03
Total	27.632	27.517	26.881

In line with the 2003-2006 Business Plan, these dynamics reflect the reduction 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 programs and Solidarity Fund) for senior employees, who are partly replaced by highly-qualified young recruits.

The table below shows the distribution of the MPS Group's work force by job category (actual staffing of 26,964[3] units):

■ BREAKDOWN OF STAFF BY JOB CATEGORY

Category	Actual	% of total workforce
Executive	622	2,3%
Mana	6.660	24,7%
Other professional	19.682	73,0%
TOTAL	26.964	100,0%

The following table shows the distribution of the work force by operating area and is based on actual assignment of the employees:

[2] Employees on the payroll of the Group companies consolidated on a line-by-line basis.
[3] The figures incorporate all MPS Group personnel, excluding staff assigned to other companies (minority investments) and cleaning staff.

■ MPS GROUP WORK FORCE AS OF 31.12.03

	No. of employees	%
Banca Monte dei Paschi di Siena -	12.132	45,0%
Corporate Center	978	3,6%
BMPS Division	10.970	40,7%
International (*)	184	0,7%
Banca Toscana	3.851	14,3%
Banca Agricola Mantovana	3.007	11,2%
Banca 121 P.F.	225	0,8%
Banca Steinhauslin	240	0,9%
TOTAL ITALIAN BANKS	19.455	72,2%
Foreign banks	505	1,9%
Product companies	1.607	6,0%
Service companies -	2.534	9,4%
Operating Consortium	2.241	8,3%
Other	91	0,3%
Tax collection	2.528	9,4%
Insurance	160	0,6%
Other companies	84	0,3%
TOTAL GROUP	26.964	100,0%

(*) Foreign branches and representative offices

As of 31 December 2003, Banca Monte dei Paschi di Siena had a work force of 12,132 employees with a decrease of 455 units in comparison with the figure recorded at the beginning of the year. This is mostly attributable to the departure of employees under incentive plans (early retirement programs and Solidarity Fund).

The table below shows the distribution of BMPS personnel on the basis of operating units :

■ CORPORATE CENTER

Category/job grade	Total	% of Total
Executives	131	11,9%
Senior, middle & junior manag	395	40,4%
Other professional areas	452	46,2%
TOTAL	**978**	**100%**

■ BMPS DIVISION

category/job grade	total	% of total
Executives	139	1,3%
Senior, middle & junior managers	2.530	23,1%
Other professional areas	8.301	75,7%
TOTAL	10.970	100,0%

■ INTERNATIONAL BANKING (*)

category/job grade	total	% of total
Executives	7	3,8%
Senior, middle & junior managers	61	33,2%
Other professional areas	116	63,0%
TOTAL	184	100,0%

(*) Foreign branches and representative offices

■ TOTAL BANCA MPS S.p.A.

category/job grade	total	% of total
Executives	277	2,3%
Senior, middle & junior managers	2.986	24,6%
Other professional areas	8.869	73,1%
TOTAL	12.132	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 Management personnel;

■ BMPS PERSONNEL: MIX BY ACADEMIC CREDENTIALS

Job grade	% of University graduates	% of other diplomas
Executives	**45,8%**	**54,2%**
Managers 4/3	**34,9%**	**65,1%**
Managers 2/1	**19,9%**	**80,1%**
Other professional categories	**21,1%**	**78,9%**
TOTAL	**23,5%**	**76,5%**

- Bank employees are young (approximately 42% under 40) and have relatively limited seniority. Women represent a significant percentage of total staffing (abt. 38%):

■ BMPS PERSONNEL: BREAKDOWN BY AGE

age	Female employees	Male employees	% of total
Up to 30 years	5.2%	3.8%	9.1%
31to 40 years old	17.2%	15.7%	32.9%
41 to 50 years old	11.5%	21.7%	33.2%
over 50 years old	3.9%	20.9%	24.9%
TOTAL	37.8%	62.2%	100.0%

■ BMPS PERSONNEL: BREAKDOWN OF STAFF BY SENIORITY

Years of service	Female employees	Male employees	% of total
Up to 10 years	13.3%	17.6%	30.9%
11 to 20 years	15.4%	16.8%	32.2%
21 to 30 years	7.1%	18.2%	25.3%
over 30 years	2.0%	9.6%	11.6%
TOTAL	37.8%	62.2%	100.0%

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

■ **STAFFING BY LOCATION**

BMPS Division	Actual work force	% of total
Head Office units	478	4.4%
Branches	10.326	94.1%
Call Center	166	1.5%
TOTAL	10.970	100.0%

☐ OPERATIONAL STRATEGIES

In line with the Group's strategies, the management of human resources is focused on the following priority objectives:

- The enhancement of professional skills with particular reference to sales and marketing and with pronounced specialization by market segment, and the retraining 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.

The emphasis in professional development has gone to enhancing professional skills, with the Bank thus poised to capitalize fully on the value of its human resources. This is a prerequisite for achieving the planned objectives of structural, organizational and operational consolidation against a backdrop of change and innovation, by enhancing professional and managerial skills and increasing both specialization and accountability. The Group's program is supported by:

- The implementation of a broad-based Training Plan, which anticipates the introduction of changes in relation to the projects under way, through a Group strategy aimed at identifying a specific scope of action for each Group company and benefiting by strong operational synergies. There are three, inter-related aspects to the training system: (i) support to organizational development and change management, (ii) professional families (traditional and new roles in the banking, credit and financial industries), and (iii) professional communities (Management, Talents, etc.). A training system consistent with its addressees and channels involves an integrated and co-ordinated use of traditional and innovative methods and instruments (e.g. E-learning Platform, Remote Classrooms and the creation of a network of instructors for the MPS Group);

- A specific career-pathing system ensuring appropriate employee involvement and motivation with respect to objectives and strategies. The system will be developed so as to achieve quantitative, qualitative and project objectives in order to boost growth and is based on a Management-by–Objectives (MBO) model for top managers of the MPS Group. This model emphasizes the maximization of integration between the units so as to match individual objectives with Group objectives in an efficient manner;

- The construction of a new model for developing and managing the personnel (Paschirisorse), incorporated in the new IT system for the management of the Group human resources (definition of role profiles and skills by organizational position, assessment of skills in a logic of differentiation, professional growth plans, substitution plans etc.)

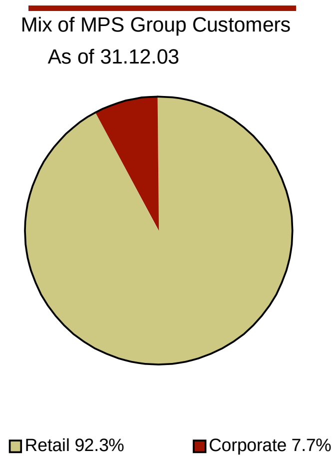
The Human Resources Management Plan summarizes and outlines all these projects which are focused on the development of qualitative and quantitative personnel issues in compliance with the strategies outlined. The objectives of this Plan, which are set on the basis of the characteristics of the human resources, possible incentives, obligations and opportunities, include:

- the Group management of personnel issues in relation to the implementation of the strategic projects of the Business Plan, with particular emphasis placed on the retraining of resources freed as a result of changes in the organization (to reinforce sales and marketing capacities and to ensure coverage of needs for new professional skills);

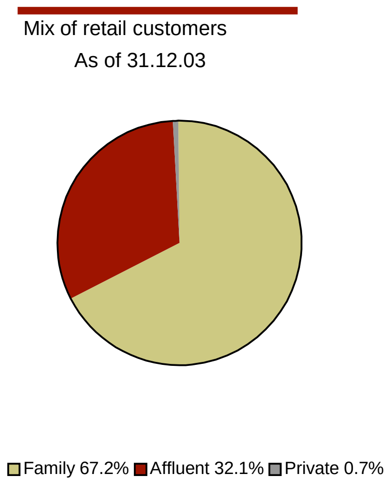
- *the definition, governance and control of the needs for new professional* skills in line with accountability and specialization as required along the entire chain of value (Corporate Center, Banks' central units, commercial networks, product and service companies).

In this framework, the development of relationships with the Trade Unions is geared toward high-quality industrial relations and the mutual respect of roles in line with the changes in the scenario. This will enable the Group to effectively face the changes which impact the working conditions of the personnel (new organizational models and professional profiles, mobility, circulation of information, training and personnel communications), to improve flexibility and ensure full consistency of the Group companies with geographic areas in the implementation of the projects.

As of 31 December 2003, the customers of the commercial networks numbered more than 4,250,000. Over 92% percent of this total was represented by retail customers with corporate customers accounting for 7.7%.

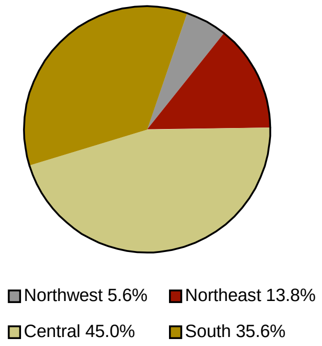


A review of the retail business shows the Family segment weight (assets of less than EUR 25,000) decreased to 67.2%, while the Affluent (assets between EUR 25,000 and EUR 1.5 million) and the Private-Banking (assets of more than EUR 1.5 million) segments are growing.



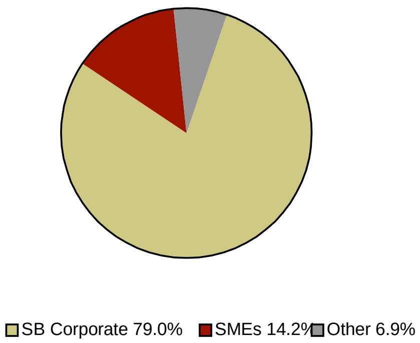
From a geographic perspective, the central and southern regions of Italy are home to most customers.

Mix of Retail Customers by Geographic Areas as of 31.12.03



The corporate clientele is estimated to include mostly small businesses and SMEs (around 328,000 customers), with Large Corporates (800 customers) being incorporated under “Other”.

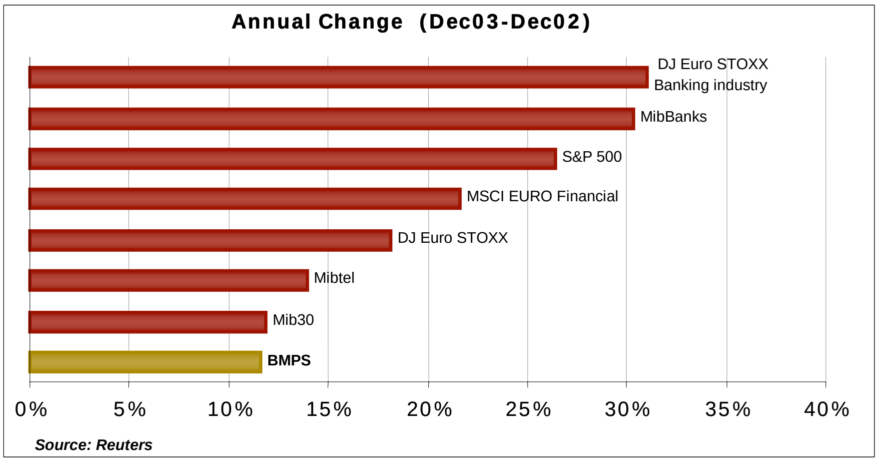
Mix of Corporate Segment Customers As of 31.12.03



TREND OF BMPS SHARES, REVIEW OF SHAREHOLDER BASE AND DEBT RATING

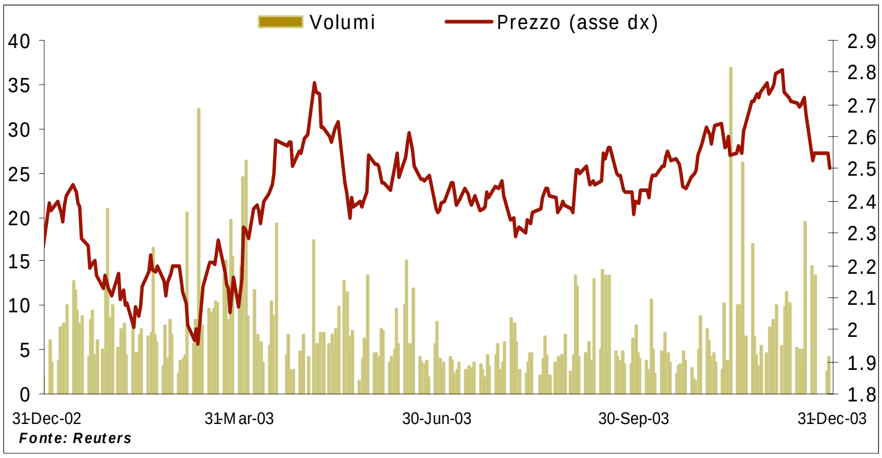
PRICES

In 2003, share prices rallied significantly. In April, after the end of the Iraqi war, major market indices closed the year with performances well above the values recorded at the end of 2002 (DJ Euro Stoxx +18.1%, S&P 500 +26.4%, Mibtel +13.9% and Mib30 +11.8%). Sector indices for the banking industry (MSCI Euro Financial +21.6%, DJ Euro Stoxx Banks +31.0% and Mib Banks +30.3%) also performed well.



The BMPS shares closed the year at EUR 2.51 (+11.6% on an annual basis) and reached an annual high of EUR 2.85 on 9 December, having recovered from the annual low of EUR 1.93 on 12 March.

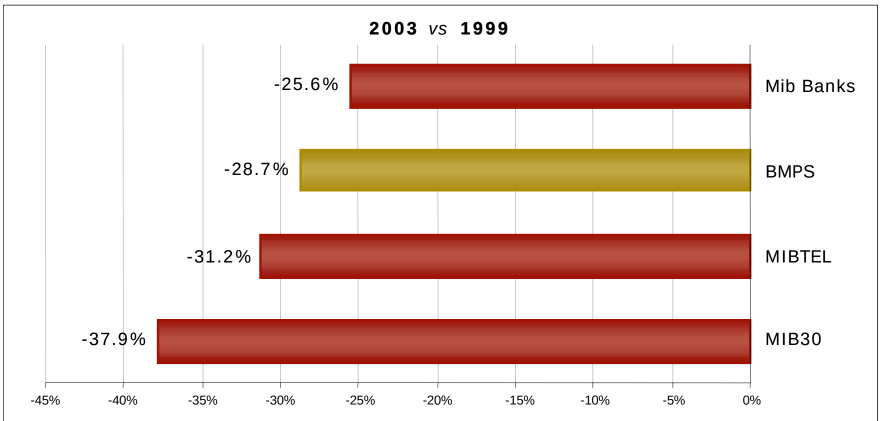
■ **TREND OF SHARE PRICE** (from 31/12/02 to 31/12/03)



■ **BMPS SHARE PRICE: STATISTICAL SUMMARY**

	2003	2002	2001
Average price	2.42	2.87	3.52
Low	1.93	1.73	2.41
High	2.85	3.88	4.72

An analysis of the performance of BMPS shares from 1999 to 2003 shows that the trend of share price was in line with the Italian sector index (BMPS –28.7% and Mib Banks –25.6%), but better than the other Italian market indices (Mibtel –31.2% and Mib30 –37.9%).



Source: Reuters

CAPITALIZATION AND SHAREHOLDERS

In terms of capitalization, during 2003 the BMPS shares incorporated the effects of the merger by incorporation of BAM and BT into Banca Monte Paschi di Siena (31 March 2003), the subsequent buy-back of the minority investments in said banks, their delisting from the Milan Stock Exchange and the issue of new ordinary shares in the amount of roughly EUR 407 million. In addition, the extraordinary shareholders' meeting held on 14 June 2003 resolved the conversion of 565,939,729 ordinary shares owned by the MPS Foundation into preferred shares. Therefore, the number of ordinary shares fell from 3,014,431,630 to 2,448,491,901. As of 31 December 2003, the market value of BMPS computed on the basis of 3,014,431,630 (ordinary and preferred) shares outstanding was close to EUR 7.5 billion (+28% in comparison with December 2002), accounting for 1.62% of the total capitalization of the Italian Stock Exchange.

■ **SUMMARY OF REFERENCE PRICES AND CAPITALIZATION**

	31.12.03	31.12.02	31.12.01
Price (euro)	2,51	2,25	2,82
No. Ordinary shares	2.448.491.901	2.607.791.591	2.598.557.169
No. Preferred shares	565.939.729		
No. Savings shares	9.432.170	9.432.170	9.432.170
Capitalization (ord + pref) (eur mln)	7.551	5.896	7.205

On the basis of the reporting to BMPS and CONSOB pursuant to Article 120 of Legislative Decree n.58/98, the MPS Foundation, the Bank's principal shareholder, held a 49% interest in the ordinary capital as of 31 December 2003. The holding of Caltagirone Francesco Gaetano amounted to 3.80% as of the same date followed by Premafin Finanziaria (2.58%).

■ **PRINCIPAL SHAREHOLDERS pursuant to art. 120 of Legis.Decree n. 58/98**

MPS Foundation	49%
Caltagirone Francesco Gaetano	3.80%
Premafin Finanziaria	2.58%

☐ VOLUMES

The number of BMPS shares traded on a daily basis averaged around 7.0 million for the year with a low of about 1.5 million in May and a peak of 37 million in November. A total of about 72% of the Bank's ordinary capital changed hands in 2003, with the turnover of the market float amounting to approximately 1.4 times.

■ MONTHLY VOLUMES OF SHARES TRADED

BREAKDOWN OF 2003 VOLUMES

(in EUR mn)	
January	185
February	135
March	230
April	183
May	156
June	126
July	92
August	83
September	147
October	102
November	178
December	152

☐ MAIN MARKET MULTIPLES

Turning to market multiples, the shares were trading at the end of 2003 at a multiple of 12.3 times projected earnings for 2004 (source of earnings estimates: *IBES*). The ratio of price to book value was around 1.2 at the end of 2003.

■ GROUP DATA (in EUR million)

	2003	2002	2001(°)
Shareholders' equity	6.154	5.550	5.786
Consolidated net profit	443	582	617
Dividends (*)	169	218	269
Pay Out Ratio. (*)	38,2	37,5%	43,6%

(*) Proposed distribution to be approved by the Ordinary Shareholders' Meeting on 28 April 2004
(°) Data are not pro forma

■ PER SHARE DATA (in EUR million)

	2003	2002	2001
Earnings per share	0,15	0,22	0,24
Net equity per share	2,04	2,13	2,23
Ordinary dividend (*)	0,0546	0,0832	0,1033
Savings dividend (*)	0,0610	0,0915	0,1137

(*) Proposed distribution to be approved by the Ordinary Shareholders' Meeting on 28 April 2004

■ MARKET MULTIPLES (in EUR million)

	2003	2002	2001
Price/earnings per share	17,06	10,23	11.75
P/BV	1,23	1,06	1.26
Dividend yield on ord.shares (*)	2,2%	3,7%	3,7%

(*) Based on share price as of the end of the year

As of 31 December 2003, the historical beta of BMPS shares rose to 0.86 from 0.80 in 2002; 30-day historical volatility fell from 44.36% to 25.22%.

DEBT RATINGS

In 2003 the Senior Management of the MPS Group held several meetings with the representatives of the three leading rating agencies, presented the Group's strategies in compliance with the 2003-2006 Business Plan and illustrated the development of operations for the year. The rating agencies appreciated the guidelines of the Business Plan and confirmed outstanding short-term and medium-term debt ratings. Fitch upgraded the individual rating from C to B/C due to "the Group's strong geographic franchise in central Italy, the improvement of capital adequacy, efficient risk management and recovery of profitability resulting from the implementation of the 2003-2006 Business Plan".

Agency	Short-term rating as of 31.12.2003	Medium and Long-Term Rating as of 31.12.2003
Moody's Investors Service	P-1	A-1
Standard & Poor's	A-1	A
Fitch Ratings	F-1	A+

INVESTOR RELATIONS

The principal initiatives undertaken during the year include:

- In the first half of 2003 the Investor Relations Unit concentrated on an appropriate promotional campaign in relation to the commercial projects under way in the Corporate and Retail Areas. The Unit orchestrated a "Retail-Corporate day" with the participation of Italian institutional investors. The MPS Group's Senior Managers participated in the following banking conferences: '"Italian Financial Services" organized by Giubergia UBS Warburg in Naples, the "European Banking Conference" organized by Julius Baer in Madrid, the "Southern European Conference" co-ordinated by Morgan Stanley in Madrid.

- The second half of the year focused on the presentation of the 2003-2006 Business Plan. The Plan was first presented to investors in Milan during the "analyst meeting" held on 17 November. The MPS Group subsequently organized a Road Show in major European cities (London, Frankfurt and Paris) and in the United States (New York and Boston). The Group's executives had the opportunity of meeting over 130 financial analysts and asset managers. Finally, the Investor Relations Unit arranged several conference calls with investors upon the publication of operating results for the periods ending 31 March 2003, 30 June 2003 and 30 September 2003.

As of 31 December 2003 about 30 financial analysts covered the BMPS shares (in line with 2002), with a percentage of "buy" or "hold" recommendations of 66% which rose to 70% at the end of February 2004.

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);
- the internal control system (s. par. 11);
- the investor relations (s. par. 12).

b) As of 31 December 2003 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.

c) As far as any voting agreement or any shareholders' agreement of other kind concerning the exercising of rights concerning the shares or their transfer as per art. 122 of the Financial Intermediation Consolidation Act are concerned, 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;
- appoints the Chairman and the other members of the Board of Statutory Auditors as well as the alternate auditors;
- passes resolutions on divestments of lines of business as well as any other subject that the Board of Directors submits to the shareholders.

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, 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 losing the control of the Bank, the shareholders' extraordinary meeting, on 14 June 2003, has 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 as to the relevant resolution, 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 For the shareholders' meeting, 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, 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";

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 has 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.

The directors must have the qualifications required by the current legal provsions; in particular, they have to comply with the provisions as per 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 2003, for example, the Board held 31 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 2005. 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
Lorengo 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 Assicurazione Spa.

Stefano Bellaveglia

Chairman of Monte Paschi Asset Management SGR Spa, Chairman of Quadrifoglio Vita Spa, Deputy Chairman of Banca Agricola Mantovana 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, Directo of Unipol Assicurazioni Spa, Director of Banca C. Steinhauslin & C. Spa, Director of SNIA 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 Eurostazione Spa, Director of Cimentas Spa (Istanbul), Director of Grandi Stazioni Spa

Turiddo Campaini

Chairman of Unicoop – Firenze Scarl

Massimo Caputi

Chairman of Sviluppo Italia Turismo Spa, Managing Director of Sviluppo Italia Spa, Managing Director of Fondi Immobiliari Italiani SGR Spa, Director of Acea Spa, Director of Eurostazioni Spa

Francesco Saverio Carpinelli

Chairman of MPS Merchant Spa, Chairman of MPS Venture SGR Spa, Deputy Chairman of Intermonte Securities SIM Spa, Deputy Chairman of Monte Paschi Banque s.a., Director of Istituto per il Credito Sprotivo Spa

Giuseppe Catturi

Chairman of Consum.it Spa, Deputy Chairman of MPS Finance Banca Mobiliare Spa, Deputy Chairman of Banca Monte Paschi Belgio s.a., Director of Banca Toscana Spa

Luca Fiorito

Director of MPS Finance Banca Mobiliare 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 Intermonte Securities Sim Spa

Carlo Querci

Deputy Chairman of Banca Monte Parma Spa, Deputy Chairman of Banca C. Steinhauslin & C. Spa, Director of Banca Toscana Spa

Roberto Rossi

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, Director of Banca Agricola Mantovana Spa.

Girolamo Strozzi

Director of MPS Bancaverde Spa

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 <u>The compensation to the Directors</u>. 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 <u>Procedures for the appointment of directors</u>. Further to the amendments to the Charter adopted by the shareholders' meeting of 14 June 2003 currently appointments to the Board of Directors are 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 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 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.

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.

Pursuant to the Charter, the Board of Directors appointed eight directors to the Executive Committee on 8 May 2003. The members include the Chairman and the two Chairmen, and the directors Fabio Borghi, Massimo Caputi, Francesco Saverio Carpinelli, Luca Fiorito e Lorenzo Gorgoni.

During 2003, the Executive Committee held 45 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 and were further reviewed in July 2003 as personnel, investments, bad debts and overhead expenses.

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 has appointed four directors to the Committee: 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 CONTROLS COMMITTEE**

The Committee was established pursuant to a resolution of the Board of Directors passed on 1 March 2001 which also set its regulations, amended on 18 July 2002 and on 20 February 2003 to offer more operating efficiency and to comply with the amendments of July 2002 of the Self-Discipline Code for Quoted Companies.
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, including with respect to specific matters of business.

The Committee may also cooperate with 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 2003 the committee held 11 meetings, dedicating its efforts to: the ongoing verification of the fundamental aspects of the internal controls system in the companies of the Group; an evaluation of the operation of the system; an analysis of the activity of internal audit and of the accuracy and precision of the information supplied to the management and to the Board of Directors; and a review for determining the extent to which the activity carried out complied with the law and with internal regulations.

The committee furthermore conducted an in-depth review of the new organizational model of controls within the MPS Group, while also examining the implementation of internal controls regulations within a framework of progressive changes of both internal (business plan and organizational structure) and external aspects.

Additionally, the committee focused on analyzing the audit plan 2003 drawn up by the Internal Controls Area positively evaluating the adequacy and the compliance of the internal control system as well as the exhaustiveness of the documents.

The committee verified the implications concerning the requirements set by the New Basel 2 Accord.

With reference to the Legislative Decree no. 231 of June 8, 2001 the Internal Controls Committee evaluated the Group guidelines so that they can be adopted by the Group companies.

Meetings with the KPMG, the Auditing Company, were also held to analyze and evaluate the review plan focused on accounting, internal controls and regulation changes.

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 April 26, 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 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.

OTHER FUNCTIONS AND CORPORATE PROCEDURES

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. The 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.

10. MANAGEMENT OF SENSITIVE INFORMATION

On 13 June 2001 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, including through the General Secretary' office (Corporate Relations), 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.

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

11. THE INTERNAL CONTROLS SYSTEM

11.1 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. In the opinion of the Board of Directors, this internal controls system 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 order to ensure the alignment between (i) the controls system and (ii) the operating strategies and mission of the MPS Group, the "Rules for controls at a group level" were prepared with the input of the Board of Directors and subsequently approved by the same. The Internal Controls Area of the Corporate Center has accordingly been designed and organized on the basis of the MPS Group's structure, so as to ensure the total controls system – now in line with the ruling regulations – changes in response to new directives from the regulatory authorities, and in accordance with the best international practices and with the principles embraced by the Basel Committee.

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.

11.2 Reporting directly to the Chief Executive Officer (the Bank’s Managing Director was not appointed), the Bank’s Internal Controls Area operates in support of the corporate governance action taken by 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 Internal Controls Area regularly participates in the meetings of the internal controls committees.

12. 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 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.

TRANSACTIONS WITH RELATED PARTIES

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.

MATERIAL EVENTS SUBSEQUENT TO YEAR-END

FOllowing is a summary of the more significant events occurring in the first months of 2004.

On 8 January 2004:

- The BMPS Board of Directors approved the 2004 Budget for the Group which is in line with the directives of the 2003-2006 Business Plan and contemplates: a marketing policy oriented to the development of service models by customer segment, the containment of costs for the purpose of boosting the Group's efficiency, the optimization of shareholders' equity;
- The BMPS Board of Directors authorized the Bank to submit an expression of interest for participation in an international tender to be called by the Government of Tunisia for the privatization of Banque du Sud – Tunis, through the sale of 33.54% of shares directly or indirectly held by the Government;
- In compliance with the guidelines of the 2003-2006 Business Plan in relation to the streamlining of equity investments, the BMPS Board of Directors approved the liquidation of MPS Commercial Paper Co. (Delaware), which had been established for issuing commercial paper in the US market.

In line with the directives of the 2003-2006 Business Plan, on 5 February 2004 the Board of Directors of Banca Monte dei Paschi di Siena SpA approved :

- The project of merger by incorporation of Banca C. Steinhauslin (as approved by the Board of Directors of the subsidiary on 6 February 2004), in order to consolidate the role and presence of the MPS Banking Group in the private-banking market. The execution of the planned transactions is subject to approval by the Regulatory Authorities and the Boards of Directors of the companies involved;
- In relation to the streamlining of equity investments, the project concerning the Group's Irish-law companies which provides for the merger between Monte Paschi Ireland Ltd and Mantovana Ireland Ltd in order to (i) optimize the use of shareholders' equity, (ii) better manage risks, (iii) simplify the governance of foreign equity investments, (iv) benefit by cost synergies and (v) share the existing professional skills.

121 Financial Services Ltd and Grow Life Ltd changed their names and are now operating as Monte Paschi Ireland Ltd and MontePaschi Life (Ireland) Ltd.

E.Biscom Spa: the remaining shares of the company (0.88% of share capital) owned by BMPS have been sold.

OUTLOOK FOR 2004

IN line with the projects set forth by the 2003-2006 Business Plan, the planning guidelines for the year of 2004 give priority to:

- a marketing policy oriented to the development of service models by customer segment,
- the containment of costs for the purpose of boosting the Group's efficiency,
- careful monitoring of risk profiles and optimization of shareholders' equity.

As far as business development is concerned, despite a critical backdrop incorporating the repercussions of the recent crisis of the Parmalat Group and its inevitable consequences on side-line business, in addition to the negative impact of other products (Cirio bonds, structured products, Argentina Treasury Bills), the events in the first few months of 2004 have confirmed a trend reflecting the projections built into the budget.

Siena, 25 March 2004

* * * * * *

KPMG

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

Banca Monte dei Paschi di Siena S.p.A.

Financial statements as at and for the year ended 31 December 2003 (with report of the auditors thereon)

KPMG S.p.A.
10 April 2004

KPMG

KPMG Assurance

KPMG S.p.A.
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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 financial statements of Banca Monte dei Paschi di Siena S.p.A. as at and for the year ended 31 December 2003. These financial statements are the responsibility of the 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 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 38% and 3% of the captions "investments" and "total assets", respectively, rests with other auditors

Reference should be made to the report dated 9 April 2003 for our opinion on the prior year figures which are presented for comparative purposes as required by law.

3 In our opinion, the financial statements of Banca Monte dei Paschi di Siena S.p.A. as at and for the year ended 31 December 2003 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 company.

4 We draw your attention to the following matters:

4.1 During 2003, the company released to income the provision for general banking risks. The underlying reasons and related effects on the 2003 financial statements are described in the notes thereto.

4.2 As described in the notes to the financial statements, in order to obtain tax relief, the company opted to adjust the value of a number of investments and a derivative contract by charging the profit and loss account as permitted by paragraph 3 of article 15 of Legislative decree no. 87/1992. The related effects on shareholders' equity and the net result for the year are described in the notes.

4.3 As described in the notes to the financial statements, the company has partly charged directly to reserves and partly deferred to future years the write-down of junior securities relating to a non-performing loan securitisation transaction. In addition, in previous years, the company partly charged directly to reserves and partly deferred to future years 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 2003 financial statements are described in the notes thereto.

4.4 As described in the directors' report, the net result for the year has been affected by the significant write-downs of receivables and accruals to the provision for risks and charges made respectively as a result of the difficulties faced by certain industrial groups and the estimated effects of the complaints received from customers in relation to the placement of financial plans and certain structured products which, in certain cases, were involved in the legal proceedings described in the directors' report. With respect to the complaints relating to structured products, the directors added that the memoranda of understanding with the consumer trade associations have been extended to 30 June 2004. The notes to the financial statements and the directors' report describe the accruals made and how they have been estimated, as well as the actions taken to settle customers' complaints.

4.5 The company holds significant controlling interests and, in accordance with current legislation, has prepared consolidated financial statements. Such statements are presented in addition to its own financial statements in order to furnish adequate information on the financial position and results of both the company and the group. We have audited the consolidated financial statements and these (with our audit report thereon) are presented together with the statutory financial statements.

Florence, 10 April 2004

KPMG S.p.A.

(signed on the original)

Roberto Todeschini
Director of Audit

KPMG

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

Monte dei Paschi di Siena Group

Consolidated financial statements as at and for the year ended 31 December 2003 (with report of the auditors thereon)

KPMG S.p.A.
10 April 2004

KPMG

KPMG Assurance

KPMG S.p.A.
Piazza Vittorio Veneto, 1
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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 2003. 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 22 % and 21% of consolidated assets and consolidated interest income and other similar income, respectively, rests with other auditors.

Reference should be made to the report dated 9 April 2003 for our opinion on the prior year 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 2003 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 We draw your attention to the following matters:

4.1 During 2003, the parent company released to income the provision for general banking risks. The underlying reasons and related effects on the 2003 consolidated financial statements are described in the notes thereto.

4.2 As described in the notes to the consolidated financial statements, the parent company has partly charged directly to reserves and partly deferred to future years the write-down of junior securities relating to a non-performing loan securitisation transaction. In addition, in previous years, the parent company partly charged directly to reserves and partly deferred to future years 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 2003 consolidated financial statements are described in the notes thereto.

4.3 As described in the directors' report, the net result for the year has been affected by the significant write-downs of receivables and accruals to the provision for risks and charges made respectively as a result of the difficulties faced by certain industrial groups and the estimated effects of the complaints received from customers in relation to the placement of financial plans and certain structured products which, in certain cases, were involved in the legal proceedings described in the directors' report. With respect to the complaints relating to structured products, the directors add that the memoranda of understanding with the consumer trade associations have been extended to 30 June 2004. The notes to the consolidated financial statements and the directors' report describe the accruals made and how they have been estimated, as well as the actions taken to settle customers' complaints.

Florence, 10 April 2004

KPMG S.p.A.

(signed on the original)

Roberto Todeschini
Director of Audit

MPS

MONTE DEI PASCHI DI SIENA
BANKING GROUP

CONSOLIDATED
FINANCIAL STATEMENTS -
NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2003

FORM AND CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements as of 31 December 2003 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 Changes in 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 2003
10	Cash and cash on deposit with central banks and post offices		**670,899,186**
20	Italian government securities and similar instruments eligible for refinancing with central banks		**163,339,146**
30	Amounts due from banks		**8,551,099,784**
	a) sight	442,555,429	
	b) other	8,108,544,355	
40	Customer loans		**70,404,991,991**
	including:		
	loans with third-party funds under administration	15,223,578	
50	Bonds and other fixed-income securities		**17,014,240,499**
	a) of public issuers	7,297,000,297	
	b) of banks	4,226,317,788	
	- including: own securities	1,154,289,853	
	c) of financial institutions	2,111,475,255	
	- including: own securities	-	
	d) of other issuers	3,379,447,159	
60	Shares, quotas and other equity securities		**1,127,597,712**
70	Equity investments		**2,157,090,023**
	a) valued with net equity method	439,337,030	
	b) other	1,717,752,993	
80	Equity investments in Group companies		**464,278,438**
	a) valued with net equity method	464,278,438	
	b) other	-	
90	Positive consolidation differences		**668,688,203**
100	Positive net equity differences		**244,241,019**
110	Intangible assets		**373,116,654**
	including:		
	- start-up costs	4,566,342	
	- goodwill	3,732,416	
120	Fixed assets		**2,138,911,143**
	including: assets under financial lease	481,611,321	
130	Unpaid subscribed capital		**-**
	including: called-up capital		
140	Own shares		**15,909,316**
	(nominal value 4,035,657)		
150	Other assets		**17,754,711,617**
160	Accrued income and prepayments		**1,240,001,289**
	a) accrued income	991,172,059	
	b) prepayments	248,829.230	
	including: issuing discounts	74,987.536	
	TOTAL ASSETS		**122,989,116,020**

			(in EUR)
	LIABILITIES AND SHAREHOLDERS' EQUITY		**31 December 2003**
10	Due to banks		**15,057,973,691**
	a) sight	2,254,816,360	
	b) time or requiring advance notice of withdrawal	12,803,160,331	
20	Customer deposits		**47,011,348,352**
	a) sight	38,771,431,095	
	b) time or requiring advance notice of withdrawal	8,239,917,257	
30	Other borrowed funds backed by negotiable instruments		**30,851,711,850**
	a) bonds	23,999,963,813	
	b) certificates of deposit	6,021,285,996	
	c) other instruments	830,462,041	
40	Third-party funds under administration		**30,742,148**
50	Other liabilities		**15,425,291,041**
60	Accrued liabilities and deferred income		**1,349,425,564**
	a) accrued liabilities	978,046,264	
	b) deferred income	371,379,300	
70	Staff severance indemnity reserve		**426,504,222**
80	Reserves for risks and other charges:		**1,861,473,465**
	a) pension fund and similar obligations	430,381,370	
	b) reserve for taxes	647,248,471	
	c) consolidation reserve for risks and future charges	-	
	d) other reserves	783,843,624	
90	Reserve for loan losses		**311,104,996**
100	Reserve for general banking risks		**60,743762**
110	Subordinated debt		**4,474,993,420**
120	Negative consolidation differences		**4,887,987**
130	Negative net equity differences		**1,570,219**
140	Minority interests		**34,764,564**
150	Share capital		**1,935,272,832**
160	Additional paid-in capital		**522,925,054**
170	Reserves:		**3,141,894,071**
	a) legal reserve	335,004,641	
	b) reserve for own shares or quotas	15,909,316	
	c) statutory reserves	1,065,812,397	
	d) other reserves	1,725,167,717	
180	Revaluation reserves		**43,843,356**
190	Profit (loss) carried forward		**124,177**
200	Profit (loss) for the year		**442,521,249**
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**122,989,116,020**

GUARANTEES AND COMMITMENTS

	Account		(in EUR) 31 December 2003
10	Guarantees released		**6,063,769,732**
	Including:		
	Acceptances	121,899,526	
	other guarantees	5,941,870,206	
20	Commitments		**25,326,831,212**
	including:		
	commitments to sell with the obligation to repurchase	184,408,745	
30	Commitments for credit derivatives		**2,545,399,319**

CONSOLIDATED PROFIT AND LOSS STATEMENT

(in EUR)

	Account		31 December 2003
10	Interest and similar income		**4,680,942,726**
	including:		
	- on customer loans and advances	3,748,312985	
	- on debt securities	599,196770	
20	Interest expense and other expense on borrowed funds		**2,237,750,774**
	including:		
	- on customer deposits	615,716,691	
	- on other borrowed funds backed by negotiable instruments	923,306,861	
30	Dividends and other income		**390,483,291**
	a) on shares, quotas and other equity securities	358,754,142	
	b) on equity investments	31,729,149	
	c) on equity investments in Group companies	-	
40	Commissions earned		**1,525,391,370**
50	Commission expense		**209,828,644**
60	Profit (loss) on financial transactions		**21,787,576**
65	Income on investment of pension and similar funds		**21,214,761**
70	Other operating income		**536,103,053**
80	Administrative expenses		**2,862,736,431**
	a) personnel expense	1,794,655,151	
	Including:		
	- wages and salaries	1,263,365,452	
	- social-welfare charges	344,925,901	
	- staff severance indemnity reserve	92,265,455	
	- pension fund and similar obligations	34,255,256	
	b) other administrative expenses	1,068,081,280	
85	Provisions for income on investment of pension and similar funds		**21,214,761**
90	Valuation adjustments to fixed and intangible assets		**437,749,340**
100	Provisions for risks and charges		**171,830,287**
110	Other operating expenses		**35,071,328**
120	Valuation adjustments to loans and provisions for guarantees and commitments		**892,239,010**
130	Recoveries on loans and on provisions for for guarantees and commitments		**195,631,299**
140	Provisions to loan loss reserve		**48,028,339**
150	Valuation adjustments to non-current financial assets		**89,393,366**
160	Recoveries on non-current financial assets		**6,982,970**
170	Profit (loss) on investments valued with net equity method		**31,809,740**
180	Profit (loss) from ordinary operations		**404,504,506**
190	Extraordinary income		**467,905,574**
200	Extraordinary charges		**453,997,332**
210	Extraordinary profit (loss)		**13,908,242**
230	Change in reserve for general banking risks		**300,000,000**
240	Income taxes		**(267,841,010)**
250	Minority interests		**8,050,489**
260	Profit (loss) for the year		**442,521,249**

COMPARATIVE FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

ASSETS (in EUR 000's)

			31/12/03		31/12/02		Absolute Change	% Change
10	Cash and cash on deposit with central banks and post offices		**670,899**		**833,674**		**(162,775)**	(19.53)
20	Italian government securities and similar instruments eligible for refinancing with central banks		**163,339**		**541,635**		**(378,296)**	(69.84)
30	Amounts due from banks		**8,551,100**		**16,027,082**		**(7,475.9829**	(46.65)
	a) sight	442,556		2,464,429		(2,021,873)		(82.04)
	b) other	8,108,544		13,562,653		(5,454,109)		(40.21)
40	Customer loans and advances		**70,404,992**		**68,471,970**		**1,933,022**	2.82
	including:							
	loans with third-party funds under administration	15,224		16,605		(1,381)		(8.32)
50	Bonds and other fixed-income securities		**17,014,240**		**15,454,572**		**1,559,668**	10.09
	a) of public issuers	7,297,000		6,345,840		951,160		14.99
	b) of banks	4,226,318		3,643,481		582,837		16.00
	- including: own securities	1,154,290		874,829		279,461		31.94
	c) of financial institutions	2,111,475		2,368,909		(257,434)		(10.87)
	- including: own securities			-				
	d) of other issuers	3,379,447		3,096,342		283,105		9.14
60	Shares, quotas and other equity securities		**1,127,598**		**914,380**		**213,218**	23.32
70	Equity investments		**2,157,090**		**1,603,931**		**553,159**	34.49
	a) valued with net equity method	439,337		62,555		376,782		602.32
	b) other	1,717,753		1,541,376		176,377		11.44
80	Equity investments in Group companies		**464,278**		**584,773**		**(120,495)**	(20.61)
	a) valued with net equity method	464,278		439,262		25,016		5.70
	b) other			145,511		(145,511)		-
90	Positive consolidation differences		**668,688**		**756,509**		**(87,821)**	(11.61)
100	Positive net equity differences		**244,241**		**114,268**		**129,973**	113.74
110	Intangible assets		**373,117**		**434,296**		**(61,179)**	(14.09)
	including:							
	- start-up costs	4,566		12,247		(7,681)		(62.72)
	- goodwill	3,732		5,044		(1,312)		(26.01)
120	Fixed assets		**2,138,911**		**2,135,218**		**3,693**	0.17
	including: assets under financial lease	481,611		393,769		87,842		22.31
130	Unpaid subscribed capital		-		-			
	including: called-up capital							
140	Own shares		**15,909**		**10,417**		**5,492**	52.72
	(nominal value 5,880.95)							
150	Other assets		**17,754,713**		**19,432,319**		**(1,677,606)**	(8,63)
160	Accrued income and prepayments		**1,240,001**		**1,567,941**		**(327,940)**	(20.92)
	a) accrued income	991,172		1,345,375		(354,203)		(26.33
	b) prepayments	248,829		222,566		26,263		11.80
	including: issuing discounts	74,988		76,722		(1,734)		(2.26)
	TOTAL ASSETS		**122,989,116**		**128,882,985**		**(5,893,869)**	(4.57)

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY (in EUR 000's)

			31/12/03		31/12/02		Absolute Change	% Change
10	Due to banks		**15,057,974**		**20,516,315**		**(5,458,341)**	(26.60)
	a) sight	2,254,814		799,834		1,454,980		181.91
	b) time or requiring advance notice of withdrawal	12,803,160		19,716,481		(6,913,321)		(35.06)
20	Customer deposits		**47,011,348**		**49,779,799**		**(2,768,451)**	(5.56)
	a) sight	38,771,431		38,661,446		109,985		0.28
	b) time or requiring advance notice of withdrawal	8,239,917		11,118,353		(2,878,436)		(25.89)
30	Other borrowed funds backed by negotiable instruments		**30,851,712**		**27,474,692**		**3,377,020**	12.29
	a) bonds	23,999,964		20,588,393		3,411,571		16.57
	b) certificates of deposit	6,021,286		6,315,758		(294,472)		(4.66)
	c) other instruments	830,462		570,541		259,921		45.56
40	Third-party funds under administration		**30,742**		**36,454**		**(5,712)**	(15.67)
50	Other liabilities		**15,425,291**		**17,218,339**		**(1,793,048)**	(10.41)
60	Accrued liabilities and deferred income		**1,349,426**		**1,675,215**		**(325.789)**	(19.45)
	a) accrued liabilities	978,047		1,344,617		(366,570)		(27.26)
	b) deferred income	371,379		330,598		40,781		12.34
70	Staff severance indemnity reserve		**426,504**		**434,202**		**(7,698)**	(1.77)
80	Reserves for risks and other charges:		**1,861,473**		**1,759,479**		**101,994**	5.80
	a) pension fund and similar obligations	430,381		396,639		33,742		8.51
	b) reserve for taxes	647,248		746,179		(98,931)		(13.26)
	c) consolidation reserve for risks and future charges	-		-				
	d) other reserves	783,844		616,661		167,183		27.11
90	Reserve for loan losses		**311,105**		**354,515**		**(43,410)**	(12.24)
100	Reserve for general banking risks		**60,744**		**360,812**		**(300,068)**	(83.16)
110	Subordinated debt		**4,474,993**		**3,276,115**		**1,198,878**	36.59
120	Negative consolidation differences		**4,888**		**21,343**		**(16,455)**	(77.10)
130	Negative net equity differences		**1,570**		**1,570**		**-**	-
140	Minority interests		**34,765**		**807,605**		**(772,840)**	(95.70)
150	Share capital		**1,935,273**		**1,675,023**		**260,250**	15.54
160	Additional paid-in capital		**522,925**		**522,925**		**-**	-
170	Reserves:		**3,141,895**		**2,372,293**		**769,602**	32.44
	a) legal reserve	335,005		271,231		63,774		23.51
	b) reserve for own shares or quotas	15,909		10,417		5,492		52.72
	c) statutory reserves	1,065,813		974,812		91,001		9.34
	d) other reserves	1,725,168		1,115,833		609,335		54.61
180	Revaluation reserves		**43,843**		**14,406**		**29,437**	204.34
190	Profit (loss) carried forward		**124**		**70**		**54**	77.14
200	Profit (loss) for the year		**442,521**		**581,813**		**(139,292)**	(23.94)
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**122,989,116**		**128,882,985**		**(5,893,869)**	(4.57)

GUARANTEES AND COMMITMENTS
(in EUR 000's)

			31/12/03		31/12/02		Absolute Change	% Change
10	Guarantees released		**6,063,770**		**6,390,897**		**(327,127)**	(5.12)
	including:							
	acceptances	121,900		159,835		(37,935)		(23.73)
	other guarantees	5,941,870		6,231,062		(289,192)		(4.64)
20	Commitments		**25,326,831**		**23,760,343**		**1,566,488**	6.59
	including:							
	commitments to sell with the obligation to repurchase	184,409		-		184,409		
30	Commitments for credit derivatives		**2,545,399**		**2,119,429**		**425,970**	20.10

CONSOLIDATED PROFIT AND LOSS STATEMENT
(in EUR 000's)

			31/12/02		31/12/01		Absolute Change	% Change
10	Interest and similar income		**4,680,942**		**5,067,428**		**(386,486)**	(7.63)
	including:							
	- on customer loans and advances	3,748,313		3,824,990		(76,677)		(2.00)
	- on debt securities	599,197		619,933		(20,736)		(3.34)
20	Interest expense and other expense on borrowed funds		**2,237,751**		**2,727,382**		**(489,631)**	(17.95)
	including:							
	- on customer deposits	615,717		914,009		(298,292)		(32.64)
	- on other borrowed funds backed by negotiable instruments	923,307		910,083		13,224		1.45
30	Dividends and other income		**390,483**		**547,812**		**(157,329)**	(28.72)
	a) on shares, quotas and other equity securities	358,754		409,370		(50,616)		(12.36)
	b) on equity investments	31,729		138,442		(106,713)		(77.08)
	c) on equity investments in Group companies	-		-				
40	Commissions earned		**1,525,391**		**1,615,409**		**(90,018)**	(5.57)
50	Commission expense		**209,829**		**250,117**		**(40,288)**	(16.11)
60	Profit (loss) on financial transactions		**21,787**		**(74,801)**		**96,588**	(129.13)
65	Income on investment of pension and similar funds		**21,215**		**(5,572**		**26,787**	(480.74)
70	Other operating income		**536,103**		**579,729**		**(43,626)**	(7.53)
80	Administrative expenses		**2,862,736**		**2,927,529**		**(64,793)**	(2.21)
	a) personnel expense	1,794,655		1,800,033		(5,378)		(0.30)
	including:							
	- wages and salaries	1,263,365		1,263,290		75		0.01
	- social-welfare charges	344,926		350,342		(5,416)		(1.55)
	- staff severance indemnity reserve	92,265		94,096		(1,831)		(1.95)
	- pension fund and similar obligations	34,255		33,651		604		1.79
	b) other administrative expenses	1,068,081		1,127,496		(59,415)		(5.27)
85	Provisions for income on investment of pension and similar funds		**21,215**		**(5,572)**		**26,787**	(480.74
90	Valuation adjustments to fixed and intangible assets		**437,749**		**494,697**		**(56,948)**	(11.51)
100	Provisions for risks and charges		**171,830**		**42,377**		**129,453**	305.48
110	Other operating expenses		**35,071**		**24,044**		**11,027**	45.86
120	Valuation adjustments to loans and provisions for guarantees and commitments		**892,239**		**614,863**		**277,376**	45.11
130	Recoveries on loans and on provisions for guarantees and commitments		**195,631**		**176,878**		**18,753**	10.60
140	Provisions to loan loss reserve		**48,028**		**90,008**		**(41,980)**	(46.64)
150	Valuation adjustments to non-current financial assets		**89,393**		**298,140**		**(208.747)**	**(70.02)**
160	Recoveries on non-current financial assets		**6,983**		**7,320**		**(337)**	(4.60)
170	Profit (loss) on investments valued with net equity method		**31,810**		**36,261**		**(4,451)**	(12.27
180	Profit (loss) from ordinary operations		**404,504**		**486,879**		**(82,375)**	(16.92)
190	Extraordinary income		**467,905**		**457,925**		**9,980**	2.18
200	Extraordinary charges		**453,997**		**141,368**		**312,629**	221.15
210	Extraordinary profit (loss) risks and future charges		**13,908**		**316,557**		**(302,649)**	(95.61)
230	Change in reserve for general banking risks		**300,000**		**84,999**		**215,001**	252.95
240	Income taxes		**(267,841)**		**(216,579)**		**(51,262)**	23.67
250	Minority interests		**8,050**		**90,043**		**(81,993)**	(91.06)
260	Profit (loss) for the year		**442,521**		**581,813**		**(139:292)**	(23.94)

The notes to the consolidated financial statements include the following:

Attachments

PART A

VALUATION CRITERIA

SECTION 1

VALUATION CRITERIA AND CRITERIA FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2003

The valuation criteria indicated hereunder conform with the criteria provided by prevailing Italian laws and with the criteria adopted in the preparation of the 2002 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 2003:

Transactions effected by the parent company:

- the merger by incorporation of the subsidiaries Banca Agricola Mantovana and Banca Toscana;
- the transfer of the banking activities to the new subsidiaries Banca Agricola Mantovana and Banca Toscana;
- the transfer of the real estate division of the parent company, including BAM and BT real estate resulting from the merger, excluding the historical seats, to the subsidiary MPS Immobiliare Spa;

an further to the merger of Banca Agricola Mantovana and Banca Toscana:

- the consolidation of the subsidiaries G.I. Profidi and Mantovana Ireland, previously consolidated by BAM;
- the consolidation of the subsidiary Ulisse 3, a special-purpose company involved in the securitization of non-performing loans of Banca Toscana in 2001 and whose controlling interests were purchased in 2003;

Moreover,

- the MPS Asset Management Ireland (former Mantovana Management), which had been previously consolidated by BAM, was consolidated through the subsidiary MPS Asset Management;
- the subsidiary Marinella, resulting from the partial split-off of the subsidiary Amministrazioni Immobiliari, was consolidated;
- the MPS Venture was consolidated through the subsidiary MPS Merchant;
- the Ticino Vita was merged into Monte Paschi Vita, starting from the 31 December 2003; both companies were evaluated according to the equity method.

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 2003, as approved by the respective Boards of Directors. In the case of Banca Agricola Mantovana S.p.A., Intermonte Securities SIM, and MPS Asset Management SGR Group, the relative 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".

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, 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 interest".
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.

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 therefor 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 therefor 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.

2.5 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 2003. 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. 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.

SECTION 2

ADJUSTMENTS AND FISCAL PROVISIONS

2.1 Adjustments made exclusively for the purpose of compliance with fiscal laws

The adjustments which were made in the financial statements of the parent company are reclassified.

2.2 Provisions made exclusively for the purpose of compliance with fiscal laws

No provisions were made.

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

	31/12/2003	31/12/2002
a) Amounts due from central banks	941,645	882,843
b) Bills eligible for refinancing with central banks	4,120	4,247
c) Credit for financial lease contracts	-	-
d) Repurchase agreements	5,074,526	9,056,638
e) Securities lending		-

The balance reflected in a) includes mandatory reserves in the amount of EUR 899,302,000.

The composition of the account is as follows:

	31/12/2003	31/12/2002
Sight	442,556	2,464,429
Current accounts	319,219	437,222
Demand deposits	44,002	2,007,716
Other accounts	79,335	19,491
Time or requiring advance notice of withdrawal	8,108,544	13,562,653
Bank of Italy and other central banks	914,302	882,843
Time deposits	1,240,343	2,316,725
Loans and subsidies	791,626	769,153
Mortgage loans	-	-
Repurchase agreements	5,074,526	9,056,638
Other	87,747	537,294
Total	8,551,100	16,027,082

Cash credits to banks are summarized in the following table and include past-due interest

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

			31/12/2002
	Total Outstanding	Total Valuation Adjustments	Net Exposure
A. Doubtful loans	240,975	17,829	223,146
A.1 Non-performing loans	6,177	4,945	1,232
A.2 Watch-list credits	12,482	3,429	9,053
A.3 Loans in the process of restructuring	-	-	-
A.4 Restructured loans	-	-	-
A.5 Unsecured loans exposed to country risk	222,316	9,455	212,861
B. Performing loans	15,803,935	-	15,803,935

1.2 Composition of Account 40 - Customer loans and advances

	31/12/2003	31/12/2002
a) Bills eligible for refinancing with central banks	26,243	27,618
b) Credits for financial lease contracts	-	-
c) Repurchase agreements	696,859	1,066,683

The composition of the account is as follows:

	31/12/2003	31/12/2002
Current accounts	11,838,587,	13,024,249
Discounted notes	536,380	548,696
Repurchase agreements	696,859	1,066,683
Mortgages	32,340,133	28,875,404
Advances	3,485,433	5,440,235
Advances and subsidies	13,640,868	11,761,224
Personal loans	1,145,024	1,072,669
Leasing	3,052,883	3,543,031
Transactions with third-party funds	14,963	5,101
Non-performing loans	1,298,616	1,011,427
Other	2,355,246	2,123,251
Total	70,404,992	68,471,970

Customer loans are summarized in the following table:

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

31/12/2002

	Total Outstanding	Total Valuation Adjustments	Net Exposure
A. Doubtful loans	3,624,056	1,198,290	2,425,766
A.1 Non-performing loans	1,842,849	831,423	1,011,426
A.2 Watch-list credits	1,529,452	351,397	1,178,055
A.3 Loans in the process of restructuring	-	-	-
A.4 Restructured loans	63,868	7,519	56,349
A.5 Unsecured loans exposed to country risk	187,887	7,951	179,936
B. Performing loans	66,280,998	234,795	66,046,203

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:

	31/12/2003	31/12/2002
a) loans secured by mortgages	20,109,709	18,340,641
b) loans secured by liens on:		
cash deposits	547,191	790,573
Securities	1,460,996	2,466,070
other negotiable instruments	280,698	270,368
	2,288,885	3,527,011
c) loans secured by guarantees of:		
Governments	4,228	-
other public-sector entities	41,331	37,436
Banks	525,322	634,844
Other	9,786,838	10,724,067
	10,357,719	11,396,347
Total	32,756,313	33,263,999

1.4 Non-performing loans to customers, including past-due interest

	31/12/2003	31/12/2002
Nominal value	2,518,467	1,849,026
Valuation adjustments	1,218,619	836,368
Book value	1,299,848	1,012,658

1.5 Loans for past-due interest

The nominal value of loans for past-due interest is shown below:

	31/12/2003	31/12/2002
a) Non-performing loans	254,832	218,973
b) Other credits	28,157	29,562
c) Amounts due from taxpayers	860,723	695,216
Total	1,143,712	943,751
Valuation adjustments	1,114,977	921,676
(°)	28,735	22,075

(°) 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

31/12/2003

	Nominal Value	Doubtful Amount	Net Amounts
Non-performing loans	2,236,635	1,218,620	1,045,015
Watch-list credits and past-due amounts	1,544,719	316,824	1,227,895
Country risk	397,787	8,507	389,280
Total	4,206,141	1,543,951	2,662,190
Lump sum adjustment		258,020	
		1,801,971	

31/12/2002

	Nominal Value	Doubtful Amount	Net Amounts
Non-performing loans	1,630,053	836,368	793,685
Watch-list credits and past-due amounts	1,576,240	362,345	1,213,895
Country risk	410,203	17,406	392,797
Total	3,616,496	1,216,119	2,400,377
Lump sum adjustment		234,795	
		1,450,914	

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 31/12/2002	1,842,849	1,529,452	-	63,868	187,887
A.1 including: past-due interest	218,633	25,473	-	419	63
B. Increases	1,137,888	1,098,558	21,694	33,065	37,413
B.1 new performing loans	496,834	912,818	12,441	2,308	275
B.2 past-due interest	81,508	13,240	-	542	-
B.3 transfer from other categories of doubtful loans	369,320	11,862	-	20,550	-
B.4 other increases	190,226	160,818	9,253	9,665	37,138
C. Decreases	472,151	1,137,474	-	36,399	132,518
C.1 reclassified as performing loans	6,162	55,773	-	-	-
C.2 cancellations	218,737	90,385	-	-	-
C.3 recoveries	231,150	555,720	-	21,367	128,561
C.4 sales	9,276	-	-	-	-
C.5 transfer to other categories of doubtful loans	4,813	381,727	-	15,012	-
C.6 other decreases	2,013	53,869	-	20	3,957
D. Total outstanding as of 31/12/2003	2,508,586	1,490,536	21,694	60,534	92,782
D.1 including: past-due interest	254,406	22,254	-	542	43

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. Valuation adjustments as of 31/12/2002 pro forma	831,422	351,396	-	7,518	7,951	234,793
A.1 including: past-due interest	200,033	23,825	-	419	63	1,782
B. Increases	679,402	210,330	123	6,353	767	125,595
B.1 valuation adjustments (°)	530,115	199,928	52	6,279	711	114,409
B.1.1 including: past-due interest	75.823	12.552	-	542	-	1,934
B.2 use of loan loss reserves	23,549	1,367	-	-	-	-
B.3 transfer from other categories	112,838	6,359	71	74	-	8,903
B.4 other increases	12,900	2,676	-	-	56	2,.283
C. Decreases	300,855	256,038	-	2,972	3,682	102,368
C.1 recoveries – valuation adjustments	21,074	40,607	-	380	142	41,189
C.1.1 including: past-due interest	679	-	-	-	-	-
C.2 cash recoveries	20,920	29,094	-	654	3,394	18,294
C.2.1 including: past-due interest	5,156	4,061	-	-	11	229
C.3 cancellations	224,145	88,947	-	-	-	4,966
C.4 transfer to other categories	752	95,046	-	1,520	82	30,846
C.5 other decreases	33,964	2,344	-	418	64	7,073
D. Valuation adjustments as of 31/12/2003	1,209,969	305,688	123	10,899	5,036	258,020
D.1 including: past-due interest	230,687	21,172	-	542	43	1,385

(°) 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 31/12/2002	6,177	12,482	-	-	222,317
A.1 including: past-due interest	340	-			
B. Increases	4,583	-	-	-	231,735
B.1 new performing loans	-	-			
B.2 past-due interest	85	-			
B.3 transfer from other categories	4,768	-			
B.4 other increases	-	-			231,735
C. Decreases	1,149	12,370	-	-	149,047
C.1 reclassified as performing loans					
C.2 cancellations					
C.3 recoveries	1,149				147,489
C.4 sales					
C.5 transfer to other categories		4.768			
C.6 other decreases		7.602			1,558
D. Total outstanding as of 31/12/2003	9,881	112	-	-	305,005
D.1 including: past-due interest	426				

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. Valuation adjustments as of 31/12/2002 pro forma	4,945	3,429			9,454	
A.1 including: past-due interest	340					
B. Increases	4,044				1,404	
B.1 valuation adjustments	1,660				1,404	
B.1.1 including: past-due interest	85					
B.2 use of loan loss reserves						
B.3 transfer from other categories	2,384					
B.4 other increases						
C. Decreases	340	3,317			7,387	
C.1 recoveries – valuation adjustments		23			232	
C.1.1 including: past-due interest						
C.2 cash recoveries	340				7,155	
C.2.1 including: past-due interest						
C.3 cancellations						
C.4 transfer to other categories		2,384				
C.5 other decreases		910				
D. Valuation adjustments as of 31/12/2003	8,649	112			3,471	
D.1 including: past-due interest	426					

1.7 Composition of Account 10 - Cash and cash on deposit with central banks and post offices

	31/12/2003	31/12/2002
Notes and coins	475,208	484,158
Money orders and bank drafts	44,598	52,014
Cash on deposit with Bank of Italy and central banks	64,565	18,933
Cash on deposit with post offices	86,528	278,569
Other	-	-
Total	670,899	833,674

SECTION 2 - SECURITIES

Securities held by the Bank are reported in the balance sheet as follows:

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

31/12/2002

	Investment Securities	Trading Securities	Total
20 Treasury bonds and similar instruments eligible for refinancing	51,624	490,011	541,635
50 Bonds and other fixed-income securities	4,398,945	11,055,627	15,454,572
60 Shares, quotas and other equity securities	2,066	912,314	914,380
Total	4,452,635	12,457,952	16,910,587

2.1 Investment securities

The holdings in the investment securities portfolio are made up as follows:

	31/12/2003		31/12/2002	
	Book Value	Market Value	Book Value	Market Value
1. Debt securities	3,959,498	3,984,522	4,450,569	4,419,244
1.1 Government securities	756,474	771,152	1,042,751	1,033,485
- Listed	742,222	755,924	1,010,493	1,000,565
- Unlisted	14,252	15,228	32,258	32,920
1.2 Other securities	3,203,024	3,213,370	3,407,818	3,385,759
- Listed	2,123,682	2,179,722	2,267,778	2,053,866
- Unlisted	1,079,342	1,033,648	1,140,040	1,331,893
2. Equity securities	4,065	3,280	2,066	1,760
- Listed	4,065	3,280	2,066	1,760
- Unlisted			-	-
Total	3,963,563,	3,987,802	4,452,635	4,421,004

Investment securities incorporate latent capital gains of EUR 24,237,000 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. This hedging implied the assignment to Account 150 "Valuation adjustments to non-current financial assets" of a devaluation of EUR 25,033,000.

2.2 Annual changes in investment securities

	31/12/2003	31/12/2002
A. Opening balance	4,452,635	4,310,283
B. Increases	2,370,880	1,424,714
B.1 Purchases	1,367,774	1,057,317
B.2 Recoveries in value	1,770	7,277
B.3 Transfers from trading account portfolio	400,348	360,120
B.4 Other changes	537,988	-
C. Decreases	2,796,952	1,282,362
C.1 Sales	109,692	83,604
C.2 Redemptions	1,045,474	1,086,788
C.3 Valuation adjustments	34,322	27,780
including: permanent writedowns	29,001	-
C.4 Transfers to trading account portfolio	1,190,208	1,010
C.5 Other changes	417,256	83,180
D. Closing balance	3,963,563	4,452,635

Points B.4 and C.5 mainly include the accruals of issuing and trading discounts and foreign-exchange differences.

The securities as per points B.3 and C.4 were transferred pursuant to a resolution of the Parent Company's Board of Directors of 26 March 2003, in the light of reconsidering the management policy of the investment security portfolio, of fixing a ceiling and concentrating the aforementioned Group's portfolio at parent company level.

Therefore, the Board of Directors passed the resolution of:

a) transferring from trading account portfolio to investment portfolio a set of asset-backed securities resulting from mergers in 2002 and 2003, consistently with the guidelines of the framework resolution;
b) transferring to the trading account portfolio some investment portfolio securities resulting from mergers by incorporation of the subsidiaries Banca Toscana S.p.A. and Banca Agricola Mantovana Sp.A.

C.3 includes the asset-backed securities devaluation resulting from securitization originated by banks of the Group. As to the parent company these devaluations were charged to the profit and loss account (EUR 7,237,000) and to extraordinary reserve (EUR 21,764,000), pursuant to art. 6 of the Law n.130/99.

The sales as per C.1 totaling EUR 109,692,000 refer to Mantovana Ireland Ltd. (EUR 100,592,000), to G.I. Profili S.p.A. (EUR 2,078,000), to BPS (EUR 4,958,000) and to the MPS Asset Management (EUR 2,066,000); the sales had modest economic consequences.

2.3 Trading account securities

Trading account securities include the following:

	31/12/2003		31/12/2002	
	Book Value	Market Value	Book Value	Market Value
1. Debt securities	13,218,082	13,247,455	11,545,637	11,550,974
1.1 Government securities	6,393,022	6,393,092	4,726,706	4,726,775
- Listed	6,371,701	6,371,712	4,702,017	4,702,017
- Unlisted	21,321	21,380	24,689	24,758
1.2 Other securities	6,825,060	6,854,363	6,818,931	6,824,199
- Listed	3,585,331	3,624,676	3,838,036	3,838,374
- Unlisted	3,239,729	3,229,687	2,980,895	2,985,825
2. Equity securities	1,123,532	1,123,770	912,315	913,482
- Listed	897,390	893,708	671,395	671,413
- Unlisted	226,142	230,062	240,920	242,069
Accrued interest			-	-
Total	14,341,614	14,371,225	12,457,952	12,464,456

The market value is roughly EUR 29,611,000 higher than book value due to potential gains which are not posted to the Profit & Loss account on unlisted securities unrelated to derivatives.

2.4 Annual changes in trading account securities

	31/12/2003	31/12/2002
A. Opening balance	12,457,952	11,181,318
B. Increases	189,439,502	273,464,875
B.1 Purchases	186,435,349	272,813,809
- Debt securities:	176,985,279	259,218,563
Government securities	145,639,117	223,045,378
Other securities	31,346,162	36,173,185
- Equity securities	9,450,070	13,595,246
B.2 Revaluations and recoveries in value	199,802	174,675
B.3 Transfers from investment securities portfolio	1,190,208	1,010
B.4 Other changes	1,614,143	475,381
C. Decreases	187,555,840	272,188,241
C.1 Sales and redemptions	185,964,355	271,378,680
- Debt securities:	176,629,717	257,804,033
Government securities	144,192,001	223,599,527
Other securities	32,437,716	34,204,506
- Equity securities	9,334,638	13,574,647
C.2 Valuation adjustments	106,733	185,447
C.3 Transfers to investment securities portfolio	400,348	624,114
C.4 Other changes	1,084,404	-
D. Closing balance	14,341,614	12,457,952

Trading account securities are inclusive of securities relative to the defined contribution pension plan set up for eligible employees as of 1 January 1991. 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”.

As to points B.3 and C.3, notes at the foot of schedule 2.2 of this section have to be referred to.

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:

	31/12/2003	31/12/2002
Investments in Group companies valued with net equity method	464,278	439,262
Investments in Group companies valued at cost		145,511
Investments in other companies valued with net equity method	439,337	62,555
Investments in other companies valued at cost	1,717,753	1,541,376
Total	2,621,368	2,188,704

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 Investing Co.	SHAREHOLDING % Held	VOTING (%)	BOOK VALUE
		A.1 Companies included in the consolidation (fully consolidated)								
A.0		BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Siena		6,150,138	221,200				xxx
A.1		BANCA TOSCANA S.p.A.	Florence	1	1,101,190	81,190	A.0	100.000	100.000	xxx
A.2		MPS BANCA VERDE S.p.A.	Florence	1	128,255	12,696	A.0	70.770	100.000	xxx
							A.1	29.230		
A.3		MPS MERCHANT BANCA PER LE PICCOLE E MEDIE IMPRESE S.p.A.	Florence	1	307,063	36,626	A.0	88.053	99.733	xxx
							A.1	11.680		
	3.1	MPS VENTURE SGR S.P.A.	Florence	1	7,766	552	A.3	70.000	100.000	
							A.12	30.000		
A.4		BANCA 121 PROMOZIONE FINANZIARIA S.p.A.	Lecce	1	97,324	(60,887)	A.0	100.000	100.000	
A.5		BANCA C. STEINHAUSLIN & C. S.p.A.	Florence	1	21,628	(19,368)	A.0	100.000	100.000	
A.6		MPS GESTIONE CREDITI S.p.A.	Siena	1	108,014	7,698	A.0	99.500	100.000	
							A.1	0.500		
A.7		MPS LEASING E FACTORING S.p.A.	Siena	1	251,392	6,014	A.0	86.916	100.000	
							A.1	6..647		
							A.9	6.437		
A.8		MPS FINANCE BANCA MOBILIARE S.p.A.	Siena	1	228,758	64,184	A.0	100.000	100.000	xxx
A.9		GRUPPO BANCA AGRICOLA MANTOVANA	Mantua	1	854,027	25,419	A.0	100.000	100.000	xxx
	9.1	BANCA AGRICOLA MANTOVANA S.p.A.	Mantua	1	845,201	25,114	A.0	100.000	100.000	
	9.2	BANCA AGRICOLA MANTOVANA RISCOSSIONI S.p.A.	Mantua		1,094	226	A.9	100.000	100.000	
	9.3	PADANA RISCOSSIONI S.p.A.	Mantua		3,900	381	A.9	54.538	54.538	
	9.4	PADANA IMMOBILIARE S.p.A.	Mantua		25,894	(455)	A.9	100.000	100.000	
	9.5	AGRISVILUPPO S.p.A.	Mantua		7,770	64	A.9	96.973	98.878	
							A.2	1.900		
	9.6	AIDA S.P.A.	Villafranca (VR)	1	22,029	(971)	A.9.4	70.000	70.000	
A.10		MPS ASSET MANAGEMENT S.p.A.	Milan	1	109,987	52,794	A.0	79.430	100.000	xxx
							A.1	6.192		
							A.9	10.550		
							A.4	3.828		
	10.1	MPS ALTERNATIVE SGR	Milan	1	6,459	354	A.10	100.000	100.000	
	10.2	MPS ASSET MANAGEMENT IRELAND LTD	Dublin	1	14,202	10,117	A10	100.000	100.000	
A.11		121 FINANCIAL SERVICE LTD	Dublin	1	47,258	16	A.0	100.000	100.000	
A.12		INTERMONTE SECURITIES SIM S.p.A.	Milan	1	77,127	26,707	A.8	34.336	68.672	xxx
							A.9	34.336		
A.13		MONTE PASCHI FIDUCIARIA S.p.A.	Siena	1	1,345	5	A.0	86.000	100.000	xxx
							A.1	14.000		
A.14		ULISSE S.p.A.	Milan	1	80	4	A.0	60.000	60.000	xxx
A.15		ULISSE 2 S.p.A.	Milan	1	100	-	A.0	60.000	60.000	xxx
A.16		ULISSE 3 S.p.A.	Milan	1	100	-	A.0	60.000	60.000	xxx
A.17		CONSUM.IT S.p.A.	Florence	1	43,386	11,101	A.0	70.000	100.000	xxx
							A.1	30.000		
A.18		AMMINISTRAZIONI IMMOBILIARI S.p.A.	Siena	1	46,919	346	A.0	100.000	100.000	xxx
A.19		MPS IMMOBILIARE S.p.A.	Siena	1	1,313,425	16,995	A.0	100.000	100.000	xxx
A.20		MARINELLA S.p.A.	La Spezia	1	36,908	(620)	A.0	100.000	100.000	xxx
A.21		BA. SA SERVIZI S.p.A.	Lecce	1	9,096	(684)	A.0	99.979	99.979	xxx
A.22		G.IMM.ASTOR S.r.l.	Lecce	1	1,355	226	A.0	52.000	52.000	xxx
A.23		PASCHI GESTIONI IMMOBILIARI S.p.A.	Siena	1	5,858	344	A.0	100.000	100.000	xxx
A.24		G.I. PROFIDI SIM S.p.A.	Rome	1	3,240	(137)	A.0	100.000	100.000	xxx
A.25		CONSORZIO OPERATIVO GRUPPO MPS	Siena	1	140,402	-	A.0	99.639	99.891	xxx
							A.1	0.028		
							A.2	0.028		
							A.3	0.028		
							A.4	0.028		
							A.5	0.028		
							A.6	0.028		
							A.7	0.028		
							A.8	0.028		

							A.9	0.028		
A.26		ITALRISCOSSIONI S.p.A.	Rome	1	9,944	(145)	A.0	100.000	100.000	xxx
A.27		G.E.R.I.T. S.p.A.	L'Aquila	1	2,464	82	A.0	99.978	99.978	xxx
A.28		MONTE PASCHI SERIT S.p.A.	Palermo	1	2,719	(24,446)	A.0	100.000	100.000	xxx
A.29		SO.RI.T. S.p.A.	Foligno	1	1,416	(827)	A.0	54.593	54.593	xxx
A.30		BANCA MONTE PASCHI BELGIO S.A.	Brussels	1	38,820	(24,214)	A.0	72.481	100.000	xxx
							A.1	27.519		
A.31		BANCA MONTE PASCHI SUISSE S.A.	Geneva	1	19,958	6	A.0	99.996	99.996	xxx
A.32		MPS PREFERRED CAPITAL I LLC	Delaware	1	29,622	(209)	A.0	100.000	100.000	xxx
A.33		MPS PREFERRED CAPITAL II LLC	Delaware	1	47,810	(20)	A.0	100.000	100.000	xxx
A.34		MONTE PASCHI BANQUE S.A.	Paris	1	84,247	(6.075)	A.0	70.175	100.000	xxx
							A.1	29.825		
	34.1	MONTE PASCHI CONSEIL France	Paris		(°)	(°)	A.34	99.840	99.840	
	34.2	MONTE PASCHI INVEST FRANCE S.A.	Paris		(°)	(°)	A.34	99.973	99.973	
	34.3	M.P. ASSURANCE S.A.	Paris		(°)	(°)	A.34	99.600	99.600	
	34.4	S.N.C. IMMOBILIARE POINCARE	Paris		(°)	(°)	A.34	100.000	100.000	
	34.5	IMMOBILIARE VICTOR HUGO	Paris		(°)	(°)	A.34	100.000	100.000	
A.35		MONTEPASCHI LUXEMBOURG S.A.	Brussels	1	760	230	A.0	99.200	100.000	xxx
							A.34	0.800		
A.36		MANTOVANA IRELAND LTD	Dublin	1	80,571	2,535	A.0	100.000	100.000	xxx
A.37		M.P.S. COMMERCIAL PAPER	New York	1	252	26	A.0	100.000	100.000	xxx
A.38		BANCA MONTE PASCHI (CHANNEL ISLANDS) LTD	Guernsey C.	1	9,932	191	A.0	100.000	100.000	xxx
	38.1	CITY NOMINESS LTD	Guernsey C.		(°)	(°)	A.38	100.000	100.000	
	38.2	BMPS CORPORATE SERVICES LTD	Guernsey C.		(°)	(°)	A.38	100.000	100.000	
	38.3	BMPS NOMINESS (CI) LTD	Guernsey C.		(°)	(°)	A.38	100.000	100.000	
	38.4	BMPS TRUSTEES (CI) LTD	Guernsey C.		(°)	(°)	A.38	100.000	100.000	
	38.5	SAINTS TRUSTEES LTD	Guernsey C.		(°)	(°)	A.38	100.000	100.000	
		A.2 Companies included in the consolidation (consolidated with proportional method)								
A.39		BANCA POPOLARE DI SPOLETO S.p.A.	Spoleto	1	23,549	810	A.0	20.000	20.000	xxx
		(book value: 20% of nominal value)								
A.40		BANCA MONTE PARMA S.p.A.	Parma	1	55,275	457	A.0	41.000	41.000	xxx
		(book value: 41% of nominal value)								
A.41		S.E.I.T S.p.A.	Parma	1	1,723	598	A.40	40.205	40.205	xxx
		(book value: 40.205% of nominal value)								
		B. Group companies valued with net equity method (detail of Account 80 a)								
B.1		MONTE PASCHI VITA S.p.A.	Rome	1	362,565	30,791	A.0	91.523	100.000	350,530
							A.1	8.477		
B.2		MONTEPASCHI ASSICURAZIONE DANNI S.p.A.	Rome	1	37,944	5,594	A.0	100.000	100.000	37,944
B.3		DIPRAS S.p.A.	Rome	1	1,290	422	A.0	100.000	100.000	1,290
B.4		GROW LIFE LTD.	Dublin	1	44,312	15,751	A.0	40.000	100.000	44,312
							B.1	60.000		
B.5		E-IDEA S.p.A.	Rome	1	1,292	(2,537)	A.0	70.000	100.000	1,292
							A.1	30.000		
B.6		MPS NET S.p.A.	Siena	1	21,807	(13,163)	A.0	99.000	100.000	20,453
							A.3	1.000		
B.7		SAN PAOLO ACQUE S.r.l.	Lecce	1	221	(24)	A.0	100.000	100.000	221
B.8		MAGAZZINI GENERALI FIDUCIARI MANTOVA S.p.A.	Mantua	1	8,236	(183)	A.9	100.000	100.000	8,236
		Total								464,278
		C. Other companies valued with net equity method (detail of Account 70 a)								
C.1	(**)	BANQUE DU SUD	Tunis	8	103,060	-	A.0	14.961	14.961	15,419
C.2		CONSORZIO AEROPORTO SIENA S.p.A.	Siena	8	1,820	-	A.0	20.000	40.000	728
							A.1	20.000		
C.3	(**)	FIDI TOSCANA S.p.A.	Florence	8	62,043	1,038	A.0	13.390	28.875	18,515
							A.1	10.359		
							A.3	4.127		
							A.2	0.999		
C.4	(**)	FINSOE S.p.A.	Florence	8	658,475	23,896	A.0	39.000	39.000	356,891
C.5	(**)	I.B.A. VIENNA	Vienna	8	11,598	1,296	A.0	35.007	35.007	4,185
C.6		LE ROBINIR S.r.l.	Reggio Emilia	8	4,105	(45)	A.9	20.000	20.000	821
C.7		LINEAR COMPAGNIA ASS. S.p.A.	Bologna	8	35,459	10,200	A.9	20.000	20.000	7.092
C.8		QUADRIFOGLIO VITA S.p.A.	Bologna		64,342	7,550	A.9	50.000	50.000	32,171
C.9		SI.CI. Sviluppo Imprese Centro Italia S.p.A.	Florence	8	5,758	226	A.3	45.000	45.000	2,606
C.10	(***)	S.I.S. IMMOBILI S.p.A.	Villafranca	8	2,461	(20)	A.9.4	24.809	24.809	611

C.11		UNION CAPITAL SIM S.p.A. (in liquidation)	(VR) Milan	8	368	(91)	A.9	36.000	36.000	298
		Total								439,337

(*) 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 2002
(***) The data are relative to the financial statements as of 30 June 2003

Companies valued at cost

	Company	*Registered Office*	*% Held*	*Book Value*
	Banks			
1	Alpha Bank Romenia S.A.	Bucharest	3.501	3,352
2	Banca Centrale per il Leasing Italease S.p.A.	Milan	4.539	13,931
3	Banca della Ciociaria S.p.A.	Frosinone	10.072	4,846
4	Banca dell'Umbria S.p.A.	Perugia	0.024	25
5	Banca di Sassari S.p.A.	Sassari	0.003	1
6	Banca d'Italia	Rome	2.503	4
7	Banca Nazionale del Lavoro S.p.A.	Rome	4.422	245,116
8	Banca Popolare Etica S.c.a.r.l.	Padua	0.177	28
9	Cassa di Risparmio di Savona S.p.A.	Savona	0.546	1,198
10	Cattolica Popolare Scarl	Molfetta (BA)	0.048	14
11	Centrobanca S.p.A.	Milan	0.004	17
12	Efibanca SpA	Rome	0.001	2
13	European Investment Fund	Luxembourg	0.250	1,000
14	Iccrea Holding SpA	Rome	0.011	50
15	Ist. per il credito sportivo	Rome	10.811	27,372
16	Istituto Centrale Banche Popolari Italiane	Rome	0,082	31
17	Isveimer S.p.A.	Rome	0.002	-
18	Ljudska Banca D.D.	Ljubljana	2.986	746
19	Ludova Banka Bratislava A.S.	Bratislava	3.360	1,079
20	Magyarorszagi Volksbank	Budapest	3.700	1,157
21	Mercobank S.A.	Buenos Aires	0.118	-
22	Monte Paschi Nederland (in liquidation)	Amsterdam	100.000	-
23	N.G.S. Bank	Moscow	1.446	-
24	S.E.V. S.p.A.	Rome	0.125	10
25	Tein Plc	London	100.000	-
26	U.B.A.	Lagos	2.400	485
27	Volksbank As	Brno (Czech Republic)	2.500	826
28	Volksbank d.d.	Zagreb	2.499	587
				301,877

Financial Services

29	121 Fund Management Limited	Dublin	100.000	-
30	3R Management SGECR S.A.	Madrid (E)	10.000	-
31	Adela Investment Co.	Luxembourg	0.624	-
32	Agrifactoring S.p.A. (in liquidation)	Rome	2.500	-
33	Alerion Industries S.p.A.	Rome	7.948	16,424
34	Borsa Italiana S.p.A.	Milan	10.360	41,570
35	Brasilinvest & Partners SA	São.Paulo	0.839	-
36	C.B.I. Factor	Milan	0.823	355
37	Cartasi S.p.A.	Rome	6.079	1,232
38	Colomba Invest SIM S.p.A.	Rome	0.880	14
39	Commerfin S.c.p.a.	Rome	15.000	156
40	Confidi Coop Marche S.c.r.l.	Ancona	4.388	52
41	Ecu Sim SpA (in liquidation)	Milan	2.301	-
42	ERVET Emilia Romegna Valor. Economica Territorio S.p.A.	Bologna	2.550	351
43	Euronext N.V.	Amsterdam	.	4
44	Europay Belgium	Brussels	0.244	2
45	Europrogetti & Finanza S.p.A.	Rome	10.113	1,282
46	Factorit S.p.A.	Milan	3.418	1,667
47	Farmafactoring S.p.A.	Milan	11.000	1,230
48	FIME Finanz. Meridionale S.p.A.	Rome	1.933	-
49	Finaosta S.p.A.	Aosta	0.563	560
50	Fincalabra S.p.A.	Catanzaro	3.306	264
51	Finlombarda S.p.A.	Milan	0.160	11
52	Finpuglia S.p.A.	Bari	0.767	80
53	Gepafin S.p.A.	Perugina	4.333	10
54	M.A.S. MPS Assets Securitisation S.p.A.	Rome	10.000	10
55	Manfredonia Sviluppo S.c.p.a.	Foggia	12.097	66
56	Mantegna Finance II S.r.l.		7.000	1
57	Mantegna Finance S.r.l.	Mantua	7.000	1
58	Markfactor S.p.A.	Brescia	10.000	331
59	MTS Mercato Titoli di Stato S.p.A.	Rome	5.000	1,414
60	Nuova Fin S.p.A.	Spoleto	19.434	213
61	Pacchetto Localizzativo Brindisi S.p.A.	Brindisi	16.823	75
62	Par.Fin S.p.A. (fallita)	Bari	1.783	-
63	S.F.I.R.S. S.p.A.	Cagliari	0.197	266
64	Santorini Investment Ltd Partnership	Edinburgh	49.000	328,690
65	Siena Mortagages 00-1 S.p.A.	Milan	7.000	7
66	Siena Mortagages 01-2 S.p.A.	Milan	7.000	7
67	Siena Mortagages 02-3 Srl	Conegliano (TV)	9.100	1

68	Siena Mortgages 03-4 S.r.l.	Rome	10.000	1
69	Simest S.p.A.	Rome	1.059	1,562
70	SO.FIN.IND. S.p.A.	Naples	15.000	1,524
71	Sofinco S.p.A.	Modena	7.051	2,200
72	Sviluppo Holding S.r.l.	Perugina	30.000	3
73	Sviluppumbria S.p.A.	Perugina	15.868	771
74	Tamleasing SpA (in liquidation)	Milan	0.116	-
75	Tiziano Finance S.r.l.	Conegliano (TV)	10.000	10
76	Ulisse 4 S.r.l.	Milan	7.000	-
				402,417

Other

77	24 Ore Television S.p.A.	Milan	0.987	67
78	A.S.I. Azienda Serv. Inform. S.p.A.	Manta	2.593	12
79	A.S.I.A. Agenzia di Sviluppo Ionio Alcantara S.p.A.	Taormina (ME)	8.024	10
80	ABE Clearing Company's Account	Paris	1.000	1
81	Abruzzo Sviluppo S.p.A.	Pescara	5.844	32
82	Acque Blu Arno Basso S.p.A.	Rome	8.000	1,523
83	Aeroporto di Florence S.p.A.	Florence	2.993	224
84	Aeroporto di Reggio Emilia Srl	Reggio Emilia	0.215	9
85	Aeroporto G. Marconi S.p.A.	Bologna	0.136	3
86	Agenzia di Pollenzo S.p.A.	Bra (CN)	0.387	77
87	Agenzia Occupazione Area Nord Barese Ofantina	Barletta	4.094	4
88	Agenzia Sviluppo Lazio S.p.A.	Rome	1.869	858
89	AGES S.p.A.	Pisa	1.554	1,239
90	Agricola Poggio Bonelli S.r.l.	Castelnuovo Ber.ga (SI)	100.000	3,343
91	Agriform Scarl	Sommacampagna	11.899	775
92	Alexa S.p.A.	Florence	11.000	1,430
93	Ama International S.p.A.	Rome	12.183	1,300
94	Ambiente e Territorio S.p.A.	Foggia	2.435	37
95	Arcea Lazio S.p.A.	Rome	5.000	10
96	Argentario Approdi e Servizi S.p.A.	Porto Santo Stefano	8.896	350
97	Assicurazioni Generali S.p.A.	Trieste	1.583	453,609
98	Autocamionabile della Cisa S.p.A.	Noceto (PR)	0.010	2
99	Autostrada Torino Milan S.p.A.	Milan	1.407	3,354
100	B.I.C. Umbria S.p.A.	Terni	1.470	20
101	Bank Card Company	Brussels	0.029	2
102	Banksiel S.p.A.	Milan	2.085	467
103	Banksys S.A.	Brussels	0.087	5
104	Bassilichi S.p.A.	Florence	11.592	385
105	Bell S.à.r.l.	Luxembourg	7.872	8,100
106	Beta Prima S.r.l.	Siena	34.069	360
107	Bid. It. S.p.A.	Barletta	7.572	-
108	Bilanciai International S.p.A.	Campogalliano	3.753	516

109	Bilanciai Soc. Coop. r. l.	Campogalliano (MO)	7.32	516
110	Bios S.p.A.	Milan	12.936	54,231
111	C.I.R. Cooperativa Italiana Ristorazione Scrl	Reggio nell'Emilia	18.069	2,580
112	C.S.I. Centro Serv. Impr. S.r.l.	Porto M/o(MN)	6.175	122
113	C.S.P. BIC Livorno S.r.l.	Leghorn	2.079	7
114	Camporlecchio Educational S.r.l.	Rome	40.000	200
115	CDO.net S.p.A.	Milan	51.000	-
116	Cedacrinord S.p.A.	Colecchio (PR)	6.099	154
117	Cefris S.C.p.A.	Gioia Tauro (RC)	0.500	1
118	Centrale dei Bilanci S.r.l.	Turin	8.460	3,966
119	Centrale GPA S.p.A.	Pesaro	16.315	15
120	Centrale Rischi Finanziaria CRIF S.p.A.	Bologna	5.049	130
121	Centralia S.p.A.	Milan	9.261	-
122	Centro Affari e Convegni Arezzo	Arezzo	11.394	1,579
123	Centro Agro Alimentare Bologna S.c.p.A.	Bologna	0.953	265
124	Centro Agro-alimentare di Parma S.r.l.	Parma	8.,10	184
125	Centro Agroalimentare Naples S.c.p.A.	Naples	4.892	821
126	Centro Ass.za Tecnica Confcomm.Pistoia Scarl	Pistoia	7.,19	1
127	Centro Prom.e Svil.Terr.ed Agenzia Loc.Form. Srl	Senigallia (AN)	2.500	3
128	Centro Ricerche e Servizi Srl	Mantua	10.000	5
129	Centro Sviluppo S.p.A.	S. Christoph (AO)	4.002	41
130	Centro Torri S.r.l.	Parma	1.826	-
131	Cepim - Centro Padano Interscambio Merci S.p.A.	Fontevivo (PR)	5.332	467
132	Cevalco S.p.A.	Venturina (Li)	1.367	17
133	Charme Investments Sca	Luxembourg	9.046	939
134	Cisfi S.p.A.	Naples	1.275	560
135	Cittadelvino.Com S.p.A.	Siena	16.086	111
136	CMST S.p.A.	Rome	45.000	23
137	Co.Ce.Me. S.r.l	Canicattì	7.147	-
138	Colle Promozione S.p.A.	Colle Val d'Elsa (SI)	12.000	31
139	Compagnia Invest. e Sviluppo C.I.S. S.p.A.	Villafranca di Verona	4.000	1,049
140	CONIT S.p.A.	Rome	10.000	10
141	Cons. per lo Sviluppo dell'Area Conca Barese Scrl	Molfetta (BA)	4.000	4
142	Consorzio Abi Lab	Rome	9.091	1
143	Consorzio Agrario Prov.le Siena	Siena	49.660	37
144	Consorzio Agrario Provinciale Scrl	Parma	9.886	8
145	Consorzio Aree Industriali Lamezia Terme	Lamezia Terme (CZ)	2.339	8
146	Consorzio Cassamercato	Milan	6.286	7
147	Consorzio Commercianti del Centro Comm.le Sidoli	Parma	3.846	-
148	Consorzio Etruria Scrl	Montelupo Fiorentino (FI)	24.237	1,549
149	Consorzio Intesa Aretina	Arezzo	2.000	374
150	Consorzio Latterie Sociali Mantuane	Mantua	27.287	2,066

151	Consorzio Reg.Ricostruzione Ed.Prov.Occid.Emiliane	Parma	0.122	-
152	Consorzio Siat Scarl	San Severo (FG)	2.500	13
143	Consorzio Toscana Salute	Florence	15.000	4
154	Cooplink S.p.A.	Siena	48.250	-
155	Cooptecnital Scarl	Rome	33.175	-
156	Crossing Europe GEIE	Siena	30.500	46
157	D.A.I.C.A.P. Scpa (in liquidation)	Foggia	11.000	-
158	Dada S.p.A.	Florence	4.023	-
159	DC Holding S.p.A.	Milan	10.000	500
160	Docutel Communication Services S.p.A.	Siena	15.000	75
161	E.Biscom S.p.A.	Milan	0.878	13,874
162	Ecc Holding S.r.l.	Rome	16.038	5,351
163	El.En S.p.A.	Calenzano (FI)	10.062	6,485
164	Elsacom N.V.	Amsterdam	4.423	-
165	Elsag Back Office Services S.p.A.	Siena	15.000	155
166	Elsag Banklab	Rome	-	-
167	E-MID S.p.A.	Milan	5.850	350
168	Emprimer S.p.A.	Milan	9.000	90
169	Energia Italiana S.p.A.	Milan	8.000	14,468
170	Engineering Informatica S.p.A.	Rome	2.000	4,496
171	Ente Morale S.Lorenzo da Brindisi	Brindisi	14.645	5
172	Etruria Innovazione S.c.p.A.	Siena	5.556	13
173	Etruria Telematica Srl	Monteriggioni (SI)	9.000	-
174	Eurobic Toscana Sud S.p.A.	Poggibonsi (SI)	15.678	84
175	Eurochianti S.c.r.l.	Castelnuovo B.ga (Si)	4.432	2
176	Euros S.p.A.	Rome	5.961	560
177	Evoluzione 94 S.p.A.	Milan	4.315	696
178	EX.T.R.E.ME. S.r.l.	Palermo	2.000	1
179	Exporters Insurance Co Ltd	Hamilton (Bermude)	0.082	90
180	F.A.R. Maremma Scarl	Arcidosso	2.750	6
181	F.D.L. Servizi Srl	Bari	5.000	10
182	Fidenza S.c.r.l.	Fidenza (PR)	1.480	-
183	Fiera di Galatina e del Salento SpA	Galatina (LE)	7.143	52
184	Fiera Millenaria di Gonzaga S.r.l.	Gonzaga	6.000	9
185	Fin. Promo. Ter. Scpa	Rome	14.393	230
186	Fioroni Sistema S.p.A.	Perugia	1.384	16
187	Florence Expò & Congress Centro Fier. e Congr. S.p.A.	Florence	4.727	1,035
188	Florence Mostre S.p.A.	Florence	13.975	30
189	Florence Parcheggi	Florence	22.500	3,156
190	Floramiata S.p.A.	Piancastagnaio (SI)	4.564	103
191	Florentia Bus S.p.A.	Florence	14.948	696
192	Foire Int.le de Liege S.C.	Liège	0.001	-

193	Foligno Nuova S.p.A.	Foligno	1.667	2
194	Fondazione L.E.M.	Leghorn	13.991	103
195	Fondazione Mezzogiorno Sud Orientale	Bari	33.333	162
196	Fondazione Mezzogiorno Tirrenico	Naples	33.333	269
197	G.A.L. Marsica	Civitella Roveto	0.900	1
198	G.A.L. Terra dei Messapi Srl	Mesagne (BR)	9.524	2
199	G.P.D. Global Project Developers S.p.A.	Rome	15.832	-
200	Galileo Holding S.p.A.	Venice	5.540	-
201	Grosseto Sviluppo S.p.A.	Grosseto	15.620	80
202	Hathor Tecnology Group S.p.A.	Mantua	40.987	-
203	Hi - Spring S.p.A.	Brescia	5.000	500
204	Hopa S.p.A.	Brescia	9.171	323,547
205	I.Am It S.p.A. (in liquidazione)	Siena	100.000	-
206	I.S.B.E.M. Scpa	Brindisi	13.401	93
207	I.T.S. Intesa S.p.A.	Salerno	7.538	-
208	Idroenergia Scarl	Aosta	0.333	4
209	Immobiliare Abbiatense	Abbiategrasso	2.000	5
210	Immobiliare Lombarda S.p.A.	Milan	0.727	526
211	Immobiliare Novoli S.p.A.	Florence	5.000	1,033
212	Impianti S.r.l. (in liquidation)	Milan	13.817	2
213	Informatica Umbra S.r.l.	Spoleto	8.333	3
214	Iniziative Immobiliari S.r.l.	Gavirate (VA)	13.869	5,323
215	Interporto Bologna S.p.A.	Bologna	1.678	240
216	Interporto Campano S.p.A.	Naples	0.094	26
217	Interporto Civitavecchia P.L. S.p.A.	Civitavecchia	0.537	50
218	Interporto Toscano A.Vespucci	Leghorn	37.709	8,694
219	Ist. Encicl. Banca e Borsa S.p.A.	Rome	3.499	25
220	Istifid	Milan	0.397	4
221	IT City S.p.A.	Parma	15.000	733
222	Ital Tbs S.p.A.	Trieste	7.830	2,811
223	Kerself S.p.A.	Correggio (RE)	20.033	2,168
224	Lineapiù S.p.A.	Prato	2.000	1,431
225	Lucandocks S.p.A.	Potenza	2.000	26
226	Lucchini S.p.A.	Milan	6.173	12,437
227	Macello Coop.Lav.Carni S.c.r.l.	Pegognaga (MN)	47.049	1,849
228	Mantua Expo S.r.l.	Mantua	6.619	26
229	Mantua Interporto S.p.A.	Manta	4.167	26
230	Marina Blu S.p.A.	Rimini	30.001	4,132
231	Marina di Stabia S.p.A.	Castellamare di Stabia(NA)	15.833	5,162
232	Mattatoio Valle Umbra Sud S.p.A.	Foligno	1.741	2
233	MDF Sebes - Frati S.A.	Sebe	16.567	13,767
234	Meliorconsulting S.p.A.	Rome	5.000	40
235	Meri S.O.A. S.p.A.	Naples	5.000	26
236	Moda Mediterranea S.p.A.	Bari	12.376	25

237	Moliseinnovazione Soc.Cons.a r.l.	Campobasso	4.866	24
238	Murgia Sviluppo SpA	Altamura (BA)	5.000	5
239	Naples Oriental S.p.A.	Naples	9.798	52
240	Nomisma S.p.A.	Bologna	6.073	337
241	Oglio Po Terre D'Acqua S.c.r.l.	Calvatore (CR)	6.276	3
242	Ombrone S.p.A.	Rome	14.990	15
243	P.B. S.r.l.	Milan	7.850	9
244	Parco Scientifico e Tecnologico di Salerno S.p.A.	Salerno	1.000	13
245	ParmAbitare S.r.l.	Parma	2.000	1
246	Pastis - C.N.R.S.M. Scpa	Brindisi	10.063	208
247	Patto 2000 Scrl	Città della Pieve (PG)	7.937	23
248	Patto della Piana S.p.A.	Gioia Tauro (RC)	3.608	4
249	Patto di Foggia Scpa	Foggia	8.000	8
250	Patto Terr.le Area Metropolitana Bari S.p.A.	Bari	0.300	2
251	Patto Territoriale Polis Srl	Monopoli	6.296	10
252	Patto Territoriale Sele Picentino S.p.A.		2.052	8
253	Polo Universitario Aretino S.c.a.r.l.	Arezzo	6.522	8
254	Polo Universitario Colle V.Elsa S.c.r.l.	Colle Val D'Elsa	7.389	8
255	Polo Universitario Grossetano	Grosseto	5.405	5
256	Porto industriale di Livorno S.p.A.	Leghorn	15.963	2,912
257	Porto Intermodale Ravenna Sapir S.p.A.	Ravenna	0.006	
258	Pro.Mo.Mar Real Estate S.p.A.	Scarlino (GR)	11.000	85
259	Pro.Mo.Mar S.p.A.	Puntone, Scarlino (GR)	11.000	2,415
260	Profingest Scuola per dirigenti di impresa e banca	Bologna	0.461	2
261	Progeo S.c.r.l.	Reggio Emilia	16.842	
262	Progetti S.r.l.	Prato	15.000	5
263	PRomert S.r.l.	Naples	5.000	1
264	Promem S.p.A.	Bari	4.321	30
265	Promo Piana S. cons. a r.l.	Campi Bisenzio (FI)	4.918	1
266	Promozione Svil. Latina S.p.A.	Latina	1.081	1
267	Promozione Sviluppo Val di Cecina S.r.l.	Cecina (LI)	17.905	18
268	Reggio Sviluppo S.p.A.	Reggio Calabria	0.909	5
269	Residence La Pinetina S.r.l.	Rome	34.667	6
270	Roncadin Gmbh	Osnabruck (D)	0.951	444
271	S P F Studio Progetti e Servizi Finanziari S.r.l.		10.000	9
272	S.A.Cal. S.p.A.	Lamezia T.	0.600	34
273	S.A.S.E. S.p.A.	Perugia	1.862	3
274	S.E.A.M. Soc.Es.Aeroporto Mar. S.p.A.	Grosseto	1.930	
275	S.E.P. Società Economica Parmense S.r.l.	Parma	5.000	1
276	S.I.A. S.p.A.	Milan	1.585	501
277	S.I.F. Società Investimenti Fieristici S.p.A.	Parma	4.204	94
278	S.I.T. S.p.A.	Rome	20.000	206
279	S.S.B. S.p.A.	Milan	7.693	343

280	S.T.A. S.p.A.	Reggio nell'Emilia	15.000	1,418
281	S.T.B. S.p.A.	Prato	15.000	2,035
282	Santa Lucia S.p.A.	San Gimignano (SI)	5.000	5
283	Saped Servizi S.p.A.	Siena	15.000	13
284	Serin - Serv. Ind. SpA (fallita)	Sissa (PR)	50.000	
285	Servizi Cimiteriali Cesano Boscone	Cesano Boscone (MI)	10.000	121
286	SIAS S.p.A.	Turin	0.971	2,000
287	Siena Ambiente S.p.A.	Siena	14.000	2,246
288	Siena Parcheggi S.p.A.	Siena	16.667	773
289	Sistema Interportuale Jonico Salentino SpA	Lecce	9.343	46
290	Siteba S.p.A.	Rome	6.161	696
291	Skillpass S.p.A.	Rome	12.500	411
292	SO.GE.A.P. - Aeroporto Parma - Soc. gestione S.p.A.	Parma	5.616	128
293	SO.GE.SI. S.p.A. (in liquidazione)	Palermo	10.000	
294	SO.PR.I.P. Soc. Prov. Insediamenti Produttivi S.p.A.	Parma	2.417	10
295	SO.V.IM. Organismo di Attestazione S.p.A.	Florence	12.048	77
296	Soc. Aeroporto Toscano	Pisa	4.948	328
297	Soc. Gest. Patto Terr. Agro Nocerino Sarnese	Nocera Inferiore	2.652	30
298	Soc. per lo Sviluppo del Basso Tavoliere Scrl	Foggia	13.333	2
299	Soc. Prom. Area Sud Basilicata S.p.A.	Latronico (PZ)	0.150	2
300	Società Cons. Matese per l'Occupazione	Campobasso	1.001	5
301	Società Italiana di Monitoraggio S.p.A.	Rome	33.333	386
302	Società per lo Sviluppo del Materano S.p.A.	Matera	1.190	2
303	Sodim Srl (in liquidazione)	Lecce	100.000	
304	Sofiser S.r.l.	Reggio Emilia	2.030	97
305	Soggetto Interm Locale Appennino Centrale S.c.ar.l	Sansepolcro (Ar)	1.790	6
306	Start S.p.A.	Borgo S.Lorenzo (FI)	3.189	1
307	Sviluppo Italia Liguria S.p.A.	Genua	1.000	41
308	Sviluppo Sele - Tanagro S.p.A.	Oliveto Citra (SA)	10.000	45
309	Swift	Brussels	0.220	80
310	Taranto Sviluppo Scpa (in liquidation)	Taranto	15.000	
311	Telematix S.p.A.	Rome	50.000	1,090
312	Trasporti Ferroviari Casentino S.r.l.		3.090	2
313	Unibon Salumi Scrl	Modena	1.860	1,033
314	Unicarni S.c.r.l.	Reggio Emilia	7.120	775
315	Unisalute S.p.A.	Bologna	6.071	1,758
316	Valdarno Sviluppo S.p.A.	Cavriglia	12.574	90
317	Venafro Sviluppo S.p.A.	Venafro (IS)	10.000	15
318	Veronamercato S.p.A.	Verona	2.598	861
319	Visa Belgium	Brussels	0.572	
320	VoloRosso S.r.l.	Bologna	48.000	710
				1,013,459
	Total			1,717,753

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)

	31/12/2003	31/12/2002
A. **Assets**:	1,425,767	1,237,599
1. Due from banks	66,429	71,792
including: subordinated amounts	-	-
2. Due from financial institutions	479,133	478,869
including: subordinated amounts	289,990	206,797
3. Due from other customers	537,716	605,072
including: subordinated amounts	9,748	
4. Bonds and other debt securities	342,489	81,866
including: subordinated amounts	92,281	21,174
B. **Liabilities**	704,208	705,305
1. Due to banks	47,897	50,155
2. Due to financial institutions	200,030	205,383
3. Due to other customers	353,969	383,878
4. Liabilities backed by securities	88,312	372
5. Subordinated liabilities	14,000	65,517
C. Guarantees and commitments	283,238	1,111,635
1. guarantees released	91,692	186,451
2. commitments	191,546	925,184

3.4 Composition of Account 70 - Equity investments

The breakdown of other equity investments by industry is provided in the table below:

	31/12/2003	31/12/2002
a) In banks	321,481	322,205
1. listed	245,601	245,601
2. unlisted	75,880	76,604
b) In financial institutions	781,040	646,200
1. listed	16,424	11,808
2. unlisted	746,616	634,392
c) Other	1,054,569	635,526
1. listed	483,164	153,678
2. unlisted	571,405	481,848
Total	2,157,090	1,603,931

3.5 Composition of Account 80 - Equity investments in Group companies

Investments in Group companies by business sector are as follows:

	31/12/2003	31/12/2002
a) In banks	-	136,962
1. listed	-	-
2. unlisted	-	136,962
b) In financial institutions	-	7,500
1. listed	-	-
2. unlisted	-	7,500
c) Other	464,278	440,311
1. listed	-	-
2. unlisted	464,278	440,311
Total	464,278	584,773

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

	31/12/2003		31/12/2002	
	Valued with Net Equity Method	Other	Valued with Net Equity Method	Other
A. Opening balance	439,262	145,511	327,410	234,395
B. Increases:	113,353	-	112,541	760
B.1 Purchases	3,205	-	50,533	760
B.2 Recoveries	-	-	-	-
B.3 Revaluations	-	-	-	-
B.4 Other changes	110,148	-	62,008	-
C. Decreases:	88,337	145,511	689	89,644
C.1 Sales	-	132,396	-	57,392
C.2 Valuation adjustments	-	5,531	-	-
including: permanent writedowns	-		-	-
C.3 Other changes	88,337	7,584	689	32,252
D. Closing balance	464,278	-	439,262	145,511

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

	31/12/2003		31/12/2002	
	Valued with Net Equity Method	Other	Valued with Net Equity Method	Other
A. Opening balance	62,555	1,541,376	36,243	2,320,905
B. Increases:	377,518	240,828	26,874	749,274
B.1 Purchases	179,307	52,266	-	623,670
B.2 Recoveries	-	6,982	-	44
B.3 Revaluations	-		-	-
B.4 Other changes	198,211	181,580	26,874	125,560
C. Decreases:	736	64,451	562	1,528,803
C.1 Sales	-	14,911	-	1,254,044
C.2 Valuation adjustments	-	49,540	-	270,360
including: permanent writedowns		-		13,428
C.3 Other changes	736	-	562	4,399
D. Closing balance	439,337	1,717,753	62,555	1,541,376

SECTION 4 – FIXED AND INTANGIBLE ASSETS

Fixed assets

Fixed assets consist of the following:

	31/12/2003	31/12/2002
Buildings used in core business	1,459,333	1,480,601
Other buildings	539,111	450,838
Furniture and equipment	140,467	203,778
Total	2,138,911	2,135,218

4.1 Annual changes in balances of fixed assets

The annual changes in the fixed asset accounts are summarized in the table below:

	31/12/2003	31/12/2002
A. Opening balance	2,135,218	2,103,208
B. Increases:	361,857	418,857
B.1 Purchases	306,183	371,101
B.2 Recoveries	36,519	857
B.3 Revaluations	19,155	-
B.4 Other changes	-	46,899
C. Decreases:	358,164	386,847
C.1 Sales	15,317	33,861
C.2 Valuation adjustments	141,806	171,365
Depreciation	-	171,365
permanent writedowns	-	-
C.3 Other changes	201,041	181,621
D. Closing balance	2,138,911	2,135,218
E. Total revaluations	32,569	-
F. Total adjustments	926,266	1,455,821
Depreciation	905,656	1,431,182
permanent writedowns	20,610	24,639

Point B.3 is inclusive of the revaluation, carried out according to Law 342/2000 of the real estate of the subsidiary Marinella S.p.A. for EUR 32,569,000.

Intangible assets

Intangible assets consist of the following:

	31/12/2003	31/12/2002
Start-up costs	4,566	12,247
Commissions for placement of debentures	20,794	10,604
Leasehold improvements	25,342	22,724
Software (1)	220,849	260,257
Goodwill	3,732	5,043
Other (2)	97,834	123,421
Total	373,117	434,296

(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:

	31/12/2003	31/12/2002
A. Opening balance	434,296	428,766
B. Increases:	167,554	304,973
B.1 Purchases	144,193	254,828
B.2 Recoveries	23	-
B.3 Revaluations	-	-
B.4 Other changes	23,338	50,145
C. Decreases:	228,733	299,443
C.1 Sales	237	3,281
C.2 Valuation adjustments	193,907	234,828
- amortization	-	173,715
- permanent writedowns	-	61,113
C.3 Other changes	34,589	61,334
D. Closing balance	373,117	434,296
E. Total revaluations	-	-
F. Total adjustments	614,809	368,496
- amortization	606,131	307,383
- permanent writedowns	8,678	61,113

SECTION 5 - OTHER ASSETS

5.1 Composition of Account 150 - Other assets

Other assets consist of the following:

	31/12/2003	31/12/2002
Amounts due from taxpayers – tax collection service	2,592,165	3,306,183
Due from the Treasury	977,190	894,936
Third-party checks held for collection	422,596	560,215
MPS checks held for collection	275,290	184,888
Clearing balances with branches	84,546	218,135
Valuation adjustments on foreign currency transactions	5,422	6
Security deposits	10,060	257,125
Balances on foreign exchange transactions	5	32,566
Non-banking operating assets	611	47,406
Assets subject to litigation not related to lending transactions	15,176	14,311
Subsidies for interest-subsidized loans		
Deferred tax assets (°)	463,224	489,196
Option premium	5,517,444	2,124,536
Off-balance-sheet transaction revaluation	3,912,381	6,526,387
Other	3,478,603	4,776,429
Total	17,754,713	19,432,319

(°) 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

	31/12/2003	31/12/2002
Accrued income:		
Interest on owned securities	184,468	197,342
Interest on loans and advances to banks	48,116	63,155
Interest on loans and advances to customers	90,815	210,672
Differentials on hedging transactions	617,278	831,404
Tax collection commissions	172	509
Other	50,323	42,293
	991,172	1,345,375
Prepayments:		
Differentials on hedging transactions	15,936	33,506
Costs	5,521	7,288
Issuing discounts	74,988	76,722
Other	152,384	105,050
	248,829	222,566
Total	1,240,001	1,567,941

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.

	31/12/2003	31/12/2002
Amounts due from banks	-	-
Customer loans and advances (°)	380,958	399,895
Bonds and other fixed-income securities	954,418	745,795
Total	1,335,376	1,145,690

(°) The balance includes EUR 58,424,000 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

	31/12/2003	31/12/2002
a) Repurchase agreements	6,646,976	7,437,044
b) Pledged securities	231,612	16,014

Funding from banks consists of the following amounts:

	31/12/2003	31/12/2002
Sight	2,254,814	799,834
Current accounts	439,046	450,858
Demand deposits	1,605,861	238,596
Other	209,907	110,380
Time or requiring advance notice of withdrawal	12,803,160	19,716,481
Time deposits	4,950,635	11,299,364
Deposits received from central banks	-	-
Borrowings from central banks	241,987	454,598
Borrowings from banks	183,440	906
Borrowings from international institutions	443,186	476,940
Re-financing from medium-term and other specialized lenders (Artigiancassa)	19,361	28,077
Repurchase agreements	6,878,587	7,437,044
Pledged securities	-	16,014
Other	86,074	3,538
Total	15,057,974	20,516,315

6.2 Composition of Account 20 - Customer deposits

	31/12/2003	31/12/2002
a) Repurchase agreements	4,453,711	7,832,685
b) Securities lending	216,521	6,215

Customer deposits consist of the following amounts:

	31/12/2003	31/12/2002
Sight	38,771,431	38,661,446
Current accounts	34,977,093	34,837,400
Demand deposits	3,461,475	3,524,249
Other	332,863	299,797
Time or requiring advance notice of withdrawal	8,239,917	11,118,353
Saving deposits	629,757	605,801
Current accounts	2,829,150	2,190,838
Repurchase agreements	4,670,233	7,832,685
Securities lending	16,415	6,215
Other	94,362	482,814
Total	47,011,348	49,779,799

6.3 Composition of Account 30 - Other borrowed funds backed by negotiable instruments

Other borrowed funds backed by negotiable instruments include:

	31/12/2003	31/12/2002
Bonds	23,999,964	20,588,393
Certificates of deposit	6,021,286	6,315,758
Other securities	830,462	570,541
Total	30,851,712	27,474,692

The other securities include cashier checks and bank drafts still outstanding.

6.4 Composition of Account 40 - Third-party funds under administration

	31/12/2003	31/12/2002
Funds in EUR	30,742	36,454

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

	31/12/2003	31/12/20021
A. Opening balance	354,515	299,941
B. Increases	120,073	90,169
B.1 Provisions	48,028	90,008
B.2 Other changes	72,045	161
C. Decreases	163,483	35,595
C.1 Usage	124,905	27,805
C.2 Other changes	38,578	7,790
D. Closing balance	311,105	354,515

As at 31 December 2003, EUR 70,000 of the reserve of the parent company was used to counterbalance risks referred to savings plans and to cover other credit risks resulting from the sudden solvency deterioration of some performing loans.

7.3 Composition of Sub-Account 80 d) - Reserves for risks and other charges: other reserves

	31/12/2003	31/12/2002
Provisions for guarantees and commitments	49,228	47,003
Reserve for philanthropic activities	1,067	681
Reserve for risks and other charges:	733,549	568,977
- pending litigation	141,481	107,999
- charges on renewal of contracts	155	1,155
- action for revocation	184,932	145,999
- tax collection activities	127,662	111,405
- provisions for losses on equity investments	6,877	29,499
- Interbank Guarantee Fund	133	133
- Interbank Deposit Protection Fund		-
- Securities issued by high-risk nations	11,783	12,400
- Other (1)	260,226	160,387
Total	783,844	616,661

(1) note to “Reserve for risks and other charges”.

Provisions for guarantees and commitments

	31/12/2003	31/12/2002
Opening balance	47,003	45,741
Provisions	4,707	4,596
Usage	(2,072)	(4,063)
Other changes	(410)	729
Total	49,228	47,003

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:

	31/12/2003	31/12/2002
Opening balance	681	438
Allocation of prior-year profits	3,113	1,097
Use of the reserve	(2,727)	(854)
Closing balance	1,067	681

Reserve for risks and other charges

Changes in the reserve are summarized in the following table:

	31/12/2003	31/12/2002
Opening balance	568,977	535,871
Provisions (1)	164,288	104,448
Increases	185,731	17,688
Usage	(43,372)	(51,655)
Other changes	(142,075)	(37,375)
Total	733,549	568,977

(1) Provisions include EUR 104,611,000 aimed at covering risks, if any, resulting from the deterioration of savings plans and other structured products.

7.4 Composition of Sub-Account 80 b) – Reserve for taxes "

	31/12/2003	31/12/2002
Income tax	460,596	439,126
Other taxes	62,484	125,378
Deferred taxes	124,168	181,675
Total	647,248	746,179

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:

	31/12/2003	31/12/2002
Opening balance	746,179	842,670
Provisions:	630,070	727,959
Income tax	498,301	443,948
Other taxes	4,516	7,833
Other provisions	9,447	178,481
Other increases	117,806	97,697
Usage for payments made during the year	(695,658)	(797,654)
Other changes	(33,343)	(26,796)
Foreign-exchange differences and other changes	-	-
Closing balance	647,248	746,179

Deferred tax assets offset by entries to the Profit and Loss Statement

		31/12/2003		31/12/2002
Opening balance		489,196		365,052
Increases		337,253		361,680
- deferred taxes booked during the year	218,216		338,769	
- other increases	119,037		22,911	
Decreases		400,402		237,536
- deferred taxes cancelled during the year	306,489		225,153	
- other decreases	99,913		12,383	
Closing balance		426,047		489,196

Deferred tax assets offset by entries to the Balance Sheet

		31/12/2003		31/12/2002
Opening balance		44,060		52,954
Increases		8,107		5,722
- deferred taxes booked during the year	8,107		5,722	
- other increases			-	
Decreases		14,990		14,616
- deferred taxes cancelled during the year	14,210		13,614	
- other decreases	780		1,002	
Closing balance		37.177		44,060

The account includes deferred tax assets relative to the fifths of the losses arising from the Ulisse and Ulisse 2 securitization transactions which were charged by the parent company and the subsidiary, Banca Toscana, to the extraordinary reserve set up pursuant to Article 6 of Law n. 130/99. The taxes arising during the year refer, in the case of the parent company, to the losses on the junior securities underlying the Ulisse securitization.

Deferred tax liabilities offset by entries to the Profit and Loss Statement

		31/12/2003		31/12/2002
Opening balance		186,624		135,109
Increases		132,483		177,634
- deferred taxes booked during the year	8,306		176,790	
- other increases	124,177		844	
Decreases		182,446		126,119
- deferred taxes cancelled during the year	178,767		125,512	
- other decreases	3,679		607	
Closing balance		136,661		186,624

Deferred tax liabilities offset by entries to the Balance Sheet

		31/12/2003		31/12/2002
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 2003 are summarized below:

	31/12/2003	31/12/2002
Opening balance	396,639	389,025
Usage	(39,426)	(44,274)
Provisions	21,093	29,187
Other changes *	52,075	22,701
Total	430,381	396,639

* 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:

	31/12/2003	31/12/2002
Opening balance	434,202	424,026
Indemnities paid	(33,620)	(22,282)
Advances under Law 297/82	(11,972)	(10,801)
Provisions	85,020	84,402
Transfer to the supplemental pension fund		-
Other changes	(47,126)	(41,143)
Total	426,504	434,202

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

	31/12/2003	31/12/2002
Reserve for general banking risks	60,744	360,812
Negative consolidation differences	4,888	21,343
Negative net equity differences	1,570	1,570
Share capital	1,935,273	1,675,023
Additional paid-in capital	522,925	522,925
Reserves:		
- legal reserve	335,005	271,231
- reserve for own shares	15,909	10,417
- statutory reserve	1,065,813	974,812
- other reserves	1,725,168	1,115,833
Revaluation reserves	43,483	14,406
Profit (loss) carried forward	124	70
Profit (loss) for the year	442,521	581,813
Total shareholders' equity	6,153,783	5,550,255

The Account 150 "Share capital" of the parent company include the share capital increase for the mergers by incorporations of BAM and BAT , further to the resolution of the Ordinary and Extraordinary Shareholders'Meetings, of 28 February and 14 June 2003, respectively, as better specified in the enclosure, and the conversion from ordinary to preferred shares.

Other assets:

	31/12/2003	31/12/2002
Positive consolidation differences	668,688	756,509
Positive net equity differences	244,241	114,268
Total	912,929	870,777

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:

	31/12/2003	31/12/2002
Opening balance	360,812	445,288
Provisions	-	1
Usage		-
Other changes	(300,068)	(84,477)
Closing balance	60,744	360,812

The reserve for general banking risks was used to meet the corporate general banking risk, consistently with its scope, in front of specific extraordinary events (financial fixed assets, savings plans) aiming at optimizing the Group's tax position.

8.2 Subordinated debt

	Issuer	Maturity	Currency	Interest	Net Countervalue Outstanding
1	Banca Monte dei Paschi di Siena S.p.A.	01/12/05	ITL	variable	154,886
2	Banca Monte dei Paschi di Siena S.p.A.	01/12/05	ITL	fixed	154,876
3	Banca Monte dei Paschi di Siena S.p.A.	12/03/09	EURO	variable	408,368
4	Banca Monte dei Paschi di Siena S.p.A.	30/09/06	EURO	variable	210,000
5	Banca Monte dei Paschi di Siena S.p.A.	15/05/07	EURO	fixed	120,000
6	Banca Monte dei Paschi di Siena S.p.A.	15/05/07	EURO	variable	120,000
7	Banca Monte dei Paschi di Siena S.p.A.	07/07/15	EURO	variable	30,000
8	Banca Monte dei Paschi di Siena S.p.A.	20/07/15	EURO	variable	25,000
9	Banca Monte dei Paschi di Siena S.p.A.	21/12/10	EURO	variable	300,000
10	Banca Monte dei Paschi di Siena S.p.A.	18/05/11	EURO	variable	250,000
11	Banca Monte dei Paschi di Siena S.p.A.	20/07/11	EURO	variable	250,000
12	Banca Monte dei Paschi di Siena S.p.A.	20/07/11	EURO	variable	150,000
13	Banca Monte dei Paschi di Siena S.p.A.	04/03/04	EURO	variable	350,000
14	Banca Monte dei Paschi di Siena S.p.A.	20/12/04	EURO	variable	70,800
15	Banca Monte dei Paschi di Siena S.p.A.	20/06/05	EURO	variable	100,000
16	Banca Monte dei Paschi di Siena S.p.A.	31/12/07	EURO	variable	9,200
17	Banca Monte dei Paschi di Siena S.p.A.	24/09/15	EURO	variable	400,000
18	Banca Monte dei Paschi di Siena S.p.A.	24/09/15	EURO	variable	200,000
19	Banca del Monte di Parma	19/11/08	EURO	Fixed	5,329
20	Banca Popolare di Spoleto S.p.A.	01/05/06	EURO	variable	11,165
21	,PS Leasing e Factoring S.p.A.	31/12/09	EURO	variable	53,944
22	MPS Merchant S.p.A.	01/06/10	EURO	variable	51,425
					3,424,993

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:

	31/12/2003	31/12/2002
Banca Toscana	-	12,124
MPS Banca Verde	3,353	7,684
Other companies	1,535	1,535
Total	4,888	21,343

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

	31/12/2003	31/12/2002
Opening balance	807,605	941,958
Profit (loss) for the year	8,050	90,043
Changes in the area of consolidation	(83,904)	929
Increases	26,625	30,827
Decreases (*)	(723,611)	(256,152)
Total	34,765	807,605

The decreases are mainly attributable to the mergers by incorporation of the subsidiaries Banca Agricola Mantovana and Banca Toscana corresponding, due to the relative share-exchange, to an equal increase of the parent company's reholders'equity and to a residual amount included in the account "Other reserves".

(*) Substantially due to the distribution of dividends to third parties

8.6 Share capital

	Par Value	Number	31/12/2003 Value in EUR
Ordinary shares	0.64	2,448,491,901	1,567,035
Savings shares	0.64	9,432,170	6,037
Preferred Shares	0.64	565,939,729	362,201
			1,935,273

	Par Value	Number	31/12/2002 Value in EUR
Ordinary shares	0,64	2,607,791,591	1,668,987
Savings shares	0,64	9,432,170	6,036
			1,675,023

8.7 Composition of Account 160 - Paid-in capital

	31/12/2003	31/12/2002
Paid-in capital	522,925	522,925

8.8 Composition of Account 170 - Reserves

	31/12/2003	31/12/2002
Legal reserve	335,005	271,232
Reserve for own shares or quotas	15,910	10,417
Statutory reserves	1,065,813	974,812
Other reserves	1,725,167	1,115,832
Total	3,141,895	2,372,293

8.9 Composition of Account 180 - Revaluation reserves

	31/12/2003	31/12/2002
Revaluation reserves	43,843	14,406

The revaluation reserves for the account of minority interests amounted to EUR 1,989,000 at the end of 2003 and 2002, with the amounts computed on the basis of the Group's relative holdings in the consolidated companies.

The increase of the revaluation reserves is due to the revaluation of tangible fixed assets of the subsidiary Marinella S.p.A. net of the relative substitute tax.

8.10 Positive consolidation differences

Positive consolidation differences are the result of the consolidation of the following companies:

	31/12/2003	31/12/2002
Banca Toscana	-	16,455
Gruppo Banca Agricola Mantovana	604,132	631,232
Cooperbanca S.p.A.	-	6,292
Banca Popolare di Abbiategrasso S.p.A.	-	18,528
G.I. Profidi SIM S.p.A.	72	96
Intermobiliare Securities Sim S.p.A.	4,111	5,257
Banca Monte Paschi Belgio	2,574	3,433
Banca Popolare di Spoleto S.p.A.	8,707	10,642
MPS Banca Verde S.p.A.	526	1,052
MPS Merchant S.p.A.	2,305	4,611
Banca Monte Parma S.p.A.	42,014	50,417
Banca C. Steinhauslin & C. S.p.A.	4,247	8,494
Total	668,688	756,509

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	31/12/2003	31/12/2002
Banca Monte dei Paschi di Siena	5,728,539	0.64	3,666,265	14,453	2,294
Banca Toscana				-	7,356
MPS Finance Banca Mobiliare	555,727	0.64	355,665	1,402	746
Banca Agricola Mantovana	21,448	0.64	13,727	54	21
Total			4,035,657	15,909	10.417

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 2003, 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	31/12/2003	31/12/2002
A. Calculation of capital for regulatory purposes		
A.1 Total Tier 1 capital	5,532,558	5,160,134
A.2 Total Tier 2 capital	3,102,570,	2,530,064
A.3 Deductions	(821,307)	(790,539)
A.4 Capital for regulatory purposes	7,813,821	6,899,659
B. Capital required for regulatory purposes		
B.1 Credit risks	5,804,109	5,862,329
B.2 Market risks	696,293	649,318
including:		
- risks on trading securities portfolio	690,576	641,813
- exchange-rate risks	5,717	7,505
B.2.1 Subordinated debt	600,000	600,000
B.3 Other requirements	308,846	315,001
B.4 Total capital required for regulatory purposes	6,209,248	6,226,648
Surplus capital	1,604,573	673,011
C. Risk-weighted assets and capital adequacy ratios		
C.1 Risk-weighted assets	85,115,601	85,333,103
Total credit risks	72,551,363	73,279,115
Market risk °	8,703,663	8,116,475
C.2 Tier 1/risk-weighted assets	6.50	6.05
C.3 Capital for regulatory purposes/ risk-weighted assets	9.89	8.79

° Total capital requirement multiplied by the reciprocal of the minimum obligatory coefficient for credit risks

Solvency coefficient for credit risks	10.77	9.42

SECTION 9 - OTHER LIABILITIES

9.1 Composition of Account 50 - Other liabilities

Following are the principal amounts in the account:

	31/12/2003	31/12/2002
Liabilities related to tax collection activity	1,259,132	1,761,515
Sums available to customers	254,437	653,257
Clearing balances with branches	101,378	142,733
Items relating to foreign currency transactions	14	46,100
Third-party sums due to fiscal authorities and social-welfare institutions	170,329	188,523
Third-party sums for security deposits	449,059	543,912
Non-banking liabilities	-	24,743
Deferred tax liabilities (*)	136,662	186,624
Valuation adjustments to foreign currency transactions	1,544	4,371
Amounts relating to securities transactions	15,116	183,756
Option premiums	5,164,802	2,008,898
Adjustments to the value of off-balance-sheet transactions (**)	4,269,274	6,424,237
Other	3,603,544	5,049,670
Total	15,425,291	17,218,339

(*) 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.

9.2 Composition of Account 60 - Accrued liabilities and deferred income

Accrued liabilities and deferred income consist of the following:

	31/12/2003	31/12/2002
Accrued liabilities:		
Interest due on customer deposits	11,439	33,674
Interest on securities issued	460,830	453,313
Interest on certificates of deposit	29,317	38,324
Interest on amounts due to banks	47,541	31,980
Differentials on hedging transactions	299,293	630,462
Administrative expenses	60,618	96,351
Other	69,009	60,513
	978,047	1,344,617
Deferred income:		
Discount portfolio	20,566	25,055
Differentials on hedging transactions	112,781	121,059
Commissions	11,004	10,730
Other	227,028	173,754
	371,379	330,598
Total	1,349,426	1,675,215

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

	31/12/2003	31/12/2002
a) Endorsement credits of a commercial nature:		
Documentary credits	337,837	406,095
Bankers acceptances	42,510	85,884
Endorsements and sureties	2,592,517	2,560,699
Other	308,752	194,649
	3,281,616	3,247,327
b) Endorsement credits of a financial nature:		
Acceptances	79,389	73,950
Endorsements and sureties	2,290,376	2,623,100
Other	359,754	421,398
	2,729,519	3,118,448
c) Assets pledged under guarantees:		
Third-party bonds	52,635	25,122
Total	6,063,770	6,390,897

10.2 Composition of Account 20 – Commitments and Account 30 - Commitments for credit derivatives

	31/12/2003	31/12/2002
a) Commitments to disburse funds for which usage is certain:		
Mortgage loans to be disbursed to customers	69,808	17,891
Loans and deposits to be funded to banks	6,376	7,797
Commitments to purchase securities	2,720,143	4,185,177
Installments coming due (tax collection)		-
Other commitments and risks (°)	3,674,559	3,158,779
	6,470,886	7,369,644
b) Commitments to disburse funds for which usage is not certain:		
Available margins on lines of credit to banks	359,258	294,133
Available margins on lines of credit to customers	3,792,254	4,142,418
Interbank Deposit Protection Fund	76,544	75,044
Installments (tax collection)	16,652,472	12,461,351
Other commitments (°°)	520,816	1,537,182
	21,401,344	18,510,128
Total	27,872,230	25,879,772

(°)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 49,228,000, 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:

	31/12/2003	31/12/2002
Guarantees for advances from the Bank of Italy	451,595	404,807
Guarantees for repurchase agreements	9,166,263	10,575,479
Guarantees for issuance of cashier checks	132,864	129,355
Other	102,653	127,852
Total	9,853,375	11,237,493

10.4 Available margins on lines of credit

The Group has the following availability under credit lines in effect as of year end:

	31/12/2003	31/12/2002
a) Central banks	884,675	857,876
b) Other banks	3,329	467,237
Total	888,004	1,325,113

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	5,358	2,715,063	206
Sales	-	1,035,734	-
1.2 Foreign exchange:			
Currency against currency	1,500,073	340,956	13,480
Purchases against euros	5,109,248	521,146	-
Sales against euros	1,240,862	678,029	-
2. Deposits and loans:			
to be disbursed	3,312	5,805	81,076
to be received	3	200	1,347,985
3. Derivatives contracts:			
3.1 With exchange of principal			
a) Securities:			
Purchases (1)	119,670	1,022,628	882,128
Sales (2)	167,733	1,724,594	119,670
b) Foreign exchange:			
Currency against currency	36,886	22,431,215	
Purchases against euros	466,643	8,441,242	
Sales against euros	132,662	8,897,212	
c) Other negotiable instruments:			
Purchases	-	478,517	
Sales	-	499,752	
3.2 Without exchange of principal:			
a) Foreign exchange			
Currency against currency	-	-	
Purchases against euros	5,333	49,890	
Sales against euros	6,673	255,383	
b) Other negotiable instruments:			
Purchases (3)	33,028,365	205,602,143	2,702,256
Sales (2)	24,147,295	221,770,501	4,902,179

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) Covered warrants issued by the parent company for EUR 104,100,000.

2) The amounts of the column “Other” are covered warrants issued by the parent company.
3) “Other” include:
   a) 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);
   b) covered warrants issued by the parent company for EUR 37,650,000.

10.6 Credit derivatives contracts

	31/12/2003		31/12/2002	
Types of Transactions	Trading	Other	Trading	Other
1. Purchase of protection				
1.1 With exchange of capital	3,518,207	-	1,485,437	125,446
1.2 Without the exchange of capital	61,000	60,883	334,420	173,450
2. Sale of protection				
1.1 With exchange of capital	517,874	26,000	1,764,052	217,227
1.2 Without the exchange of capital	131,762	321,985	88,150	-

SECTION 11 - DISTRIBUTION AND CONCENTRATION OF ASSETS AND LIABILITIES

11.1 Material risks

	31/12/2003	31/12/2002
Amount	3,645,178	4,242,035
Number	4	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:

	31/12/2003	31/12/2002
a) Governments	1,346,429	1,516,820
b) Other public-sector entities	2,939,797	2,854,253
c) Non-financial companies	40,581,642	40,011,726
d) Financial institutions	5,392,744	6,200,224
e) Family-owned businesses	5,752,143	5,237,664
f) Other	14,392,237	12,651,283
Total	70,404,992	68,471,970

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:

	31/12/2003	31/12/2002
a) Commercial services, recoveries and repairs	7,686,762	6,880,509
b) Construction and public works	4,875,340	4,114,797
c) Farming, forestry and fishery	3,423,429	2,488,029
d) Textiles, leather footwear, and apparel	2,657,807	2,466,519
e) Food and beverage products	2,133,941	2,098,043
f) Other	23,229,633	19,781,711
Total	44,006,912	37,829,608

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:

	31/12/2003	31/12/2002
a) Governments	6,801	4,028
b) Public-sector entities	211,198	213,075
c) Banks	290,392	373,799
d) Non-financial companies	4,517,423	5,011,683
e) Financial institutions	228,005	343,794
f) Family-owned businesses	161,664	170,462
g) Other	648,287	274,056
Total	6,063,770	6,390,897

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
1. Assets	83,813,778	9,899,274	3,548,217	97,261,269
1.1 Amounts due from banks	4,056,836	3,625,625	868,638	8,551,099
1.2 Customer loans and advances	67,894,546	2,081,837	428,610	70,404,993
1.3 Securities	11,862,396	4,191,812	2,250,969	18,305,177
2. Liabilities	81,697,694	10,181,215	5,547,860	97,426,769
2.1 Due to banks	7,653,531	4,267,698	3,136,744	15,057,973
2.2 Customer deposits	43,808,472	2,568,776	634,100	47,011,348
2.3 Other borrowed funds backed by negotiable instruments	26,854,625	2,926,188	1,070,899	30,851,712
2.4 Other	3,381,066	418,553	706,117	4,505,736
3. Guarantees and commitments	30,981,759	2,332,305	621,936	33,936,000

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	32,876	17,516	6,910	1,023	58,443	1,705	44,866	-	163,339
1.2 Amounts due from banks	450,774	5,482,469	1,176,695	381,641	4,480	33,387	1,015	1,020,639	8,551,100
1.3 Customer loans and advances	13,627,352	11,171,513	10,789,278	4,682,559	11,915,368	3,771,368	11,807,247	2,640,307	70,404,992
1.4 Bonds and other fixed-income securities	122,500	3,474,261	2,320,935	2,142,396	3,812,483	2,094,603	2,187,991	859,071	17,014,240
1.5 Off-balance-sheet transactions	1,247,645	115,402,481	92,044,241	32,114,281	4,729,647	52,817,360	1,609,791	59	299,965,505
TOTAL ASSETS	15,481,147	135,548,240	106,338,059	39,321,900	20,520,421	58,718,423	15,650,910	4,520,076	396,099,176
Liabilities:									
2.1 Due to banks	2,316,488	11,273,263	778,538	64,548	15,600	446,408	150,063	13,066	15,057,974
2.2 Customer deposits	39,010,031	7,678,888	289,993	27,274	-	3,469	-	1,693	47,011,348
2.3 Other borrowed funds backed by negotiable instruments:	685,186	4,705,055	3,406,708	6,203,472	10,473,184	3,456,493	1,832,577	89,037	30,851,712
including:									
- Bonds	69,697	760,769	1,933,804	5,403,427	10,454,160	3,456,493	1,832,577	89,037	23,999,964
- Certificates of deposit	97,143	3,667,170	1,462,904	775,045	19,024	-	-	-	6,021,286
- Other securities	518,346	277,116	10,000	25,000	-	-	-	-	830,462
2.4 Subordinated debt	-	500,000	63,366	109,581	820,463	350,000	1,931,583	700,000	4,474,993
2.5 Off-balance-sheet transactions	1,783,446	126,637,579	84,364,977	89,936,404	4,791,610	56,946,027	1,000,648	81,428	365,542,119
TOTAL LIABILITIES	43,795,151	150,794,785	88,903,582	96,341,279	16,100,857	61,202,397	4,914,871	885,224	462,938,146

11.7 Foreign-currency-denominated assets and liabilities

The consolidated balance sheet includes the following assets and liabilities denominated in foreign currencies:

	31/12/2003	31/12/2002
a) Assets		
1. Amounts due from banks	1,131,233	3,341,662
2. Customer loans and advances	1,871,100	2,608,296
3. Securities	1,330,473	1,546,708
4. Equity investments	350,779	349,673
5. Other	14,603	13,694
	4,698,188	7,860,033
b) Liabilities		
1. Due to banks	2,989,439	6,286,528
2. Customer deposits	1,791,080	1,780,001
3. Other borrowed funds backed by negotiable instruments	3,291,766	2,876,766
4. Other		-
	8,072,285	10,943,295

11.8 Securitized assets

The following securitization transactions were carried out within the MPS Group in 2003 pursuant to Law n. 130/99.

SIENA MORTGAGES 02-03 S.r.l.

During the second quarter of 2003, a portfolio of performing first mortgages on residential properties was sold on a non-recourse basis by Banca Monte dei Paschi di Siena S.p.A. and several subsidiaries ("Originators") to the special-purpose company Siena Mortgages 03-4 S.r.l..

The special-purpose company set up for the transaction, "Siena Mortgages 03-4", is currently 40-percent controlled by Stichting Marcellus, 50-percent by Stichting Green Hill. The remaining 10 percent is owned by the Originator Banks in proportion to the credits involved in the transaction.

The price of the transfer was determined by the sum of two components: the current price of EUR 1,468,984,000, the nominal value of the loans as of the date of the valuation (including EUR 974,844,000 represented by 13,827 loans transferred by BMPS), and the deferred price of EUR 82,244,000 (including EUR 57,100,000 relative to the BMPS loans, EUR 16,226,000 to BT and EUR 8,918,000 to BAM), the latter of which is linked to actual collection of the loans by the special-purpose company (the so-called "excess spread" net of the transaction costs).

Offsetting the purchase of the credits, the special-purpose company issued asset-backed floating rate notes which were quoted on the Luxembourg Exchange and placed with institutional investors in Italy and abroad. The securitization transaction was structured in four tranches, with two categories of the bonds rated "AAA" (EUR 220.35 million and EUR 1,160.5 million). The other two tranches include bonds with an "AA" rating (EUR 51.41 million), and bonds with a "BBB" rating (EUR 36.73 million).

Each Originator has assumed the role of servicer for its respective credits.

The liquidity generated from these transactions will be reinvested in loan assets, and thus the transactions will allow for improving the MPS Group's return on capital.

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:

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	158,324	-	158,324

Mezzanine securities

	Total Outstanding	Valuation adjustments	Net Exposure
Securities			
1 Non-performing loans	-		-
2 Watch-list credits			-
3 Other assets	92,305	(348)	91,957

Junior securities

	Total Outstanding	Valuation adjustments	Net Exposure
Mortgages			
1 Non-performing loans	43,951	(27,205)	16,746
2 Watch-list credits	-		-
3 Other assets	10,000		10,000
Securities			
1 Non-performing loans	-		-
2 Watch-list credits			-
3 Other assets	90,971	322	91,293
Other			
1 Non-performing loans	352,581		352,581
2 Watch-list credits			-
3 Other assets			-

11.8 B Trading securities secured by loans of the MPS Group

Senior securities

	Total Outstanding	Valuation adjustments	Net Exposure
Other			
1 Non-performing loans	14		14
2 Watch-list credits			-
3 Other assets			-

Mezzanine securities

	Total Outstanding	Valuation adjustments	Net Exposure
Mortgages			
1 Non-performing loans	-		-
2 Watch-list credits			-
3 Other assets	6,797	3	6,800
Other			
1 Non-performing loans	30,000		30,000
2 Watch-list credits			-
3 Other assets	4,965		4,965

Junior securities

	Total Outstanding	Valuation adjustments	Net Exposure
Other			
1 Non-performing loans			
2 Watch-list credits			-
3 Other assets	2,159	(40)	2,119

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	-		-
3 Other assets	1,707		1,707
Other			
1 Non-performing loans	6,026		6,026
2 Watch-list credits			
3 Other assets	71,189		71,189

Mezzanine securities

	Total Outstanding	Valuation adjustments	Net Exposure
Mortgages			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	3,966		3,966
Securities			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	5,000		5,000
Other			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	33,560		33,560

Junior securities
Non 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	2,575		2,575
2 Watch-list credits	-		-
3 Other assets	13,996		13,996
Leasing			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	1,919		1,919
Securities			
1 Non-performing loans	50,000	(1,500)	48,500
2 Watch-list credits			-
3 Other assets	34,064	-	34,064
Other			
1 Non-performing loans	2,532		2,532
2 Watch-list credits			-
3 Other assets	24,145	(26)	24,119

Mezzanine securities

	Total Outstanding	Valuation adjustments	Net Exposure
Mortgages			
1 Non-performing loans	10,000	-	10,000
2 Watch-list credits	26,921	79	27,000
3 Other assets	34,028		34,028
Securities			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	17,527		17,527

Junior securities

	Total Outstanding	Valuation adjustments	Net Exposure
Mortgages			
1 Non-performing loans	2,497	-	2,497
2 Watch-list credits	-	-	-
3 Other assets	9,000	(90)	8,910
Other			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	9,830	(80)	9,750

11.8 E Underlying assets of the MPS Group

	Book value
Non-performing loans	762,121
Watch-list credits	-
Other assets	1,610,917
Total	2,373,038

11.8 F Underlying assets of third-party institutions

	Book value
Non-performing loans	
Watch-list credits	
Other assets	313,650
Total	313,650

11.8 G Distribution of securitized credits by type and ranking

	Total Outstanding	Valuation adjustments	Net Exposure
Mortgages			
1 Non-performing loans	5,365	1,442	3,923
2 Watch-list credits	-	-	-
3 Other assets	1,515,176		1,515,176
Securities			
1 Non-performing loans			
2 Watch-list credits			
3 Other assets	54,542		54,542
Other			
1 Non-performing loans	6,238	2,293	3,945
2 Watch-list credits			
3 Other assets			

11.8 H Geographical distribution of debtors

	Italy	EU countries	Other countries
Total	1,498,489	24,878	15,448

11.8 I Collateral backing securitized credits

	Total
a) Mortgages	1,151,547
b) Liens on:	
1. cash deposits	1,257
2. securities	-
3. other negotiable instruments	-
c) Guarantees of:	
1. governments	-
2. other public-sector entities	-
3. bank	-
4. other	-

11.8 L Distribution of credits assigned, by sector of economic activity

Sector	Total
Other sectors	979,304
Agricultural products	29,933
Energy products	138
Minerals, iron ores and others	46
Minerals and mineral-based products	351
Chemical products	53
Metal products	244
Farm and industrial equipment	426
Office and data processing machines	16
Electric equipment and supplies	143
Transport means	128
Food and beverages	1,528
Textile products, leather and footwear	1,114
Paper, paper products	232
Rubber products	69
Other industrial products	382
Construction and public works	2,948
Trade, repairs and product recycling	3,197
Hotels and utilities	1,960
Internal transport services	475
Maritime and air transport	73
Communication services	5
Other sale services	3,669
Total	1,026,434

11.8 M Transfer price of securitized loans

	Total
a) Transfer price: principal	1,194,758
b) Transfer price: interest	-
Total	1,194,758

11.8 N Servicing

Collections by individual securitization transaction

	Total
Mantegna 1	85,935
Mantegna 2	50,925
MPS Assets Securitisation	432,507
Seashell II S.r.l.	71,737
Seashell Securities Plc	20,409
Segesta Finance S.r.l.	-
Siena Mortgages 03-4 S.r.l.	18,423
Siena Mortgages 00-1 S.p.A	103,122
Siena Mortgages 01-2 S.p.A.	151,105
Siena Mortgages 02-3 S.r.l.	215,241
Tiziano Finance S.p.A.	48,168
Ulisse 2 S.p.A.	77,636
Ulisse 3 S.p.A.	33,473
Ulisse S.p.A.	26,759
Total	1,335,440

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

Total			371,233

SECTION 12 - FUNDS MANAGEMENT AND OTHER TRANSACTIONS FOR THE ACCOUNT OF THIRD PARTIES

12.1 Securities trading

	31/12/2003	31/12/2002
a) purchases	16,265,484	16,355,869
1. settled	16,265,484	16,355,068
2. unsettled	-	801
b) sales	16,102,864	15,857,721
1. settled	16,102,859	15,857,072
2. unsettled	5	649

12.2 Portfolio management

	31/12/2003	31/12/2002
Portfolios under management	10,239,026	10,811,295
Total	10,239,026	10,811,295

12.3 Administration and safekeeping of securities

The following table provides a summary of securities under administration and in safekeeping with the Group:

	31/12/2003	31/12/2002
a) Securities of third parties held in custody (excluding portfolio management)	173,857,878	176,038,499
1. Securities issued by the Bank	-	
2. Other securities	*173,857,878*	*176,038,499*
b) Securities of third parties held by others	61,962,866	75,911,935
c) Own securities in third-party custody	12,894,485	15,087,712

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

	31/12/2003	31/12/2002
a) Debit adjustments		
1. Current accounts	99,881	139,798
2. Head office portfolio	5,490,373	5,944,797
3. Cash	437	18,794
4. Other accounts	902,882	924,516
b) Credit adjustments		
1. Current accounts	255,197	302,710
2. Notes and other documents	11,578,020	11,882,947
3. Other accounts	49,527	46,617

12.5 Other transactions

	31/12/2003	31/12/2002
a) Third-party portfolio accepted for collection	6,178,434	5,672,285
b) Tax collection activity	3,600,443	2,745,982
Taxpayers amounts due for collection		
- amounts coming due	-	
- amounts overdue and advanced to the Tax Authorities	3,600,443	2,745,982
- amounts overdue and not yet advanced to the Tax Authorities		-

Temporary relief and allowances for EUR 2,810,383,000 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 2003

12.6 Summary of securitized assets

CEE Code	Description	31/12/2003	31/12/2002
A.	**SECURITIZED ASSETS**		
A1	Loans	188,234,423	207,854,529
A2	Securities		-
B.	**EMPLOYMENT OF FUNDING COMING FROM MANAGEMENT OF CREDITS**		
B3.1	Amounts due from banks	4,858,885	2,703,939
B3.2	Receivables for taxes withheld on interest income	16,616	11,174
B3.3	Other	26,721	41
	TOTAL ASSETS	**193,136,645**	**210,569,683**
C.	**SECURITIES ISSUED**	**213,322,333**	**224,603,284**
	Class A	79,062,333	90,343,284
	Class B	36,500,000	36,500,000
	Class C	36,500,000	36,500,000
	Class D	61,260,000	61,260,000
D.	**FINANCING RECEIVED**		-
E.	**OTHER LIABILITIES**		
E1	Accrued interest payable on securities issued	633,191	349,317
E2	Due to suppliers of services	412,715	248,142
E3	Other liabilities	171	52,890
E4	Reserve for risks and charges	-	11,174
E5	Profit (loss) carried forward	3,063,000	(4,967,638)
	TOTAL LIABILITIES	**217,431,410**	**220,297,169**
F.	**INTEREST PAYABLE ON SECURITIES ISSUED**	**12,582,039**	**14,218,665**
G.	**COMMISSIONS ACCRUED TO TRANSACTION**	**2,062,302**	**2,166,510**
G1	Servicing commissions	1,887,122	1,974,142
G2	Commissions on other services	175,180	192,368
H.	**OTHER CHARGES**	**155,695**	**785,903**
H1	Capital losses on credits transferred	17,860	2,332
H2	Administrative expenses	132,175	161,724
H3	Services of rating agencies	-	-
H4	Charges on accessory financial transactions	-	-
H5	Provisions for risks	-	6,447
H6	Foreign-exchange losses	-	2,800
H7	Interest notes class D 2001		612,600
H8	Extraordinary charges	5,660	
I.	**INTEREST GENERATED FROM SECURITIZED ASSETS**	**178,352**	**944,962**
L.	**OTHER REVENUES**	**6,859,844**	**4,670,829**
L1	Interest earned from banks		
L2	Foreign-exchange gains		2,136
L3	Capital gains on credits	6,846,406	4,668,693
L4	Extraordinary income	13,438	

SEPARATE STATEMENT OF SPECIAL-PURPOSE COMPANY
ULISSE 2 - Statement as of 31 December 2003
12.6 Summary of securitized assets

CEE Code	Description	31/12/2003	31/12/2002
A.	**SECURITIZED ASSETS**		
A1	Loans	453,128,914	491,448,177
A1.1	Non-performing loans	453,128,914	491,448,177
A2	Securities	-	-
A3	Other	-	-
B.	**EMPLOYMENT OF FUNDING COMING FROM MANAGEMENT OF CREDITS**		
B1	Debt securities	-	-
B2	Equity securities	-	-
B3	Other:	19,586,170	125,655,523
B3.1	Capitalized costs	146,807	220,211
B3.2	Liquid assets	18,121,640	123,559,678
B3.3	Taxes withheld	1,058,927	690,802
B3.4	Accrued income on swaps	243,837	1,169,832
B3.5	Prepayments	14,959	15,000
	TOTAL ASSETS	**472,715,084**	**617,103,700**
C.	**SECURITIES ISSUED**		
C1	Category A securities	40,832,438	210,000,000
C2	Category B securities	30,000,000	30,000,000
C3	Category C securities	328,970,000	328,970,000
D.	**FINANCING RECEIVED**	-	-
E.	**OTHER LIABILITIES**		
E1	Due to management company	14,777	64,798
E2	Due to Banca MPS - residual transfer price	240,000	240,000
E3	Due to Banca MPS - servicing commissions	768,063	1,177,468
E4	Due to Banca MPS - interest on transfer price	5,816,391	5,816,391
E5	Due to Banca MPS - collections (not pertaining to the SPV)	36,647	53,413
E6	Due to suppliers	37,753	26,551
E7	Other liabilities	1,241	-
E8	Reserve for risks and charges	-	690,802
E9	Accrued interest payable on Class A securities	236,220	1,506,891
E10	Accrued interest payable on Class B securities	4,080,053	2,466,693
E11	Accrued interest payable on Class C securities	61,007,498	34,102,310
E12	Accrued liabilities on swaps	674,003	1,988,384
	TOTAL LIABILITIES	**472,715,084**	**617,103,701**
	INTEREST PAYABLE ON SECURITIES ISSUED	**33,721,756**	**28,716,961**
G.	**COMMISSIONS ACCRUED TO TRANSACTION**	**3,444,710**	**4,194,940**
G1	Servicing commissions	3,444,710	4,194,940
G2	Commissions on other services		-
H.	**OTHER CHARGES**	**70,464,506**	**78,947,878**
H1	Amortization of capitalized costs	73,404	73,404
H2	Chargeback of costs of company management	103,193	87,177
H3	Interest expense on credit payment extensions		-
H4	Estimates of losses on credits	60,319,699	64,283,738
H5	Losses on credits	1,520,162	704,500
H6	Interest rate swaps	8,317,128	13,101,183
H7	Other expenses	130,920	697,876
I.	**INTEREST GENERATED FROM SECURITIZED ASSETS**	**69,205,755**	**71,915,132**
L.	**OTHER REVENUES**	**38,425,217**	**35,636,655**
L1	Recoveries of value	32,130,684	25,301,343
L2	Interest rate swaps	4,240,058	8,227,880
L3	Other	2,054,475	2,107,432
	RESULT OF SECURITIZATION TRANSACTION	-	**(4,307,992)**

SEPARATE STATEMENT OF SPECIAL-PURPOSE COMPANY
ULISSE 3 - Statement as of 31 December 2003
12.6 Summary of securitized assets

CEE Code	Description	31/12/2003	31/12/2002
A.	**SECURITIZED ASSETS**	**114,331**	**128,531**
A1	Loans	114,331	128,531
A2	Securities	-	-
A3	Other	-	-
B.	**EMPLOYMENT OF FUNDING COMING FROM MANAGEMENT OF CREDITS**	**56,008**	**100,837**
B1	Debt securities	44,754	44,754
B2	Equity securities	-	-
B3	Other:	11,254	56,083
B3.1	Amounts due from banks	10,352	
B3.2	Amounts due from inland revenue with taxes withheld	613	
B3.3	Unearned income and prepaid expenses	264	
B3.4	Sundry credits	5	
B3.5	Amounts due from SPV	20	
	TOTAL ASSETS	**170,339**	**229,368**
C.	**SECURITIES ISSUED**	**91,421**	**159,580**
C1	Category A securities	31,841	100,000
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**	**34,069**	**24,939**
E1	Reserve Fund	27,279	17,893
E2	Assignment debts	3,059	3,059
E3	Due to SPV	24	27
E4	Sundry liabilities	404	404
E5	Accrued expenses	2,867	3,120
E6	Reserve for risks and charges	436	436
	TOTAL LIABILITIES	**170,339**	**229,368**
F	**INTEREST PAYABLE ON SECURITIES ISSUED**	**4,369**	**7,043**
F1	Interest payable class A1	2,824	5,191
F2	Interest payable class A2	1,153	1,460
F3	Interest Payable class B	392	392
G.	**COMMISSIONS ACCRUED TO TRANSACTION**	**1,743**	**1,684**
G1	Servicing commissions	1,661	1,604
G2	Commissions on other services	33	33
G3	Corporate services fees	28	32
G4	Rating fees	21	15
H.	**OTHER CHARGES**	**5,814**	**6,188**
H1	Expenses for portfolio management	150	103
H2	Interest expense on limited recourse loan	1,229	1,663
H3	Swap negative differentials	3,959	3.099
H4	Legal and administrative services	4	18
H5	Extraordinary losses	319	401
H6	Losses on credits	153	498
H7	Reserve for risks and charges advance	-	436
I.	**INTEREST GENERATED FROM SECURITIZED ASSETS**	**19,487**	**20,869**
I1	Past-due interest income	5,476	4,629
I2	Extraordinary income from recoveries	14,011	16,240
I3	Expense recovery	-	-
L.	**OTHER REVENUES**	**1,825**	**3,565**
L1	Interest income from banks	656	1,468
L2	Financial interest income	1,165	1,680
L3	Extraordinary income	4	417
	RESULT OF SECURITIZATION TRANSACTION	**9,386**	**9,519**

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:

	31/12/2003	31/12/2002
a) Interest earned on amounts due from banks	329,999	619,224
including:		
Amounts due from central banks	*21,708*	*34,159*
b) Interest earned on customer loans and advances	3,748,313	3,824,990
including:		
loans using third-party funds under administration	*1,144*	*1,724*
c) Interest earned on debt securities	599,197	619,933
d) Other interest income	3,433	3,281
e) Positive balance of differentials on hedging transactions	-	-
Total	4,680,942	5,067,428

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:

	31/12/2003	31/12/2002
a) Interest expense on amounts due to banks	507,568	586,061
b) Interest expense on amounts due to customers	607,768	904,156
c) Interest expense on other borrowed funds backed by negotiable instruments	916,728	906,014
including:		
on certificates of deposit	*83,985*	*132,992*
d) Interest expense on third-party funds under administration	7,949	9,853
e) Interest expense on subordinated debt	137,588	157,372
f) Negative balance of differentials on hedging transactions	60,150	163,926
Total	2,237,751	2,727,382

1.3 Composition of Account 10 - Interest and similar income

	31/12/2003	31/12/2002
Interest and similar income on foreign-currency-denominated assets	107,448	201,140

1.4 Composition of Account 20 - Interest expense and other expense on borrowed funds

	31/12/2003	31/12/2002
Interest and other expense on liabilities denominated in foreign currency	121,516	208,934

SECTION 2 - COMMISSIONS

2.1 Composition of Account 40 - Commissions earned

Commissions earned consist of the following amounts:

		31/12/2003		31/12/2002
a) Guarantees released		40,013		38,934
b) Credit derivatives		667		911
c) Trading, management and advisory services		817,759		1,003,397
1.Securities trading	51,174		103,601	
2.Foreign-exchange trading	48,844		46,813	
3.Asset management	367,278		364,834	
3.1 individual portfolios under management	*59,673*		*64,432*	
3.2 investments in mutual funds	*307,605*		*300,402*	
4. Securities safekeeping and administration	20,382		104,638	
5. Custodian bank	29,061		31,911	
6. Securities placement	83,952		94,705	
7. Order taking	52,477		56,995	
8. Advisory services	5,958		6,206	
9. Distribution of services to third parties:	158,633		193,694	
9.1 Asset management:				
a) individual portfolios under management	-		-	
b) investments in mutual funds	-		-	
9.2 Insurance products	*89,873*		*100,032*	
9. 3 Other products	*68,760*		*93,662*	
d) Collection and payments services		45,903		107,448
e) Servicing for securitization transactions		16,235		13,774
f) Tax collection services		254,971		239,608
g) Other services		349,843		211,337
- Commissions on loans to customers	91,824		74,953	
- Recoveries, expenses and other profits on customer loans	168,920		75,439	
- Commissions claimed from banks	4,483		11,004	
- Safe-deposit boxes	2,266		2,428	
- Commissions for services to subsidiaries and associated cos.	-		2,944	
- Commissions on services to third parties	12,733		15,950	
- Other	69,257		28,619	
Total		1,525,391		1,615,409

2.2 Detail of Account 40 – Commissions earned

Following is a breakdown of commissions earned based on distribution channel.

		31/12/2003		31/12/2002
a) Branches:		588,033		646,702
Asset management	364,690		364,736	
Securities placement	69,583		94,362	
Third party's services and products	153,760		187,604	
b) Other distribution channels:		21,830		6,529
Asset management	2,588		97	
Securities placement	14,369		343	
Third party's services and products	4,873		6,089	

2.3 Composition of Account 50 - Commission expense

Commission expense consists of the following amounts:

		31/12/2003		31/12/2002
a) Guarantees released		1,145		1,219
b) Credit derivatives		822		1,202
c) Trading and intermediation		65,887		106,543
Securities trading	17,122		29,507	
Foreign-exchange trading	68		58	
Asset management	133		797	
Own portfolio	*133*		*788*	
Third-party portfolios	-		*9*	
Securities safekeeping and administration	17,523		20,745	
Securities placement	3,423		28,939	
Off-site offer of securities, products and services	27,618		26,497	
d) Collection and payment services		14,121		17,268
e) Other services		127,844		123,885
Commissions on endorsement credits	9		-	
Commissions paid to brokers	6,872		5,019	
Commissions on services to third parties	22,382		34,421	
Commissions paid to banks	2,463		26,245	
Tax collection commissions	-		-	
Commissions on securities transactions	-		-	
Other	96,118		58,200	
Total		209,829		250,117

SECTION 3 - PROFITS AND LOSSES ON FINANCIAL TRANSACTIONS

3.1 Composition of Account 60 – Profits/losses on financial transactions

31/12/2003

Account	Securities	Foreign-Currency	Other
A.1 Revaluations	487,755	xxx	934,047
A.2 Writedowns	(502,734)	xxx	(961,836)
B. Other profits/losses	(41,965)	(9.901)	116,421
Total	(56,944)	(9,901)	88,632
1. Government securities	21,135		
2. Other debt securities	138,045		
3. Equity securities	169,307		
4. Securities-related derivatives	(385,431)		

31/12/2002

Account	Securities	Foreign-Currency	Other
A.1 Revaluations	686,940	xxx	4,375,578
A.2 Writedowns	(799,672)	xxx	(4,354,918)
B. Other profits/losses	(139,286)	10,692	145,865
Total	(252,018)	10,692	166,525
1. Government securities	24,441		
2. Other debt securities	96,841		
3. Equity securities	(200,066)		
4. Securities-related derivatives	(173,234)		

SECTION 4 – ADMINISTRATIVE EXPENSES

4.1 Average number of employees by category

	31/12/2003	31/12/2002
a) Executives	592	713
b) Managers	5,457	5,016
c) Remaining personnel	21,820	22,358
Total	27,869	28,087

Composition of Account 80 - Administrative expenses

	31/12/2003	31/12/2002
a) Personnel expense	1,794,655	1,800,033
- wages and salaries	1,263,365	1,263,290
- social-welfare charges	344,926	350,342
- staff severance indemnity reserve	92,266	94,096
- pension fund and similar obligations	34,255	33,651
- other	59,843	58,654
b) Other administrative expenses	1,068,081	1,127,496
- stamp duties	131,132	133,502
- rental costs for bank premises	95,414	93,717
- cost of external consultants	92,923	103,112
- maintenance of personal and real property	49,507	73,733
- postage	60,587	50,879
- sundry rentals	22,955	41,028
- information and surveys	34,435	38,977
- advertising	41,506	51,207
- cable, telephone and telex	27,827	33,632
- security	28,340	28,260
- indirect taxes	29,421	28,609
- cleaning	20,805	22,846
- transport	34,515	44,196
- electricity, heating and water	25,428	27,214
- employee vehicle and travel expenses	29,299	23,231
- cable rental for data transfer	17,622	23,790
- data processing by third parties	62,111	62,749
- insurance	23,676	29,383
- local property tax	11,388	11,725
- stationery and printing	11,631	20,326
- entertainment expense	9,085	11,148
- membership dues	8,575	10,880
- condominium fees	5,953	1,810
- information service	15,858	17,290
- fees to Directors and Statutory Auditors	8,730	11,219
- equipment rental	16,149	14,822
- subscriptions and purchase of publications	2,198	2,675
- fixed fees for tax collection services	4,482	2,861
- new software and rental of software	70.753	66,024
- other	75,776	46,651
Total	2,862,736	2,927,529

SECTION 5 – VALUATION ADJUSTMENTS, RECOVERIES AND PROVISIONS

5.1 Composition of Account 120 – Valuation adjustments to loans and provisions for guarantees and commitments

	31/12/2003	31/12/2002
a) Valuation adjustments to loans	887,532	610,267
including:		
- Lump-sum writedowns for country risk	2,115	8,592
- Other lump-sum adjustments	60,371	28,688
b) Provisions for guarantees & commitments	4,707	4,596
including:		
- Lump-sum writedowns for country risk	1,207	23
- Other lump-sum adjustments	615	-
Total	892,239	614,863

5.2 Composition of Account 90 - Valuation adjustments to fixed and intangible assets

	31/12/2003	31/12/2002
a) Intangible assets	295,944	323,332
Amortization of positive consolidation differences	71,365	74,204
Amortization of positive net equity differences	30,671	14,300
Amortization of other intangible assets	193,908	234,828
b) Fixed assets	141,805	171,365
Depreciation of buildings	51,928	64,582
Depreciation of furniture and equipment	89,877	106,783
Total	437,749	494,697

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. Accelerated depreciation is taken as permitted by law on assets subject to rapid obsolescence. 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

	31/12/2003	31/12/2002
Annual provision	171,830	42,377

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

	31/12/2003	31/12/2002
Loans	190,925	172,282
Provisions for guarantees and commitments	4,706	4,596
Total	195,631	176,878

5.5 Composition of Account 140 – Provision to loan loss reserves

	31/12/2003	31/12/2002
Annual provision	48,028	90,008

5.6 Composition of Account 150 – Value adjustments to non-current financial assets

	31/12/2003	31/12/2002
Equity investments	55,071	270,360
Securities	34,322	27,780
Total	89,393	298,140

5.7 Composition of Account 160 – Recoveries on non-current financial assets

	31/12/2003	31/12/2002
Equity investments	6,982	43
Securities	1	7,277
Total	6,983	7,320

SECTION 6 - OTHER PROFIT AND LOSS ACCOUNTS

6.1 Composition of Account 70 - Other operating income

	31/12/2003	31/12/2002
Rental and similar income	26,904	25,936
Expenses recovery & other income: deposits and current accounts	177,401	154,413
Recovery of stamp duties	108,156	113,175
Premiums received	1,678	4,258
Recoveries of expenses on mortgage loans	32,158	16,370
Other (°)	189,806	265,577
Total	536,103	579,729

(°) See also Section 11.8 with reference to securitization transactions.

6.2 Composition of Account 110 - Other operating expenses

	31/12/2003	31/12/2002
Expenses on redemption of assets under financial lease	2,641	9,477
Options	779	2,168
Other operating expenses	31,651	12,399
Total	35,071	24,044

6.3 Composition of Account 190 - Extraordinary income

	31/12/2003	31/12/2002
Profit on disposal of fixed assets	5,600	8,013
Gains on disposal of equity investments (*)	282,364	75,643
Profit on disposal of investment securities	27	97
Retrospective quotas for change in valuation criterion	-	-
Deferred tax assets regarding previous years	-	-
Other	179,914	374,172
Total	467,905	457,925

(*) The amount is inclusive of EUR 278,829,000 of the parent company referred to the sale of Cassa di Risparmio di Prato.

6.4 Composition of Account 200 - Extraordinary charges

	31/12/2003	31/12/2002
Non-banking operating expenses	27,072	-
Losses on robberies	17,757	2,524
Losses on disposal of fixed assets	257	336
Loss on disposal of non-current financial assets	3,121	12,943
Loss on sale of investment securities	101	193
Other (*)	405,689	125,372
Total	453,997	141,368

(*) The total amount includes the reversal for "Other activities" of the parent company concerning the evaluation of the 2002 commitment, resulting from the sale contract underwritten on 24 December 2002 by the Cassa di Risparmio di Prato for EUR 278,829,000.

6.5 Composition of Account 240 - Income taxes

	31/12/2003	31/12/2002
Current taxes	(399,310)	(395,323)
Change in deferred tax assets	75,422	114,935
Change in deferred tax liabilities	56,047	63,809
Total	(267,841)	(216,579)

SECTION 7 - OTHER INFORMATION ON THE PROFIT AND LOSS STATEMENT

7.1 Geographical distribution of income

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	419,006	116,919	178	536,103
Total	6,631,362	472,051	51,293	7,154,706

31/12/2002

	Italy	EU Countries	Other Countries	Total
	4,731,423	276,226	59,779	5,067,428
Interest and similar income	547,555	257	-	547,812
Dividends and other income	1,580,020	27,384	8,005	1,615,409
Commissions earned	(59,235)	(16,682)	1,116	(74,801)
Profits from financial transactions	577,883	1,648	198	579,729
Other operating income				
Total	7,377,646	288,833	69,098	7,735,577

PART D

OTHER INFORMATION

SECTION 1 – BOARD OF DIRECTORS AND BOARD OF STATUTORY AUDITORS

1.1 Compensation

	31/12/2003	31/12/2002
a) Directors	6,825	4,370
b) Statutory Auditors	1,920	1,356

1.2 Loans to and guarantees released on the account of Directors and Statutory Auditors

	31/12/2003	31/12/2002
a) Directors	2,724	18,434
b) Statutory Auditors	371	126

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 F. Spampani	The Chief Executive Officer E. Tonini
The Chairman of the Board of Directors P.L. Fabrizi	The Auditors 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 investment									(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

RECONCILIATION OF PARENT-COMPANY EARNINGS AND NET EQUITY AND CONSOLIDATED EARNINGS AND NET EQUITY

	31/12/2003 *Shareholders' Equity*	*Profits and Losses*	31/12/2002 *Shareholders' Equity*	*Profits and Losses*
Balances as reported in parent-company financial statements	6,150,138	221,200	5,622,414	599,497
Effects of line-by-line consolidation of subsidiaries	(123,472)	400,117	53,393	242,631
Excess of net equity over carrying value for subsidiaries consolidated with net equity method	162,207	42,216	157,130	45,066
Amortization of positive consolidation and net equity differences	(60,180)	(60,180)	(75,832)	(75,832)
Reversal for dividends distributed by subsidiaries	-	(29,703)	-	(22,699)
Reversal for dividends accrued by subsidiaries	(215,348)	(215,348)	(206,850)	(206,850)
Reversal for extraordinary dividends		(156,219)	-	-
Reversal for valuation adjustments, net of tax, complying with tax regulations	240,438	240,438	-	-
Total	6,153,783	442,521	5,550,255	581,813

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

	31/12/2003	31/12/2002
SOURCES OF FUNDS:		
Net profit for the period	442,521	581,813
Provision for staff severance indemnity reserve	85,020	84,802
Provision for pension fund	73,168	51,888
Provisions for loan losses: increase	120,073	90,169
Other financial changes	667,922	-
Total funds generated from operations	1,388,704	808,272
Increases:		
Debts represented by securities	3,377,020	674,827
Other funds	167,183	34,611
Own shares or quotas	5,492	8,227
Subordinated liabilities	1,198,878	231,378
Decreases:		
Cash and sight deposits	162,775	(152,524)
Equity investments	57,486	(37,540)
Other assets	1,677,606	(5,990,180)
Accrued income and prepayments	327,940	76,933
TOTAL SOURCES OF FUNDS	8,363,084	(4,345,996)
USES OF FUNDS		
Payment of dividends	217,831	269,382
Payment of staff severance indemnities	92,718	74,226
Payment of pension benefits	39,426	44,274
Use of reserve for loan losses	163,483	35,595
Change in the reserve for general banking risks	300,068	84,476
Other changes in balance sheet accounts	,	445,186
Increases:		
Investments	432,664	(730,249)
Positive consolidation and net equity differences	42,152	27.462
Decreases:		
Due to banks	5,458,341	(5,410,060)
Due to customers	2,768,451	(2,778,328)
Third-party funds under administration	5,712	7,123
Accrued liabilities and deferred income	325,789	201,338
Reserve for taxes	98,931	96,491
Minority interests	772,840	134,354
Other liabilities	1,793,048	(5,847,117)
TOTAL USES OF FUNDS	12,511,454	(13,345,847)
Difference	(4,148,370)	8,999,851
CHANGES IN INTEREST-BEARING		

USES OF FUNDS		
Increases:		
Customer loans and advances	1,933,022	5,433,873
Amounts due from banks	(7,475,982)	2,146,992
Securities and certificates of deposit	1,394,590	1,418,986
Total	(4,148,370)	8,999,851