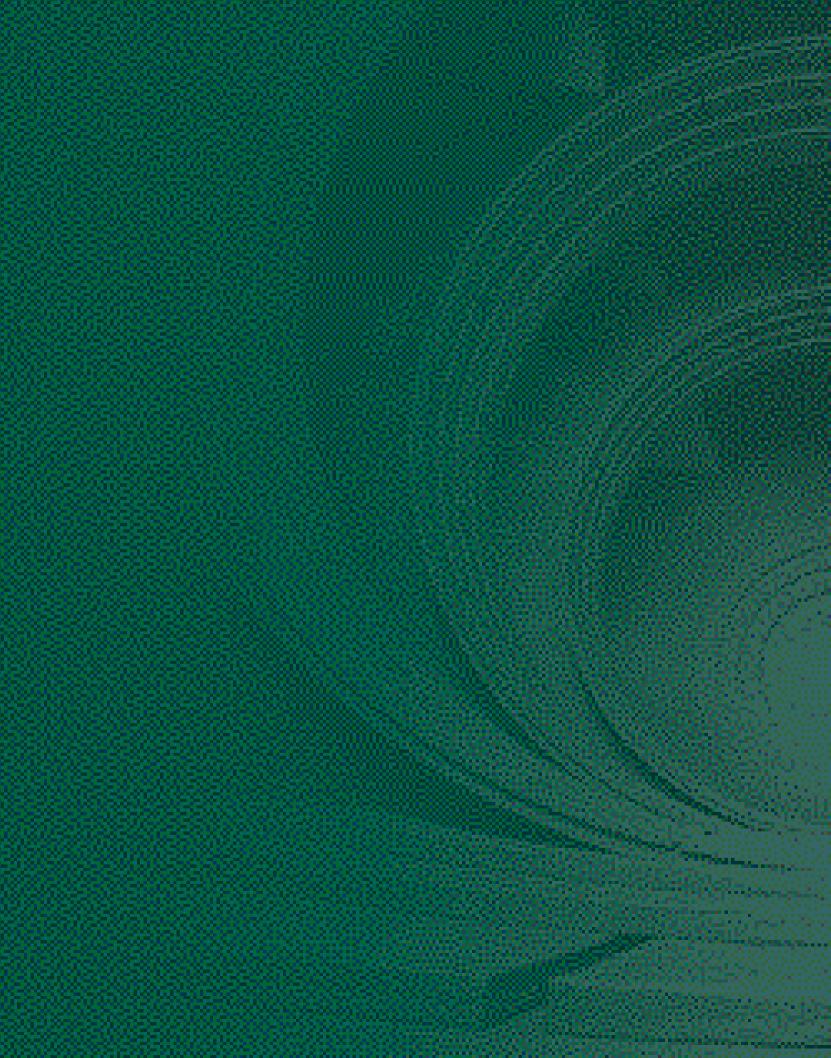
# BANCA MONTE DEI PASCHI DI SIENA SPA

2002 FINANCIAL STATEMENTS









## ■ BANCA MPS: KEY FINANCIAL DATA

(in EUR mn)	31.12.02	31.12.01	% Change
Total banking income	866	3,130	-8.4%
Gross operating profit	1,128	1,460	-22.7%
Net profit	599	568(*)	5.5%
(*) Net profit from operations, i.e. after the elimination	of the dual entries for dividends	from subsidiary c	ompanies
	31.12.02	31.12.01	
R.O.E.	12.3%	12.7%	
(in EUR mn)	31.12.02	31.12.01	% Change
Aggregate customer funding	110,427	111,294	-0.8%
Customer loans	36,803	38,070	-3.3%(*)

<sup>(\*)</sup> As of 1 July 2002, the leasing and factoring activity was transferred to the new company, MPS Leasing e Factoring Banca per i Servizi Finanziari alle Imprese. Accordingly, the data as of 31 December 2002 do not include such operations. Reclassifying the data to provide the same basis for comparison, the annual change is - 0.3%.

(in EUR mn)	31.12.02	31.12.01	% Change	
Number of customers (*)	2,785,458	2,486,721	298,737	
Electronic banking - number of online relationships (*)	643,737	349,774	293,963	
Branches in Italy	1,080	962	118	

<sup>(\*)</sup> As of 23 December 2002, BMPS incorporated Banca 121. The annual growth figures thus reflect the effects of the incorporation.

# REPORT ON OPERATIONS AS OF 31 DECEMBER 2002

### ■ RECLASSIFIED BALANCE SHEET AND RECLASSIFIED PROFIT AND LOSS STATEMENT

n 23 December 2002, Banca 121 was merged by incorporation into Banca Monte dei Paschi di Siena S.p.A., and the financial advisor network of the incorporated bank was spun off. In order to facilitate the year-on-year comparison of the financial statement data, comparative financial statements were prepared for the year of 2001 to include the aggregates of Banca 121; such statements are presented in the notes to the financial statements. Instead, the 2001 data continue to include the assets and earnings of the leasing and factoring units that were transferred to the newly incorporated "MPS Leasing e Factoring Banca per i Servizi Finanziari alle Imprese S.p.A." as of 1 July 2002 in that such amounts are not considered material.

In addition, in order to facilitate an analysis of operations, certain amounts in the financial statements were reclassified as indicated below:

- Assets booked under financial leases were valued according to the financial method and therefore:
- the leases are reported in the 2001 balance sheet as customer loans and advances ("loan value of financial leases"); in the financial statements prepared in accordance with the provisions of the Italian Civil Code, such assets are reported net of depreciation in Account 100 - Fixed assets;
- the interest earned on the financial leases is reported in the profit and loss statement; in the financial statements prepared in accordance with the provisions of the Italian Civil Code, the profit and loss statement includes lease installments (Account 70 Other operating income) and the depreciation of the leased assets (Account 90 Adjustments to the value of fixed and intangible assets);
- The aggregate, "net income from services", includes commissions earned (Account 40), commissions expense (Account 50) and other operating income (Account 70), net of the aforementioned income from leases (Account 70). The account also includes revenues from the placement of innovative financial products for the year of 2001 and income from trading transactions with customers for both 2001 and 2002, all amounts of which are classified in the financial statements prepared pursuant to the Italian Civil Code under Account 60 Profits and losses from financial transactions:



- Income on equity swaps and the cost of funding on equity swaps have been classified
  as profits and losses from financial transactions, and thus respectively eliminated from
  Account 30 Dividends and other income and Account 20 Interest expense and other
  expense on borrowed funds;
- Expenses for personnel assigned to the Operating Consortium (Account 80) and for personnel of the Bank assigned to other MPS Group companies have been eliminated against the revenues recognized on the reimbursement of the same (Account 70);
- The writedown of the value of the investment held in BNL has been netted out of Account 150 Valuation adjustments to non-current financial assets and reclassified as an extraordinary charge.

## BANCA MONTE DEI PASCHI DI SIENA

#### ■ RECLASSIFIED BALANCE SHEET (in EUR mn)

ASSETS				
	31.12.02	31.12.01	Change	% Change
Cash and cash on deposit with central banks and post offices	523	451	71	15.8
Loans:				
a) Customer loans and advances (°)	36,803	38,070	-1,268	-3.3
including: loan value of financial leases	0	1,143	-1,143	-100.0
b) Amounts due from banks	20,744	16,136	4,608	28.6
Trading account securities	7,753	6,729	1,024	15.2
Non-current assets				
a) Investment securities	2,613	2,405	208	8.6
b) Equity investments	5,439	5,361	78	1.4
c) Fixed assets and intangible assets	1,493	1,403	89	6.4
including: goodwill	362	34	328	n.s.
Own shares or quotas	2	4	-1	-38.5
Other assets	13,231	10,363	2,869	27.7
Total Assets	88,600	80,923	7,678	9.5
LIABILITIES AND SHAREHOLDERS' EQUITY	31.12.02	31.12.01	Change	% Change
Liabilities				
a) Customer deposits and other borrowed				
funds backed by negotiable instruments	50,251	50,245	6	0.0
b) Due to banks	17,079	11,586	5,493	47.4
Reserves for specific use				
a) Staff severance indemnity reserve	275	266	8	3.0
b) Pension fund	110	96	15	15.2
c) Reserves for risks and other charges	337	341	-4	-1.1
d) Reserve for taxes	381	576	-195	-33.8
Other liabilities	11,161	8,833	2,328	26.4
Reserve for loan losses	183	155	28	17.9
Subordinated debt	3,200	3,002	199	6.6
Shareholders' equity				
a) Share capital	1,675	1,356	319	23.5
b) Additional paid-in capital	523	523	0	0.0
c) Reserves	2,490	2,188	30	13.8
d) Revaluation reserves	0	715	-715	-100.0
e) Reserve for general banking risks	335	420	-85	-20.2
f) Retained earnings	0.1	0.1	0.0	
g) Profit (loss) for the year	599	619	-19	-3.1
Total Liabilities and Shareholders' Equity	88,600	80,923	7,678	9.5

<sup>(°)</sup> As of July 1, 2002 the leasing and factoring activity was transferred to the newly incorporated "MPS Leasing and Factoring Banca per i Servizi Finanziari alle Imprese". Therefore, the data as at 31/12/2002 do not include such operations. Reclassifying the data to provide the same basis for comparison, the annual change is - 0.3%.



## BANCA MONTE DEI PASCHI DI SIENA

## ■ RECLASSIFIED PROFIT AND LOSS STATEMENT (in EUR mn)

	31/12/2002	31/12/2001	Change	% Change
Interest margin	1,295.1	1,257.0	38.1	3.0
Profit (loss) on financial transactions	42.7	108.9	-66.1	-60.7
Net income from services	1,065.l1	1,203.7	-138.5	-11.5
Dividends and tax credits	463.3	560.2	-97.0	-17.3
Service margin	1,571.1	1,872.8	-301.6	-16.1
Total banking income	2,866.2	3,129.8	-263.6	-8.4
Total banking income excluding				
profits (losses) on financial transactions	2,823.5	3,020.9	-197.4	-6.5
Administrative expenses				
- personnel expense	-975.0	-925.8	49.2	5.3
- other expenses	-762.7	-743.5	19.2	2.6
Total administrative expenses	-1,737.7	-1,669.4	68.4	4.1
Gross operating profit	1,128.5	1,460.4	-331.9	-22.7
Gross operating profit excluding				
profits (losses) on financial transactions	1,085.7	1,351.6	-265.8	-19.7
Valuation adjustments to fixed and intangible assets	-226.8	-154.2	72.6	47.1
Goodwill amortization	-41.5	-4.7	36.9	n.s.
Provisions for risks and charges	-18.7	-28.8	-10.1	-35.1
Net valuation adjustments to loans	-289.3	-197.6	91.8	46.5
Provision to loan loss reserve	-38.0	-10.3	27.7	267.9
Valuation adjustments to				
non-current financial assets, net of recoveries	-101.7	-84.0	17.7	21.0
Profit from ordinary operations	412.4	980.8	-568.4	-58.0
Extraordinary income (charges)	115.9	-21.1	137.0	n.s.
Change in reserve for general banking risks	85.0	0.0		
Income taxes	-13.8	-319.7	-377.9	-96.5
Net profit for the year (°)	599.5	568.0	31.5	5.5
Provision to reserve set up pursuant to Legislative Decree 153/99	0.0	-111.6	-111.6	-100.0
Net profit to be allocated	599.5	456.5	143.0	31.3

<sup>(°)</sup> The net profit from ordinary operations in 2001 is EUR 162.5 million less than the amount indicated in the notes to the financial statements and the reclassified balance sheet in that it excludes the double counting of dividends from subsidiary companies.

## ■ KEY DATA AND RATIO ANALYSIS

Profit and loss aggregates (in EUR mn)	31.12.02	31.12.01	% Change
Total banking income	2,866	3,130	-8.4
Gross operating profit	1,128	1,460	-22.
Gross operating profit excluding profits (losses) on financial transactions	1,086	1,352	-19.1
Net profit	599	568	5.
Balance sheet aggregates (in EUR mn)			
Total funding	110,427	111,294	-0.8
Direct funding	53,451	53,247	0.
Indirect funding	56,976	58,047	-1.8
including: Funds under administration	32,791	32,579	0.
including: Funds under management	24,185	25,469	-5.
Customer loans and advances	36,803	38,070	-3.:
Consolidated shareholders' equity	5,622	5,822	-3.4
Credit quality indicators (%)			
Net non-performing loans / customer loans and advances	1.4	1.0	
Non-performing loans & watchlist credits / customer loans and advances	3.3	2.3	
■ Profitability ratios (%)			
Service margin / total banking income	54.8	59.8	
Cost/income ratio	60.6	53.3	
Cost/income ratio inclusive of depreciation and amortization	68.5	58.3	
Cost/income ratio (°)	59.2	51.8	
ROE (%) (*)  (°) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on revaluation reserve due to the sale of the investment in San Paolo IMI.	12.3	12.7	rease of the
ROE (%) (*)  (°) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on revaluation reserve due to the sale of the investment in San Paolo IMI.  Productivity indicators (°) (in EUR mn)  Direct customer funding / average number of employees	12.3 31 December 2000 and to	aking into account the dec	rease of the
ROE (%) (*)  (°) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on revaluation reserve due to the sale of the investment in San Paolo IMI.  Productivity indicators (°) (in EUR mn)  Direct customer funding / average number of employees  Customer loans and advances / average number of employees	12.3 31 December 2000 and to 3.6 2.5	aking into account the dec 3.6 2.6	rease of the
ROE (%) (*)  (°) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on revaluation reserve due to the sale of the investment in San Paolo IMI.  Productivity indicators (°) (in EUR mn)  Direct customer funding / average number of employees  Customer loans and advances / average number of employees  Total funding / average number of employees	12.3 31 December 2000 and to	aking into account the dec	rease of the
ROE (%) (*)  (°) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on revaluation reserve due to the sale of the investment in San Paolo IMI.  Productivity indicators (°) (in EUR mn)  Direct customer funding / average number of employees  Customer loans and advances / average number of employees	12.3 31 December 2000 and to 3.6 2.5 7.5 0.19	3.6 2.6 7.6 0.21	rease of the
ROE (%) (*)  (°) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on revaluation reserve due to the sale of the investment in San Paolo IMI.  Productivity indicators (°) (in EUR mn)  Direct customer funding / average number of employees  Customer loans and advances / average number of employees  Total funding / average number of employees  Total banking income / average number of employees  (°) computed by taking into account the total number of employees less employees on assign	12.3 31 December 2000 and to 3.6 2.5 7.5 0.19	3.6 2.6 7.6 0.21	rease of the
ROE (%) (*)  (*) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on evaluation reserve due to the sale of the investment in San Paolo IMI.  Productivity indicators (°) (in EUR mn)  Direct customer funding / average number of employees Customer loans and advances / average number of employees Total funding / average number of employees Total banking income / average number of employees (*) computed by taking into account the total number of employees less employees on assig  Solvency ratios (%)  Solvency coefficient	12.3 31 December 2000 and to 3.6 2.5 7.5 0.19 nment with other compani	3.6 2.6 7.6 0.21 es of the MPS Group	rease of the
ROE (%) (*)  (°) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on revaluation reserve due to the sale of the investment in San Paolo IMI.  Productivity indicators (°) (in EUR mn)  Direct customer funding / average number of employees  Customer loans and advances / average number of employees  Total funding / average number of employees  Total banking income / average number of employees  (°) computed by taking into account the total number of employees less employees on assig  Solvency ratios (%)	12.3 31 December 2000 and to 3.6 2.5 7.5 0.19 nment with other compani	3.6 2.6 7.6 0.21 es of the MPS Group	rease of the
ROE (%) (*)  (*) excluding tax collection activity.  (*) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on revaluation reserve due to the sale of the investment in San Paolo IMI.  (*) Productivity indicators (*) (in EUR mn)  (*) Concert customer funding / average number of employees  (*) Customer loans and advances / average number of employees  (*) In EUR mn)  (*) Control in EUR mn)  (*) Concert customer funding / average number of employees  (*) Conputed banking income / average number of employees  (*) computed by taking into account the total number of employees less employees on assiguated as a solvency ratios (%)  (*) Colvency coefficient  (*) Share data	12.3 31 December 2000 and to 3.6 2.5 7.5 0.19 nment with other compani	3.6 2.6 7.6 0.21 es of the MPS Group	rease of the
ROE (%) (*)  (°) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on revaluation reserve due to the sale of the investment in San Paolo IMI.  Productivity indicators (°) (in EUR mn)  Direct customer funding / average number of employees  Customer loans and advances / average number of employees  Total funding / average number of employees  Total banking income / average number of employees  (°) computed by taking into account the total number of employees less employees on assig  Solvency ratios (%)  Solvency coefficient  Tier I ratio  Share data  Number of shares outstanding	12.3 31 December 2000 and to 3.6 2.5 7.5 0.19 nment with other compani	3.6 2.6 7.6 0.21 es of the MPS Group	rease of the
ROE (%) (*)  (°) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on revaluation reserve due to the sale of the investment in San Paolo IMI.  Productivity indicators (°) (in EUR mn)  Direct customer funding / average number of employees  Customer loans and advances / average number of employees  Total funding / average number of employees  Total banking income / average number of employees  (°) computed by taking into account the total number of employees less employees on assig  Solvency ratios (%)  Solvency coefficient  Tier I ratio  Share data  Number of shares outstanding  Number of savings shares outstanding	12.3 31 December 2000 and to 3.6 2.5 7.5 0.19 nment with other compani 13.34 9.29	3.6 2.6 7.6 0.21 es of the MPS Group 13.50 9.02	rease of the
ROE (%) (*)  (°) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on revaluation reserve due to the sale of the investment in San Paolo IMI.  Productivity indicators (°) (in EUR mn)  Direct customer funding / average number of employees  Customer loans and advances / average number of employees  Total funding / average number of employees  Total banking income / average number of employees  (°) computed by taking into account the total number of employees less employees on assig  Solvency ratios (%)  Solvency coefficient  Tier I ratio  Share data  Number of shares outstanding  Number of savings shares outstanding  Ordinary share price over the year:  average	12.3 31 December 2000 and to  3.6 2.5 7.5 0.19  nment with other compani  13.34 9.29  2,607,791,591 9,432,170 in EUR 2.87	3.6 2.6 7.6 0.21 es of the MPS Group 13.50 9.02 2,598,557,169 9,432,170 in EUR 3.52	rease of the
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ROE (%) (*)  (*) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on evaluation reserve due to the sale of the investment in San Paolo IMI.  Productivity indicators (°) (in EUR mn)  Direct customer funding / average number of employees  Customer loans and advances / average number of employees  Total funding / average number of employees  Total banking income / average number of employees  (°) computed by taking into account the total number of employees less employees on assign  Solvency ratios (%)  Solvency coefficient  Tier I ratio  Share data  Number of shares outstanding  Number of savings shares outstanding  Ordinary share price over the year:  average	12.3 31 December 2000 and to  3.6 2.5 7.5 0.19  nment with other compani  13.34 9.29  2,607,791,591 9,432,170 in EUR 2.87	3.6 2.6 7.6 0.21 es of the MPS Group 13.50 9.02 2,598,557,169 9,432,170 in EUR 3.52	rease of the
ROE (%) (*)  (°) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on revaluation reserve due to the sale of the investment in San Paolo IMI.  Productivity indicators (°) (in EUR mn)  Direct customer funding / average number of employees  Customer loans and advances / average number of employees  Total funding / average number of employees  Total banking income / average number of employees  (°) computed by taking into account the total number of employees less employees on assig  Solvency ratios (%)  Solvency coefficient  Tier I ratio  Share data  Number of shares outstanding  Number of savings shares outstanding  Ordinary share price over the year:  average low high	12.3 31 December 2000 and to 3.6 2.5 7.5 0.19 nment with other compani 13.34 9.29  2.607,791,591 9.432,170 in EUR 2.87 1.73	3.6 2.6 7.6 0.21 es of the MPS Group 13.50 9.02 2,598,557,169 9,432,170 in EUR 3.52 2.41	
ROE (%) (*)  (°) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on revaluation reserve due to the sale of the investment in San Paolo IMI.  Productivity indicators (°) (in EUR mn)  Direct customer funding / average number of employees  Customer loans and advances / average number of employees  Total funding / average number of employees  Total banking income / average number of employees  (°) computed by taking into account the total number of employees less employees on assig  Solvency ratios (%)  Solvency coefficient  Tier I ratio  Share data  Number of shares outstanding  Number of savings shares outstanding  Ordinary share price over the year:  average low	12.3 31 December 2000 and to  3.6 2.5 7.5 0.19  Inment with other compani  13.34 9.29  2.607,791,591 9,432,170 in EUR 2.87 1.73 3.88	3.6 2.6 7.6 0.21 es of the MPS Group 13.50 9.02 2,598,557,169 9,432,170 in EUR 3.52 2.41 4.72	Chang
ROE (%) (*)  (*) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on revaluation reserve due to the sale of the investment in San Paolo IMI.  Productivity indicators (°) (in EUR mn)  Direct customer funding / average number of employees  Customer loans and advances / average number of employees  Total funding / average number of employees  Total banking income / average number of employees  (°) computed by taking into account the total number of employees less employees on assig  Solvency ratios (%)  Solvency coefficient  Tier I ratio  Share data  Number of shares outstanding  Number of savings shares outstanding  Ordinary share price over the year:  average low high  Operating structure (*)  Number of employees at end of period (excluding tax collection personnel)  Number of Italian branches	12.3 31 December 2000 and to 3.6 2.5 7.5 0.19 Inment with other compani 13.34 9.29  2,607,791,591 9,432,170 in EUR 2.87 1.73 3.88  31.12.01	3.6 2.6 7.6 0.21 es of the MPS Group 13.50 9.02 2,598,557,169 9,432,170 in EUR 3.52 2.41 4.72	Chang 1,49
ROE (%) (*)  (*) excluding tax collection activity.  (*) computed on the basis of shareholders' equity net of revaluation of buildings effected on revaluation reserve due to the sale of the investment in San Paolo IMI.  Productivity indicators (°) (in EUR mn)  Direct customer funding / average number of employees  Customer loans and advances / average number of employees  Total funding / average number of employees  Total banking income / average number of employees  (°) computed by taking into account the total number of employees less employees on assig  Solvency ratios (%)  Solvency coefficient  Tier I ratio  Share data  Number of shares outstanding  Number of savings shares outstanding  Ordinary share price over the year:  average low high  Operating structure (*)	12.3 31 December 2000 and to  3.6 2.5 7.5 0.19  Inment with other compani  13.34 9.29  2,607,791,591 9,432,170 in EUR 2.87 1.73 3.88  31.12.01 14,643	3.6 2.6 7.6 0.21 es of the MPS Group 13.50 9.02 2,598,557,169 9,432,170 in EUR 3.52 2.41 4.72 31.12.00	Change 1,49. 118 - 293,96:



## OVERVIEW OF OPERATIONS

n 2002, Banca Monte dei Paschi di Siena S.p.A. was involved in a series of restructuring transactions as part of the implementation of the strategies set out in the MPS Group's Business Plan. The more significant transactions include: the transfer on 1 July 2002 of the Bank's leasing and factoring units to the newly incorporated MPS Leasing e Factoring Banca per i Servizi Finanziari alle Imprese S.p.A., the incorporation, as of 23 December 2002, of Banca 121 S.p.A. and the absorption of its 74 branches, and the simultaneous spin-off of the financial advisor network to the newly incorporated Banca 121 Promozione Finanziaria S.p.A. Certain data from the 2001 financial statements have been reclassified in order to allow for a significant comparison in terms of operating performance.

During 2002, intense efforts were made to complete various projects outlined in the Business Plan, all of which affected the structures of governance of the MPS Group. Important initiatives were also planned and implemented with respect to the Bank's sales and marketing activity, where the accent on specialization and the development of service models produced important results, including a more streamlined production-distribution chain.

Although customers grew increasingly reluctant to put their funds into anything but the safest investments and the markets showed further critical signs toward the end of the year, Banca MPS emerged from 2002 with appreciable operating and earnings results. The achievements in this regard can mainly be attributed to the Bank's ability to blend an emphasis on expanding the customer portfolio and assets under administration with a focus on further curtailing operating expenses and capital absorption. The key developments in this regard include:

- the significant deceleration of other administrative expenses, with the growth rate thereof going from 9.4 percent in 2001 to 2.6 percent in 2002;
- the improvement of the Tier I ratio, which went from 9.02 percent in 2001 to 9.29 percent;
- positive product-placement flows at a consolidated level, with the marketing effort concentrated on instruments with a high embedded value;
- the ongoing and solid growth of the traditional components of total banking income, and namely, the interest margin, which benefited from careful management of pricing, and routine banking commissions (basic fees, payment systems, etc.).

Following are comments on the Bank's principal results for 2002. Such results are the byproduct of an increasing emphasis on a customer-centric approach (active management of relationships, services quality, and alignment of needs, products and distribution), and further specialization and personalization of service.

#### **■** FUNDING

As of 31 December 2002, aggregate customer funding amounted to EUR 110,427 million, decreasing by a slight 0.8 percent in relation to 2001, mainly due to a lower balance of indirect funding (which was affected by the negative performance of the stock markets).

#### ■ AGGREGATE CUSTOMER FUNDING

	21 12 02	% change		% of
in EUR mn	31.12.02	vs. 2001	2002 Total	2001 Total
Direct customer funding	53,451	0.4	48.4	47.8
Customer deposits	32,697	5.3	29.6	27.9
Other borrowed funds backed				
by negotiable instruments	17,554	-8.5	15.9	17.2
Subordinated bonds	3,200	6.6	2.9	2.7
Indirect customer funding	59,976	-1.8	51.6	52.2
Funds under management	24,185	-5.0	21.9	22.9
Funds under administration	32,791	0.7	29.7	29.3
Total	110,427	-0.8	100.0	100.0

#### ■ DIRECT FUNDING

Direct funding rose by a slight 0.4 percent for the year, with the growth accelerating in the second half. The performance for the year incorporates a significant 24.1-percent decrease in funding sourced from the foreign branches as part of a shift in the focus of activity of the same. The commercial bank division (which consolidates the retail and corporate figures for the domestic network) realized a sizeable 6.4-percent increase in average funding balances. An analysis of the various funding segments shows expansion of sight deposits (with current accounts rising by 3.2 percent) and a 22.7-percent increase in repurchase agreements (although these instruments continue to represent only a limited source of funding, accounting for around 4 percent of the total). The increases in these two segments serve to affirm the customer preference for more liquid funding instruments.

#### **■** BREAKDOWN OF DIRECT FUNDING

Total	53,451	0.4	100.0	100.0
Subordinated bonds	3,200	6.6	6.0	5.6
Sub-total	50,251	0.0	94.0	94.4
Other	1,187	3.9	2.2	2.1
Bonds	12,139	-0.2	22.7	22.9
Repurchase agreements	4,464	22.7	8.4	6.8
Certificates of deposit	4,918	-24.4	9.2	12.2
Current accounts	25,016	3.2	46.8	45.5
Savings deposits	2,527	-1.1	4.7	4.8
in EUR mn		vs 2001	2002 Total	2001 Total
	31.12.02	%Change	% of	% of

#### ■ Distribution by sector of activity

Highlighting the Bank's retail orientation, the distribution of traditional funding by sector of activity shows that retail customers and family-owned businesses accounted for some 66.3 percent of the current accounts, savings deposits and certificates of deposits held by the Italian branches:



#### ■ DEPOSITS OF RESIDENT ORDINARY CUSTOMERS WITH ITALIAN BRANCHES

Distribution by Sector of Activity - in EUR mn

	31.12.02	%Change vs 2001	% of vs 2002
Governments, financial institutions			
& insurance cos.	4,261	16.9	15.8
Non-financial companies	4,797	0.2	17.8
Family-owned businesses	1,702	0.2	6.3
Retail customers (*)	16,125	10.3	60.0
Total	26,885	8.7	100.0

<sup>(\*)</sup> Includes deposits of private social institutions and deposits which are not part of the other categories.

#### **■** Geographic distribution

As shown by the geographical distribution of deposits, the Bank continues to enjoy strong market penetration in the central regions of Italy, which account for 47.5 percent of total deposits:

#### ■ DEPOSITS OF RESIDENT ORDINARY CUSTOMERS WITH ITALIAN BRANCHES

Distribution by Customer Residence - in EUR mn

	31.12.02	%Change	% of
		vs 2001	2002 Total
Northern Italy	5,301	30.6	19.7
Central Italy	12,776	3.7	47.5
Southern Italy, Sicily and Sardinia	8,808	4.7	32.8
Total	26,885	8.7	100.0

#### ■ INDIRECT FUNDING

Even though placement volumes were positive for the year, the balance of indirect funding decreased by 1.8 percent as a result of the negative trend of the markets and the consequent decline in the values of the instruments held.

#### **■** Funds under management

The balance of EUR 24,185 million reflects a 5-percent decrease for the year, with the performance of the various components summarized hereunder:

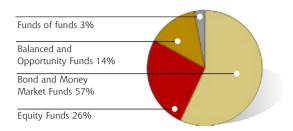
#### ■ Mutual investment funds

With reference to direct funding from customers, the balance incorporates outflows of around EUR 985 million over the year. In terms of stock, the value of the quotas amounted to EUR 8,256 million, with the 19.5-percent decrease over the year reflective of the significant decrease in equity prices.

The graph hereunder illustrates the overall mix of the assets in the mutual investment funds managed by Monte Paschi Asset Management SGR and placed by the Bank. The weight of equity funds decreased from 30.1 percent as of 31 December 2001 to 26 percent as of the end of 2002, while the weight of bond and money-market funds rose from 50 percent to 57 percent over the same period.

#### **Mutual Investment Funds**

Mix of Funds as of 31.12.02



The table below provides a summary of assets under management by individual fund by MP Asset Management SGR including the quotas placed in individual portfolios under management:

#### MUTUAL INVESTMENT FUNDS PLACED BY BANCA MPS AS OF 31 DECEMBER 2002

Assets Under Management by Individual Fund - Amounts in EUR mn

Fund	Assets	%	Fund	Assets	%
Ducato Geo Emerging Markets	72	2.7	Ducato Fix High Potential	55	0.9
Ducato Geo America	290	10.9	Ducato Fix Convertible	0.1	0.0
Ducato Geo America Blue Chips	16	0.6	Ducato Fix Dollar	263	4.3
Ducato Geo America Growth	7	0.3	Ducato Fix Emerging	130	2.1
Ducato Geo Latin America	2	0.1	Ducato Fix Euro Short-Term	225	3.7
Ducato Geo America Small Caps	7	0.3	Ducato Fix Euro Medium-Term	764	12.6
Ducato Geo America Value	12	0.4	Ducato Fix Euro TV	990	16.3
Ducato Geo Asia	67	2.5	Ducato Fix Global	285	4.7
Ducato Geo Europe	1,046	39.3	Ducato Fix Corporate	1	0.0
Ducato Geo Europe High Potential	36	1.3	Ducato Fix Liquidity	173	2.9
Ducato Geo Europe Blue Chips	25	0.9	Ducato Fix Money Market	2,863	47.2
Ducato Geo Europe Growth	12	0.4	Ducato Fix Yield	252	4.2
Ducato Geo Eastern Europe	5	0.2	Ducato Fix Yen	58	1.0
Ducato Geo Europe Small Caps	0.0	0.0	Total bond and money market fund	ds 6,060	100.0
Ducato Geo Europe Value	15	0.6			
Ducato Geo Japan	181	6.8	Ducato Mix 25	464	32.4
Ducato Geo Global	120	4.5	Ducato Mix 50	491	34.3
Ducato Geo Global Growth	10	0.4	Ducato Mix 75	245	17.1
Ducato Geo Global Selection	70	2.6	Ducato Flex 30	0.2	0.0
Ducato Geo Global Small Caps	10	0.4	Ducato Flex 60	19	1.3
Ducato Geo Global Value	9	0.3	Ducato Flex 100	205	14.3
Ducato Geo Italy	350	13.1	Ducato Etico Civita	9	0.6
Ducato Geo Trend	119	4.5	Total balanced and opportunity fur	nds 1,433	100.0
Ducato Set Consumer A	17	0.6			
Ducato Set Consumer B	14	0.5	Portfolio Capital Plus	14	4.9
Ducato Set Energy	0.1	0.0	Portfolio Commodity	2	0.9
Ducato Set Pharmaceuticals	13	0.5	Portfolio Equity 30	35	12.2
Ducato Set Finance	44	1.6	Portfolio Equity 50	23	8.1
Ducato Set Property	27	1.0	Portfolio Equity 70	13	4.4
Ducato Set Industry	12	0.5	Portfolio Global Bond	68	24.1
Ducato Set Commodities	0	0.0	Portfolio Global Equity	64	22.6
Ducato Set Services	6	0.2	Portfolio High Tech	5	1.8
Ducato Set Technology	31	1.2	Portfolio Mega Trends	10	3.5
Ducato Set Telecommunications	6	0.2	Portfolio Small Caps	10	3.5
Ducato Global Ethic	13	0.5	Portfolio Strategy	46	16.3
Total equity funds	2,663	100.0	Total funds of funds	283	100.0

TOTAL 10,439

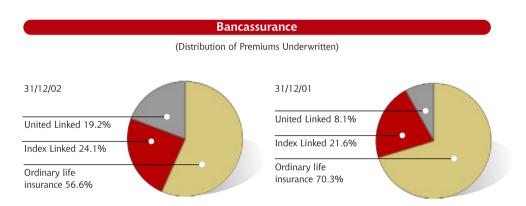


#### ■ Individual portfolios under management

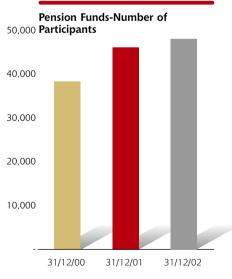
The balance of EUR 7,423 million as of 31 December 2002 reflects a 9.2-percent decrease attributable to the effect of market prices as well as the shift from funds assets management (GPF) to other types of investments.

#### Bancassurance

Premiums underwritten in 2002 came to EUR 2,536 million, and thus reflect a 22.3-percent increase over the EUR 2,073 million flow reported for 2001. Traditional policies made a strong contribution, accounting for EUR 1,436 million, or 56.6 percent, of the premiums underwritten. Meanwhile sales of unit-linked products rebounded partly due to the introduction of policies providing capital guarantees. The technical reserves for Banca MPS rose by 20.8 percent for the year.



#### Pension funds



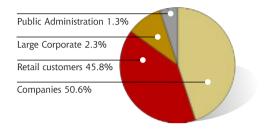
As far as open-end pension funds are concerned, assets managed by "Paschi Previdenza" rose to EUR 120 million, with approximately 50,000 subscribers.

The Bank's depository activity also yielded appreciable results for closed pension funds. By year end, the Bank was servicing 11 contracts, including two acquired in 2002: BYBLOS (paper producers, paper-transformation industry and related areas) and PRIAMO (public transport).

#### ■ Funds under administration

Total funds under administration advanced by 0.7 percent in 2002. The placement of roughly EUR 2,315 million of innovative financial products with retail and corporate customers contributed to this increase, and is part of the Bank's strategy to respond with maximum flexibility to new investment needs of the customers.

#### Composition of Funds Under Administration by Customer Segment as at 31/12/02



#### LENDING

Outstanding loans totaled EUR 36,803 million at year end, falling by 3.3 percent in comparison with the preceding year (whose balance included leasing and factoring receivables that were transferred in 2002 to the newly incorporated company, MPS Leasing e Factoring Banca per i Servizi Finanziari alle Imprese). Reclassifying the data to provide the same basis for comparison, the trend of loans is virtually stable for the year (-0.3 percent) and reflects a significant slowdown in lending activity in the second half (which also occurred throughout the industry). Part of this deceleration can be attributed to the Bank's specific policy to curb capital absorption in the second half of the year. With reference to the lending activity with retail and corporate customers in the domestic market, the figures for the Commercial Bank Division show a 5.9 percent growth in average outstandings, most of which was driven by medium-/long-term loans; this increase also incorporates the effects of the securitization transactions completed in the first half of the year. Highlights of the lending activity include:

- new mortgage loan disbursements of EUR 2,755 million, a 21.9 percent increase in comparison with the preceding year;
- new lease contracts with a value of EUR 600 million, which was on par with the total for 2001;
- industrial loan disbursements equal to EUR 870 million, in comparison with EUR 808 million in 2001; applications for such financing through the subsidiary, MPS Merchant, reached EUR 2,124 million;
- agricultural credits disbursed by MPS Banca Verde amounting to EUR 279 million;
- a total of EUR 300 million in new personal loans along with EUR 396 million (+33,3 percent) in consumer credit disbursed by the subsidiary, Consum.it, through a network of dealers who have an arrangement with the Bank.



A review of the lending business by segment of activity shows a reduction in advances (due mainly to the transfer of factoring to the new company, MPS Leasing e Factoring), a decrease in personal loans (in line with an overall industry trend); further growth of mortgage loans (which continue to account for the largest portion of the loan portfolio) and an increase in net non-performing loans (partly due to the comparison with the 2001 balance which reflects the effects of the securitization of non-performing loans).

■ DISTRIBUTION OF LOAN PORTFOLIO BY TYPE OF LOAN						
	31.12.02	%Change	% of			
in EUR mn		vs 2001	2002 Total			
Current accounts	8,134	10.9	22.1			
Advances	2,468	-24.3	6.7			
Advances and subsidies	8,831	-7.0	24.0			
Personal loans	679	-56.2	1.8			
Mortgage loans and advances against mortgages	15,102	5.7	41.0			
Other	1,062	67.1	2.9			
Non-performing loans, net	528	43.2	1.4			
Total	38,803	-3.3	100.0			

#### ■ Loans by economic sector

The following table indicates the distribution of loans by sector for the Bank's Italian branches:

#### ■ LOANS OF ITALIAN BRANCHES TO ORDINARY RESIDENT CUSTOMERS

in EUR mn

	31.12.02	%Change vs 2001	% of 2002 Total
Governments, financial institutions & insurance cos.	7,484	5.6	22.9
Loans for production purposes	18,702	3.4	57.2
- non-financial companies	16,370	4.0	50.0
- family-owned businesses	2,331	-1.0	7.1
- artisans	477	-0.9	1.5
- other family-owned businesses	1,855	-1.0	5.7
Retail loans	6,525	-4.0	19.9
Total	32,711	2.5	100.0

The table below highlights the distribution of loans to support production activity.

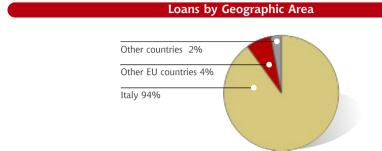
#### ■ LOANS FOR PRODUCTION BY SECTOR OF ECONOMIC ACTIVITY

in EUR mn

	31/12/2002%	6 of 2002 Total
Agriculture	753	4.0
Industry	6,061	32.4
Building and public works	2,540	13.6
Commercial services, recoveries and repairs	3,368	18.0
Other services	5,980	32.0
Total	18,702	100.0

#### ■ Geographical distribution of loans

The distribution of loans by geographical area shows that 94 percent of the Bank's exposure is concentrated in Italy, while the EU accounts for 98 percent of the total.



#### ■ Distribution of loans in Italy

As shown in the table below, the geographical distribution of loans remained stable. Central Italy, the Bank's traditional market, continued to account for the bulk of loan disbursements. The second most important area was northern Italy.

#### ■ LOANS TO ORDINARY RESIDENT CUSTOMERS BY ITALIAN BRANCHES

Distribution by Customer Residence - in EUR mn

	31.12.02	%Change 2002 Total	% of 2002 Total
Northern Italy	9,804	8.6	30.0
Central Italy	14,366	-0.2	43.9
Southern Italy, Sicily and Sardinia	8,540	0.5	26.1
Total	32,711	2.5	100.0

#### **■** Concentration

Validating the Bank's credit policies and traditional diversification of its loan portfolio, more than 53.5 percent of the outstanding loans were for amounts of less than EUR 2.5 million. The concentration of risk continues to be relatively limited.

#### ■ LOANS OUTSTANDING BY AVERAGE AMOUNT

Cash credits net of non-performing loans

Outstanding Amount	% of	% of
	2002 Total	2001 Total
0 - EUR 75,000	15.4	17.7
EUR 75,000 - EUR 250,000	15.9	14.6
EUR 250,000 - EUR 500,000	7.3	7.2
EUR 500,000 - EUR 2,500,000	14.9	16.5
EUR 2,500,000 - EUR 50,000,000	17.7	18.4
More than EUR 50,000,000	28.8	25.7
Total	100.0	100.0



#### ■ Credit securitization transactions

The Bank effected certain securitization transactions in 2002 as part of its capital management program which is aimed at generating liquidity, reducing debt and improving the transformation of maturities and the capital ratios. A summary of these transactions is provided below, with additional information supplied in the notes to the financial statements.

First quarter of 2002:

 Non-recourse transfer of pecuniary credits arising from performing personal loans for a transfer price of EUR 696.51 million;

Second quarter of 2002:

• Non-recourse transfer of a portfolio of performing first mortgage loans on residential properties for a transfer price of EUR 709.03 million.

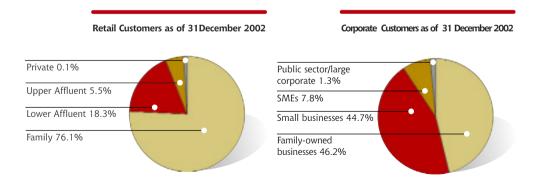
## **CUSTOMER PORTFOLIO**

As of the end of 2002, the Bank had a portfolio of 2,785,458 customers. The figure represents an increase of roughly 300,000 in comparison with the end of 2001, with part of the change due to customers shifting their relationships within the MPS Group. The graph below illustrates the composition of the portfolio:



(\*) The chart excludes public-sector entities, financial institutions and BMPS affiliates/subsidiaries

The overall customer retention rate was 93.1 percent over the full year of 2002. The upper affluent and private banking segments had even higher rates, retaining 98.7 percent and 99.3 percent of their customers from the beginning to the end of the year. The weights of the individual segments of the retail market to the total retail portfolio remained more or less in line with the similar weightings for 2001.





## DOUBTFUL LOANS

espite the difficult market conditions, the Bank was successful in keeping its credit quality excellent again in 2002. This result comes from traditionally conservative lending policy and rigid standards for the reporting of anomalous positions. The ratio of non-performing loans and watchlist credits to total loans was just over 3 percent at year end. Net non-performing loans accounted for 1.4 percent of total outstandings at year end, remaining in line with the ratio as of June 2002.

#### ■ DISTRIBUTION OF LOAN PORTFOLIO BY RISK CATEGORY

in EUR mn

	31.12.02	31.12.01	% of	% of
			2002 Total	2001 Total
Non-performing loans	528	379	1.4	1.0
Watchlist credits	698	512	1.9	1.3
Restructured loans	34	31	0.1	0.1
Unsecured loans to high-risk nations (*)	175	184	0.5	0.5
Total doubtful loans	1,435	1,107	3.9	2.9
Performing loans	35,368	36,963	96.1	97.1
Total customer loans and advances	36,803	38,070	100.0	100.0

(\*) In accordance with the directives of the Bank of Italy and in order to provide for more conservative reporting of risk, the item includes exposure toward countries for which no provisions have been made. The aggregate amount of doubtful loans in this category was EUR 7.4 million at the end of 2002 and EUR 8.7 million at the end of 2001.

As of 31 December 2002, the principal balance of net non-performing loans was EUR 528 million versus EUR 379 million as of the end of 2001. Though incorporating expansion of the portfolio of loans subject to litigation, the increase was mainly driven by other categories of doubtful loans.

#### ■ BREAKDOWN OF NON-PERFORMING CUSTOMER LOANS AS OF 31 DECEMBER 2002

in EUR mn - including interest in arrears

2011	arese iii airears				
Category	Gross Value	% of Total	Doubtful Outcome	% of Total	Net Value
Ordinary loans	509	57.9	252.2	71.7	257
Mortgage loans	371	42.1	99.6	28.3	271
Total	880	100.0	351.8	100.0	528

Credits with a doubtful outcome accounted for roughly 40 percent of gross non-performing loans. Excluding mortgage loans (a category with a generally smaller percentage of doubtful loans due to the secured nature of the credit), the aforementioned ratio rises to around 50 percent. On the other hand, when also considering the losses directly booked to the profit and loss statement in preceding years, the degree of coverage is 62.7 percent.

As shown by the following breakdown of non-performing loans by loan amount, the positions amounting to EUR 500,000 or more account for just over 1 percent of the total:

#### ■ NON-PERFORMING CUSTOMER LOANS BY AMOUNT OUTSTANDING

Gross amounts(excluding interest in arrears) - in EUR 000's

	NO. POSITIONS	% of	AMOUNT	% of
Loan Amount (in EUR 000's)	31/12/2002	Total	31/12/2002	Total
0-10	6,660	41.8	27	3.5
10-50	6,134	38.5	143	18.5
50-260	2,660	16.7	257	33.3
260-515	289	1.8	91	11.8
515-2,580	176	1.1	197	25.6
2,580-5,165	12	0.1	40	5.1
More than 5,165	3		17	2.2
TOTAL	15,934	100.0	772	100.0

The breakdown by economic sector of activity shown below is another indication of the quality of the portfolio, and its broad-based distribution:

#### ■ NON-PERFORMING CUSTOMER LOANS BY ECONOMIC SECTOR OF ACTIVITY

Gross amounts - in EUR 000's - excluding interest in arrears

	31/12/2002	% of Total
Governments	1	0.1
Financial institutions	5	0.6
Private-sector social institutions	2	0.2
Retail loans	163	21.1
Loans to counterparties outside of Italy	1	0.1
Farming, forestry and fishing	54	7.0
Industry	150	19.5
Building and public works	154	20.0
Services	228	29.6
Total Italian branches	758	98.2
Loans of foreign branches	14	1.8
Total	772	100.0



# SECURITIES PORTFOLIO AND TREASURY

he year of 2002 was marked by a global economic crisis, with many leading countries in the industrialized world falling victim to recession. Contributing to the deterioration of the economic cycle, growing political tensions were partly accountable for the abrupt decline of the U.S. economy and one of the reasons underlying the accentuated volatility of the international financial markets.

#### ■ PROPRIETARY FINANCE ACTIVITY

Considering this backdrop, the various Proprietary Finance desks adopted a rather conservative approach to their operations.

The global macro desk maintained a practically neutral position in the stock market. Tactical trades executed over a short time horizon consisted of short positions in the banking industry, and equivalent long positions in the telecommunications sector.

The credit desk geared its activity mainly to taking strategic positions over the medium/long term. Such positions were selected on the basis of both fundamental analysis of the creditworthiness of the issuers and technical factors (liquidity, market anomalies with respect to different instruments by the same issuer). Short-term trading was limited, in part due to the expanded bid-ask spreads characterizing the asset class. The preference went to long positions in the auto and telecommunications industries, with a particular emphasis on choosing issuers with sound fundamentals. Other long positions were taken in the retailing, chemicals and industrial sectors for diversification and the search for limited betas.

The quantitative desk concentrated on trading in a broad array of instruments (futures on bonds, equity indices and commodities) over a short time horizon. The activity was driven by various instruments and quantitative methods, and did not involve the assumption of any strong directional risks.

#### ■ SECURITIES PORTFOLIO

As of 31 December 2002, the Bank's securities portfolio had an aggregate value of EUR 10,366 million, thus reflecting an increase of EUR 1,232 million with respect to the balance as of the end of 2001. The growth was mainly concentrated in the trading portfolio, with the balance of the investment portfolio remaining almost flat. The increase for the year also incorporates a significant reduction of holdings in the second half, with the maturity of roughly EUR 1,700 million of temporary holdings and the divestiture of other assets as part of a risk-containment policy. The table below illustrates the trend of the two components of the aggregate.

#### ■ OWNED SECURITIES (in EUR mn)

	31/12/2002	31/12/2001	Change	% Change
TOTAL SECURITIES	10,366	9,134	1,232	13.5
Investment portfolio	2,613	2,405	208	8.6
Trading portfolio	7,753	6,729	1,024	15.2

#### ■ INVESTMENT PORTFOLIO

The value of the portfolio rose by a modest EUR 208 million in comparison with the balance as of 31 December 2001. The change incorporates: the balance of inflows/reimbursements (increase of EUR 100 million); the transfer (first quarter of 2002) of securities from the acquisition of Banca 121 business unit which are considered a "stable investment" (in light of their correlation by amount and maturity with the business unit's liabilities) or which were already classified as part of the seller's investment portfolio (EUR 360 million); and changes arising from exchange differences (decrease of EUR 213 million).

#### ■ TRADING PORTFOLIO

At EUR 7,753 million, the portfolio reflects an increase of EUR 1,024 million in comparison with the end of 2001. The growth was driven by the portfolio of bonds, which rose in value by roughly EUR 1,529 million and included around 1,400 listed securities. A breakdown of the portfolio by type of security is shown in the table below.

#### **■ COMPONENTS OF TRADING SECURITIES PORTFOLIO**

	%	
Treasury bills (BOT)	2.7	
Treasury bonds (long-term)	4.7	
Treasury certificates	17.9	
Treasury zero-coupon certificates	0.2	
Other government securities	0.0	
Other Italian bonds	30.6	
Other foreign bonds	34.8	
Italian equities	1.2	
Foreign equities	1.3	
Investment funds, warrants and covered warrants	6.6	
TOTAL	100.0	

#### ■ TREASURY ACTIVITY

With its treasury activity in 2002, the Bank adopted a dynamic management approach which yielded a substantial reduction overall in the banking book positions exposed to liquidity risk. Trading in interest-rate derivatives was also significantly increased. In managing the liquidity flows from the Bank's commercial and financial commitments, trading volumes were higher in euro transactions (+36 percent) and down in other currencies (-8.5 percent). In the interbank deposit market, and in particular, the E.Mid screen-based market, the BMPS treasury unit held a leading position throughout the year: in euro transactions, the Bank captured the top ranking in 2002, with a trading volume of EUR 398 billion and market share of 4.5 percent; in dollar transactions, the Bank was in second place, with volume equivalent to EUR 25 billion and market share of 8 percent.



Given the completion of various phases of a reorganization designed to bring together the dealing rooms within the MPS Group, in the third quarter, the BMPS treasury area took on the management of interbank accounts that had previously been controlled by the banks of the MPS Group. This change will produce benefits in terms of the overall management of liquidity:

The table below provides a summary of the changes in the interbank accounts over the course of the year:

#### ■ INTERBANK RELATIONSHIPS (in EUR mn)

Net credit (borrowing) position	3,665	4,550		
Due to banks	17,079	11,586	5,493	47.4
Due from banks	20,744	16,136	4,608	28.6
	31/12/2002	31/12/2001	Change	% Change

The Bank's net position in the interbank market was roughly EUR 900 million lower at the end of 2002 in comparison with the end of 2001. When measured against the balance as of 30 June 2002, the change in the net position in the interbank market is partly related to the maturities of the securities transactions as cited above.

In the trading of interest-rate derivatives, the Bank managed to safeguard its profitability while consolidating its position as a market maker in both the screen-based and over-the-counter markets (trading volumes up by 213 percent). The use of derivatives (EONIA, OIS, Short IRS, FRAs and Interest rate options) in relation to the banking book assets implies low capital absorption and has thus been the preferred form of hedging against risk. The biggest commitment has gone to EONIA, with the total notional value of EUR 140 billion reflecting an increase of 84 percent in comparison with the year 2001. Instead, transactions in Short IRS rose by 308 percent to notional volume of EUR 6.3 billion, and were mostly driven by the high volatility in the markets for most of the year and the consequent changes in interest rates by the various monetary authorities.

Foreign-exchange trading during the year was mostly concentrated on EUR/USD, USD/JPY, EUR/GBP, and GBP/USD transactions, namely, the most important and liquid cross rates in the currency market.

#### ASSET-LIABILITY MANAGEMENT

In 2002, Banca MPS tapped some EUR 760 million of funding from institutional and retail investors resident in Italy. Much of this funding came from innovative finance transactions (with 32 issues for a total countervalue of EUR 415 million accounting for 54.6 percent of the overall volume). These transactions have gradually replaced fund-raising through straight bonds, as part of the change in the Bank's commercial policies.

The so-called plain-vanilla issues accounted for the remaining 45.4 percent of the total funding volume (19 issues for a total countervalue of EUR 345 million, including a Subordinated Lower Tier II issue equal to EUR 11.5 million). With these issues, the various banks of the MPS Group were able to secure funding from captive customers at the cost of Euribor. The breakdown by maturity shows a greater orientation toward 2-/3-year transactions (67.8 percent of the total) and a smaller concentration in the 4-/7-year range (23.7 percent of the total). Volumes in longer maturities were less significant (8.5 percent).

## CAPITAL AND CAPITAL REQUIRED FOR REGULATORY PURPOSES

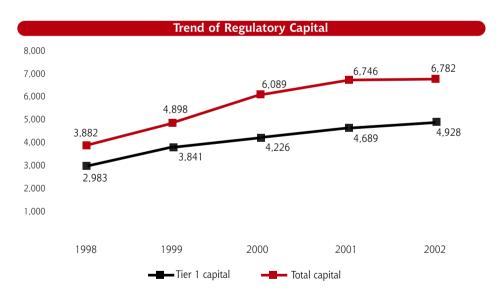
s of 31 December 2002, the Bank's capital for regulatory purposes totaled EUR 6,781.8 million. The total reflects moderate growth of around EUR 35 million over the prior year.

#### ■ CAPITAL REQUIRED FOR REGULATORY PURPOSES - in EUR mn:

	31.12.02	31.12.01	
Tier I capital	4,927.7	4,689.4	
Tier II capital	2,617.2	3,256.9	
	7,544.9	7,946.4	
Deductions	763.1	1,200.0	
TOTAL CAPITAL AS CALCULATED FOR REGULATORY PURPOSES	6,781.8	6,746.4	

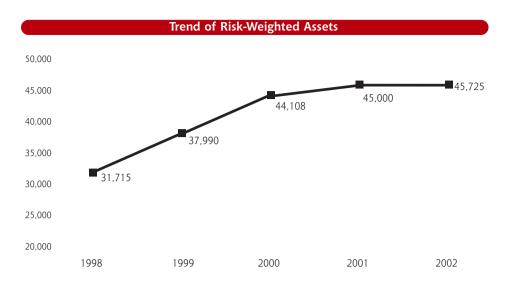
Growing by EUR 238 million or 5.08 percent, Tier I capital totaled EUR 4,928 million at year end. The increase is the by-product of retained earnings, a bonus share capital increase effected with the use of the revaluation reserve set up under Law 342/2000, and the netting of the effects of the incorporation of Banca 121 S.p.A.

Tier II capital was instead EUR 639 million lower, mainly due to the use of the entire revaluation reserve set up under Law 342/2000 for the purpose of the bonus share capital increase (a transaction approved by the extraordinary meeting of the shareholders on 30 November 2002).



Risk weighted assets totaled EUR 45.7 billion at the end of 2002, remaining practically on par with the balance as of the end of 2001. In this regard, it is noted that the spin-off of the leasing and factoring activity and the merger by incorporation of Banca 121 S.p.A. both affected the change in assets weighted for credit risk



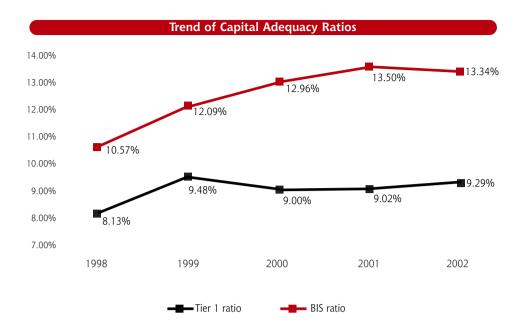


#### **■** RISK ASSETS

(in EUR mn)	Weighted value as of		
	31.12.02	31.12.01	
Balance sheet assets:			
Collateralized risk assets in cash			
Loans to governments, central banks and multilateral banks	608.7	637.5	
Due from banks	3,553.6	2,496.5	
Loans to investment companies	0.3	0.1	
Loans to private sector:			
Residential mortgage loans	2,078.5	1,827.3	
Transactions on non-residential property	8.2	39.4	
Other loans	28,982.0	29,759.4	
Equity investments weighted at 200%	6.0	7.0	
Equities, equity investments and subordinated assets	4,680.3	4,669.4	
Fixed assets	1,019.2	1,067.6	
Negotiable instruments for collection, accrued income and other assets	737.2	1,050.8	
	41,673.9	41,555.1	
- Off-balance-sheet assets:			
Guarantees released, commitments and derivatives contracts	4,803.9	4,851.5	
- Less: loan amounts classified as "doubtful outcomes" and capital losses	-753	-606	
Total risk weighted assets	45,725.0	45,800.4	

Taking into account the changes in regulatory capital, risk weighted assets, market risks and other capital requirements, the BIS ratio stood at 13.34 percent at the end of 2002, compared with 13.50 percent at the end of the preceding year. Instead, the Tier I ratio rose to 9.29 percent, thereby improving in comparison with the 9.02 percent on record at the end of 2001.

The Bank's capital position at the end of 2002 was some EUR 3.3 billion above the required level, even though it was down by a modest EUR 38 million in comparison with the balance at the end of 2001. The calculations take into account Tier III subordinated debt which is sufficient to cover all market risks.



### ■ POSITION

(in EUR mn)		
	31.12.02	31.12.01
Credit risk		
on balance sheet assets	2,917.2	2,908.9
on off-balance-sheet assets	336.3	339.
Less: doubtful loans	-53	-42.4
Total credit risk	3,200.8	3,206.0
Market risks		
on investment securities portfolio	295.8	249.0
including:		
- generic risk on debt securities	71.9	80.9
- specific risk on debt securities	87.8	55.4
- generic risk on equity securities	26.9	21.8
- specific risk on equity securities	22.4	22.1
- delta-plus options: gamma factor	0.0	0.1
- delta-plus options: vega factor	0.5	0.0
- risk on quotas in mutual funds	26.7	18.6
- settlement risk	0.0	0.0
- counterparty risk	59.7	50.0
- on concentration		0.0
- on foreign currency		18.5
Total market risks	295.8	267.6
Subordinated loans eligible to cover market risks	295.8	267.6
Net market risks	-	-
Other requirements	218.2	164.3
Total capital required	3,418.9	3,370.3
Total capital for regulatory purposes	6,781.8	6,746.4
SURPLUS CAPITAL	3,362.9	3,376.1



## **PROFITABILITY**

he year of 2002 was anything but smooth from an operational perspective. The strong indications of uncertainty emerging in 2001 grew even more pronounced due to increasing geopolitical tensions and the slowdown of the economy. Against this backdrop, Banca Monte dei Paschi di Siena achieved significant earnings, benefiting from a higher interest margin and from the contribution of commissions on basic services;

#### ■ RECLASSIFIED PROFIT AND LOSS STATEMENT

1,120.3	1,400.4	331.7	
1 1 2 0 5	1 460 4	-331 9	-22.7
-762.7	-743.5	-19.2	2.6
-975.0	-925.8	49.2	5.3
-1,737.7	-1,669.4	68.4	4.1
2,866.2	3,129.8	-263.6	-8.4
1,571.1	1.872.8	-301.6	-16.1
1,295.1	1,257.0	38.1	3.0
31/12/2002	31/12/2001	Change	% Change
	1,295.1 1,571.1 <b>2,866.2</b> -1,737.7 -975.0 -762.7	31/12/2002 31/12/2001 1,295.1 1,257.0 1,571.1 1.872.8 <b>2,866.2 3,129.8</b> -1,737.7 -1,669.4 -975.0 -925.8 -762.7 -743.5	31/12/2002     31/12/2001     Change       1,295.1     1,257.0     38.1       1,571.1     1.872.8     -301.6       2,866.2     3,129.8     -263.6       -1,737.7     -1,669.4     68.4       -975.0     -925.8     49.2

<sup>(\*)</sup> The figure for 2001 is EUR 162.5 million lower than that indicated in the notes to the financial statements and in the reclassified balance sheet since it excludes the double entry of dividends from subsidiary companies.

Following is a review of the more significant aspects of key profit-and-loss aggregates:

#### ■ INTEREST MARGIN

The interest margin advanced by 3 percent over the 2001 level, with much of the gain due to the contribution of the Commercial Bank Division. In managing to mix the select development of loans and deposits with a sound repricing policy, the Division achieved an even higher spread on short-term maturities despite the gradual decline of interest rates. As a result, the Division posted a 7.1 percent increase in its interest margin. The tables below, which present key balance-sheet data for the BMPS Division, are designed to facilitate an analysis of the main factors which influenced the trend of the interest rate.

#### ■ AVERAGE BALANCE-SHEET AGGREGATES FOR THE BMPS DIVISION

omers 15,850	14,609	1,241	8.5
tomers 15,176	14,676	500	3.4
27,898	26,215	1,683	6.4
6,417	6,273	144	2.3
21,481	19,942	1,539	7.7
31/12/2002	31/12/2001	Change	% Change
	21,481 6,417 <b>27,898</b> tomers 15,176	21,481 19,942 6,417 6,273 <b>27,898 26,215</b> tomers 15,176 14,676	21,481 19,942 1,539 6,417 6,273 144 <b>27,898 26,215 1,683</b> tomers 15,176 14,676 500

<sup>(\*)</sup> Including current accounts, savings deposits, and certificates of deposits and excluding repurchase agreements

As illustrated by the table hereunder, the careful management of pricing was a particularly effective operational tool, and contributed to the significant growth of the interest margin, including from quarter to quarter;

#### ■ TREND OF AVERAGE LENDING RATES AND FUNDING COSTS FOR THE BMPS DIVISION

	31/12/2002	31/12/2001	Change
Short-term rates:			
Lending rate	6.47	7.20	-0.73
Funding cost	1.66	2.42	-0.76
Short-term rate spread	4.81	4.78	0.03
Medium- and long-term rates:			
Lending rate	5.54	6.16	-0.62
Funding cost	4.38	4.98	-0.60
Medium- and long-term rate spread	1.16	1.18	-0.02

#### SERVICE MARGIN

At EUR 1,571.1 million, the service margin dropped by 16.1 percent in comparison with 2001, with the decrease mostly attributable to the trend of the financial markets. At the Commercial Bank Division, the service margin rose by 5.1 percent mainly as a result of commissions on basic services.



#### SERVICE MARGIN

(in EUR mn)	31/12/2002	31/12/2001	Change	%Change
Profits (losses) from financial transaction	ns 43	109	-66	-60.7
Banking commissions (*)	852	964	-112	-11.6
Other operating income	94	109	-15	-13.6
Dividends and tax credits	463	560	-97	-17.3
Income from tax collection activity	119	131	-12	-9.2
Total service margin	1,571	1,873	-302	-16.1

<sup>(\*)</sup> aggregation effected on the basis of operational criteria

The performance of the service margin incorporates the following:

an 11.6 percent decrease in banking commissions which, in turn, includes a 13.5 percent increase in core business commissions and a 30 percent decline in commissions on indirect funding (which suffered from the poor performance of the financial markets and the resulting reduction in the turnover of portfolios and growing customer preference for shorter term investments and instruments to guarantee capital). It is nonetheless worth noting that the contribution of banking commissions improved markedly between the first half and second half of the year.

#### **■** BANKING COMMISSIONS

Total banking commissions (*)	852	964	-112	-11.6
Core business commissions	463	408	55	13.5
Commissions on indirect funding	389	556	-167	-30.0
(in EUR mn)	31/12/2002	31/12/2001	Change	%Change

<sup>(\*)</sup> aggregation effected on the basis of operational criteria

- a decrease of EUR 66 million in profits from financial transactions (compared with the excellent 2001 results) which mainly stemmed from the highly negative performance of the stock markets, and in part from an operating policy more heavily focused on containing risks. Furthermore, the significant earnings achieved in the fourth quarter allowed for fully reversing the negative trend seen in the third quarter of the year;
- a reduction of 17.3 percent or EUR 97 million in dividend income which benefited in 2001 from an extraordinary EUR 133 million payout from Bell S.p.A. (were this component to have been excluded, the year-on-year change would have been an increase of 8.4 percent). At EUR 337 million, the contribution from subsidiary companies was 5.5 percent higher. Significant income was also realized on the investments in Hopa and San Paolo IMI.

## ■ DIVIDENDS AND TAX CREDITS

(in EUR mn)	31/12/2002	31/12/2001	Change	%Change
Dividends and tax credits relative				
to Group companies	337	319	17.7	5.5
Dividends and tax credits				
on other equity investments	105	226	-121.0	-53.6
- San Paolo-IMI	62	63	-0.8	-1.3
- Hopa	31			
- Bell		133		
Dividends from shares, quotas				
and other equity securities	22	15	6.4	41.8
Total	463	560	-97	-17.3

a reduction of other operating income/expenses which incorporates the effects of the outsourcing of certain services to other companies of the MPS Group. Commission from tax collection were also lower (-9.2 percent), mostly due to the difficulties related to the new "tax-collection agent indemnity".

Taking into account the developments set forth above, total banking income came to EUR 2,866.2 million, dropping by 8.4 percent year on year. Excluding profits and loss from financial transactions and the Bell dividend earned in 2001, the decrease is trimmed to 2.2 percent.

#### ADMINISTRATIVE EXPENSES

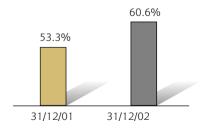
Administrative expenses rose by EUR 68.4 million, or 4.1 percent. The increase reflects, especially with regard to the first half, the effects of projects undertaken and the reinforcement of various areas as part of the implementation of the Business Plan. The aggregate includes:

- Personnel expenses which rose by 5.3 percent or EUR 49.2 million. The April 2002 renewal of the economic terms and conditions of a national labor contract in effect for the Bank's personnel accounted for about two percentage points of the increase. The remaining 3.3 percentage points reflect growth essentially in line with the level budgeted at the beginning of the year which, in turn, incorporates the effects of staffing additions in 2001 and enhancements to the sales and marketing force in the branches.
- Other expenses which advanced by 2.6 percent, with the rate of growth thus significantly decelerating in relation to the 9.4 percent increase in 2001. The change in the pace of growth is attributable to various cost-containment measures implemented during the year and to the careful monitoring of expenses effected by the Corporate Center.

#### ■ GROSS OPERATING PROFIT

Gross operating profit amounted to EUR 1,128.5 million, decreasing by EUR 331.9 million, or 22.7 percent, in comparison with 2001. Eliminating the profits and losses from financial transactions and the Bell dividend, the decrease contracts to EUR 132.8 million, or 10.9 percent. Given these dynamics, the cost-income ratio (excluding depreciation and amortization) was 7.3 percentage points higher. The increase is 3.7 percentage points when the profits and losses from financial transactions and the Bell dividend are eliminated.





Excluding the tax collection activity, the cost-income ratio (excluding depreciation and amortization) goes from 51.8 percent as of 31 December 2001 to 59.2 percent as of 31 December 2002.



### ■ TAX COLLECTION ACTIVITY (DIRECT MANAGEMENT)

The results outlined above include EUR 5 million of gross operating profit from the tax collection business in comparison with the EUR 7 million earned in 2001. The result incorporates a sharp 36.7 percent decline (EUR 23 million) in tax-collection contribution to earnings as a result of the definition of a new "tax-collection agent indemnity" which is substantially less than the "economic safeguard payment" made until 2001. From an operational standpoint, the Bank realized appreciable progress in its business of servicing "voluntary tax payments, the Italian Treasury and local entities." Instead, the area working with tax rolls was, as anticipated, weaker in 2002 due to the decreasing weight of prereform rolls. Meanwhile, the activation of massive proceedings has experienced longer-than-expected delays while the charges for coverage of financial deficits decreased further, as a result of the trend of interest rates.

## ■ RECLASSIFIED PROFIT AND LOSS STATEMENT - TAX COLLECTION ACTIVITY (DIRECT CONCESSIONS)

in EUR mn	Year Ending 31/12/2002	Year Ending 31/12/2001	Change	%Change
	31/12/2002	31/12/2001	Change	70CHange
Interest margin	-8	-15	8	-49.5
Service margin	119	131	-12	-9.2
Total income	111	116	-4	-3.8
Administrative expenses	-106	-108	2	-2.1
including: personnel expense	-72	-73	-1	-2.1
including: other expenses	-34	-35	-1	-2.3
Gross operating profit	5	7	-2	n.s.

The trend of administrative expenses has been positively impacted by fewer outlays for personnel (partly due to the retirement-incentive programs implemented in recent years) and by various measures to streamline the organization that have been realized or are in progress.

#### ■ ADJUSTMENTS AND PROVISIONS

The Bank continues to embrace a conservative posture with respect to various adjustments and provisions. The accounts having the most significant impact on net earnings are reviewed as follows:

#### ■ ADJUSTMENTS AND PROVISIONS (in EUR mn)

	31/12/2002	31/12/2001	Change	%Change
Valuation adjustments to fixed				
and intangible assets	-226.8	-154.2	-72.6	47.1
Goodwill amortization	-41.5	-4.7	-36.9	n.m.
Provisions for risks and charges	-18.7	-28.8	10.1	-35.1
Valuation adjustments to loans	-289.3	-197.6	-91.8	46.5
Provisions to loan loss reserve	-38.0	-10.3	-27.7	267.9
Valuation adjustments to non-current				
financial assets, net of recoveries	-101.7	-84.0	-17.7	21.0

- Valuation adjustments to fixed and intangible assets in the amount of EUR 226.8 million which include the depreciation of buildings (EUR 38.5 million) and capital assets (EUR 53.2 million), the amortization of deferred charges (EUR 135.1 million), and the immediate depreciation/amortization of certain assets acquired through the incorporation of Banca 121 (EUR 48.3 million);
- Amortization of EUR 41.5 million of goodwill paid in connection with mergers effected during the year (Banca 121 and Saped) and prior-year transactions (purchase of business units from Banca Steinhauslin and Banca 121);
- Provisions to the reserves for risks and future charges in the aggregate amount of EUR 18.7 million, which include amounts to cover charges that could arise in relation to the renegotiation of subsidized mortgage loans, an issue affecting the entire banking industry;
- Valuation adjustments to loans in the amount of EUR 289.3 million, which include EUR 5 million of lump-sum writedowns relative to performing loans (putting the balance of the reserve at EUR 170 million), and an annual quota (EUR 27.2 million) relative to the securitization of non-performing loans in 2001;
- Provisions to the loan loss reserve in the amount of EUR 38 million taken for the purpose of reinforcing the coverage of risk and for optimizing the Bank's tax position and capital ratios;
- Valuation adjustments to non-current financial assets in the amount of EUR 101.7 million, most of which is related to the losses of several subsidiaries (Monte Paschi Serit, EUR 52.5 million; MPS NET, EUR 14.8 million; and Banca Steinhauslin, EUR 14.8 million) and to the writedown of certain investment securities.

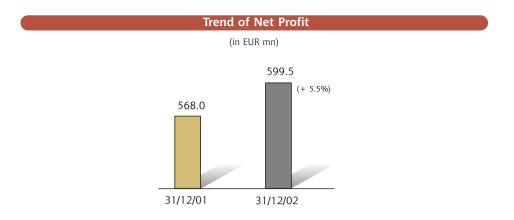


#### EXTRAORDINARY ITEMS AND TAXES

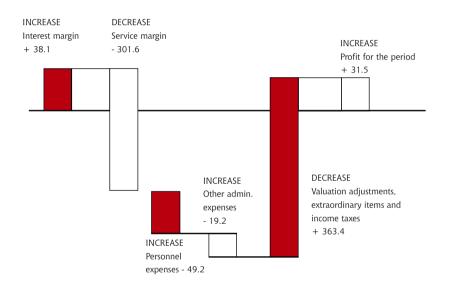
The accounts reviewed below round out the profitability summary.

- Extraordinary items include:
  - capital gains realized on the sale of: a controlling interest in Cassa di Risparmio di Prato (EUR 278.8 million); a minority interest in Cassa di Risparmio di San Miniato (EUR 15.2 million) and a stake in Cedel (EUR 14 million);
  - an extraordinary charge to write down the investment held in BNL (EUR 263.2 million); although not obligatory, the charge was taken in order to maintain a conservative value of the investment, and adjusted the carrying value to EUR 2.53 per share (further information on this transaction is provided in the notes to the financial statements);
- The reserve for general banking risks was charged for EUR 85 million in order to facilitate earnings stability and efficiencies from a fiscal standpoint, and partly in light of the non-recurring transactions taking place in 2002;
- The tax burden declined considerably mainly due to savings of an extraordinary nature related to the various actions taken to streamline the holdings of equity investments.

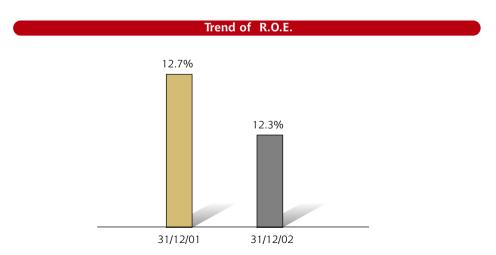
Considering the dynamics of the accounts summarized above, the Bank's net earnings totaled EUR 599.5 million, reflecting an increase of 5.5 percent in comparison with net profit from ordinary operations reported for 2001. With the intention of reinforcing the capital base (which benefited in 2002 from the effects of the sale of the investment in San Paolo-IMI as outlined in the section covering equity investments), the Board of Directors will propose that the entire net gain on the sale of Cariprato (EUR 226 million) be allocated to the extraordinary reserve.



The following chart indicates the principal factors contributing to the change in net profit:



Given the effect of the foregoing, ROE totaled 12.3 percent for 2002.





#### **EQUITY INVESTMENTS**

ith the various transactions occurring over the year, the Bank's portfolio of equity investments totaled EUR 5,439 million at the end of 2002, rising by around EUR 78 million in comparison with the end of 2001.

#### ■ EQUITY INVESTMENTS (in EUR mn)

Total	5.439	5.361	78	1.4
Investments in Group companies Other investments	4,047 1,392	3,184 2,177	863 -785	27.1 -36.1
	31/12/2002	31/12/2001	Change	%Change

#### ■ INVESTMENTS IN MPS GROUP COMPANIES:

The holdings in MPS Group companies were managed in accordance with the Bank's stated strategies, and in particular, with regard to the development of the new business model provided by the MPS Group's Business Plan. The principal transactions of the year are summarized below:

- BANCA AGRICOLA MANTOVANA: In the first half of 2002, following the exercise of a put option related to the public tender offer launched by BMPS for BAM in 1999, the Bank purchased 10,847,957 BAM shares at a price of EUR 12.91 each, for a total outlay of EUR 140.1 million. Thereafter, the Bank embarked on the formalities (to be completed in the first quarter of 2003) for the merger of Banca Agricola Mantovana into BMPS, and the simultaneous transfer of most of the banking activity of the subsidiary to a new privately held bank. The new bank, which was set up on 18 November 2002 under the name of "Nuova Banca Agricola Mantovana S.p.A.", was incorporated with a share capital of EUR 6.3 million (99-percent held by BMPS and 1-percent by MPS Merchant S.p.A.). (Additional information on the merger is contained in the section covering material events subsequent to year end.) In addition, the Bank's 5.16-percent interest in BAM which was part of the BMPS trading portfolio was reclassified as an equity investment. As a result of these transactions, the Bank's ownership in BAM went from 52.3 percent to 65.55 percent, with the carrying value of the investment rising from EUR 1,079 million to EUR 1,288 million.
- BANCA TOSCANA:In a situation similar to that involving Banca Agricola Mantovana, plans were made for the merger of Banca Toscana into BMPS in the first quarter of 2003. In line with this plan, the Bank's interest in Banca Toscana held in the trading portfolio was reclassified as an equity investment, and thus the total interest went from 57.3 percent to 64.2 percent, with the carrying value rising from EUR 571.5 million to EUR 669.5 million.

On 18 November 2002, a new company was set up under the name of "Nuova Banca Toscana S.p.A.", with initial share capital of EUR 6.3 million (99-percent held by BMPS and 1-percent by MPS Merchant S.p.A.). (Additional information on the merger is contained in the section covering material events subsequent to year end.)

- BANCA 121: As part of the reorganization of the subsidiary, BMPS acquired the following from Banca 121 in the first quarter of 2002: a 100-percent interest in 121 Financial Services Ltd. Dublin; a business unit consisting of 30 Banca 121 branches located outside of the Apulia area; a portion of Banca 121's securities and derivatives portfolio; and a part of Banca 121's long-term funding (bonds). Thereafter, a merger by incorporation took place with Banca 121 S.p.A. being absorbed by BMPS; at the same time, the financial advisor network of the incorporated company was spun off to Banca 121 Promozione Finanziaria S.p.A. (incorporated on 16 September 2002): the transactions had an effective date of 23 December 2002 for legal purposes and of 1 January 2002 for accounting purposes. As of the same dates, the information systems and other capital assets of Banca 121 acquired by BMPS through the merger by incorporation were transferred to the MPS Group Operating Consortium. As a result of these transactions, BMPS acquired all equity investments held by Banca 121 S.p.A. (with the exception of an interest in Monte Paschi Asset Management SGR, that was transferred to Banca 121 Promozione Finanziaria S.p.A.); the carrying value of these investments is roughly EUR 48 million;
- BANCA 121 PROMOZIONE FINANZIARIA: The company was set up with initial share capital of EUR 6.3 million, 99-percent funded by BMPS and 1 percent by MPS.Net S.p.A. With the Bank of Italy's authorization to carry out banking activity, the new company's share capital was increased to EUR 160 million. The capital increase was offset by BMPS' transfer of assets acquired through the merger by incorporation of Banca 121 which were functional for the Banca 121 financial advisory network. Following this transaction, BMPS' ownership in the newly incorporated company rose to 99.96 percent, and the interest of MPS.Net fell to 0.04 percent.

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

#### Acquisitions, incorporations, sales

• Start-up of operations of MPS Leasing & Factoring, Banca per i Servizi Finanziari alle Imprese S.p.A. on 1 July 2002, a company incorporated in 2001. A capital increase was carried out during the year, with the share capital rising from EUR 50 million to EUR 235.35 million. Another capital increase on 14 October 2002 was effected following the merger by incorporation of Pool Factor S.p.A., a company previously held by Banca 121 S.p.A. With the perfection of these transactions, the company's ownership as of year end was:

BMPS	82.624%;
Banca Toscana	6.647%;
BAM	6.437%;
Cariprato	4.292%.

• Start-up of operations on 1 October 2002 of MPS Gestione Crediti Banca S.p.A., a company incorporated on 18 December 2001. BMPS owns 99.5 percent of the capital of



the new company (investment of EUR 99.5 million, 30 percent of which has been paid), and Banca Toscana holds the remaining 0.5 percent;

- Sale to Banca Popolare Vicentina of 79 percent held in Cassa di Risparmio di Prato. The transaction was agreed on 24 December 2002 for a price of EUR 411.2 million (versus a carrying value of EUR 132.4 million); the closing of the transaction was scheduled for the first quarter of 2003, following the approval of the regulatory authorities;
- Sale on 9 December 2002 of a 25-percent interest in Cassa di Risparmio di San Miniato to Società Cattolica di Assicurazione at a total price of EUR 72 million (carrying value of EUR 56.8 million);
- Purchase from the Economic and Finance Ministry and from Cassa di Risparmio di Volterra of their respective interests of 6.51 percent and 1.0 percent in MPS Merchant S.p.A. with a total investment of EUR 20.2 million. Thereafter, a capital increase was funded in the amount of EUR 25 million (including EUR 18.5 million as additional paid-in capital). BMPS acquired another 118,419 shares of MPS Merchant previously purchased by the company itself to cover the exercise of the right of withdrawal under Article 2437 of the Italian Civil Code following changes to the By-Laws in 2001. As a result of these transactions, BMPS' holding in MPS Merchant rose to 88.05 percent, while the MPS Group's interest advanced to 99.73 percent;
- Purchase from Cassa di Risparmio di Volterra of 1.5 percent held by the same in MPS Banca Verde S.p.A. with a total investment of EUR 1.8 million. As a result of this transaction, BMPS' ownership in the company climbed to 67 percent, while the MPS Group's interest came to 100 percent;
- Merger by incorporation of SAPED S.p.A. (a previous subsidiary of BMPS) into BMPS. The transaction occurred after the Bank had purchased the residual interests held by minority shareholders;
- Partial spin-off of Amministrazioni Immobiliari with respect to the business unit of Tenuta di Marinella di Sarzana (SP) estate, to a newly created company, Marinella S.p.A., which is 100-percent owned by BMPS; this transaction closed on 1 January 2003;
- Acquisition from Amministrazioni Immobiliari of a 60-percent interest in Paschi Gestioni Immobiliari S.p.A., with the Bank now controlling all of the share capital of this company;
- Increase in the holding in Foligno-based SO.RI.T S.p.A. from 46.7 percent to 54.6 percent; as a result of this transaction, the tax collection company will become part of the MPS Group (subject to the authorization of the Bank of Italy);
- Increase in the holdings in Milan-based credit-securitization companies, ULISSE S.p.A. and ULISSE 2 S.p.A. from 7 percent to 60 percent, both of which will become part of the MPS Group.

#### Other transactions

- Subscription to the capital increase of Monte Paschi Vita S.p.A., which increased share capital from EUR 150 million to EUR 195 million by means of the issue of 4.5 million shares with a par value of EUR 10 each;
- Subscription to the share capital increase of Banca Popolare di Spoleto S.p.A., with an investment of EUR 3.6 million, including EUR 2.12 million of additional paid-in capital;
- In order to support the growth plans for MPS.Net S.p.A., the extraordinary meeting of the shareholders held on 19 April 2002 vested the Board of Directors with the authority to increase (through one or more transactions over a five-year period) the share capital for up to EUR 35 million; in November, BMPS invested EUR 17.8 million to subscribe to the first tranche of the increase (a total of EUR 18 million);
- The liquidation of the wholly-owned subsidiary, Monte Paschi Nederland BV.



#### OTHER EQUITY INVESTMENTS

#### Acquisitions, incorporations and sales

- Sale to Deutsche Bank AG London Branch of a 4.99-percent holding in San Paolo-IMI S.p.A. Along with this sale, the Bank invested EUR 329 million to purchase a 49-percent interest in the newly incorporated Santorini Investment Ltd. Partnership, a Scottish company that is 51-percent owned by Deutsche Bank AG. The aggregate price of the sale was EUR 785.4 million; the difference (EUR 425.3 million) between the sale price and the carrying value (EUR 1,210.7 million) was charged to the revaluation reserve set up in accordance with Law 342/2000. The residual amount was allocated to shareholders' equity through a bonus share capital increase authorized by a resolution of the extraordinary shareholders' meeting of 30 November 2002.
- Sale of 0.162 percent of the interest held in Banca Nazionale del Lavoro, which gave rise to a capital loss of EUR 12.2 million. As a result of this transaction, BMPS' share in BNL totals 4.5 percent.
- Subscription to the capital increase of FINSOE S.p.A. which increased capital from EUR 408.2 million to EUR 457.5 million; BMPS invested EUR 26 million for its 20-percent interest; following the close of the year, the Bank purchased another 170,281,786 shares in FINSOE S.p.A. from HOPA S.p.A., and the Bank's interest thus rose from 20 percent to 33.4 percent;
- Purchase of 12.98 percent of the capital of Bios S.p.A. for an investment of roughly EUR 40 million; this investment is part of the overall relationship with the Hopa Group;
- Subscription to the HOPA S.p.A. share capital increase from EUR 608.4 million to EUR 709.8 million, for a total outlay of EUR 119.4 million; the Bank's interest in the company thus went from 3.72 percent to 6.58 percent;
- Sale to Deutsche Borse AG of a 0.83-percent interest in the Luxembourg company, Cedel International SA, for a total price of EUR 14.6 million (carrying value of EUR 0.6 million);
- Purchase of 7.05 percent of Sofinco S.p.A. (a financial company concentrating on investments in cooperatives), with an outlay of EUR 2.2 million;
- Sale of a 7.32-percent interest in Autocamionale della Cisa S.p.A. at a price of EUR 2.6 million;
- Purchase of 14.86 percent of HI Spring S.p.A., a multimedia/digital television company, for total investment of EUR 1.6 million;
- Acquisition of 15 percent of Commerfin S.c.p.A. and Fin.Promo S.c.p.A., Rome-based companies set up by Confcommercio in accordance with Legislative Decree 114/98 in relation to the reform of regulations in the commercial sector; the interests involved a total investment of EUR 400,000.

#### Other transactions

- Assignment to BMPS of 1,237,857 shares of SIAS, which correspond to a 1.41-percent interest (carrying value of EUR 2.0 million) following the spin-off of Autostrada Torino-Milano S.p.A.; as a result of this transaction, the Bank's ownership in Autostrada Torino-Milano S.p.A. decreased from EUR 5.4 million to EUR 3.4 million.
- Subscription to the capital increase for the Turin-based Centrale dei Bilanci S.r.l. and the purchase of additional shares; with the perfection of these transactions, which involved a total outlay of roughly EUR 3 million, the Bank's ownership in the company rose to 6.79 percent;
- Participation in an irrevocable tender offer by Borsa Italiana S.p.A. relative to 100 percent of the capital of Monte Titoli S.p.A. The Bank held 511,902 shares in the latter company, 65 percent of which were transferred for the subscription of a share capital increase in kind in Borsa Italiana S.p.A.; the remaining 35 percent were sold to Borsa Italiana S.p.A. for EUR 3.1 million. Thereafter, BMPS purchased another 539,640 shares of Borsa Italiana S.p.A. from Banca Intesa for an investment of EUR 32.4 million, with the interest in the market management company rising from 7.50 percent to 10.36 percent;
- In order to support the participation of a group of companies (Energia Italiana, Acea and Electrabel) in a bid for the acquisition of Interpower S.p.A., BMPS participated in a capital increase carried out by Energia Italiana S.p.A. which raised capital from EUR 2 million to EUR 4 million. The Bank subscribed to 220,000 shares for a total outlay of EUR 220,000. At a later date, the Bank sold 150,000 shares, with its interest thereby falling from 11.22 percent to 7.44 percent. (Additional information on this transaction is provided in the section covering material events subsequent to year end.)
- Subscription, as a subsidizing investor, to 60 shares or 24.24 percent of the capital of Consorzio Etruria S.c.r.l., for an investment of EUR 1.5 million.
- Subscription to share capital increases for the following companies, with a total outlay of EUR 1.2 million: 3R Management SGECR, Consorzio Intesa Aretina, Docutel Communication Services S.p.A., Eurobic Toscana Sud S.p.A., Centro Agro Alimentare di Napoli S.c.p.A., Finaosta S.p.A. of Saint Christophe (AO), and the Florence-based Fidi Toscana S.p.A.
- Subscription of 4,285 MTS shares, through the transfer of an investment held in EuroMTS S.p.A.

The management of the portfolio of equity investments also entailed a charge to write down the investment held in BNL; although not obligatory, the charge was taken in order to maintain a conservative value of the investment, and adjusted the carrying value to EUR 2.53 per share (further information on this transaction is provided in the notes to the financial statements).



#### OTHER INFORMATION

#### ■ TRANSACTIONS WITH RELATED PARTIES

The following disclosure is provided pursuant to the requirements of CONSOB Memorandum n. 97001574 of 20 February 1997 and Memorandum n. 98015375 of 27 February 1998 and regards:

- the information contained in the report on operations of Banca MPS and in the report on operations of the MPS Group regarding the management of equity investments;
- the data, including the data in the notes to the financial statements, regarding the relationships as of year end between the Bank and the other companies of the MPS Group;
- the information contained in the review of corporate governance in the report on operations of the MPS Group regarding the adoption of a self-discipline code in relation to transactions with related parties.

#### It is noted that:

- The directors have complied with the provisions of Article 136 of Legislative Decree n. 385/93 (Banking Consolidation Act) relative to the obligations of the directors of banks and companies belonging to banking groups;
- Concessions granted to employees of any type or degree are in accordance with the internal and standard regulations illustrated in special documents, and fall within the normal operations of the Bank and are effected in the interest of the Bank;
- The transactions with companies in which investments are held fall within the normal operations of the Bank, in whose interest, as parent of the banking group, the transactions have been effected. All transactions with related parties within the Banking Group are settled on the basis of market conditions.

\* \* \* \* \*

The table lists the direct or indirect equity interests in Banca Monte dei Paschi di Siena and in other companies in the Group held by the Directors, Auditors and the CEO of the Bank, as required by Art. 79 of CONSOB Resolution n. 11971 of 14 May 1999.

#### ■ INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND CEOS

SURNAME AND NAME	COMPANY IN WHICH THE INVESTMENT IS HELD	SHARES HELD AS OF 31/12/01	NO. OF SHARES PURCHASED	NO. SHARES SOLD	SHARES HELD AS OF 31/12/02	
ANDRIANI Antonio Silvano	MONTE PASCHI BANQUE	1*	_	§	0	
BELLAVEGLIA Stefano	MONTE PASCHI BANQUE	0	1*	-	1	*
CARPINELLI Francesco Saverio	MONTE PASCHI BANQUE	1*	=	-	1	*
SCLAVI Antonio	BANCA MONTE PASCHI SIENA BANCA TOSCANA BANCA MONTE PASCHI SUISSE S.A	3,300 816 1*	- -	-	3,300 816	•
SEMERARO Giovanni	BANCA MONTE PASCHI SIENA BANCA MONTE PASCHI SIENA BANCA MONTE PASCHI SIENA	26,474,252 14,879	400,000 **		26,874,252 14,879	••
	BANCA 121	200,000	_	200,000 **	0	
VITTIMBERGA Giuseppe	BANCA MONTE PASCHI SIENA	1,210	_	_	1,210	••
FABRETTI Pietro	BANCA MONTE PASCHI SIENA	5,500	-	-	5,500	•
DE BUSTIS Vincenzo	BANCA MONTE PASCHI SIENA	1,974,167	-	1,947,167	0	

st Shares held in relation to corporate officer's position

<sup>\*\*</sup> Shares exchanged following the merger of Banca 121 into Banca Monte dei Paschi during 2002

<sup>•</sup> Directly held

<sup>••</sup> Held by spouse

<sup>§</sup> Left the position of Deputy Chairman of MP Banque on 22 April 2002



#### BANK ORGANIZATION STRUCTURE

he report accompanying the consolidated financial statements addresses changes in the organizational structure and in research and development, with the latter area taking on increasing importance in line with the directives of the MPS Group Business Plan. Therefore, the facts in this report are limited to specific information regarding the development of the sales network and the management of human resources at the parent company.

#### DISTRIBUTION CHANNELS

#### ■ TRADITIONAL NETWORK, ATMs AND POS TERMINALS

Banca Monte dei Paschi di Siena has a presence in 98 of 103 provinces in Italy. At year end, the domestic network was distributed over the various areas of the national market as follows: northern regions (205 facilities, or 18.98 percent of the total), central regions (499 facilities, 46.20 percent), and southern regions, Sicily and Sardinia (376 facilities, 34.81 percent). The domestic network is complemented by six foreign branches and six representative offices abroad.

#### ■ BANCA MONTE DEI PASCHI DI SIENA DISTRIBUTION NETWORK

Channel	31.12.02	31.12.01	Change
Traditional branches	1,080	962	118
including: PaschInsieme	12	11	1
Foreign branches & representative offices	12	13	-1
ATMs	1,244	1,065	179
POS TERMINALS	39,341	34,606	4,735

During the year, the Bank opened 18 branches and closed another four. On 24 May, the Bank inaugurated its thousandth facility at Castelfranco Veneto, as part of an overall program to achieve a more balanced presence in the national marketplace. With the incorporation of 104 branches formerly operated by Banca 121, the number of BMPS branches in operation increased from 962 to 1,080. The acquisition of Banca 121 also influenced the change in the number of POS terminals and ATMs operated by Banca MPS. By the end of 2002, BMPS had opened a total of 18 private-banking centers of a planned 21. In January 2003, the private-banking center at Catania was inaugurated, and will be followed by the opening of similar facilities in Florence and Lecce. Changes in the foreign network in 2002 are outlined in the section on international banking activity contained in the report on the operations of the MPS Group.

The ATM/POS network was further expanded in 2002, with specific figures as follows:

- the number of ATMs in operation totaled 1,244 as of year end, rising by 16.8 percent with respect to the end of 2001;
- the number of POS terminals installed in commercial establishments which are either owned or serviced by the Bank rose to over 39,000, increasing by 13.7 percent during the year.

#### **■ ELECTRONIC BANKING CHANNELS**

Overall, the customer use of the Bank's electronic banking services increased significantly over the levels reported at the end of 2001. During the year, UNI ISO 9001:2000 certification was secured for PaschiHome, PaschiInTel, PaschiInRete, PaschInsieme and PaschInTesoreria.

#### ■ ELECTRONIC BANKING CHANNELS

Contracts in effect

TOTAL	643.737	349.774	100
Other	-	12,124	-
PaschiInTesoreria	189	-	0.03
Opifici digitali	3,781	-	0.59
PaschiInAzienda	20,321	1,648	3.16
PaschiInCommerce	60	211	0.01
PaschiVideo	17,269	21,429	2.68
PaschiInRete	33,590	10,719	5.22
PaschiInTel	261,690	122,760	40.7
PaschiHome	306,837	180,883	47.7
			31/12/2002
Channel	31.12.02	31.12.01	% of Total

The increases in the numbers of retail contracts in comparison with 2001 were partly influenced by the transfer of contracts from the former Banca 121 to Banca MPS. As part of an overall reorganization of the electronic banking services, PaschilnAzienda and Opifici Digitali absorbed most of the PaschiVideo and PaschilnCommerce relationships.

In the retail segment, the Bank dedicated significant resources to a project designed to migrate customer transactions to electronic services. This project included a series of marketing initiatives to promote electronic services and to educate customers. As a result of this effort, a substantial number of transactions (around 5 million) was shifted to alternative channels (ATMs, Paschi Home, Paschi In Tel, Paschi In Rete). The migration reduced service costs and freed up branch personnel (mostly front-office staff) for use in other marketing activity and advisory services.

Following is a summary of the business development of the individual electronic channels.

#### ■ PaschiHome (Internet banking)

As of 31 December 2002, the number of contracts for the service was above 300,000, thereby reflecting an annual increase of 70 percent. During the year, both PaschiHome and PaschiInTel offered a new product to handle the buying and selling of securities on leading securities exchanges abroad. Financial information, including the prices for the securities traded, is also available. The service covering the marketing and sale of Montepaschi Vita insurance policies was also enhanced.

#### ■ PaschilnTel (Phone banking)

Operated by the Contact Center, PaschilnTel had more than 260,000 contracts at year end and presents significant potential for further development in relation to both the technologies and the quality of the human resources employed.



#### ■ PaschilnRete (Mobile banking)

With this product, customers can check their deposit and investment accounts on a continual basis. PaschilnRete can also be used for ordering payments, trading securities and accessing a number of other services. The 33,599 contracts in effect at year end represent a threefold increase over the number at the end of 2001.

#### ■ PaschiInAzienda

PaschilnAzienda, a strategic remote-banking product for small businesses, can be used for reaching BMPS via the Internet and for carrying out a broad array of transactions. As of year end, PaschilnAzienda was servicing some 20,300 contracts (roughly 18,700 of which were added in 2002). The business volumes through this channel were higher overall while the number of inactive contracts decreased.

#### ■ Opifici digitali

Opifici Digitali , which are marketed by MPS.Net, involved the head office and the branch network in various innovative non-banking services distributed through the Internet. The market's response to the service has translated into more than 3,700 contracts.

#### ■ PaschilnTesoreria

The Bank's newest electronic banking product was rolled out in 2002. Marketed to Public Sector customers, PaschilnTesoreria incorporates search transactions to pinpoint the correct execution of treasury service, and transactions for automatically exchanging treasury flows and for requesting a series of online transactions (e.g. the sending of standing payment orders - RID and MAV -, and reporting of the outcome of the flows transferred). The customers using the service can also get real-time reporting on their relationships with Banca Monte dei Paschi di Siena. The service also allows for integrating other information-reporting and transaction functions in interbank corporate banking.

#### ■ Paschi Avvisa

This new service employs push technology in reporting events of interest to customers through the sending of short messages to a cellular telephone and/or an electronic mail box.

#### ■ BMPS Internet site (www.mps.it)

Alongside the ISO certification, the Bank secured an EBTrust Qualification from DNV in relation to the activity carried out on the Web and WAP sites. The Internet site was completely revised in the second half of 2002, with the changes addressing various requirements for the certification as well as standards for the usage of Web sites. Changes involved the graphic layout, the navigation logic and the speed at which pages can be downloaded.

#### **■** HUMAN RESOURCES

#### **■ THE WORK FORCE**

As of 31 December 2002, Banca Monte dei Paschi di Siena had a work force of 12,587 employees. The net increase of 515 employees with respect to the prior year end is the result of the following:

- the addition of 1,076 employees of the former Banca 121 (231 in the first quarter with the acquisition of a business unit, and 845 at year end for the effect of the incorporation of the remaining branches);
- the assignment of 387 employees to other parts of the MPS Group owing to changes related to the creation of specialized companies (MPS Gestione Crediti Banca; MPS Leasing & Factoring), and the concentration of activity in the MPS Group Operating Consortium (set-up of Back-Office Units dealing with finance and international banking areas, and start of Back-Office Units for branch operations);
- the departure of 174 employees (balance of terminations and new hires).

Offsetting part of the natural turnover and the departure of employees under incentive plans (108 employees, including 22 executives), the Bank recruited talented young professionals and specialists for positions in the Corporate Center.

The tables below show the distribution of the personnel on the basis of operating units:

#### ■ CORPORATE CENTER

Category/Job Grade	Total	% of Total
Executives	116	11.9%
Senior, Middle & Junior Managers	381	39.4%
Other professional areas	471	48.7%
TOTAL	968	100.0%

#### BANCA MPS DIVISION

TOTAL	11,433	100.0%
Other professional areas	8,781	76.8%
Senior, Middle & Junior Managers	2,514	22.0%
Executives	138	1.2%
Category/Job Grade	Total	% of Total

#### ■ INTERNATIONAL BANKING \*

Category/Job Grade	Total	% of Total
Executives	7	3.8%
Senior, Middle & Junior Managers	62	33.3%
Other professional areas	117	62.9%
TOTAL	186	100.0%

<sup>(\*)</sup> Foreign branches and representative offices

#### ■ TOTAL BANCA MPS S.P.A.

TOTAL	12.587	100.0%
Other professional areas	9,369	74.4%
Senior, Middle & Junior Managers	2,957	23.5%
Executives	261	2.1%
Category/Job Grade	Total	% of Total



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:

■ PERSONNEL: MIX BY ACADEMIC CREDENTIALS			
lab Cuada	% of University	% of Other	
Job Grade	Graduates	Diplomas	
Executives	46.4%	53.6%	
Managers 4/3	34.9%	65.1%	
Managers 2/1	19.7%	80.3%	
Other professional categories	20.6%	79.4%	
TOTAL	23.1%	76.9%	

Bank employees are young (approximately 43 percent under 40) and have relatively limited seniority (32 percent with less than 10 years and more than 65 percent with less than 20 years). Women represent a significant percentage of total staffing (38 percent).

#### **■** BREAKDOWN OF STAFF BY AGE

Age	Female Employees	Male Employees	% of Total
Up to 30 years	5.8%	4.3%	10.1%
31 to 40 years old	17.1%	16.0%	33.0%
41 to 50 years old	11.1%	22.3%	33.5%
over 50 years old	3.7%	19.7%	23.4%
TOTAL	37.7%	62.3%	100.0%

#### ■ BREAKDOWN OF STAFF BY SENIORITY

TOTAL	37.7%	62.3%	100.0%
over 30 years	1.2%	5.9%	7.1%
21 to 30 years	6.7%	20.7%	27.4%
11 to 20 years	16.0%	17.5%	33.5%
up to 10 years	13.8%	18.1%	31.9%
Years of Service	Female Employees	Male Employees	% of Total

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	479	4.2%
Branches	10,767	94.2%
Call Center	187	1.6%
TOTAL	11,433	100%

#### **■ OPERATIONAL STRATEGIES**

The implementation of the strategic projects contained in the 2002-2005 Business Plan is laying the foundation for a broad-based process of transformation. This process involves the adoption of dedicated service models by market segment, the centralization of various operations and the re-engineering of the production and distribution systems. In light of these changes, the emphasis in professional development has gone to increasing both specialization and accountability. The management of staffing - which is integrated at a group level - is focused on enhancing skills and performance, with the Bank thus poised to capitalize fully on the value of its human resources.

Priority objectives include: (i) ensuring effective coverage of the needs for new professional skills (including through retraining administrative employees to take on sales and marketing responsibilities) and (ii) improving levels of efficiency. The Bank has come up with various programs which allow employees with a certain level of seniority to leave their positions voluntarily prior to their mandatory retirement dates.

Toward the end of 2002, the Bank offered an early retirement incentive plan in which 280 employees participated (45 executives, 117 managers and 118 clerical employees). Thirty-two of these employees left the Bank in 2002, with the remaining 248 scheduled to retire in 2003.

Initiatives in professional development (in particular, training programs) are reviewed in the report on consolidated operations.



#### MATERIAL EVENTS SUBSEQUENT TO YEAR END

ollowing is a summary of the more significant events occurring in the first few months of 2003.

On 9 January 2003, the BMPS Board of Directors authorized an investment in a consortium of companies headed by Acea S.p.A. temporarily established for the purpose of bidding to become a minority investor in a company to manage the ATO n. 2 Basso Valdarno water service.

On 23 January 2003, the BMPS Board of Directors approved the 2003 budget for the Bank and the MPS Group, while also authorizing the creation of an Environmental Management Committee to serve as an advisor on the design and implementation of an environmental management system. Further affirming the MPS Group's commitment to ecological and environmental issues, this system embraces the following key objectives: curbing the consumption of energy, water, etc. and the production of waste and polluting emissions; streamlining the use of polluting and non-polluting materials; improving the MPS Group's environmental performance; and managing the environmental risks which impact banking activity. On 26 February 2003, the environmental management system secured the ISO 14001 certification thereby attesting to the MPS Group's excellent position in the environmental field.

On 6 February 2003, the BMPS Board of Directors examined and approved the "Impres@più" account package which is part of the MPS Group's value proposition with respect to the corporate world. As an integrated system of banking and non-banking services tailored to the needs of businesses, this package will be marketed by the all of the MPS Group's distribution networks in 2003.

During February, BMPS purchased 170,281,786 shares of Finsoe from Hopa S.p.A., bringing the MPS Group's interest in Finsoe to 39 percent. On 6 February 2003, the BMPS Board of Directors approved an agreement with Holmo S.p.A. governing various aspects of the relationship between the MPS Group and the Unipol Group. The agreement has a term of three years, and is renewable.

On 20 February 2003, the BMPS Board of Directors approved the incorporation of "MPS Immobiliare S.p.A.", with a registered office in Siena. Once Banca Agricola Mantovana and Banca Toscana have been incorporated into BMPS, all real property assets will be transferred to the new company, which will be 100-percent held by BMPS.

On 20 February 2003, the BMPS Board of Directors embarked on a project expected to culminate in the Bank of Italy's recognition, for reporting purposes, of the internal model used for measuring the market risks of the trading portfolio.

On 28 February 2003, meetings of the shareholders of Banca Agricola Mantovana, Banca Toscana and Banca Monte dei Paschi di Siena were held for the purpose of approving the merger by incorporation of the two subsidiaries into the parent company. The shareholders of Banca Monte dei Paschi also approved the purchase of up to 92,401,908 of the Bank's own ordinary shares to be used for servicing put and call options.

On 6 March 2003, the BMPS Board of Directors authorized an increase in the Bank's interest in Assicurazioni Generali as part of a medium-term investment strategy and in light of the significant economic return contemplated on the holding. On 13 March 2003, UniCredito Italiano, Banca Monte dei Paschi di Siena and Capitalia entered into an advisory agreement regarding the aggregate holding of 8.46 percent in Assicurazioni Generali (with the BMPS quota at 2.95 percent.

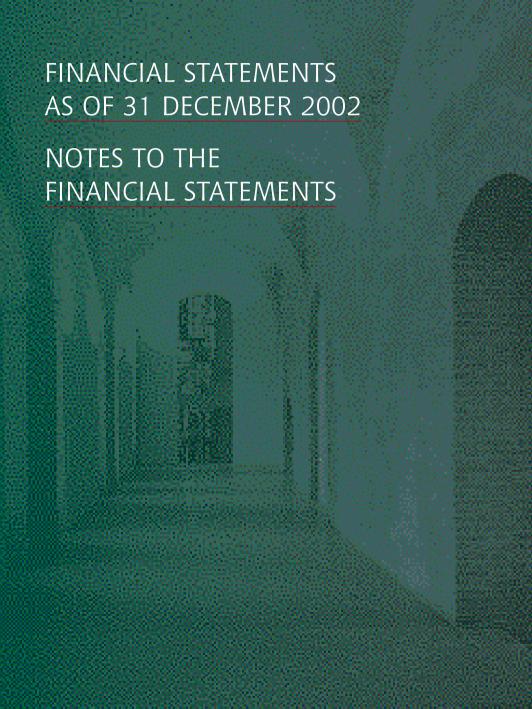
#### **OUTLOOK FOR 2003**

s outlined in the report on consolidated operations, the planning guidelines for the year of 2003 are centered on containing the growth of operating expenses, with the goal of improving efficiency indicators and reducing the variation of the Bank's results. No less important are the initiatives on the revenue front, which are based on a well balanced marketing policy that can leverage the benefits of specialization by customer segment to improve qualitative and earnings performance in the management of relationships. At the root of such improvement are service models appropriately differentiated in relation to needs, products/services, and distribution channels.

The outlook for 2003 also incorporates careful controls over various types of risk with the aim of minimizing the impact of risk on the profit and loss statement and on capital absorption. In the case of credit risk, the Bank counts on benefits from important changes such as the adoption of new trend analysis tools and of instruments for managing the most critical positions, and further improvement in the procedures for monitoring loan quality. In addressing financial risks, the plans call for the concentration of all treasury activity in 2003; meanwhile, the centralized management of the securities portfolios will help to contain overall exposure to market risks and to optimize the risk/return profile of the MPS Group overall.

As far as business development is concerned, the events in the first few months of 2003 have confirmed the trend of the final quarter of 2002, while also correctly reflecting the projections built into the budget. With the backdrop incorporating exceptionally critical geopolitical factors and extreme uncertainty about a recovery of the economy and of the financial markets, it is very difficult at present to delineate a profile of growth for the months ahead.

\* \* \* \* \*





### ■ FORM AND CONTENT OF THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

The financial statements as of 31 December 2002 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 include the following:

**Introduction - General Information** 

Part A - Valuation Criteria

Part B - Information on the Balance Sheet

Part C - Information on the Profit and Loss Statement

Part D - Other Information

The following supplemental information is also provided and constitutes an integral part of the notes to the financial statements:

- Statement of Changes in Financial Position
- Statement of Changes in Shareholders' Equity
- Comparative Financial Statements as of 31 December 2002 and 31 December 2001

# FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002 BALANCE SHEET, GUARANTEES AND COMMITMENTS, PROFIT AND LOSS STATEMENT



■ BALANCE SHEET (in EUR)

	Assets		31/12/2002
10	Cash and cash on deposit with central banks and post offices		522,658,952
20	Italian government securities and similar instruments		
	eligible for refinancing with central banks		486,630,311
30	Amounts due from banks		20,744,026,171
	a) sight	3,675,059,223	
	b) other	17,068,966,948	
10	Customer loans and advances		36,802,648,015
	including:		
	- loans with third-party funds under administration	11,851,065	
50	Bonds and other fixed-income securities		9,344,615,061
	a) of public issuers	1,810,505,280	
	b) of banks	3,203,345,907	
	- including: own securities	837,762,727	
	c) of financial institutions	2,113,600,914	
	<ul><li>including: own securities</li><li>d) of other issuers</li></ul>	- 2,217,162,960	
	d) of other issuers	2,217,102,900	
0	Shares, quotas and other equity securities		534,709,371
0	Equity investments		1,392,168,434
30	Equity investments in Group companies		4,046,682,010
	a) valued with net equity method	-	
	b) other	4,046,682,010	
0	Intangible assets		474,622,618
	including:		
	- start-up costs	6,399,276	
	- goodwill	362,410,149	
00	Fixed assets		1,017,889,480
	including: assets under financial lease	-	
10	Unpaid subscribed capital		-
20	Own shares or quotas		2,294,169
	(nominal value 649,389)		
30	Other assets		12,125,367,044
40	Accrued income and prepayments		1,105,997,157
	a) accrued income	955,320,539	
	b) prepayments	150,676,618	
	including:		
	- issuing discounts	76,543,809	
	Total Assets		88,600,308,793

■ BALANCE SHEET (in EUR)

	Liabilities and Shareholders' Equity		31/12/2002
10	Due to banks		17,079,259,535
	a) sight	1,850,826,091	
	b) time or requiring advance notice of withdrawal	15,228,433,444	
20	Customer deposits		32,697,231,450
	a) sight	26,051,133,923	
	b) time or requiring advance notice of withdrawal	6,646,097,527	
30	Other borrowed funds backed by negotiable instruments		17,554,030,193
	a) bonds	12,138,759,071	
	b) certificates of deposit	4,918,181,605	
	c) other instruments	497,089,517	
40	Third-party funds under administration		31,331,157
50	Other liabilities		10,084,274,858
60	Accrued liabilities and deferred income		1,045,753,341
	a) accrued liabilities	936,851,630	
	b) deferred income	108,901,711	
70	Staff severance indemnity reserve		274,527,222
80	Reserves for risks and other charges		828,678,674
	a) pension fund and similar obligations	110,467,443	
	b) reserve for taxes	381,288,864	
	c) other reserves	336,922,367	
90	Reserve for loan losses		182,607,932
100	Reserve for general banking risks		334,879,459
110	Subordinated debt		3,200,200,469
120	Share capital		1,675,023,207
130	Paid-in capital		522,925,054
140	Reserves		2,490,019,353
	a) legal reserve	271,230,891	
	b) reserve for own shares or quotas	2,294,169	
	c) statutory reserves	974,812,397	
	d) other reserves	1,241,681,896	
150	Revaluation reserves		-
160	Retained earnings		69,900
170	Profit (loss) for the year		599,496,989
	Total Liabilities and Shareholders' Equity		88,600,308,793



#### ■ GUARANTEES AND COMMITMENTS

(in EUR)

	Account		31/12/2002
10	Guarantees released including: - acceptances	56,989,849	7,662,159,001
20	- other guarantees  Commitments including: for sales with obligation to repurchase	7,605,169,152	4,993,915,315
30	Commitments relative to credit derivatives		1,064,215,919

	Account		31/12/2002
10	Interest and similar income		3,157,055,765
	including:		
	- on customer loans and advances	2,242,055,471	
	- on debt securities	372,776,154	
20	Interest expense and other expense on borrowed funds		1,895,391,620
	including:		
	- on customer deposits	621,433,594	
	- on other borrowed funds backed by negotiable instruments	619,805,237	
30	Dividends and other income		738,934,804
	a) on shares, quotas and other equity securities	297,376,467	
	b) on equity investments	104,852,007	
	c) on equity investments in Group companies	336,706,330	
40	Commissions earned		876,159,172
50	Commissions expense		125,767,118
60	Profits/losses on financial transactions		(211,539,698)
65	Earnings on investment of pension funds and similar funds		(327,441)
70	Other operating income		645,479,073
80	Administrative expenses		1,833,827,022
	a) personnel expense	1,071,095,369	
	including:		
	- salaries and wages	755,025,276	
	- social-welfare charges	200,682,195	
	- staff severance indemnity reserve	61,542,685	
	- pension fund and similar obligations	15,653,000	
	b) other administrative expenses	762,731,653	
85	Allocation of earnings on investments of pension and similar funds		(327,441)
90	Valuation adjustments to fixed and intangible assets		472,297,365
100	Provisions for risks and charges		18,729,400
110	Other operating expenses		17,727,880
120	Valuation adjustments to loans and provisions for guarantees and comm	nitments	420,889,421
130	Recoveries on loans and on provisions for guarantees and commitments	S	131,541,643
140	Provisions to loan loss reserve		38,000,000
150	Valuation adjustments to non-current financial assets		366,116,807
160	Recoveries on non-current financial assets		1,229,220
170	Profit (loss) from ordinary operations		150,113,346
180	Extraordinary income		449,363,102
190	Extraordinary charges		71,204,944
200	Extraordinary profit (loss)		378,158,158
210	Change in reserve for general banking risks		85,000,000
220	Income taxes		(13,774,515)
230	Profit for the year		599,496,989
240	Reserve provisions under Legislative Decree No. 153/99		-
250	Net profit for the year		599,496,989



THIS SECTION PROVIDES A COMPARISON BETWEEN THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002 AND THE RESULTS AS OF 31 DECEMBER 2001 AS APPROVED BY THE BOARD OF DIRECTORS AND INTEGRATED WITH THE DATA RELATIVE TO BANCA 121 S.P.A.



■ BALANCE SHEET (in EUR 000's)

	Assets 31	.12.02	31.	12.01	Abs	solute and % Cl	e and % Changes	
10	Cash and cash on deposit with central banks and post offices		AE1 200		71,370	15.01		
20	522,659 Italian government securities and similar instruments		451,289		/1,3/0	15.81		
20	eligible for refinancing with central banks	486,630		650,409		(163,779)	(25.18)	
30	Amounts due from banks	20,744,026		16,136,069		4,607,957	28.56	
30	a) sight 3,675,059	20,744,020	2,062,161	10,130,009	1,612,898		78.21	
	b) other 17,068,967		14,073,908		2,995,059		21.28	
40	Customer loans and advances including:	36,802,648		36,927,223		(124,575)	(0.34)	
	- loans with third-party funds							
	under administration 11,851		12,334		(483)		(3.92)	
50	Bonds and other fixed-income securities	9,344,615		7,443,848		1,900,767	25.53	
	a) of public issuers 1,810,505	2,0 11,0 10	2,173,803	1,110,010	(363,298)	1,2 00,2 01	(16.71)	
	b) of banks 3,203,346		2,322,698		880,648		37.91	
	- including: own securities 837,763		454,133		383,630		84.48	
	c) of financial institutions 2,113,601		1,842,864		270,737		14.69	
	- including: own securities - d) of other issuers 2,217,163		1,104,483		1,112,680		100.74	
60	Shares, quotas and other equity securities	534,709		1,039,887		(505,178)	(48.58)	
70	Equity investments	1,392,169		2,177,265		(785,096)	(36.06)	
80	Equity investments in Group companies	4,046,682		3,183,950		862,732	27.10	
	a) valued with net equity method -		- 102.050		-		27.10	
	b) other 4,046,682		3,183,950		862,732		27.10	
90	Intangible assets	474,623		256,381		218,242	85.12	
	including:		20.622		(22.224)		(77.64)	
	- start-up costs 6,399 - goodwill 362,410		28,623 34,357		(22,224) 328,053		(77.64) 954.84	
	502,110		31,337		320,033		JJ 1.0 1	
100	Fixed assets	1,017,889		2,278,949		(1,261,060)	(55.34)	
	including: assets under financial lease -		1,267,492		(1,267,492)		(100.00)	
110	Unpaid subscribed capital including: called-up capital	-		-		-		
120	Own shares or quotas	2,294		3,730		(1,436)	(38.50)	
130	Other assets	12,125,367		9,090,172		3,035,195	33.39	
140	Accrued income and prepayments	1,105,998		1,283,338		(177,340)	(13.82)	
	a) accrued income 955,321		1,167,614		(212,293)	, , , , , ,	(18.18)	
	b) prepayments 150,677		115,724		34,953		30.20	
	including:							
	- issuing discounts 76,544		23,395		53,149		227.18	
	Total Assets	88,600,309		80,922,510		7,677,799	9.49	

#### ■ BALANCE SHEET (in EUR 000's)

	Liabilities and Shareholders' Equity	31.1.	2.02	31.	12.01	Abso	lute and % Chai	nges
10	<b>Due to banks</b> a) sight b) time or requiring advance	1,850,826	17,079,260	1,146,179	11,586,266	704,647	5,492,994	47.41 61.48
	notice of withdrawal	15,228,434		10,440,087		4,788,347		45.87
20	Customer deposits a) sight b) time or requiring advance	26,051,134	32,697,231	24,612,080	31,051,130	1,439,054	1,646,101	5.30 5.85
	notice of withdrawal	6,646,097		6,439,050		207,047		3.22
30	Other borrowed funds backed by negotiable instruments a) bonds b) certificates of deposit c) other instruments	12,138,759 4,918,182 497,090	17,554,031	12,169,129 6,506,067 519,019	19,194,215	(30,370) (1,587,885) (21,929)	1,640,184)	(8.55) (0.25) (24.41) (4.23)
40	Third-party funds under administration	on	31,331		37,601		(6,270)	(16.68)
50	Other liabilities		10,084,275		7,351,591		2,732,684	37.17
60	Accrued liabilities and deferred incoma) accrued liabilities b) deferred income	936,852 108,902	1,045,754	1,270,113 173,883	1,443,996	(333,261) (64,981)	(398,242)	(27.58) (26.24) (37.37)
70	Staff severance indemnity reserve		274,527		266,470		8,057	3.02
80	Reserves for risks and other charges a) pension fund and similar obligations b) reserve for taxes c) other reserves	110,467 381,289 336,922	828,678	95,889 576,262 340,822		14,578 (194,973) (3,900)	(184,295)	(18.19) 15.20 (33.83) (1.14)
90	Reserve for loan losses		182,608		154,937		27,671	17.86
100	Reserve for general banking risks		334,879		419,879		(85,000)	(20.24)
110	Subordinated debt		3,200,200		3,001,694		198,506	6.61
120	Share capital		1,675,023		1,356,155		318,868	23.51
130	Additional paid-in capital		522,925		522,925		-	0.00
140	a) legal reserve b) reserve for own shares or quotas c) statutory reserves d) other reserves	271,231 2,294 974,812 1,241,683	2,490,020	243,816 3,730 666,488 1,274,096	2,188,130	27,415 (1,436) 308,324 (32,413)	301,890	13.80 11.24 (38.50) 46.26 (2.54)
150	Revaluation reserves		-		715,496		(715,496)	(100.00)
160	Retained earnings		70		89		(19)	(21.35)
170	Profit (loss) for the year		599,497		618,963		(19,466)	(3.14)
	Total Liabilities and Shareholders' Equ	uity	88,600,309		80,922,510		7,677,799	9.49



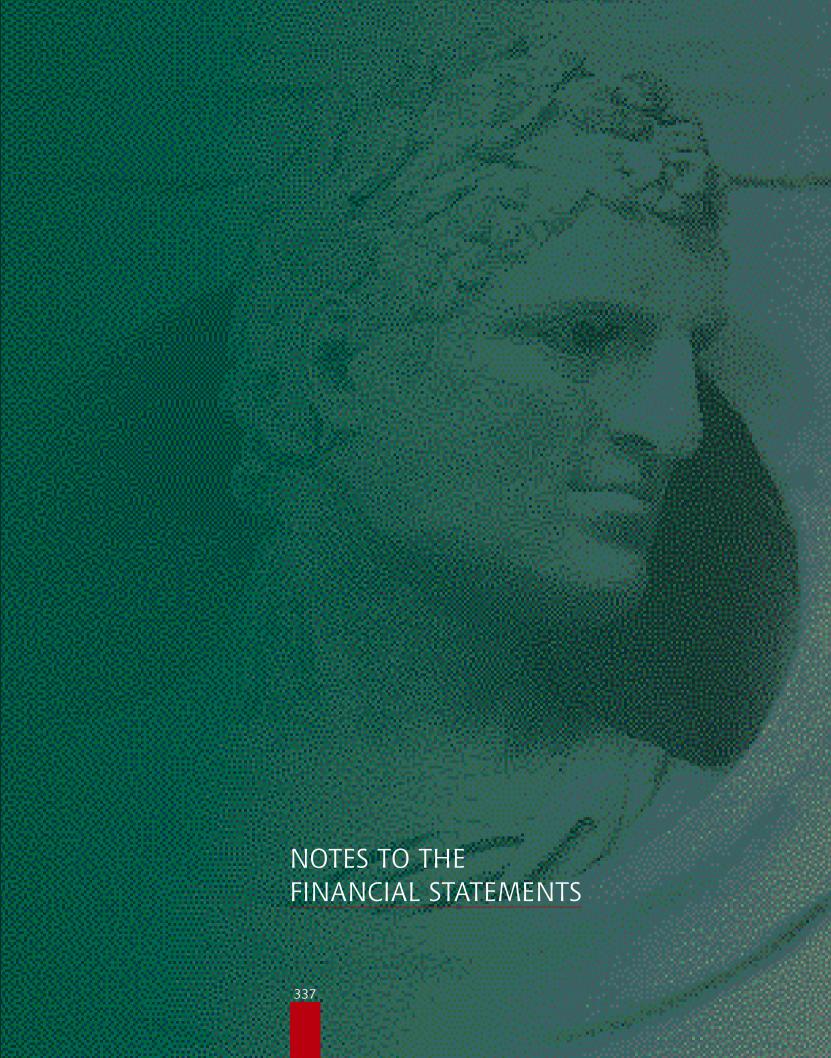
#### ■ GUARANTEES AND COMMITMENTS

(in EUR 000's)

	Account	31.1	2.02	31.	12.01	Abs	olute and % Ch	nanges
10	Guarantees released including:		7,662,159		7,597,870		64,289	0.85
	- acceptances - other guarantees	56,990 7,605,169		31,338 7,566,532		25,652 38,637		81.86 0.51
20	<b>Commitments</b> including: for sales with obligation to repurchase	-	4,993,915	-	8,030,892	-	(3,036,977)	(37.82)
30	Commitments relative to credit derivat	ives	1,064,216		176,979		887,237	501.32

#### ■ PROFIT AND LOSS STATEMENT

	Account		31.12.02		31.12.01	Abso	lute and % Chai	nges
10	Interest and similar income		3,157,056		3,718,228		(561,172)	(15.09)
	including: - on customer loans and advances	2,242,055		2,452,430		(210,375)		(8.58)
	- on debt securities	372,776		397,154		(24,378)		(6.14)
20	Interest expense and other					,		, ,
	expense on borrowed funds		1,895,392		2,527,882		(632,490)	(25.02)
	including: - on customer deposits	621,434		877,481		(256,047)		(29.18)
	- on other borrowed funds backed	021,131		077,101		(230,011)		(25.10)
	by negotiable instruments	619,805		761,817		(142,012)		(18.64)
30	Dividends and other income		738,934		639,524		99,410	15.54
	<ul> <li>a) on shares, quotas and other equity securities</li> </ul>	297,376		94,604		202,772		214.34
	b) on equity investments	104,852		225,870		(121,018)		(53.58)
	c) on equity investments	226 706		210.050		17.656		5 52
40	in Group companies  Commissions earned	336,706	076 150	319,050	000 007	17,656	(24.720)	5.53
40 50	Commissions earned Commissions expense		876,159 125,767		900,887 108,931		(24,728) 16,836	(2.74) 15.46
60	Profit (loss) from financial transactions				116,982			(280.83)
65	Earnings on investment of pension fun		(211,540)		110,962		(328,522)	(200.03)
0,5	and similar funds	(327)		1,091		(1,418)		
70	Other operating income	, ,	645,479		809,589	, , ,	(164,110)	(20.27)
80	Administrative expenses		1,833,827		1,749,014		84,813	4.85
	a) personnel expense	1,071,095		1,005,466		65,629		6.53
	including: - salaries and wages	755,025		720,680		34,345		4.77
	- social-welfare charges	200,682		194,071		6,611		3.41
	- staff severance indemnity reserve	61,543		50,219		11,324		22.55
	<ul> <li>pension fund and similar obligations</li> <li>b) other administrative expenses</li> </ul>	15,653 762,732		14,946 743,548		707 19,184		4.73 2.58
85	Allocation of earnings on investments							
	of pension and similar funds		(327)		1,091		(1,418)	
90	Valuation adjustments to fixed	472 207		520 107		(57.000)	(10.02)	
100	and intangible assets	472,297	10 720	530,197	20.042	(57,900)	(10.92)	(25.06)
	Provisions for risks and charges Other operating expenses		18,729 17,728		28,842 4,581		(10,113) 13,147	(35.06) 286.99
	Valuation adjustments to loans		17,720		4,361		15,147	200.99
120	and provisions for guarantees and com	mitments	420,889		338,243		82,646	24.43
130	Recoveries on loans and on provisions							
	for guarantees and commitments		131,542		140,687		(9,145)	(6.50)
140	Provisions to loan loss reserve		38,000		10,329		27,671	267.90
150	Valuation adjustments to		266 117		04.442		201 674	222.57
160	non-current financial assets		366,117		84,443		281,674	333.57
	Recoveries on non-current financial ass	ets	1,229		454 943,889		(702 776)	170.70
	Profit (loss) from ordinary operations  Extraordinary income		150,113 449,364		346,075		(793,776) 103,289	(84.10) 29.85
	Extraordinary charges		71,205		78,306		(7,101)	(9.07)
	Extraordinary profit (loss)		378,159		267,769		110,390	41.23
	Change in reserve for general banking	risks	85,000		-		85,000	71.23
	Income taxes		(13,775)		(481,125)		467,350	(97.14)
	Profit for the year		599,497		730,533		(131,036)	(17.94)
	Provisions to reserves pursuant				,		, , , , , , ,	( ' ')
	to Law 218/90 and Legislative Decree	153/99	-		111,570		(111,570)	(100.00)
250	Net profit for the year		599,497		618,963		(19,466)	(3.14)





The notes to the financial statements include the following:

#### PART A - VALUATION CRITERIA

- Section 1 Description of valuation criteria
- Section 2 Fiscal adjustments and provisions
- Section 3 Other information

#### PART B - INFORMATION ON THE BALANCE SHEET

- Section 1 Loans
- Section 2 Securities
- Section 3 Equity investments
- Section 4 Fixed and intangible assets
- Section 5 Other assets
- Section 6 Liabilities
- Section 7 Reserves
- Section 8 Capital, reserves, reserve for general banking risks and subordinated debt
- Section 9 Other liabilities
- Section 10 Guarantees and commitments
- Section 11 Concentration and distribution of assets and liabilities
- Section 12 Funds management and other transactions for the account of third parties

#### PART C - INFORMATION ON THE PROFIT AND LOSS STATEMENT

- Section 1 Interest income and interest expense
- Section 2 Commissions earned and commission expense
- Section 3 Profits and losses from financial transactions
- Section 4 Operating expenses
- Section 5 Valuation adjustments, recoveries and provisions
- Section 6 Other items
- Section 7 Additional notes to the profit and loss statement

#### PART D - OTHER INFORMATION

- Section 1 Directors and Statutory Auditors
- Section 2 Parent company or EU-based controlling entity

## PART A VALUATION CRITERIA

#### SECTION 1 - VALUATION CRITERIA

The valuation criteria indicated hereunder conform with the criteria provided by prevailing Italian laws and with the criteria adopted in the preparation of the financial statements as of 31 December 2001.

The comparative values as of 31 December 2001 have been converted into euros and supplemented with the data relative to Banca 121 S.p.A.

#### 1. LOANS. GUARANTEES AND COMMITMENTS

#### 1.1 LOANS

Loans and advances to customers and banks are recorded at the total amount disbursed. Mortgages, 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 computed and 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 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 Bank acts as the party purchasing protection.

The writedown of loans is effected by means of a direct charge to the carrying value; the writedown provisions 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 Bank acts as the party selling the protection are also ascribed to the aforementioned reserve.

#### 2. SECURITIES AND OFF-BALANCE-SHEET TRANSACTIONS

(excluding those relating to foreign currency transactions)

Transactions involving securities are recorded as of the settlement date; securities denominated in foreign currencies are valued at the exchange rate prevailing at year end. The cost 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 compulsory 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 the solvency of the issuer and / or the debt-servicing capacity of the issuer's country of residence. Any writedown provisions 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 Bank'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 writedown provisions taken may later be reversed should the reasons therefor no longer apply.

#### 2.3 OWN SHARES

Own shares are held for trading purposes within the limits established by a special resolution of the Board of Directors. The shares are valued at market value in accordance with the criteria established for securities traded in organized markets which are part of the trading portfolio. The value of the asset is offset by a restricted reserve of the same amount in accordance with Article 2357 ter of the Italian Civil Code.

#### 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 were consummated.

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 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 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.

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 130 - "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 as accrued.

## 3. EQUITY INVESTMENTS

Shareholdings considered as long-term investments are valued at cost, inclusive of revaluation required by the law, ancillary charges and any writedowns to reflect the permanent impairment of value on the investment whether in relation to a decrease in shareholders' equity or market trends.

The writedown provisions may be reversed in whole or in part should the reasons therefor no longer apply.

Dividends from subsidiary companies are accrued as earned, i.e. in the same year in which the earnings subject to distribution are actually generated. Other dividends are booked in the year in which their payment is authorized which coincides with the year in which they are received.

## 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 when the transaction was posted.

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 residual value of the assets in relation to the estimated useful life of the same. The estimated useful life of the assets is computed by taking into account the nature of the Bank's business and the rapid degree of obsolescence in the case of assets having a high technology content.

Expenses and charges for maintenance and repair which do not increase the value of the assets are charged to the profit and loss statement as incurred.

#### 6. INTANGIBLE ASSETS

Intangible assets are recorded at purchase or production cost, including any ancillary charges. Amortization is computed with reference to the residual possibilities for the use of the assets, as described hereunder.

- Costs sustained for capital increases and for the Bank'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 relationships to which the amounts refer. No adjustments are made directly to such accounts.

#### 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 2002. Interest accrued on certificates of deposit and time deposits maturing after 31 December 2002 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 the employees as of the end of the year in accordance with prevailing laws and labor contracts. The reserve fully covers commitments to employees as of year end.

#### 8.3 RESERVES FOR RISKS AND OTHER CHARGES

#### 8.3.1 Pension fund and similar obligations

The reserve includes a pension fund to supplement the Government pensions for personnel in the Tax Collection Department, a complementary defined-contribution pension fund set up for employees hired as of 1 January 1991 and annual provisions for pensions to be paid to the Bank's present and past Chief Executives as calculated in relation to the terms and conditions of individual contracts.

#### 8.3.2 Reserve for taxes

The reserve represents a realistic estimate of tax liabilities to be paid, in accordance with prevailing tax regulations and fiscal practices.

#### 8.3.3 Deferred taxes

Deferred taxes are booked in accordance with the directives of the Bank of Italy (order of 3 August 1999) and CONSOB (notice of 30 July 1999) as well as in accordance with the Italian Accounting Principle n. 25 approved by the Italian Association of Professional Accountants ("Dottori Commercialisti e 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 year in order to ensure the condition of recoverability.

#### 8.3.4 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 the 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

  No adjustments were made.
- 2.2 Provisions made exclusively for the purpose of compliance with fiscal laws

  No adjustments were made.



## **SECTION 3 - OTHER INFORMATION**

- 3.1 Reference is made to "Section 7 Reserves" regarding information requested by CONSOB in relation to the fiscal benefits provided by Legislative Decree No. 153/99; the provisions of Italian Law No. 133/99 regarding subsidized mortgages and the provisions of Legislative Decree 394/00 regarding fixed-rate mortgage loans.
- 3.2 The disclosures required by the Bank of Italy in relation to securitization transactions are provided in Part B, Section 11.

Comments regarding salient 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 BALANCE SHEET

## **SECTION 1 - LOANS**

Amounts due from banks and customers are stated at the estimated realizable value.

### 1.1 DETAIL OF ACCOUNT 30 - AMOUNTS DUE FROM BANKS

	31.12.2002	31.12.2001
A) Amounts due from central banks:	578,962	1,616,431
Amounts due from the Bank of Italy		
- mandatory reserves	564,962	639,909
- repurchase agreements	-	24,688
- other credits	-	937,638
Amounts due from other central banks	14,000	14,196
B) Bills eligible for refinancing with central banks	-	-
C) Repurchase agreements	5,246,501	2,006,208
D) Securities lending	-	

The balance of the account in relation to the economic nature of the counterparty and the type of transaction is indicated in the following table:

	31.12.2002	31.12.2001
Sight	3,675,059	2,062,161
- Current accounts	812,847	496,115
- Demand deposit	2,813,682	1,475,718
- Other	48,530	90,328
Other	17,068,967	14,073,908
- Bank of Italy and other central banks	578,962	1,685,886
- Time deposits	6,930,458	6,410,070
- Repurchase agreements	5,246,501	2,030,896
- Loans and subsidies	4,154,774	3,868,095
- Other	158,272	78,961
Total	20,744,026	16,136,069



## ■ VALUATION OF AMOUNTS DUE FROM BANKS (excluding past-due interest)

Following is detail on the adjustments to principal amounts:

			31.12.2002
	Nominal Value	Doubtful Amounts	Net Amounts
Non-performing loans	5,836	4,605	1,231
Watchlist credits	12,347	3,293	9,054
Country risk	281,675	8,489	273,186
including:			
central banks	-	-	-
banks	281,675	8,489	273,186
Total	299,858	16,387	283,471

Total	366,294	21,410	343,884
banks	347,399	13,617	333,782
central banks	-	-	-
including:			
Country risk	347,399	13,617	333,782
Watchlist credits	12,741	2,871	9,870
Non-performing loans	6,154	4,922	1,232
	Nominal Value	Doubtful Amounts	Net Amounts
			31.12.2001

## ■ AMOUNTS DUE FROM BANKS (including past-due interest)

			31.12.2002
	Total	Total Valuation	Net
	Outstanding	Adjustments	Exposure
A. Doubtful loans	235,150	16,727	218,423
A.1 Non-performing loans	6,176	4,945	1,231
A.2 Watchlist credits	12,347	3,293	9,054
A.3 Loans in the process of res	tructuring -	-	-
A.4 Restructured loans	-	-	-
A.5 Unsecured loans to			
high-risk nations	216,627	8,489	208,138
B. Performing loans	20,525,603	-	20,525,603

			31.12.2001
	Total	Total Valuation	Net
	Outstanding	Adjustments	Exposure
A. Doubtful loans	306,732	21,664	285,068
A.1 Non-performing loans	6,408	5,176	1,232
A.2 Watchlist credits	12,741	2,871	9,870
A.3 Loans in the process of re	estructuring -	-	-
A.4 Restructured loans	-	-	-
A.5 Unsecured loans to			
high-risk nations	287,583	13,617	273,966
B. Performing loans	14,507,199	-	14,507,199

### 1.2 DETAIL OF ACCOUNT 40 - CUSTOMER LOANS AND ADVANCES

	31.12.2002	31.12.2001
a) Bills eligible for refinancing with central banks	-	33
b) Repurchase agreements	482,692	46,424
c) Securities lending	-	-

Customer loans amount to EUR 36,802,648,000, net of writedowns of EUR 753,866,000. The distribution of loans by category is provided in the following table:

Total	36,802,648	36,927,223
Other	453,486	435,875
Mortgage loans and advances toward mortgage loans	15,101,793	14,280,806
Non-performing loans	527,695	368,616
Personal loans	678,845	1,550,270
Advances and subsidies	8,831,108	9,496,725
Advances	2,467,642	3,259,634
Repurchase agreements	482,692	46,424
Discounted bills	125,444	153,193
Current accounts	8,133,943	7,335,680
	31.12.2002	31.12.2001

The loan value of financial leases is provided in the following table:

	31.12.2002	31.12.2001
Loan value of lease contracts executed after 1 January 1995 Loan value of lease contracts executed before 1 January 1995	-	1,125,770 8,090
Total	-	1,133,860

### 1.3 SECURED CUSTOMER LOANS AND ADVANCES

The table below summarizes secured loans. The table includes amounts for partially secured loans and excludes loans to governments and public-sector entities.

Total	16,153,115	15,084,711
4 - Others	6,651,925	6,750,927
3 - Banks	102,157	94,225
2 - Other public-sector entities	2,184	1,584
1 - Governments	-	-
c) Loans backed by guarantees from:		
3 - Other negotiable instruments	5,807	15,549
2 - Securities	1,243,722	968,955
1- Cash deposits	420,340	294,960
b) Loans collateralized by:		
a) Secured by mortgages	7,726,980	6,958,511
	31.12.2002	31.12.2001



## 1.4 NON-PERFORMING LOANS (including past-due interest)

Non-performing loans, which include EUR 107,808,000 of past-due interest (all of which has been written off) can be summarized as follows:

	31.12.2002	31.12.2001
Nominal value	885,282	663,725
less: valuation adjustments	356,356	283,389
Book value	528,926	380,336

#### 1.5 PAST-DUE INTEREST

The table below provides a breakdown of the nominal amount of past-due interest:

	31.12.2002	31.12.2001
a) Non-performing loans	107,808	100,522
b) Other credits	16,336	18,739
c) Amounts due from taxpayers	346,689	1,266,403
Total	470,833	1,385,664

Past-due interest has been written off completely.

## 1.6 VALUATION ADJUSTMENTS TO CUSTOMER LOANS (excluding past-due interest)

Following is detail on the adjustments to principal amounts:

					31.12.2002
	Original Value	Amount (Loss) Written Off	Book Value as at 31/12/2002	Doubtful Amount	Book Value
Non-performing loans	996,210	224,572	771,638	243,943	527,695
including: mortgage loans	349,331	43,103	306,228	33,975	272,253
other	646,879	181,469	465,410	209,968	255,442
Watchlist credits					
and in arrears (*)	940,489		940,489	208,707	731,782
Country risk	260,128		260,128	7,412	252,716
Total			1,972,255	460,062	1,512,193
Lump-sum adjustment	on			170,000	
performing loans				630,062	

<sup>(\*)</sup> including: current maturities of EUR 119,500,000 on mortgage loans.

Valuation adjustments to non-performing loans amount to 47.18 percent of the original loan value, or 64.69 percent excluding mortgage loans.

					31.12.2001
	Original	Amount (loss)	Book Value as	Doubtful	Book
	Value	Written Off	at 31/12/2002	Amount	Value
Non-performing loan	ns 697,904	159,891	538,013	169,396	368,617
including: mortgage loa	ans 298,464	41,290	257,174	29,591	227,583
other	399,440	118,601	280,839	139,805	141,034
Watchlist credits					
and in arrears (*)	684,440		684,440	152,033	532,407
Country risk	316,413		316,413	8,701	307,712
Total			1,538,866	330,130	1,208,736
Lump-sum adjustmer	nt				
on performing loans				166,409	
				496,539	
				150,555	

<sup>(\*)</sup>including: current maturities of EUR 119,500,000 on mortgage loans

Valuation adjustments to non-performing loans amount to 47.18 percent of the original loan value, or 64.69 percent excluding mortgage loans.

## ■ Customer loans (including past-due interest)

			31.12.2002
	Total	Total Valuation	Net
	Outstanding	Adjustments	Exposure
A. Doubtful loans	2,018,780	583,866	1,434,914
A.1 Non-performing loans	879,106	351,411	527,695
A.2 Watch-list credits	918,100	220,185	697,915
A.3 Loans in the process of restructuring	-	-	-
A.4 Restructured loans	38,725	4,858	33,867
A.5 Unsecured loans to countries at risk	182,849	7,412	175,437
B. Performing loans	35,537,734	170,000	35,367,734

			31.12.2001
	Total	Total Valuation	Net
	Outstanding	Adjustments	Exposure
A. Doubtful loans	1,564,765	457,954	1,106,811
A.1 Non-performing loans	657,316	278,212	379,104
A.2 Watch-list credits	678,550	166,074	512,476
A.3 Loans in the process of restructuring	-	-	-
A.4 Restructured loans	36,251	4,966	31,285
A.5 Unsecured loans to countries at risk	192,648	8,702	183,946
B. Performing loans	37,131,157	167,392	36,963,765

Cash credits include: past-due interest, the loan value of non-performing financial leases amounting to EUR 19,037,000 (written down by EUR 8,549,000), EUR 12,606,000 of watchlist credits (written down by EUR 1,252,000), and EUR 1,121,511,000 of performing loans.



## ■ Trend of doubtful loans to customers (including loan value of financial leases)

Description/Category	Non-Performing Loans	Watchlist Credits	Loans in the Process of Restructuring	Restructured Loans	Unsecured Loans to High-Risk Nations
A. Total outstanding as of 31/12/2001	657,317	678,550		36,251	192,647
A.1 including: past-due interest	100,268	17.756		30,231	172,017
B. Increases	100,200	17,730			
B.1 new performing loans	231,021	557,998		17,513	46
B.2 past-due interest	27,443	8,963			
B.3 transfer from other categories	185,061	19,982		44	
B.4 other increases	65,562	162,125		11,229	3,685
C. Decreases					
C.1 reclassified as performing	-	8,371			-
C.2 cancellations	93,709	5,241		-	
C.3 recoveries	122,511	273,407		6,010	12,791
C.4 sales	67,844	39,059		-	
C.5 transfer to other categories	1,343	183,440		20,302	-
C.6 other decreases	1,891	-		-	738
D. Total outstanding as of 31/12/2002	879,106	918,100		38,725	182,849
D.1 including: past-due interest	107,468	16,336			

## ■ Trend of total valuation adjustments (including loan value of financial leases)

Description/Category	Non-Performing Loans	Watchlist Credits	Loans in the Process of Restructuring	Restructured Loans	Unsecured Loans to High-Risk Nations	Performing Loans
A. Total outstanding as of 31/12/2001	278,213	166,074		4,966	8,701	167,392
A.1 including: past-due interest	100,268	17,756		4,900	8,701	982
B. Increases	100,208	17,750				902
B.1 valuation adjustments (1)	205,293	151,992		1,590	3,665	62,218
B.1.1 including: past-due interest	27,443	8,963				
B.2 use of loan loss reserves						10,329
B.3 transfers from other categories	57,096	2,840		758		1,112
B.4 other increases	-	85		-		_
C. Decreases						
C.1 reversal of valuation adjustments	18,138	22,078		751	4,845	28,241
C.1.1 including: past-due interest	-	-				
C.2 cash recoveries	9,147	12,610		499	109	20,064
C.2.1 including: past-due interest	2,449	3,250				982
C.3 cancellations	93,709	5,240		-		-
C.4 transfer to other categories	322	53,984		1,206	-	6,294
C.5 other decreases	67,875	6,894				16,452
D. Total as of 31/12/2002	351,411	220,185		4,858	7,412	170,000
D.1 including: past-due interest	107,468	16,336				

<sup>(1)</sup> The account includes EUR 27,213,000 of adjustments relative to the securitization of non-performing loans in previous years.

## ■ Trend of doubtful loans to banks

Description/Category	Non-Performing Loans	Watchlist Credits	Loans in the Process of Restructuring	Restructured Loans	Unsecured Loans to High-Risk Nations
A. Total outstanding as of 31/12/2001	6,408	12,741			287,583
A.1 including: past-due interest	255	,-			
B. Increases					
B.1 new performing loans	-	5,013			2,356
B.2 past-due interest	85				
B.3 transfer from other categories					
B.4 other increases	-	-			54
C. Decreases					
C.1 reclassified as performing					-
C.2 cancellations	-	973			-
C.3 recoveries	317	4,434			51,122
C.4 sales					
C.5 transfer to other categories					
C.6 other decreases	-				22,244
D. Total as of 31/12/2002	6,176	12,347			216,627
D.1 including: past-due interest	340				

## ■ Trend of total valuation adjustments

Description/Category	Non-Performing Loans	Watchlist Credits	Loans in the Process of Restructuring	Restructured Loans	Unsecured Loans to Performing High-Risk Loans Nations
A. Valuation adjustments as of 31/12/2001	5,177	2,871			13,617
A.1 including: past-due interest	255				
B. Increases					
B.1 valuation adjustments	85	2,448			3,967
B.1.1 including: past-due interest	85				
B.2 use of loan loss reserves	-				
B.3 transfers from other categories					
B.4 other increases	-				
C. Decreases					
C.1 reversal of valuation adjustments		-			5,145
C.1.1 including: past-due interest					
C.2 cash recoveries	317	1,053			3,950
C.2.1.including: past-due interest					
C.3 cancellations	-	973			
C.4 transfer to other categories					
C.5 other decreases					-
D. Total as of 31/12/2002	4,945	3,293			8,489
D.1 including: past-due interest	340				



# 1.7 COMPOSITION OF ACCOUNT 10- CASH AND CASH ON DEPOSIT WITH CENTRAL BANKS AND POST OFFICES

	451,289
-	7
202,735	158,780
-	17,103
45,830	46,824
274,094	228,575
31.12.2002	31.12.2001
	274,094 45,830 -

## **SECTION 2 - SECURITIES**

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

31.12.2002

Account/Transactions	Investment Securities	Trading Securities	Total
20 - Treasury bonds and similar instruments eligible for refinancing	49,550	437,080	486,630
50 - Bonds, debentures and other loan securities	2,563,149	6,781,466	9,344,615
60 - Shares and other equity securities	-	534,709	534,709
Total	2,612,699	7,753,255	10,365,954
			31.12.2001
Account/Transactions	Investment Securities	Trading Securities	Total
20 - Treasury bonds and similar instruments eligible for refinancing	200,632	449,777	650,409
50 - Bonds, debentures and other loan securities	2,204,508	5,239,340	7,443,848
60 - Shares and other equity securities	-	1,039,887	1,039,887
Total	2,405,140	6,729,004	9,134,144

#### 2.1 INVESTMENT SECURITIES

The table below summarizes the holdings in the investment securities portfolio:

	Book Value	Market Value	Book Value	Market Value
	31.12.02	31.12.02	31.12.01	31.12.01
1 Debt securities				
1.1 Government securities				
- listed	130,057	124,349	170,162	168,941
- unlisted	32,258	32,920	25,947	25,947
1.2 Other securities				
- listed	1,424,579	1,231,994	1,419,483	1,430,505
- unlisted	1,025,805	1,227,194	789,548	785,792
2 Equity securities				
- listed	-	-	-	-
- unlisted	-	-	-	-
Total	2,612,699	2,616,457	2,405,140	2,411,185

Based on average market prices in the final six months of 2002, the investment portfolio included unrealized losses of EUR 19,856,000 and unrealized gains of EUR 23,614,000. Were the securities to have been considered as trading securities, the portfolio would have evidenced, based on the prices on 31 December 2002, capital losses of EUR 16,966,000 and capital gains of EUR 23,948,000.



#### 2.2 ANNUAL CHANGES IN INVESTMENT SECURITIES

Annual changes in investment securities are as follows:

	31.12.2002	31.12.2001
A. Opening balance	2,405,140	3,424,686
B. Increases	1,290,433	1,334,351
B.1. purchases	859,589	1,035,524
B.2. recoveries in value	-	-
B.3. transfers from trading securities portfolio	360,120	124,097
B.4 other changes	70,724	174,730
C. Decreases	1,082,874	2,353,897
C.1. sales	75,494	1,413,656
C.2. redemptions	760,002	868,537
C.3. valuation adjustments	26,425	10,421
Including:		
- permanent writedowns	26,425	10,421
C.4. transfers to trading securities portfolio	-	1,417
C.5. other changes	220,953	59,866
D. Closing balance	2,612,699	2,405,140

Point B.3 includes securities from the acquisition of the Banca 121 S.p.A. business unit on 30 March 2002, which were transferred to the investment portfolio pursuant to a Board of Directors resolution approved on 3 July 2002. The amount indicated includes only the securities which were classified as trading securities in Banca 121 S.p.A. financial statements.

Point B.4 includes the accrual of issuing and trading discounts in the amount of EUR 9,255,000 and exchange differences in the amount of EUR 61,469,000.

Point C.1 includes the sale of bonds issued by Olimpia convertible into Olivetti shares, as approved by the Board of Directors on 28 November 2002; this involved a capital loss of EUR 4,156,000 which was accrued to extraordinary charges (as further reviewed in Section 6.4).

Point C.3 includes the writedown of junior securities issued pursuant to Article 6 of Law n. 130/99 as part of securitization transactions originated by the Bank in 2001 (EUR 18,700,000, including EUR 3,740,000 charged to the profit and loss statement, and EUR 14,960,000 charged to the extraordinary reserve) and writedowns of securities of corporate issuers whose credit standing and solvency have materially and permanently worsened (EUR 7,725,000).

Point C.5 includes the accrual of issuing and trading discounts in the amount of EUR 3,022,000 and exchange differences of EUR 213,047,000.

#### 2.3 TRADING ACCOUNT SECURITIES

The table below summarizes the holdings in the trading securities portfolio:

	Book Value	Market Value	Book Value	Market Value
	31.12.02	31.12.02	31.12.01	31.12.01
1 Debt securities				
1.1 Government securities				
- listed	1,912,524	1,912,524	2,174,626	2,174,626
- unlisted	10,995	11,063	26,015	26,062
1.2 Other securities				
- listed	2,483,876	2,483,876	1,059,463	1,052,851
- unlisted	2,811,151	2,819,736	2,429,013	2,424,023
2 Equity securities				
- listed	410,932	410,932	885,778	885,778
- unlisted	123,777	124,875	154,109	158,634
Total	7,753,255	7,763,006	6,729,004	6,721,974

The trading portfolio includes EUR 129,057,000 of revaluation and recoveries (including EUR 29,679,000 relative to unlisted derivatives-related securities) and EUR 84,651,000 of valuation adjustments.

The positive difference of EUR 9,751,000 between market value and book value consists of unrealized capital gains on unlisted securities not covered by derivatives contracts which were not booked to the profit and loss statement.

As of 31 December 2002, the trading portfolio includes securities relative to the defined-contribution pension fund for staff hired as of 1 January 1991; such securities came to EUR 55,931,000 (including government securities in the amount of EUR 28,454,000, other debt securities in the amount of EUR 11,274,000 and equity securities in the amount of EUR 16,203,000). The trading portfolio as of the end of 2002 also included securities held by the defined-contribution pension fund for the tax collection area in the amount of EUR 20,155,000.



#### 2.4 ANNUAL CHANGES IN TRADING ACCOUNT SECURITIES

	31.12.2002	31.12.2001
A. Opening balance	6,729,004	6,788,501
B. Increases	26,438,086	190,075,095
B1. Purchases		
Debt securities		
- government securities	9,254,081	154,640,648
- other securities	7,694,872	28,839,359
Equity securities	9,342,264	6,445,408
B2. Recoveries and revaluations	129,057	62,517
B3. Transfers from investment securities portfolio	-	1,417
B4. Other changes	17,812	85,746
C. Decreases	25,413,835	190,134,592
C1. Sales and redemptions		
Debt securities		
- government securities	9,632,868	155,125,724
- other securities	5,472,141	28,538,338
Equity securities	9,549,252	5,933,569
C2. Valuation adjustments	84,651	141,846
C3. Transfers to investment securities portfolio	624,114	124,097
C4. Other changes	50,809	271,018
D. Closing balance	7,753,255	6,729,004

Point B.4 includes issuing discounts in the amount of EUR 10,763,000 and trading income of EUR 7,049,000.

Point C.3 includes:

- a) securities transferred to the investment portfolio which the Bank acquired as part of its acquisition of the Banca 121 S.p.A. business unit on 30 March 2002 (other information relative to the transaction is provided in Section 2.2 above).
- b) the reclassification as equity investments of shares held in Banca Toscana S.p.A., Banca Agricola Mantovana S.p.A. and E.Biscom S.p.A. for a total of EUR 263,994,00, as approved by the Board of Directors on 10 October 2002 and 28 November 2002.

Point C.4 includes issuing discounts accrued in the amount of EUR 332,000, technical overdrafts of EUR 3,422,000, trading losses of EUR 568,000 and exchange differences of EUR 46,487,000.

As shown in the notes following Section 2.3 above, the trading account securities include securities relative to the defined-contribution pension fund for staff hired as of 1 January 1991. Accordingly, the values reported in the table above include changes relative to the this pension fund, as follows: purchases (B1) of EUR 42,036,000; revaluations (B2) of EUR 1,211,000; sales and reimbursements (C1) of EUR 23,044,000; valuation adjustments (C2) of EUR 4,603,000; and other decreases (C4) per EUR 489,000. Point B1 also includes EUR 22,605,000 of securities purchased for the defined-contribution pension fund for the tax collection personnel. The revaluation and recovery of value indicated in Points B2 and C2 have been accrued to Account 60 - "Profits (losses) on financial transactions", with the exception of the amounts relative to the aforementioned defined-contribution pension plan, which, instead, were booked to Account 65 - "Revenues on investments of pension and similar funds".

## **SECTION 3 - EQUITY INVESTMENTS**

### Investments are reported as follows:

	31.12.2002	31.12.2001
Equity investments in Group companies	4,046,682	3,183,950
Equity investments - other including:	1,392,169	2,177,265
- significant equity investments	6,913	8,122
Total	5,438,851	5,361,215

## 3.1 EQUITY INVESTMENTS

The following table provides information relative to subsidiaries and affiliates and to companies over which the Bank has significant influence:

## Group companies:

Name	Head Office	Net Equity	Profit/Loss	% Held	Book Value
121 Financial Services Ltd.	Dublin	49,252	2,430	100.00	127,648
121 Fund Management Ltd.	Dublin	-	-	100.00	-
4 Sale Italia S.p.A.	Siena	511	(2,048)	78.00	1,335
Amministrazioni Immobiliari S.p.A.	Siena	60,123	1,221	100.00	53,182
Ba.Sa. S.p.A.	Lecce	9,780	(211)	99.98	12,392
Banca 121 Promozione Finanziaria S.p.	.A. Lecce	158,211	(1,789)	99.96	159,937
Banca Agricola Mantovana S.p.A.	Mantua	1,041,074	101,537	65.55	1,287,914
Banca Monte Parma S.p.A.	Parma	59,036	6,423	41.00	133,930
Banca Monte Paschi Belgio S.A.	Brussels	53,034	(6,548)	64.47	36,774
Banca Monte Paschi (Suisse) S.A.	Geneva	21,401	344	100.00	12,232
Banca MPS (Channel Islands) Ltd.	London	10,554	115	100.00	8,327
Banca Popolare di Spoleto S.p.A.	Spoleto	22,045	1,529	19.65	38,722
Banca Steinhauslin & C.	Florence	41,198	(14,904)	100.00	95,548
Banca Toscana S.p.A.	Florence	1,286,003	125,009	64.21	669,466
CARIPRATO S.p.A. (*)	Prato	240,001	15,861	79.00	132,396
Cons. Operativo Gruppo MPS	Siena	140,324	-	71.69	100,591
Consum.it S.p.A.	Florence	32,285	3,052	70.00	20,302
Dipras	Rome	-	-	100.00	575
E - Idea S.p.A.	Rome	2,198	(1,631)	70.00	2,660
G. Imm. Astor S.r.l.	Lecce	1,680	141	52.00	1,312
GERIT S.p.A.	L'Aquila	2,382	(1,361)	95.57	2,399
Grow Life	Dublin	44,061	24,765	40.00	2,032
The-Am.it S.p.A	Siena	-	-	99.50	25,015
Italriscossioni S.p.A.	Rome	10,089	(46)	100.00	2,785
M.P. US Commercial Paper Corp.	New York	285	15	100.00	1
Monte Paschi Banque	Paris	98,507	9,287	70.18	63,718
Monte Paschi Fiduciaria S.p.A.	Siena	1,340	40	86.00	1,192
Monte Paschi Nederland	Amsterdam	-	-	100.00	265
Monte Paschi SERIT S.p.A.	Palermo	2,461	(52,502)	100.00	2,460
Monte Paschi Vita S.p.A.	Rome	267,843	34,263	100.00	292,695
MP Asset Management SGR	Milan	98,458	27,845	79.98	25,691
MPS Banca Verde S.p.A.	Florence	115,888	9,213	67.00	64,217
MPS Finance Banca Mobiliare S.p.A.	Siena	274,457	74,056	100.00	158,572
MPS Gestione Crediti Banca S.p.A.	Siena	103,156	3,156	99.50	29,850
MPS Leasing e Factoring S.p.A.	Siena	250,397	11,032	82.62	197,047
MPS Luxembourg	Luxembourg	530	216	99.20	124
MPS Merchant	Florence	281,201	30,085	88.05	171,444
MPS Net	Siena	35,421	(14,818)	99.00	37,582
MPS Preferred Capital	Wilmington, Delaware	29,831	3,056	100.00	29,933
MPS Professional S.p.A.	Siena	-	-	96.50	965
Paschi Gestioni Immobiliari S.p.A.	Siena	5,514	129	100.00	5,000
San Paolo Acque S.r.l.	Corigliano d'O.	387	(23)	100.00	268
SO.RI.T S.p.A.	Foligno	2,243	(347)	54.59	1,414
Sodim S.r.l. (in liquidation)	Lecce	-	-	100.00	-
Tein Plc (in liquidation)	London	-	-	100.00	4,300
Ticino Assicurazioni S.p.A.	Rome	-	-	100.00	32,350
Ulisse 2 S.p.A.	Milan	100	-	60.00	60
Ulisse S.p.A.	Milan	76	-	60.00	60
					4,046,682

Net equity includes profit (loss) for the year



(\*) Cariprato (CRP) S.p.A.: In December 2002, BMPS signed a contract to sell its investment in CRP. Even though the transaction was not scheduled to close until 2003, the economic effects thereof were still included in the 2002 financial statements, given the Bank of Italy's authorization provided to the buyer prior to the date on which the BMPS Board of Directors approved the Bank's 2002 financial statements and the certainty of the sale with the commitment to deliver the shares of CRP in accordance with Article 2, Paragraph 5 of Legislative Decree n. 87/92.

The commitment to deliver the shares, which was valued at EUR 278,829,000, was booked to other assets, with the offsetting entry to extraordinary income. The value of the commitment corresponds to the difference between (a) the sale price and (b) BMPS' carrying value of the investment, on a pre-tax basis.

### Significant holdings:

Name	Head Office	Net Equity	Profit/Loss	% Held	Book Value
I.B.A. A.G.	Vienna	11,598	1,296	35.01	6,003
S.ES.I.T. Puglia S.p.A.	Bari	(1,353)	(3,806)	35.00	910
					6,913

Net equity includes profit (loss) for the year

In certain cases, the carrying value of an investment is in excess of the Bank's share of the net equity in the company in which the investment is held. This is attributable to a book value which takes into account specific provisions to 80 c) – Reserve for risks and other charges.

### 3.2 ASSETS AND LIABILITIES WITH RESPECT TO GROUP COMPANIES

Asset and liability balances with respect to Group companies at year end are summarized in the following table:

		31.12.2002		31.12.2001
a) Assets:		13,065,137		9,686,844
1. Due from banks	10,608,889		7,048,668	
including: subordinated amounts	70,055		9,857	
2. Due from financial institutions	886,110		1,138,738	
including: subordinated amounts	362		-	
3. Due from other customers	855,510		854,731	
including: subordinated amounts	61,000		-	
4. Bonds and other debt securities	714,628		644,707	
including: subordinated amounts	477,134		32,524	
b) Liabilities:		6,113,043		3,689,513
1. Due to banks	3,471,664		770,540	
2. Due to financial institutions	384,015		725,391	
3. Due to other customers	210,651		2,166,793	
4. Liabilities backed by securities	1,690,713		-	
5. Subordinated liabilities	356,000		26,789	
c) Guarantees and commitments:		5,930,915		1,732,162
1. Guarantees released	3,474,567		565,630	
2. Commitments	2,456,348		1,166,532	
d) Income and charges				
1. Income	585,333		595,538	
2. Charges	278,169		285,080	



# ASSETS AND LIABILITIES WITH RESPECT TO COMPANIES IN WHICH INVESTMENTS ARE HELD (OTHER THAN GROUP COMPANIES)

Asset and liability balances with respect to other companies at year end are summarized in the following table:

		31.12.2002		31.12.2001
a) Assets:		1,129,224		
1. Due from banks	68,952		339,126	
including: subordinated amounts	-		-	
2. Due from financial institutions	237,404		320,314	
including: subordinated amounts	144,688		122,420	
3. Due from other customers	495,034		427,537	
including: subordinated amounts	· -		· -	
4. Bonds and other debt securities	42,609		42,247	
including: subordinated amounts	2,200		26,415	
b) Liabilities:		410,076		686,026
1. Due to banks	49,813		70,813	
2. Due to financial institutions	64.328		94.888	
3. Due to other customers	244,418		468,808	
4. Liabilities backed by securities	· -		· -	
5. Subordinated liabilities	51,517		51,517	
c) Guarantees and commitments:		263,253		75,715
1. Guarantees released	144,483		46,075	
2. Commitments	118,770		29,640	

## 3.4 COMPOSITION OF ACCOUNT 70- EQUITY INVESTMENTS

Investments are detailed as follows:

		31.12.2002		31.12.2001
a) In banks		298,888		1,789,504
1. listed	261,034		1,751,647	
2. unlisted	37,854		37,857	
b) In financial institutions		586,162		191,525
1. listed	11,808		12,532	
2. unlisted	574,354		178,993	
c) Other:		507,119		196,236
1. listed	149,193		14,270	
2. unlisted	357,926		181,966	
Total		1,392,169		2,177,265

## 3.5 COMPOSITION OF ACCOUNT 80 - EQUITY INVESTMENTS IN GROUP COMPANIES

Investments in Group companies, analyzed by business sectors, are as follows:

		31.12.2002		31.12.2001
a) In banks		3,264,785		2,594,743
1. listed	1,996,102		1,685,563	
2. unlisted	1,268,683		909,180	
b) In financial institutions		203,694		130,261
1. listed	-	-		
2. unlisted	203,694		130,261	
c) Other:		578,203		458,946
1. listed	-		-	
2. unlisted	578,203		458,946	
Total		4,046,682		3,183,950

#### 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

		31.12.2002		31.12.2001
A. Opening balance		3,183,950		3,212,346
B. Increases:		1,082,959		630,669
B1. purchases	748,224		527,351	
B2. recoveries	1,210		57	
B3. revaluations	-	-		
B4. other changes	333,525		103,261	
C. Decreases:		220,227		659,065
C1. sales	134,474		1,282	
C2. valuation adjustments	38,017		14,124	
including: permanent writ	edowns		26	
C3. other changes	47,736		643,659	
D. Closing balance		4,046,682		3,183,950
E. Total revaluations		-		211
F. Total adjustments		-		154

## 3.6.2 OTHER EQUITY INVESTMENTS

		31.12.2002		31.12.2001
A. Opening balance		2,177,265		1,522,208
B. Increases:		729,345		904,580
B1. purchases	695,867		846,310	
B2. recoveries	19		397	
B3. revaluations	-		-	
B4. other changes	33,459		57,873	
C. Decreases:		1,514,441		249,523
C1. sales	1,240,170		39,146	
C2. valuation adjustments	270,180		9,901	
including: permanent writedowns	-		33	
C3. other changes	4,091		200,476	
D. Closing balance		1,392,169		2,177,265
E. Total revaluations		-		-
F. Total adjustments		-		-

Detail on the changes is provided in the following tables.



# ■ CHANGES IN THE VALUES OF EQUITY INVESTMENTS Changes in the values of equity investments in Group companies

Name	Opening Balance	Purchases	Capital Increases & Subscript	Recoveries	Valuation Adjustment	Sales	Other Increases	Other Decreases	Book Value
121 Financial Services (1)	46,648	81,000	-	-	-	-	-	-	127,648
Banca 121 Prom. Finanziaria (2)	-	-	159,937	-	-	-	-	-	159,937
Banca Agricola Mantovana (3)	1,078,915	140,063	-	-	-	-	68,937	-	1,287,915
Banca C. Steinhauslin & C.	110,317	-	-	-	(14,769)	-	-	-	95,548
Banca Popolare di Spoleto	35,119	-	3,603	-	-	-	-	-	38,722
Banca Toscana (4)	571,529	-	-	-	-	(69,373)	167,310	-	669,466
Cassa Risparmio San Miniato (5)	56,810	-	-	-	-	(56,810)	-	-	-
Consorzio Operativo Gr. Mps (2)	66,389	-	-	-	-	-	34,202	-	100,591
BMPS Channel Island	8,176	-	-	151	-	-	-	-	8,327
DIPRAS	572	-	-	-	-	-	4	-	576
E-Idea	645	-	2,015	-	-	-	-	-	2,660
Gerit	2,402	-	-	-	(3)	-	1,204	(1,204)	2,399
The-Am.it	23,871	-	1,144	-	-	-	-	-	25,015
Italriscossioni	3,136	-	-	-	(351)	-	-	-	2,785
MP Asset Management SGR	31,244	-	-	-	-	(5,554)	-	-	25,690
Monte Paschi Fiduciaria	1,162	-	-	30	-	-	-	-	1,192
Monte Paschi Serit (6)	-	-	-	-	(7,940)	-	54,962	(44,562)	2,460
Monte Paschi Vita	245,895	-	45,000	-	-	-	1,800	-	292,695
MPS Banca Verde	62,461	1,755	-	-	-	-	-	-	64,216
MPS Gestione Crediti Banca	-	-	29,850	-	-	-	-	-	29,850
Banca MPS Leasing e Factoring (7)	-	-	194,000	-	-	-	3,047	-	197,047
MPS Merchant	129,102	20,271	22,071	-	-	-	-	-	171,444
MPS Net	10,395	-	42,075	-	(14,888)	-	-	-	37,582
MPS Preferred Capital	30,000	-	-	-	(66)	-	-	-	29,934
MPS Professional	290	-	675	-	-	-	-	-	965
Paschi Gestioni Immobiliari	2,000	3,000	-	-	-	-	-	-	5,000
Pool Factor (7)	2,066	671	-	-	-	(2,737)	-	-	-
Saped S.p.A.	500	781	-	-	-	-	-	(1,281)	-
SO.RI.T.	-	-	205	-	-	-	1,898	(689)	1,414
Ticino Assicurazioni	31,172	-	-	1,029	-	-	149	-	32,350
Ulisse	-	53	-	-	-	-	7	-	60
Ulisse 2	-	53	2	-	-	-	5	-	60
		247,647	500,577	1,210	(38,017)	(134,474)	333,525	(47,736)	

## ■ CHANGES IN THE VALUES OF SIGNIFICANT INVESTMENTS

No changes occurred during the period.

## ■ CHANGES IN THE VALUES OF EQUITY INVESTMENTS IN OTHER COMPANIES:

Name	Opening Balance	Purchases	Capital Increases & Subscript	Recoveries	Valuation Adjustment	Sales	Other Increases	Other Decreases	Book Value
3R Management SGECR	30	-	30	-	-	-	-	-	60
Asia S.p.A.	-	-	10	-	-	-	-	-	10
Aeroporto di Siena	55	-	-	19	-	-	-	-	74
Assicurazioni Generali	-	111,609	-	-	-	-	_	-	111,609
Autocamionabile della Cisa	2,609	-	-	-	-	(2,609)	-	-	-
Autostrada TO MI	5,354	-	-	-	-		-	(2,000)	3,354
Banca Nazionale del Lavoro (8)	526,781	-	-	-	(263,225)	(18,440)	-	-	245,116
Banco di Napoli	3	-	-	-	-	(3)	-	-	-
Banque du Sud	12,971	-	-	-	-	-	2,126	-	15,097
Beta Prima	-	360	-	-	-	-	-	-	360
Bid It	901	-	78	-	(979)	-	-	-	-
Bios	-	40,000	14,745	-	-	-	10	-	54,755
Borsa Italiana	3,804	37,766	-	-	-	-	-	-	41,570
Carporlecchio Educational	-	-	200	-	-	-	-	-	200
CE.DI.TI	3	-	-	-	(1)	(2)	-	-	-
Cedel International	547	-	-	-	-	(547)	-	-	-
Centrale dei Bilanci	253	-	2,949	-	-	-	-	-	3,202
Centro Agro Alimentare Napoli	718	-	134	-	(13)	-	-	-	839
Charme Investments	-	2	-	-	-	-	-	-	2
CISFI	-	560	-	-	-	-	_	-	560
Commerfin	-	87	68	-	-	-	1	-	156
Consorzio Etruria	-	1,549	-	-	-	-	_	-	1,549
Consorzio Intesa Aretina	248	-	126	-	-	-	_	-	374
Ducotel Comunication Service	38	-	37	-	-	-	_	-	75
E Biscom	-	-	-	-	_	-	27,747	-	27,747
Ecc Holding	-	-	5,320	-	_	-	31	-	5,351
Elsacom N.V.	325	-	· -	-	(325)	-	_	-	_
Energia Italiana	220	-	220	-	(12)	(150)	-	-	278
Engineering	8,262	-	-	-	(4,288)	-	-	-	3,974
Essse	22	-	-	-	-	(22)	-	-	-
Etruria Innovazione	14	-	-	-	(1)	-	-	-	13
Eurobic Toscana Sud	18	-	25	-	-	-	-	-	43
EuroMts	83	-	-	-	-	(83)	-	-	-
Evoluzione 94	1,480	-	-	-	-	-	-	(473)	1,007
Fidi Toscana	6,922	-	866	-	-	-	-	-	7,788
Fin. Promo. Ter.	-	-	230	-	-	-	-	-	230
Finaosta	550	-	10	-	-	-	-	-	560
Fincasa 44	12,532	-	-	-	(724)	-	-	-	11,808
Finsoe	158,189	-	26,000	-	-	-	1,265	-	185,454
Firenze Mostre	51	-	-	-	(12)	-	-	-	39
Fondazione LEM	-	-	103	-	-	-	-	-	103
Hi Spring	-	-	1,611	-	-	-	-	-	1,611
Нора	135,055	-	119,366	-	-	-	-	-	254,421
Immobiliare Lombarda	654	-	-	-	(144)	-	-	-	510
Intesa BCI	690	-	-	-	(354)	-	-	-	336
Ist. Centrale Pop. Banche	3	-	-	-	-	(3)	-	-	-
Ist. Encicl. Banca and Borsa	20	-	-	-	(4)	-	-	-	16
It City	842	-	-	-	(53)	-	-	-	789
Ital Tbs	2,684	-	-	-	-	(2,684)	-	-	-
M.A.S.	-	1	5	-	-	(1)	-	-	5
Mercato Titoli di Stato	912	223	-	-	-	-	279	-	1,414
Moda Mediterranea	-	-	8	-	-	-	-	-	8
Monte Titoli	1,530	-	-	-	-	(1,530)	-	-	-
Pacchetto Loc. Brindisi	26	49	-	-	-	-	-	-	75
Pastis	122	-	126	-	(41)	-	-	-	207
Patto della Piana	1	_	3	_	-	_	_	_	4



Name	Opening	Purchases	Capital	Recoveries	Valuation	Sales	Other	Other	Book
	Balance		Increases		Adjustment		Increases	Decreases	Value
			& Subscript						
Prom Svil. Val di Cecina	-	22	-	-	(4)	-	-	-	18
Pubblileasing	397	-	-	-	-	-	-	(397)	-
S.E.A.M.	40	-	20	-	-	-	-	-	60
S.I.T.	62	-	145	-	-	-	-	-	207
S.T.A.	1,162	-	-	-	-	(1,162)	-	-	-
S.T.B.	2,066	-	-	-	-	(2,066)	-	-	-
SIAS	-	-	-	-	-	-	2,000	-	2,000
San Paolo IMI (9)	1,210,717	-	-	-	-	(1,210,717)	-	-	-
Santa Lucia	-	-	5	-	-	-	-	-	5
Santorini Investment (9)	-	328,690	-	-	-	-	-	-	328,690
Siena Mortagages 01-2	2	-	5	-	-	-	-	-	7
Siena Mortagages 02-3	-	1	-	-	-	-	-	-	1
So.Fin.Ind.	1,170	-	303	-	-	-	-	-	1,473
Soc. It. Organismo Att.ne	151	-	-	-	-	(151)	-	-	-
Sofinco	-	-	2,200	-	-	-	-	-	2,200
SO.RI.T.	1,209	-	-	-	-	-	-	(1,209)	-
Ulisse	7	-	-	-	-	-	-	(7)	-
Ulisse 2	5	-	-	-	-	-	-	(5)	-
		520,919	174,948	19	(270,180)	(1,240,170)	33,459	(4,091)	

#### Notes on changes in the holdings of investments

#### 1) 121 Financial Services

The Bank acquired 100 percent of 121 Financial Services during the first half of 2002 as part of the acquisition of a business unit from the subsidiary, Banca 121;

#### 2) Banca 121 Promozione Finanziaria

The company has been operational since December 2002, following the merger by incorporation of Banca 121 into the Bank; Banca 121 will serve as an asset gatherer within the MPS Group. As a result, the "innovative bank" (assets and organizational resources belonging to a financial advisor network and previously owned by Banca 121) was spun off from BMPS and transferred to Banca 121 Promozione Finanziaria. Similarly, the information processing systems and other related assets of Banca 121 were spun off from BMPS and transferred to the MPS Group's Operating Consortium.

#### 3) Banca Agricola Mantovana

The Bank purchased another interest (8.05%) in BAM, corresponding to 50 percent of the BAM shares that were not tendered at the time of the Bank's public offer. At the time of the termination of the public offer, the investors who opted not to tender their shares were given a put option to be exercised as of the third calendar year following the date of return of the shares. With the perfection of this transaction and with the transfer of the BAM shares held in the trading portfolio, the ownership in BAM went from 52.3 percent to 65.5 percent;

#### 4) Banca Toscana

Given the changes occurring during the year, and in particular, with the Banca Toscana shares held in the trading portfolio being reclassified as an equity investment, the ownership in Banca Toscana went from 57.3 percent to 64.2 percent;

#### 5) Cassa Risparmio S. Miniato

The interest in Cassa Risparmio di San Miniato was sold during the year, giving rise to a capital gain of EUR 15,223,000 which was booked to extraordinary income;

#### 6) Monte Paschi Serit

Share capital was used to cover a part of the losses and the reconstruction of capital thereafter;

#### 7) MPS Leasing e Factoring

MPS Leasing e Factoring was set up to become the excellence center for the Group's leasing and factoring activity. The following transactions took place with the incorporation of the new company:

- BMPS transferred its leasing and factoring unit to the new company;
- Merchant Leasing was merged into MPS Leasing e Factoring; and,
- Pool Factor, previously owned by Banca 121, was merged into MPS Leasing e Factoring;

#### 8) Banca Nazionale del Lavoro

During the year, the Bank sold a 0.17-percent interest in BNL in order to limit the voting rights of the participants in the shareholder pact signed in April 2002 for the purpose of preventing them from having to effect a public offer for all of the outstanding BNL shares. With the sale, the Bank realized a capital loss of EUR 12,291,000 which was accrued to extraordinary charges. The Bank's interest in BNL thus stood at 4.56 percent at year end. Although reaffirming the strategic nature of this investment, the Bank decided to review its carrying value in light of the continuing sluggish performance of the financial markets and the less-than-favorable prospects for the economy. As a result of this review, the value of the investment was written down by a total of EUR 263,225,000.

#### 9) San Paolo IMI

The Bank sold its 4.99-percent interest in San Paolo IMI. The investment was sold for EUR 785,400,000, with the Bank thus incurring a capital loss of EUR 425,318,000 as the difference between the sale price and book value of EUR 1,210,718,000. The capital loss was accrued as an extraordinary charge and offset by a charge to the revaluation reserve set up under Law 342/2000. Along with the sale of the investment in San Paolo IMI, the Bank invested a total of EUR 328,690,000 to purchase a 49-percent interest in a newly created company, Santorini Investment Ltd., which is controlled by Deutsche Bank AG.

## SECTION 4 - FIXED ASSETS AND INTANGIBLE ASSETS

## ■ FIXED ASSETS

Fixed assets consist of the following:

	31.12.2002	31.12.2001
Buildings	939,015	909,106
Furniture and equipment	78,874	102,351
Assets under financial leases	-	1,267,492
Total	1,017,889	2,278,949

### 4.1 ANNUAL CHANGES IN THE BALANCES OF FIXED ASSETS

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

		31.12.2	002		31.12.200	1
Account/Amount	Buildings	Furniture and Equipment	Assets Under Financial Leases	Buildings a	Furniture nd Equipment	Assets Under Financial Leases
A. Opening balance	909,106	102,351	1,267,492	922,520	91,531	964,962
B. Increases:	69,981	39,035	306,644	25,936	64,587	690,291
B1. purchases						
and improvements	69,981	38,893	306,644	22,452	64,448	690,291
B2. recoveries	-	-	-	-	-	-
B3. Revaluations	-	-	-	-	-	-
B4. other changes	-	142	-	3,484	139	-
C. Decreases:	40,072	62,512	1,574,136	39,350	53,767	387,761
C1. Sales	334	934	10,370	1,340	1,385	16,448
C2. valuation adjustments:						
a. depreciation	38,526	53,192	203,937	36,523	52,288	371,313
b. permanent writedowns	-	-	-	-	-	-
C3. other changes (*)	1,212	8,386	1,359,829	1,487	94	-
D. Closing balance	939,015	78,874	-	909,106	102,351	1,267,492
E. Total revaluations	595,142	-	-	-	-	-
F. Total adjustments:	355,511	431,240	-	317,253	407,694	933,602
a. depreciation	355,511	431,240	-	317,253	407,694	933,602
b. permanent writedowns	-	-	-	-	-	-

(\*) The EUR 1,359,829,000 is relative to the transfer of the leasing and factoring business unit

In accordance with prevailing regulations in Italy, assets have been revalued pursuant to Law No. 576 of 2 December 1975, Law No. 72 of 19 March 1983, Law No. 413 of 30 December 1991 and Law No. 218/90.

Advances toward the purchase of assets and amounts to be booked definitively to fixed assets came to EUR 606,000 for assets under lease.

The value of the buildings used in the Bank's core activity was EUR 915,565,000 at the end of 2002.



## ■ INTANGIBLE ASSETS

Intangible assets consist of the following:

	31.12.2002	31.12.2001
Goodwill (1)	362,410	34,357
Purchases of software and start-up costs	26,636	29,135
Commissions for placement of debentures	10,280	8,772
Other costs	75,297	184,117
Total	474,623	256,381

<sup>(1)</sup> The amount, which is stated net of amortization in 2002, includes EUR 294,093,000 of goodwill arising on the merger by incorporation of Banca 121 which is to be amortized over the next nine years.

## 4.2 ANNUAL CHANGES IN THE BALANCES OF INTANGIBLE ASSETS

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

		31.12.2002		31.12.2001
	Goodwill	Other	Goodwill	Other
A. Opening balance	34,357	222,024	31,813	165,779
B. Increases:	369,596	71,926	7,231	136,224
B1. Purchases	369,596	71,926	7,231	132,337
B2. Recoveries	-	-	-	-
B3. Revaluations	-	-	-	-
B4. other changes	-	-	-	3,887
C. Decreases:	41,543	181,737	4,687	79,979
C1. Sales	-	-	-	14,593
C2. valuation adjustments	:			
a. amortization	41,543	86,836	4,687	65,386
b. permanent writedo	owns -	48,263	-	-
C3. other changes (1)	-	46,638	-	-
D. Closing balance	362,410	112,213	34,357	222,024
E. Total revaluations	-	-	-	-
F. Total adjustments:	53,021	159,811	11,478	149,725
a. amortization	53,021	111,548	11,478	149,725
b. permanent writedowns	-	48,263	-	-

<sup>(1)</sup> The total incorporates EUR 33,615,000 and EUR 12,342,000 relative to the respective spin-off of assets to the MPS Group Operating Consortium and Banca 121 Promozione Finanziaria

## SECTION 5 - OTHER ASSETS

#### 5.1 COMPOSITION OF ACCOUNT 130 - OTHER ASSETS

The account includes the following:

	31.12.2002	31.12.2001
Amounts due from taxpayers – tax collection service	1,960,904	1,592,496
Advance payments of taxes and tax credits	495,001	530,632
Third-party checks held for collection	306,067	454,621
MPS checks held for collection	140,640	163,131
Clearing balances with branches	138,864	62,304
Amounts due on foreign-currency transactions	-	17,200
Revaluations of off-balance-sheet transactions (*)	3,093,014	2,123,826
Option premiums paid	1,246,715	1,315,074
Security deposits	254,987	236,887
Deferred tax assets (**)	393,182	289,385
Other (***)	4,095,993	2,304,616
Total	12,125,367	9,090,172

<sup>(\*)</sup> The revaluations of off-balance-sheet items includes the revaluation of forward foreign exchange transactions and derivatives outstanding at year end, as indicated in the criteria described in Part A, Section 1 of these notes. (\*\*) See note in Section 7.4 "Reserve for taxes"

#### 5.2 COMPOSITION OF ACCOUNT 140 - ACCRUED INCOME AND PREPAYMENTS

The account consists of the following:

	31.12.2002	31.12.2001
Accrued income:		
Interest on customer loans and advances	113,504	88,988
Owned securities	107,831	84,586
Differentials on hedging transactions	577,223	758,149
Interest on loans and advances to banks	79,331	131,699
Tax-collection commissions	43	1,228
Other	77,389	102,964
	955,321	1,167,614
Prepayments:		
Differentials on hedging transactions	22,550	17,061
Other	128,127	98,663
	150.677	115.724
Total	1,105,998	1,283,338

#### 5.3 ADJUSTMENTS TO ACCRUED INCOME AND PREPAYMENTS

	31.12.2002	31.12.2001
Asset accounts	-	7,919

The adjustments refer exclusively to interest accrued on zero-coupon securities and from issuing discounts, as provided by the Bank of Italy guidelines

<sup>(\*\*\*)</sup> The balance includes the value of the commitment to deliver the shares of Cariprato S.p.A. in the amount of EUR 278,829,000 (prior to taxes) which has been offset by an entry to extraordinary income.



#### 5.4 SUBORDINATED LOANS RECEIVABLE

The Bank holds the following assets whose repayment is subordinated to the respective borrowers' repayment of other obligations.

	31.12.2002	31.12.2001
a) Due from banks	9,822	9,857
b) Customer loans and advances (*)	244,639	131,837
c) Bonds and other fixed-income securities	771,450	646,260
Total	1,025,911	787,954

<sup>(\*)</sup> The balance includes EUR 42,993,000 relative to the subordinated loans made to several special-purpose companies set up especially to facilitate securitization transactions.

### 5.5 COMPOSITION OF ACCOUNT 120 - OWN SHARES AND QUOTAS

	31.12.2002	31.12.2001
Own Shares	2,294	3,730

The shares are held for trading purposes within the limits established by a special resolution of the Board of Directors. The shares are valued at market, with the value of the asset fully offset by a restricted reserve of the same amount in accordance with Article 2357 ter of the Italian Civil Code.

## **SECTION 6 - LIABILITIES**

### 6.1 DETAIL OF ACCOUNT 10 – DUE TO BANKS

	31.12.2002	31.12.2001
a) repurchase agreements	3,094,454	266,727
b) securities lending	-	-

## Funding from banks consists of the following amounts:

	31.12.2002	31.12.2001
Sight:		
Current accounts	374,748	313,568
Demand deposits	1,372,179	655,708
Other	103,899	176,903
	1,850,826	1,146,179
Time or requiring advance notice of withdray	val:	
Borrowings from the Bank of Italy	114,428	124,816
Borrowings from international institutions	362,299	404,804
Borrowings from other central banks	340,892	293,259
Restricted deposits and borrowings	11,315,469	9,348,581
Mortgage loans	-	-
Refinancing from Artigiancassa	892	1,900
Repurchase agreements	3,094,454	266,727
Other	-	-
	15,228,434	10,440,087
Total	17,079,260	11,586,266

## 6.2 DETAIL OF ACCOUNT 20- CUSTOMER DEPOSITS

	31.12.2002	31.12.2001
a) repurchase agreements	4,463,953	3,637,590
b) securities lending	-	-

## Customer deposits consist of the following amounts:

Total	32,697,231	31,051,130
	6,646,097	6,439,050
Other liabilities	448,861	462,578
Funding from international entities	7,653	27,265
Repurchase agreements	4,463,953	3,637,590
Restricted deposits and current accounts	1,664,789	2,200,488
Savings deposits	60,841	111,129
Time or requiring advance notice of withdraw		24,012,000
Other	233,764 26.051.134	134,260 24.612.080
Other		
Current accounts	23.351.040	2,443,133
<b>Sight:</b> Savings deposits	2,466,330	2,443,155
	31.12.2002	31.12.2001



# 6.3 COMPOSITION OF ACCOUNT 30- OTHER BORROWED FUNDS BACKED BY NEGOTIABLE INSTRUMENTS

Other borrowed funds backed by negotiable instruments consist of the following amounts:

	31.12.2002	31.12.2001
Bonds	12,138,759	12,169,129
Certificates of deposit	4,918,182	6,506,067
Other securities	497,090	519,019
Total	17,554,031	19,194,215
Total customer deposits	50,251,262	50,245,345
Change	0.01%	

## 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 does not represent an adjustment to any specific asset and is designed to cover credit risks only (if any).

#### 7.2 CHANGES IN ACCOUNT 90 - RESERVE FOR LOAN LOSSES

D. Closing balance	182,608	154,937
C2. other changes	-	-
C1. use of reserve	10,329	10,329
C. Decreases		
B2. other changes	-	-
B1. provisions	38,000	10,329
B. Increases		
A. Opening balance	154,937	154,937
	31.12.2002	31.12.2001
	31.12.2002	31.12.2001

The reserve for loan losses was increased in order to take into account any possible future losses in relation to outstanding loans, partly in consideration of the current weakness of the economy.

## 7.3 COMPOSITION OF SUB-ACCOUNT 80 C) - RESERVES FOR RISKS AND OTHER CHARGES: OTHER RESERVES

	31.12.2002	31.12.2001
Provisions for guarantees and commitments	21,926	17,758
Provisions for contingencies and other charges	314,996	323,064
Total	336,922	340,822

Changes in the sub-account are summarized in the following table:

#### ■ GUARANTEES AND COMMITMENTS

	31.12.2002	31.12.2001
Opening balance	17,758	17,530
Usage	-	-
Provisions	4,168	-
Other	-	228
Total	21,926	17,758

The provisions relate to losses with respect to guarantees given and commitments undertaken, and have been calculated pursuant to Article 20, Paragraph 7 of Legislative Decree 87/92.



#### ■ PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES

Provisions for contingencies and other charges include estimates relative to the following:

	31.12.2002	31.12.2001
Pending litigation	85,555	88,446
Provisions for misappropriations	15,227	13,020
Risks of restitution of payments received from insolvent borrowers	79,906	82,890
Credit risks on loan value of financial leases	-	7,427
Tax collection activities	30,899	43,899
Provisions for losses of companies in which investments are held	29,499	6,618
Securities issued by high-risk nations	11,503	11,553
Other	62,407	69,211
Total	314,996	323,064

The allocation of sums to the various accounts is adjusted during the year to reflect the changes in the underlying risks. The "other" account includes a EUR 53,000,000 provision to cover probable risks relative to the renegotiation of interest rates on subsidized mortgage loans. This provision was computed by applying a substitution rate of 9 percent to mortgage payments coming due between 1 July 1999 and 31 December 2002. In the case of the installments due thereafter, from 2003 to 2008, the estimated charge was EUR 26,000,000. In relation to the renegotiation of the so-called "usurious" loans (Law 24/2001), the estimated charge is equal to EUR 4,000,000 and regards installments due from 2003 to 2008.

Changes in the provisions for contingencies and other charges are summarized in the following table:

	31.12.2002	31.12.2001
Opening balance	323,063	303,739
Usage	(2,238)	(9,296)
Provision	18,729	28,842
Other changes	322	(222)
Sale of business units (1)	(24,880)	-
Total	314,996	323,063

<sup>(1)</sup> The balance includes EUR 9,303,000 referring to the leasing business unit and EUR 15,577,000 referring to Banca 121 Promozione Finanziaria S.p.A.

### 7.4 COMPOSITION OF SUB-ACCOUNT 80 B) - RESERVE FOR TAXES

	31.12.2002	31.12.2001
Direct taxes	113,700	327,150
Deferred taxes	163,114	109,202
Indirect and foreign taxes	8,111	17,989
Other	96,364	121,921
Total	381,289	576,262

The reserve for taxes includes provisions relative to:

- a) current corporate income taxes ("IRPEG") and current taxes on productive activity ("IRAP");
- b) deferred tax liabilities;
- c) taxes paid by foreign branches;
- d) estimated taxes on litigation in process and possible future litigation as valued in accordance with the principle of prudence.

Deferred taxes are computed in accordance with the provisions issued by the Bank of Italy regarding deferred taxation (Order of the Governor of the Bank of Italy of 3 August 1999, published in the Official Journal of the Republic of Italy, General Series, First Part, No. 188 of 12 August 1999). Such taxes have been computed on the basis of the same criterion adopted as of the first year of their computation (1999), namely, the balance-sheet liability method.

In accordance with the foregoing, the conditions for the reporting of deferred tax assets and deferred tax liabilities were verified in the case of amounts previously booked, as well as with reference to the amounts not booked in 2001.

The time horizon considered for the reporting of deferred tax assets and liabilities was extended over the 2003-2005 period covered by the Bank's strategic plan, since there are currently no reasons to suggest the recovery of the sums is uncertain or unreasonable when taking into account the virtual stability of earnings in the past and the positive expectations with regard to future earnings capacity.

The accruals of deferred tax assets and deferred tax liabilities and the reversal of those positions in the years subsequent to 2005 give rise to extraordinary income of EUR 1,288,000.

Deferred tax assets were booked to the profit and loss statement principally as a result of timing differences and are connected to:

- direct writedowns of loans deductible over seven years in accordance with Article 71, Paragraph 3 of the Income Tax Act;
- writedowns of loans deductible over nine years pursuant to Article 3, Paragraph 107 of Law 549/ 1995;
- the writedown of deferred charges booked as part of the merger of Banca 121 which are deductible in future years in accordance with the original amortization plan;
- repair and maintenance expenses in excess of five percent of the aggregate cost of all depreciable assets as of the beginning of the year, deductible over five years pursuant to Article 67, Paragraph 7 of the Income Tax Act;
- differences between the computation of goodwill amortization for reporting purposes and the similar computation for tax purposes (relating to some goodwill items);
- expenses relative to one or more years deductible over five years, pursuant to Article 74,
   of the Income Tax Act;
- the portion of the provision to the reserve for future charges referring to the potential charges arising from the renegotiation of interest rates on mortgage loans.
- amounts receivable from the Tax Authorities which come due in 2003 upon the collection of dividends from subsidiary companies and which are accrued in 2002
- valuation differences on investment and trading-account securities deductible in future years.
- adjustments to the value of equity investments deductible in 20-percent quotas over the 2003-2006 period, in accordance with the provisions of Legislative Decree n. 209/2002 which was converted into Law n. 265/2002;
- fiscal losses of the incorporated Banca 121 relative to 2000 and 2001, and the fiscal loss relative to the current year.

Comments on the deferred tax assets offset by entries to the balance sheet are set forth below.

No deferred taxes were calculated with reference to the residual balance of the reserve for risks and other charges or with respect to the loan loss reserve since the time horizon over which such deferred taxes would be used is considered highly uncertain.



The main deferred tax liabilities relate to the recognition of capital gains, which are taxable over a five-year period pursuant to Article 54, Paragraph 4 of the Income Tax Act, to dividends from subsidiary companies which were accrued and booked in 2002 and which are to be received in 2003, and to the substitution tax in accordance with Legislative Decree n. 358/97 on a part of the extraordinary income described in Section 6.3.

Provisions for taxes have not been made relative to reserves totaling EUR 1,412,325,000, since the payment of taxes on such amounts is not considered probable. Such amounts are held in the following reserves: monetary revaluation reserves and the reserve for capital gains to be reinvested, which are part of share capital pursuant to Law 169/83; the reserve maintained pursuant to Article 13 of Law 124/93, the reserve maintained pursuant to Article 21 of Legislative Decree No. 213/98, the special reserve set up in accordance with Law 218/90, the revaluation reserve pursuant to Law 342/00 and the special reserve pursuant to Legislative Decree 153/99.

Deferred taxes were calculated separately for corporate income taxes and taxes on productive activity, applying rates of 34 and 4.25 percent, respectively.

The Bank's deferred tax accounts as reported in prior years were readjusted to reflect the new corporate tax rate of 34 percent anticipated for the years of 2003 and 2004, when those positions are reversed. The original rate used for these accounts was 35 percent. No deferred taxes are ascribed to any account other than Account 80 b), "Reserve for taxes", since there are no premises for the same.

Changes in the reserve for taxes are summarized in the following table:

	31.12.2002	31.12.2001
A) Opening balance	576,262	628,719
B) Increases		
B.1 Annual tax provision (1)	111,995	341,814
B.2 Deferred taxes booked during the year	160,263	98,009
B.3 Other changes	56	26,357
C) Decreases		
C.1 Usage for payments made during the year	341,952	509,092
C.2 Deferred taxes used during the year	106,352	9,545
C.3 Other changes (2)	18,983	-
D) Closing balance	381,289	576,262

<sup>(1)</sup> Includes the substitution tax of 19 percent (EUR 56,556,000) on the goodwill originated by Banca 121 merger, pursuant to Article 6 of Legislative Decree n. 358/97.

Tax litigation in process mainly regards direct taxes and is the result of protests over tax assessments mainly filed by merged companies. The disputes for the years settled to date have repeatedly been in favor of the Bank, in various instances of judgment, up to the Central Tax Commission.

In recent years, the Bank set aside a total of EUR 77 million to cover the potential risk of a reversal of fiscal benefits provided by Legislative Decree n. 153/99 (the "Ciampi Law") in relation to merger and acquisition transactions in the banking industry in 1999 and 2000 (tax rate reduced to 12.5 percent on provisions made to a special reserve). During 2002, EUR 26 million of this amount was used upon the payment of taxes due for 2001. The residual amount of EUR 51 million was used in early 2003 for the payment of sums corresponding to the recovery of the fiscal benefits relative to 1999 and 2000, as provided by Law Decree n. 282 of 24 December 2002 which was converted into Law n. 27 of 21 February 2003.

In the opinion of Management, the Bank has made sufficient provisions to cover any liabilities arising from pending tax litigation as well as from possible future litigation of the same nature.

<sup>(2)</sup> Exchange-rate differences of foreign branches and usage of the reserve charged to extraordinary income.

Changes in the balances of deferred tax assets and deferred tax liabilities are presented in the following tables:

#### Deferred tax assets offset by entries to the profit and loss statement

		31.12.2002		31.12.2001
Opening balance		246,252		187,718
Increases		286,282		128,797
deferred taxes booked during the year	276,439		118,323	
other increases	9,843		10,474	
Decreases		176,302		70,263
deferred taxes cancelled				
during the year (1)	173,094		70,250	
other decreases	3,208		13	
Closing balance		356,232		246,252

<sup>(1)</sup> The balance includes deferred tax assets reported in 2001 relative to dividends accrued in 2001 and collected in 2002, and which are booked in 2002 as Due from Tax Authorities-Tax Credits on dividends.

#### Deferred tax assets offset by entries to the balance-sheet

		31.12.2002		31.12.2001
Opening balance		43,133		-
Increases		5,722		43,133
deferred taxes booked during the year	5,722		43,133	
other increases	-		-	
Decreases		11,905		-
deferred taxes cancelled during the year	11,089		-	
other decreases	816		-	
Closing balance		36,950		43,133

The amounts are relative to the 20-percent quotas of losses arising from the Ulisse and Ulisse 2 securitization transactions which were charged to the extraordinary reserve pursuant to Article 6 of Law n. 130/99. The taxes booked during the year refer to the losses on the junior securities which were part of the Ulisse securitization transaction.

#### Deferred tax liabilities offset by entries to the profit and loss statement

		31.12.2002		31.12.2002
Opening balance		109,203		20,739
Increases - deferred taxes booked during the year - other increases	160,135 128	160,263	99,658 104	99,762
Decreases - deferred taxes cancelled during the year - other decreases	105,840 512	106,352	11,298	11,298
Closing balance		163,114		109,203

#### Deferred tax liabilities offset by entries to the balance sheet

	3	31.12.2002		31.12.2001
Opening balance		_		-
Increases		-		-
deferred taxes booked during the year	-		-	
other increases	-		-	
Decreases		-		-
deferred taxes cancelled during the year	-		-	
other decreases	-		-	
Closing balance		-		-

There are no premises for any deferred tax liabilities offset by entries to the balance sheet



# 7.5 COMPOSITION OF SUB-ACCOUNT 80 A) – PENSION FUND AND SIMILAR OBLIGATIONS

The changes in the account balance over 2002 are summarized below:

	31.12.2002	31.12.2001
Opening balance	95,889	86,742
Usage	(7,776)	(4,776)
Provisions and Bank contributions	1,266	530
Employee contributions	14,672	12,259
Adjustment of balance for reinvestment income	(327)	1,091
Transfers from another fund	6,743	147
Other	-	(104)
Total	110,467	95,889

The balance consists of the following amounts:

- a) EUR 17,340,000 of defined benefit pension funds for the Bank's tax collection staff.
- b) EUR 5,039,000 of pension funds for the Bank's chief executives;
- c) EUR 22,609,000 of defined contribution pension funds for the Bank's tax collection staff;
- d) EUR 65,479,000 of defined contribution supplemental pension funds for the Bank's staff hired as of 1 January 1991.

#### 7.6 STAFF SEVERANCE INDEMNITY RESERVE

The changes in account 70 over 2002 are summarized below:

Total	274,527	266,470
Other changes	444	7
Sale of business unit	(1,920)	
Acquisition of business unit	1,280	541
Provisions	52,261	47,973
Transfer to the supplemental pension fund	(27,922)	(26,548)
Other advances	-	-
Advances under Law 297/82	(6,638)	(6,643)
Indemnities paid	(9,448)	(13,427)
Opening balance	266,470	264,567
	31.12.2002	31.12.2001

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.

# SECTION 8 - CAPITAL. RESERVES AND RESERVE FOR GENERAL BANKING RISKS

#### 8.1 COMPOSITION OF ACCOUNT 100 - RESERVE FOR GENERAL BANKING RISKS

	31.12.2002	31.12.2001
Total	334,879	419,879

#### 8.2 COMPOSITION OF ACCOUNT 110 - SUBORDINATED DEBT

Currency	Issue Date	Expiry Date	Interest Rate	Book Value
ITL	01 12 1998	01 12 2005	Floating	154,886
ITL	01 12 1998	01 12 2005	Fixed	154,876
EUR	12 03 1999	12 03 2009	Floating	417,793
EUR	30 09 1999	30 09 2006	Floating	210,000
EUR	15 05 2000	15 05 2007	Fixed	150,000
EUR	15 05 2000	15 05 2007	Floating	150,000
EUR	07 07 2000	07 07 2015	Floating	30,000
EUR	20 07 2000	20 07 2015	Floating	25,000
EUR	21 12 2000	21 12 2010	Floating	300,000
EUR	07 02 2001	07 02 2031	Floating	356,000
EUR	18 05 2001	18 05 2011	Floating	250,000
EUR	20 07 2001	20 07 2011	Floating	150,000
EUR	20 07 2001	20 07 2011	Floating	250,000
EUR	04 12 2001	04 03 2004	Floating	350,000
EUR	20 12 2002	20 12 2004	Floating	88,500
EUR	20 12 2002	20 06 2005	Floating	100,000
EUR	31 12 2002	31 12 2007	Floating	11,500
EUR	01 12 1998	01 01 2008	Floating	51,645
				3,200,200

The subordinated debt agreements do not include any provisions for prepayment or 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 supplemental net equity for regulatory purposes. The following conditions are expressly provided:

- Should the Bank be placed in liquidation, the debt would be reimbursed only after other creditors with a higher-ranking claim 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 Bank's initiative and must be approved by the Bank of Italy



#### 8.3 COMPOSITION OF ACCOUNT 120 - SHARE CAPITAL

31.12.2002

	Par Value (euro)	Number of Shares	Par Value (euro)
	,		,
Ordinary shares	0.64	2,607,791,591	1,668,986,618.24
Savings shares	0.64	9,432,170	6,036,588.80
		2,617,223,761	1,675,023,207.04
	31.12.	2001	
	Par Value (euro)	Number of Shares	Par Value (euro)
Ordinary shares	0.52	2,598,557,169	1,351,249,727.88
Savings shares	0.52	9,432,170	4,904,728.40
		2,607,989,339	1,356,154,456.28

# 8.4 COMPOSITION OF ACCOUNT 130 - ADDITIONAL PAID-IN CAPITAL

	31.12.2002	31.12.2001
Total	522,925	522,925

#### 8.5 COMPOSITION OF ACCOUNT 140 - RESERVES

	31.12.2002	31.12.2001
Legal reserve	271,231	243,816
Statutory reserves	974,813	666,488
Extraordinary reserve	148,498	194,602
Reserve per Law 218/90	163,794	163,794
Reserve per Legislative Decree 153/99	318,638	318,638
Reserve per Legislative Decree 213/98	18,123	18,123
Reserve per Law 124/93 (Article 13)	2,988	2,192
Reserve for own shares	2,294	3,730
Merger surplus	13,422	665
Other tax-exempt reserves	575,027	575,027
Reserve for employee profit sharing	1,192	1,055
Total	2,490,020	2,188,130

# 8.6 COMPOSITION OF ACCOUNT 150 - REVALUATION RESERVES

	31.12.2002	31.12.2001
Total	-	715,496

At an extraordinary meeting held on 30 November 2002, the shareholders of the Bank voted to use the entire revaluation reserve set up pursuant to Law 342/2000 for the following:

- EUR 425,318,000 for total coverage of the loss on the sale of the investment in San Paolo IMI;
- EUR 290,178,000 for the bonus capital increase effected by means of an increase in the par value of the ordinary and savings shares from EUR 0.52 to EUR 0.64.

#### ■ SHAREHOLDERS' EQUITY

The Statement of Changes in Shareholders' Equity is provided as a supplement to these notes.



# 8.7 CAPITALIZATION AND CAPITAL ADEQUACY

Category/Amounts	31.12.2002	31.12.2001
A. Calculation of capital for regulatory purposes		
A.1 Total Tier 1 capital	4,927,666	4,689,423
A.2 Total Tier 2 capital	2,617,241	3,256,948
A.3 Deductions	(763,072)	(1,199,995)
A.4 Capital for regulatory purposes	6,781,835	6,746,376
B. Capital required for regulatory purposes		
B.1 Credit risks	3,200,752	3,206,029
B.2 Market risks	295,839	267,579
including:		
- risks on trading securities portfolio	295,839	249,038
- exchange-rate risks	-	18,541
B.2.1 Tier 3 subordinated debt	295,839	267,579
B.3 Other	218,192	164,257
B.4 Total capital required for regulatory purposes	3,418,944	3,370,286
Excess capital	3,362,891	3,376,090
C. Risk-weighted assets and capital adequacy ratios		
C.1 Total risk-weighted assets	53,068,331	51,969,499
credit risks	45,725,031	45,800,413
market risks *	4,226,271	3,822,557
C.2 Tier 1 capital/risk-weighted assets	9.29	9.02
C.3 Capital for regulatory purposes/risk-weighted assets	13.34	13.50

<sup>\*</sup> Capital required for regulatory purposes multiplied by the reciprocal of the minimum obligatory ratio for credit risk

The solvency ratio for credit risk was 14.83 percent as of 31 December 2002 and 14.73 percent as of 31 December 2001

# SECTION 9 – OTHER LIABILITIES

# 9.1 COMPOSITION OF ACCOUNT 50 - OTHER LIABILITIES

Following are the principal amounts in the account:

	31.12.2002	31.12.2001
Sums available to customers	257,741	276,393
Liabilities relative to Tax Collection activity	1,465,357	963,115
Clearing balances with branches	92,568	43,588
Items related to foreign currency transactions	4,371	569
Valuation adjustments to off-balance-sheet transactions	3,272,634	1,992,199
Taxes withheld for account of third parties	75,929	72,935
Sums of third parties for security deposits	136,203	242,670
Premiums received for options sold	1,082,225	1,258,076
Other	3,697,247	2,502,046
Total	10,084,275	7,351,591

The balance in the account "Valuation adjustments to off-balance-sheet transactions" is offset by the revaluations effective on forward foreign-currency transactions and derivatives contracts outstanding as of year end in accordance with the criteria described in Part A, Section 1 of these notes.

#### 9.2 COMPOSITION OF ACCOUNT 60 - ACCRUED LIABILITIES AND DEFERRED INCOME

Following is a breakdown of the account:

Total	1,045,754	1,443,996
	108.902	173.883
- other	4,396	5,901
- on rents and lease payments	-	40,597
- on differentials on hedging transactions	94,506	117,219
- on commissions receivable on guarantees	5,816	5,623
- on discount portfolio	4,184	4,543
Deferred income:		
	936,852	1,270,113
- other	5,360	8,597
- administrative expenses	93,427	153,309
- differentials on hedging transactions	528,307	750,337
- interest on amounts due to banks	52,659	56,966
- interest on certificates of deposit	33,004	52,920
- interest on debt securities	202,763	226,906
- interest on customer deposits	21,332	21,078
Accrued liabilities:		
	31.12.2002	31.12.2001
	21 12 2002	21 12 200

# 9.3 ADJUSTMENTS TO ACCRUED LIABILITIES AND DEFERRED INCOME

	31.12.2002	31.12.2001
a) Liability accounts	-	90

The adjustments refer to interest payable on certificates of deposit



# SECTION 10 - GUARANTEES AND COMMITMENTS

#### 10.1 COMPOSITION OF ACCOUNT 10- GUARANTEES RELEASED

	31.12.2002	31.12.2001
a) Endorsement credits of a commercial nature:		
- documentary credits	208,166	185,971
- bankers' acceptance	43,913	19,753
- guarantees	2,010,049	2,061,124
- other	131,648	306,085
	2,393,776	2,572,933
b) Endorsement credits of a financial nature:		
- acceptances	13,078	11,584
- guarantees (*)	5,026,553	4,348,961
- other	219,934	655,570
	5.259.565	5.016.115
c) Assets pledged under guarantees:		
- third-party bonds	8,818	8,822
Total	7,662,159	7,597,870

<sup>(\*)</sup> The amount includes EUR 159,187,000 of tax excesses which were transferred within the Group and used, pursuant to Article 43 ter of Presidential Decree 602/73.

# 10.2 COMPOSITION OF ACCOUNT 20 – COMMITMENTS AND ACCOUNT 30 - COMMITMENTS RELATIVE TO CREDIT DERIVATIVES

	31.12.2002	31.12.2001
a) Commitments to disburse funds for which usage is cert	tain:	
- mortgage loans to be disbursed to customers	18,965	36,781
- loans and deposits to be funded to banks	42,427	33,657
- commitments to purchase securities	163,567	141,300
- other commitments and risks (*)	1,191,576	1,013,722
	1,416,535	1,225,460
o) Commitments to disburse funds for which usage is not	certain:	
- margins available on lines of credit to banks	292,855	379,088
- margins available on lines of credit to customers	3,329,072	4,208,678
- Interbank Deposit Protection Fund	46,128	44,426
- commitments against future advances on tax payments i	not yet due -	-
- put options issued (**)	972,884	1,777,036
- other commitments	657	573,183
	4,641,596	6,982,411
Total	6,058,131	8,207,871

<sup>(\*)</sup> The amount includes EUR 1,064,216,000 relative to credit derivatives

Credit risk on guarantees and commitments is estimated using the criteria adopted for loans; such risk has been quantified at EUR 21,926,000 and is covered by provisions made to the reserve for risks and other charges.

<sup>(\*\*)</sup> Includes the put options issued in relation to the public tender offer for BAM (additional information is provided at the end of Section 10.5 hereunder)

#### 10.3 ASSETS PLEDGED TO GUARANTEE THE BANK'S OWN LIABILITIES

Fixed-income securities have been pledged as follows

	31.12.2002	31.12.2001
Guarantees for advances from the Bank of Italy	299,936	266,696
Guarantees for issuance of cashier checks	94,239	68,871
Guarantees for repurchase agreements	7,220,379	3,969,446
Total	7,614,554	4,305,013

# 10.4 MARGINS AVAILABLE ON LINES OF CREDIT

The Bank had the following availability under credit lines in effect as of year end:

	31.12.2002	31.12.2001
Central banks Banks	564,962	639,909
Total	564,962	639,909



#### 10.5 FORWARD TRANSACTIONS

Forward transactions at the end of the year are summarized in the following table:

Type of Transaction	Hedging	Trading	Other
1 Transactions:			
1.1 Securities:			
- purchases		163,567	
- sales (1)		53,213	411,225
1.2 Foreign exchange:			
- currency against currency	1,247,374	64,038	
- purchases against Euro	4,634,211	249,436	
- sales against Euro	569,079	475,273	
2 Deposits and loans:			
- to be disbursed			61,392
- to be received			183,030
3 Derivatives contracts:			
3.1 With exchange of principal			
a) Securities:			
- purchases (2)		2,611,115	609,538
- sales		2,433,312	
b) Foreign exchange:			
- currency against currency	37,053	21,867,774	
- purchases against Euro	452,193	6,834,088	
<ul><li>sales against Euro</li><li>c) Other negotiable instruments:</li></ul>	131,133	6,755,161	
- purchases		173,815	
- sales		194,538	
3.2 Without exchange of principal:			
a) Foreign exchange:			
- currency against currency			
- purchases against Euro	11,449		
- sales against Euro	5,129		
b) Other negotiable instruments:	٥,١٤٥		
- purchases (3)	20,006,553	71,207,613	402,471
- sales	20,269,684	71,853,316	102,171

The trading transactions include contracts to hedge EUR 930,180,000 of positions in trading securities. In accordance with the principle of consistency in valuation, the hedging contracts are valued on the same basis as the hedged assets/liabilities, and thus the capital losses on the hedge contracts of EUR 201,518,000 as of year end were unrealized losses not booked to the profit and loss statement.

<sup>1)</sup> The "other transactions" (EUR 411,225,000) represent the commitment arising from the contract to sell the investment in Cariprato S.p.A.

<sup>2) &</sup>amp; 3) "Other transactions" include option (2) and swap (3) contracts effected as part of the acquisition of Banca Agricola Mantovana which expired in March 2002 and were renewed for another three years. Following the merger by incorporation of Banca Agricola Mantovana approved in December 2002, the option (2) will be exercised after the merger takes place with respect to BMPS shares in relation to the share exchange ratio adopted for the merger.

#### 10.6 CREDIT DERIVATIVES

Type of Transaction	Trading	Other
1 Purchase of protection		
1.1 With exchange of principal		
1.1.1 Credit default swap	410,588	105,446
1.1.2 Total rate of return swaps		
1.1.3 Credit-linked notes		20,000
1.2 Without exchange of principal		
1.2.1 Credit default swap		
1.2.2 Total rate of return swaps	164,420	37,300
1.2.3 Credit-linked notes		
2 Sale of protection		
2.1 With exchange of principal		
2.1.1 Credit default swap	613,839	178,130
2.1.2 Total rate of return swaps		
2.1.3 Credit-linked notes	145,000	20,000
2.1.4 Credit spread option		19,097
2.2 Without exchange of principal		
2.2.1 Credit default swap		
2.2.2 Total rate of return swaps	3	38,150
2.2.3 Credit linked note		



# SECTION 11 – DISTRIBUTION AND CONCENTRATION OF ASSETS AND LIABILITIES

# 11.1 MATERIAL RISKS

	31.12.2002	31.12.2001
Amount	2,907,277	1,645,308
Number	2	5
Number	J	ر

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 BY PRINCIPAL CATEGORIES OF BORROWERS

The following table provides a summary of loans by principal categories of borrowers:

	21 12 2002	21 12 2001
	31.12.2002	31.12.2001
a) Governments	1,561,507	1,657,502
b) Other public-sector entities	2,668,573	2,688,742
c) Non-financial companies	17,686,038	18,282,463
d) Financial institutions	5,314,325	3,638,230
e) Family-owned businesses	2,484,453	2,546,358
f) Other	7,087,752	8,113,928
Total	36,802,648	36,927,223

# 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:

	31.12.2002	31.12.2001
a) Other marketable services	3,407,570	3,424,060
b) Commercial services, recoveries and repairs	3,510,526	3,535,370
c) Construction and public works	2,684,702	2,623,124
d) Textiles, leather, footwear, and apparel	953,293	1,042,535
e) Food and beverage products	864,996	887,444
f) Other	7,074,713	6,988,125
Total	18,495,800	18,500,658

# 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:

	31.12.2002	31.12.2001
a) Governments and Central Banks	3,958	5,471
b) Public-sector entities	201,680	210,529
c) Banks	3,426,792	2,715,390
d) Non-financial companies	3,501,347	4,122,611
e) Financial institutions	290,210	278,317
f) Family-owned businesses	80,494	97,405
g) Other	157,678	168,147
Total	7,662,159	7,597,870

# 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 on the basis of the counterparty's residence:

Ad	count/Countries	Italy	Other EU Countries	Other Countries	Total
1.	Assets	53,753,763	10,579,827	3,579,038	67,912,628
	1.1 Amounts due from banks	13,851,376	6,121,333	771,317	20,744,026
	1.2 Customer loans and advances	34,710,432	1,409,856	682,360	36,802,648
	1.3 Securities	5,191,955	3,048,638	2,125,361	10,365,954
2.	Liabilities	54,144,424	10,064,156	6,353,473	70,562,053
	2.1 Due to banks	6,031,055	5,284,595	5,763,610	17,079,260
	2.2 Customer deposits	31,022,964	1,341,188	333,079	32,697,231
	2.3 Other borrowed funds backed				
	by negotiable instruments	14,292,968	3,010,395	250,668	17,554,031
	2.4 Other liabilities	2,797,437	427,978	6,116	3,231,531
3.	Guarantees and commitments	10,861,706	1,263,429	1,595,155	13,720,290

### 11.6 DISTRIBUTION OF MATURITIES OF ASSETS AND LIABILITIES

The maturity distribution of the balances of the principal asset and liability accounts and off-balance-sheet transactions is shown in the following tables.



#### 11.6.1 DISTRIBUTION OF MATURITIES OF ASSETS

Residual	maturity
----------	----------

				riesradar i					
Account	Sight	To and	Up to	Up to	5 years	Over 5	5 years	Unspecified	Total
	_	including	12	Fixed	Fixed Indexed	Fixed	Indexed	maturity	
		3 months	months	rate	rate	rate	rate		
Assets:									
1.1 Government bonds eligible									
for refinancing	501	41,518	401,194	1,603	37,718	1,265	2,831	-	486,630
1.2 Amounts due from banks	3,685,654	9,145,733	3,606,421	1,607,042	132,098	1,754,926	64,019	748,133	20,744,026
1.3 Customer loans and advances	8,866,361	7,042,061	4,625,364	3,933,174	3,576,253	2,840,020	4,671,497	1,247,918	36,802,648
1.4 Bonds and other									
fixed-income securities	110,618	274,540	964,349	1,983,858	2,347,984	1,147,008	1,646,312	869,946	9,344,615
1.5 Off-balance-sheet transactions	1,005,061	62,656,622	46,393,491	28,154,417	518,614	33,332,043	35,772	766,178	172,862,198
Total Assets	13,668,195	79,160,474	55,990,819	35,680,094	6,612,667	39,075,262	6,420,431	3,632,175	240,240,117

#### 11.6.2 DISTRIBUTION OF MATURITIES OF LIABILITIES

Residual maturity									
Account	Sight	Sight To and I		o Up to 5 years		Over 5 years		Unspecified Total	
		including	12	Fixed	Indexed		Indexed	maturity	
		3 months	months	rate	rate	rate	rate		
Liabilities:									
2.1 Due to banks	1,881,808	13,298,655	1,526,631	36,401		335,765		-	17,079,260
2.2 Customer deposits	26,120,022	5,991,585	583,671	24	-	1,929	-		32,697,231
2.3 Other borrowed funds backed									
by negotiable instruments:	620,077	3,120,688	2,609,831	4,009,042	3,383,594	2,440,419	1,236,240	134,140	17,554,031
including:									
- Bonds	113,209	608,884	1,680,296	2,584,808	3,340,763	2,440,419	1,236,240	134,140	12,138,759
- Certificates of deposit	89,778	2,511,804	929,535	1,344,234	42,831	-	-		4,918,182
- Other securities	417,090			80,000					497,090
2.4 Subordinated debt	-	-	113,946	136,301	2,121,160	-	828,793	-	3,200,200
2.5 Off-balance-sheet transactions	642,769	60,857,439	50,183,245	25,965,708	1,145,720	33,045,752	315,858	766,179	172,922,670
Total Liabilities	29,264,676	83,268,367	55,017,324	30,147,476	6,650,474	35,823,865	2,380,891	900,319	243,453,392

# 11.7 FOREIGN-CURRENCY-DENOMINATED ASSETS AND LIABILITIES

The Bank's balance sheet includes the following assets and liabilities denominated in foreign currencies:

	31.12.2002	31.12.2001
a) Assets:	6,957,040	8,078,688
1. Amounts due from banks	3,409,041	3,817,899
2. Customer loans and advances	1,925,857	2,641,913
3. Securities	1,230,926	1,540,000
4. Equity investments	383,019	67,847
5. Other	8,197	11,029
b) Liabilities:	9,522,571	11,086,577
1. Due to banks	6,070,410	6,847,525
2. Customer deposits	1,379,713	1,441,673
3. Other borrowed funds backed by negotiable instruments	2,072,448	2,797,379
4. Other	-	-

# 11.8 DISTRIBUTION OF CREDIT DERIVATIVES BY PRINCIPAL CATEGORY OF COUNTERPARTY

Total	1,801,970	407,670
c) Other	20,000	-
b) Financial companies	169,710	160,838
a) Banks	1,612,260	246,832
	31.12.2002	31.12.2001

#### 11.9 SECURITIZED ASSETS

The following securitization transactions were carried out in 2002 pursuant to Law n. 130/99.

#### MPS ASSETS SECURITISATION SPA ("MAS")

The Group securitization transaction involved the non-recourse transfer of pecuniary credits by Banca Monte dei Paschi di Siena S.p.A. and several subsidiaries ("originators"). The transferred credits consisted of performing personal loans.

The special-purpose company set up for the transaction, "MAS", is currently 90-percent controlled by a Dutch foundation (Stichting Montecristo). The remaining 10 percent is owned by the originators in proportion to the credits involved in the transaction. An option exists for the originators to take control of "MAS" at the termination of the transaction.

During the first quarter of 2002, the originator banks proceeded to transfer the credits and the relative guarantees to "MAS". The price of the transfer was determined by the sum of two components: the current price of EUR 1,737,690,000, the nominal value of the personal loans as of the date of the valuation (including EUR 837,670,000 represented by 49,005 loans transferred by BMPS), and the deferred price of EUR 71,549,000 (including EUR 31,137,000 relative to the BMPS loans), the latter of which is linked to the 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 five tranches, with two categories of the bonds rated "AAA" (EUR 347.54 million and EUR 1,129.5 million). The other three tranches include bonds with an "AA" rating (EUR 104.26 million), bonds with an "A+" rating (EUR 69.5 million) and bonds with an "A-" rating (EUR 86.89 million).

Each originator has assumed the role of servicer for its respective credits (i.e. collection of credits transferred and cash & treasury services).

#### SIENA MORTGAGES 02 -3 S.R.L.

During the second quarter of 2002, a portfolio of performing first mortgage loans 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 02-3 S.r.l..

Siena Mortgages 02-3 S.r.l. is currently 80-percent controlled by Finanziaria Internazionale Securitisation Group. The remaining 20 percent is held by Finanziaria Internazionale Holding (14 percent) and by Banca Monte dei Paschi di Siena S.p.A. (6 percent).

The price of the transfer was determined by the sum of two components: the current price of EUR 1,616,070,000, the nominal value of the loans as of the date of the valuation (including EUR 971,980,000 represented by 15,057 loans transferred by BMPS), and the deferred price of EUR 70,210,000 (including EUR 47,311,000 relative to the BMPS loans), the latter of which is linked to the 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 323.21 million and EUR 1,195.9 million). The other two tranches include bonds with an "AA" rating (EUR 64.64 million), and bonds with a "BBB" rating (EUR 32.32 million).

Each originator has assumed the role of servicer for its respective credits (i.e. collection of credits transferred and cash & treasury services).

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 SECURED BY LOANS

In accordance with the directives handed down by the Bank of Italy in its Circular No. 178890 of 25 July 2001, the tables below disclose information relative to the securitization transactions, including the securities held in the portfolio, the assets covered by the securitization and the servicing activity in relation thereto. The credits covered by the securitization transactions include: mortgages, leases, securities and other credits. The tranches relative to the securities held in the portfolio are also shown.

#### 11.9 A INVESTMENT SECURITIES BACKED BY LOANS OF BMPS

#### Senior securities

There are no securities of this type in the Bank's portfolio.

#### Mezzanine securities

	Total Outstanding	Recoveries/Adjustments	Net Exposure
Securities			
1 Non-performing loans			
2 Watchlist credits			
3 Other assets	8,780		8,780

# Junior securities

	Total Outstanding	Recoveries/Adjustments	Net Exposure
Mortgages			
1 Non-performing loans	61,260	(18,700)	42,560
2 Watchlist credits			
3 Other assets			
Securities			
1 Non-performing loans			
2 Watchlist credits			
3 Other assets	52,716		52,716
Other			
1 Non-performing loans	328,970		328,970
2 Watchlist credits			
3 Other assets			

#### 11.9 B TRADING SECURITIES BACKED BY LOANS OF BMPS

#### Senior securities

	Total Outstanding	Recoveries/Adjustments	Net Exposure
Securities			
1 Non-performing loans			
2 Watchlist credits			
3 Other assets	199,452	3,123	202,575
Other			
1 Non-performing loans	30		30
2 Watchlist credits			
3 Other assets			

# Mezzanine securities

	Total Outstanding	Recoveries/Adjustments	Net Exposure
Securities			
1 Non-performing loans			
2 Watchlist credits			
3 Other assets	75,005	(5,698)	69,307
Other			
1 Non-performing loans	30,000		30,000
2 Watchlist credits			
3 Other assets			

# Junior securities

There are no securities of this type in the Bank's portfolio.



# 11.9 C INVESTMENT SECURITIES BACKED BY LOANS OF THIRD-PARTY INSTITUTIONS

#### Senior securities

	Total Outstanding	Recoveries/Adjustments	Net Exposure
Mortgages			
1 Non-performing loans			
2 Watchlist credits			
3 Other assets	2,599		2,599
Securities			
1 Non-performing loans			
2 Watchlist credits			
3 Other assets	4,124		4,124
Other			
1 Non-performing loans			
2 Watchlist credits			
3 Other assets	56,600		56,600

#### Mezzanine securities

	Total Outstanding	Recoveries/Adjustments	Net Exposure
Mortgages			
1 Non-performing loans			
2 Watchlist credits			
3 Other assets	5,000		5,000
Securities			
1 Non-performing loans			
2 Watchlist credits			
3 Other assets	5,000		5,000
Other			
1 Non-performing loans			
2 Watchlist credits			
3 Other assets	33,409		33,409

# Junior securities

There are no securities of this type in the Bank's portfolio.

# 11.9 D TRADING SECURITIES BACKED BY LOANS OF THIRD-PARTY INSTITUTIONS

# Senior securities

	Total Outstanding	Recoveries/Adjustments	Net Exposure
Mortgages			
1 Non-performing loans	123		123
2 Watchlist credits			
3 Other assets	1,998	2	2,000
Securities			
1 Non-performing loans	50,000		50,000
2 Watchlist credits			
3 Other assets			
Other			
1 Non-performing loans			
2 Watchlist credits			
3 Other assets	21,293	120	21,413

# Mezzanine securities

	Total Outstanding	Recoveries/Adjustments	Net Exposure
Mortgages			
1 Non-performing loans	10,000		10,000
2 Watchlist credits	17,003	(2)	17,001
3 Other assets			
Securities			
1 Non-performing loans			
2 Watchlist credits			
3 Other assets	16,270		16,270

# Junior securities

There are no securities of this type in the Bank's portfolio.

#### 11.9 E UNDERLYING ASSETS OF BMPS

	Book value
Non-performing loans	669,522
Watchlist credits -	
Other assets	277,134
Total	976,656

#### 11.9 F UNDERLYING ASSETS OF THIRD PARTIES

	Book value
Non-performing loans	
Watchlist credits	
Other assets	-
Total	-

#### 11.9 G DISTRIBUTION OF SECURITIZED CREDITS BY TYPE AND RANKING

	Total Outstanding	Recoveries/Adjustments	Net Exposure
Mortgages			
1 Non-performing loans			
2 Watchlist credits			
3 Other assets	971,980		971,980
Other			
1 Non-performing loans			
2 Watchlist credits			
3 Other assets	837,670		837,670

# 11.9 H BORROWERS BY GEOGRAPHIC ORIGIN

	Italy	EU Countries	Other Countries
Siena Mortgages 02-3 S.p.A.	971,980	-	-
MPS Assets Securitisation S.p.A.	837,670	-	-
Total	1,809,650	-	-



# 11.9 I COLLATERAL BACKING SECURITIZED CREDITS

		Siena Mortgages 02-3 S.p.A.	MPS Assets Securitisation S.p.A.	Total
a) Mortgages	971,980		971,980	
b) Liens on:				
1. cash deposits				
2. securities		837,670	837,670	
3. other negotiable instruments				
c) Guarantees of:				
1. governments				
2. other public-sector entities				
3. banks				
4. other				

# 11.9 L DISTRIBUTION OF THE CREDITS ASSIGNED, BY SECTOR OF ECONOMIC ACTIVITY

	Siena Mortgages	MPS Assets	Total
	02-3 S.p.A.	Securitisation S.p.A.	
Other sectors	970,998	752,037	1,723,035
Agricultural products	19	13,718	13,737
Energy products	-	136	136
Minerals, ferrous and non-ferrous metals	-	388	388
Minerals and base mineral products	-	420	420
Chemical products	-	521	521
Metal products	39	1,195	1,234
Agricultural and industrial machinery	-	2,693	2,693
Office machines and computer equipment	-	442	442
Electrical materials and supplies	60	569	629
Transport means	-	454	454
Food and beverage products	-	2,082	2,082
Textile products, leather and footwear	-	3,690	3,690
Paper and paper products	-	631	631
Rubber products	-	303	303
Other industrial products	-	2,539	2,539
Building and public works	-	2,283	2,283
Commercial services, recoveries, repairs	566	37,755	38,321
Hotel services and other public establishments	-	246	246
Domestic transport services	-	4,328	4,328
Maritime and air transport services	123	74	197
Transport-related services	23	2,769	2,792
Communications services	-	743	743
Other marketable services	152	7,654	7,806

#### 11.9 M TRANSFER PRICE OF SECURITIZED LOANS

	Siena Mortgages 02-3 S.p.A.	MPS Assets Securitisation S.p.A.	Total
a) Transfer price: principal	971,980	837,670	1,809,650
b) Transfer price: interest  Total	971,980	- 837,670	1,809,650

# 11.9 N SERVICING COLLECTIONS BY INDIVIDUAL SECURITIZATION TRANSACTION

	Total
Tiziano Finance S.p.A.	36,628
Siena Mortgages 00-1 S.p.A.	110,849
Siena Mortgages 01-2 S.p.A.	154,221
Ulisse S.p.A.	23,827
Ulisse 2 S.p.A.	75,574
Siena Mortgages 02-3 S.r.l.	65,163
MPS Assets Securitisation S.p.A.	49,414
Seashell Securities P.I.c.	22,246
Seashell II S.r.I.	63,363
Segesta Finance S.r.l.	55,216
Segesta 2 Finance S.A.	8,396
Total	664,897

# 11.9 O CREDIT ENHANCEMENT

	Total
Tiziano Finance S.p.A.	27,029
Siena Mortgages 00-1 S.p.A.	49,190
Siena Mortgages 01-2 S.p.A.	37,331
Siena Mortgages 02-3 S.r.l.	50,350
MPS Assets Securitisation S.p.A.	52,622
Seashell II S.r.I.	28,117
Total	244,639



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

#### 12.1 SECURITIES TRADING

	31.12.2002	31.12.2001
a) purchases	12,912,458	10,112,164
1. settled	12,912,458	10,111,657
2. unsettled	-	507
b) sales	12,748,729	10,055,824
1. settled	12,748,729	10,052,145
2. unsettled	-	3,679

#### 12.2 PORTFOLIO MANAGEMENT

Assets of customers under the Bank's management totaled EUR 7,449,807,000 as of 31 December 2002, on the basis of market values. The aggregate includes investments in securities managed by the open-end pension fund "Paschi Previdenza" which was set up pursuant to Article 9 of Legislative Decree 124/93. The balance also includes EUR 285,560,000 of cash and cash equivalents.

Total	7,164,247	8,456,729
b) Other transactions	-	-
2. other instruments	6,977,098	8,327,580
1. securities issued by the Bank	187,149	129,149
a) Securities	7,164,247	8,456,729
	31.12.2002	31.12.2001

#### 12.3 ADMINISTRATION AND SAFEKEEPING OF SECURITIES

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

	31.12.2002	31.12.2001
a) Securities of third parties held in custody		
(excluding portfolio management)	100,929,661	74,782,753
1. Securities issued by the Bank	9,747,249	9,358,222
2. Other	91,182,412	65,424,531
b) Securities of third parties held by others	60,534,839	53,604,631
c) Own securities in third-party custody	15,476,732	10,382,208

The amounts reflected above are stated at nominal value.

Own securities on deposit with third parties include securities to be purchased upon the maturity of repurchase agreements.

# 12.4 COLLECTIONS FOR THE ACCOUNT OF THIRD PARTIES: DEBIT AND CREDIT ADJUSTMENTS

		31.12.2002		31.12.2001
a) Debit adjustments		1,318,820		7,443,914
1. Current accounts	39,383		47,154	
2. Head office portfolio	1,126,269		7,246,815	
3. Cash	-		25,501	
4. Other accounts	153,168		124,444	
b) Credit adjustments		6,339,932		7,624,884
1. Current accounts	153,168		127,915	
2. Notes and other documents	6,147,381		7,450,977	
3. Other accounts	39,383		45,992	

#### 12.5 OTHER TRANSACTIONS

		31.12.2002
a) Third-party portfolio accepted for collection		1,023,336
b) Tax collection activity		2,222,211
Taxpayers amounts due for collection		
amounts coming due	-	
amounts overdue and advanced to the Tax Authorities	2,222,211	
amounts overdue and not yet advanced to the Tax Authorities	-	

Temporary relief and allowances for EUR 1,857,093,000 are available in respect of overdue amounts already advanced to the Tax Authorities.

The underlying risk relative to the collection of tax payments due cannot currently be quantified exactly but is covered by provisions in the "reserve for risks and other charges" as shown in Section 7 - Reserves.

		31.12.2002
a) Third-party portfolio accepted for collection		2,148,673
b) Tax-collection activity		2,360,865
Taxpayers' amounts due for collection		
amounts due to expire	-	
amounts overdue and advanced to the Tax Authorities	2,360,865	
amounts overdue and not yet advanced to the Tax Authorities	-	

Temporary relief and allowances for EUR 1,903,655,000 are available in respect of overdue amounts already advanced to the Tax Authorities.



# <u>PART C</u> INFORMATION ON THE PROFIT AND LOSS STATEMENT

# SECTION 1 – INTEREST INCOME AND INTEREST EXPENSE

#### 1.1 COMPOSITION OF ACCOUNT 10 - INTEREST AND SIMILAR INCOME

Interest and similar income consist of the following amounts:

Total	3,157,056	3,718,228
e) Positive balance of differentials on hedging transa	actions -	-
d) Other interest income	2,494	7,067
c) Debt securities	372,776	397,154
including: - loans using third-party funds under administrat	ion 1,709	4,308
b) Customer loans and advances	2,242,055	2,452,430
including: - amounts related to central-bank financing	23,825	35,077
a) Amounts due from banks	539,731	861,577
	31.12.2002	31.12.2001

# 1.2 COMPOSITION OF ACCOUNT 20- INTEREST EXPENSE AND OTHER EXPENSE ON BORROWED FUNDS

Interest and other expense on borrowed funds consist of the following amounts:

		31.12.2002		31.12.2001
a) Amounts due to banks		383,962		671,957
b) Amounts due to customers		611,613		866,071
c) Other borrowed funds backed by				
negotiable instruments		619,805		756,601
including:				
- certificates of deposit	111,185		224,123	
d) Third-party funds under administration		9,821		11,410
e) Subordinated debt		152,941		134,560
f) Negative balance of differentials				
on hedging transactions		117,250		87,283
Total		1,895,392		2,527,882

# 1.3 DETAIL OF ACCOUNT 10 - INTEREST AND SIMILAR INCOME

	31.12.2002	31.12.2001
Interest and similar income on		
foreign-currency-denominated assets	192,675	689,258

# 1.4 DETAIL OF ACCOUNT 20- INTEREST EXPENSE AND OTHER EXPENSE ON BORROWED FUNDS

	31.12.2002	31.12.2001
Interest and other expense on liabilities		
denominated in foreign currency	189,624	818,797

# SECTION 2 - COMMISSIONS

# 2.1 COMPOSITION OF ACCOUNT 40- COMMISSIONS EARNED

Commissions earned consist of the following amounts:

		31.12.2002		31.12.2001
a) Guarantees released		24,253		25,370
b) Credit derivatives		330		902
c) Trading, management and advisory services		488,463		529,724
1. Securities trading	30,557		22,890	
2. Foreign-exchange trading	31,318		35,176	
3. Asset management:				
3.1 Individual portfolios under management	39,807		46,570	
3.2 Investments in mutual funds	19,248		29,824	
4. Securities safekeeping and administration	85,117		84,611	
5. Custodian bank	27,903		27,542	
6. Securities placement	72,879		109,178	
7. Order taking	28,101		61,850	
8. Advisory services	7		69	
9. Distribution of third parties' services:	·		-	
9.1 Asset management:				
a) Individual portfolios under management				
b) Investments in mutual funds	_		5	
9.2 Insurance products	67,623		50,432	
9.3 Other products	85,903		61,577	
d) Collection and payments services		58,570		49,516
e) Servicing for securitization transactions		10,286		2,635
f) Tax collection services *		120,139		132,098
g) Other services:		174.118		160,642
- Commissions on loans to customers	36,986		34,066	,
- Recoveries, expenses and other profits			- 1,000	
on customer loans	100,509		89,688	
- Penalties on interbank transactions	9,090		10,709	
- Sundry commissions	2,615		2,876	
- Safe-deposit boxes	1,114		1,111	
- Other	23,804		22,192	
Total		876,159		900,887
Iotai		8/6,159		900,887

<sup>\*</sup> Pursuant to Law Decree n. 209 of 24 September 2002, which was converted into Law n. 265 of 22 November 2002, the Bank has accrued the quota of the tax collection fee of EUR 18,872,000 which corresponds to the difference between the target assigned to the direct tax concessions for 2002 and the amount actually collected.



# 2.2 DETAIL OF ACCOUNT 40 – COMMISSIONS EARNED

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

	31.12.2002	31.12.2001
a) Branches:		
1. Asset management	59,054	71,503
2. Securities placement	72,879	102,928
3. Third party's services and products	153,526	111,922
b) Other distribution channels (off-site):		
1. Asset management	-	4,891
2. Securities placement	-	6,250
3. Third party's services and products	-	92

# 2.3 COMPOSITION OF ACCOUNT 50 - COMMISSION EXPENSE

Commission expense consists of the following amounts:

		31.12.2002		31.12.2001
a) Guarantees released		250		178
b) Credit derivatives		619		778
c) Trading and intermediation		49,495		61,376
1. Securities trading	12,083		12,951	
2. Foreign-exchange trading	-		9	
3. Asset management				
3.1 Own portfolio	-		2,964	
3.2 Third party's portfolio	-		-	
4. Securities safekeeping and administration	9,397		11,075	
5. Securities placement	1,233		356	
6. Off-site offer of securities,				
products and services	26,782		34,021	
d) Collection and payment services		8,224		3,531
e) Other services:		67,179		43,068
- Commissions paid to brokers	4,907		4,137	
- Commissions on services to third parties	27,809		13,215	
- Commissions paid to banks	13,233		3,704	
- Penalties on interbank transactions	9,073		10,291	
- Leasing commissions	1,203		2,177	
- Commissions on tax-collection activity	-		-	
- Other	10,954		9,544	
Total		125,767		108,931

#### SECTION 3 – PROFITS AND LOSSES ON FINANCIAL TRANSACTIONS

#### 3.1 COMPOSITION OF ACCOUNT 60- PROFITS (LOSSES) ON FINANCIAL TRANSACTIONS

			31.12.2002
Account/Transaction	Securities	Foreign Currency	Other
A.1 Revaluations A.2 Writedowns	627,815 a) (458,896) b)	-	2,026,069 i) (2,138,623) l)
B. Other profits/losses	(318,621) c)	(4,790) h)	55,506 m)
Total	(149,702)	(4,790)	(57,048)
<ol> <li>Government securities</li> <li>Other debt securities</li> </ol>	18,396 d) 34,521 e)		

(209,876) g)

7,257 f)

#### **NOTES**

#### Securities transactions:

Equity securities

Securities-related derivatives

- a) revaluations of securities in the amount of EUR 127,846,000 and revaluations of securities to be received and to be delivered (EUR 1,065,000); revaluations of securitiesrelated derivatives in the amount of EUR 498,904,000.
- b) writedowns of securities in the amount of EUR 80,128,000 (including own shares in the amount of EUR - 80,000), writedowns of securities to be received and delivered in the amount of EUR - 96,000 and writedowns of securities-related derivatives in the amount of EUR - 378,672,000
- c) other profits/losses on securities in the amount of EUR 11,487,000 (including own shares in the amount of EUR 4,265,000) and losses on securities-related derivatives in the amount of EUR 330,108,000.
- d) revaluations in the amount of EUR 10,428,000, writedowns in the amount of EUR -2,903,000, other profits and losses in the amount of EUR 10,871,000.
- e) revaluations in the amount of EUR 80,315,000, writedowns in the amount of EUR -58,990,000, other profits and losses in the amount of EUR 13,196,000.
- f) revaluations in the amount of EUR 38,168,000, writedowns in the amount of EUR -18,331,000, other losses in the amount of EUR - 12,580,000.
- g) revaluations in the amount of EUR 498,904,000, writedowns in the amount of EUR -378,672,000, other losses in the amount of EUR - 330,108,000.



#### Foreign-currency transactions:

h) net loss on currency derivatives in the amount of EUR - 9,223,000, writedown of the endowment funds of the foreign branches in the amount of EUR - 13,401,000, other profits on foreign-exchange trading in the amount of EUR 17,834,000.

#### Other transactions:

- i) revaluations of interest-rate derivatives in the amount of EUR 2,026,069,000 (swaps in the amount of EUR 1,983,230,000, options in the amount of EUR 40,283,000, futures and forwards in the amount of EUR 2,556,000).
- l) writedowns of interest-rate derivatives in the amount of EUR 2,138,623,000 (swaps in the amount of EUR 2,087,325,000, options in the amount of EUR 49,656,000, and futures and forwards in the amount of EUR 1,642,000).
- m) differentials and premiums settled on interest-rate derivatives contracts in the amount of EUR 56,342,000 (swaps in the amount of EUR 51,290,000, options in the amount of EUR 4,647,000, futures and forwards in the amount of EUR 405,000), and net negative differentials on other contracts in the amount of EUR 836,000.

31.12.2001

Account/Transaction	Securities	Foreign	Other
		Currency	
A.1 Revaluations	568,058 a)	-	1,973,065 h)
A.2 Writedowns	(449,384) b)	-	(1,851,676) i)
B. Other profits/losses	4,156 c)	23,769 h)	(151,006) I)
Total	122,830	23,769	(29,617)
1 Government securities	29,903 d)		
2 Other debt securities	7,560 e)		
3 Equity securities	(77,250) f)		
4 Securities-related derivatives	162,617		

# SECTION 4 - OPERATING EXPENSES

# 4.1 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

		Bank		Tax	To	tal
	31.12.2002	31.12.2001	31.12.2002	31.12.2001	31.12.2002	31.12.2001
a) Executives	338	257	3	4	341	261
b) Senior, Middle & Junior managers	3,309	2,550	207	170	3,516	2,720
c) Remaining personnel	11,072	11,844	847	931	11,919	12,775
Total	14,719	14,651	1,057	1,105	15,776	15,756

The year-on-year comparison of the individual categories is not significant due to a change in the mix of jobs in 2001 resulting from the execution of new labor contracts. As a result, personnel previously classified as clerical employees were reclassified in 2001 as junior managers, and a broader category of executives was introduced.

Actual employment at year end is summarized in the following table:

		Bank		Tax	Tota	l (1)
	31.12.2002	31.12.2001	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Total	14,645	14,792	1,040	1,072	15,685	15,864

<sup>(1)</sup> This table includes 84 and 105 cleaning staff at the end of 2002 and 2001, respectively

#### 4.2 COMPOSITION OF ACCOUNT 80 - ADMINISTRATIVE EXPENSES

		31.12.2002		31.12.2001
a) Personnel expense:		1,071,095		1,005,466
- salaries and wages	755,025		720,680	
- social-welfare charges	200,682		194,071	
- staff severance indemnity reserve	61,543		50,219	
- pension fund and similar obligations	15,653		14,946	
- other	38,192		25,550	
b) Other administrative expense		762,732		743,548
Total		1,833,827		1,749,014



# Detail of b) Other administrative expenses

The principal administrative expenses are summarized in the following table:

	31.12.2002	31.12.2001
Stamp duties	88,206	98,134
Rental costs of Bank premises	60,880	57,658
Cost of professional services	64,300	53,033
Maintenance of personal and real property	44,066	47,902
Postage	32,083	30,665
Telephone and telex	18,864	27,312
Advertising	37,633	34,628
Other rentals	26,356	26,113
Information and surveys	23,927	16,088
Transportation	34,794	28,570
Electricity, heating and water	15,537	14,188
Security	17,854	16,458
Employee vehicles and travel expenses	16,603	15,080
Cleaning	12,748	12,646
Local property tax	8,540	7,273
Cable rental for data transfer	12,916	9,497
Indirect taxes and rates	5,253	6,490
Expenses for personnel of other Group companies	10,283	6,976
Stationery and printing	11,220	9,856
Insurance	12,645	13,251
Data processing carried out by third parties	6,615	6,609
Membership fees (incl. for automated tax-processing consor	rtium) 8,665	7,682
Entertainment expenses	5,391	6,112
Condominium fees and amounts paid for release of building	gs 215	5,213
Subscription and purchase of publications	1,469	2,169
Equipment leases	999	8,397
Expenses for services provided by MPS Group companies	160,530	141,510
Other	24,083	33,417
Total	762,675	742,927
Contribution to Interbank Deposit Protection Fund	-	548
Contribution to Interbank Guarantee Fund	57	73
Total other administrative expenses	762,732	743,548

# SECTION 5 - VALUATION ADJUSTMENTS, RECOVERIES AND PROVISIONS

# 5.1 COMPOSITION OF ACCOUNT 120 - VALUATION ADJUSTMENTS TO LOANS AND PROVISIONS FOR GUARANTEES AND COMMITMENTS

	31.12.2002	31.12.2001
a) Valuation adjustments to loans to customers	***************************************	
and central banks	410,306	333,156
including:		
adjustments for country risk	3,666	4,180
other lump-sum adjustments	7,536	10,717
a.1) Valuation adjustments to loans to banks	6,415	5,087
including:		
adjustments for country risk	3,967	3,790
b) Provisions for guarantees and commitments	4,168	-
including:		
provisions for country risk	22	-
other lump-sum adjustments	-	-
Total	420,889	338,243

# 5.2 COMPOSITION OF ACCOUNT 90 - VALUATION ADJUSTMENTS TO FIXED AND **INTANGIBLE ASSETS**

	31.12.2002	31.12.2001
a) Intangible assets:	176,642	70,073
- goodwill	41,543	4,687
- other (start-up costs and software)	9,399	49,398
- commissions paid on securities placement	2,587	2,256
- other (°)	123,113	13,732
b) Fixed assets:	295,655	460,124
- buildings	38,526	36,523
- furniture and equipment	53,192	52,287
- assets under financial lease	203,937	371,314
Total	472,297	530,197

Intangible assets are amortized on a straight-line basis over five years, excluding commissions paid on securities placement which are amortized over the life of the securities and the goodwill which is amortized over ten years.

(\*) The balance includes the amortization of certain residual costs (EUR 48,263,000) which are deemed to have no future utility.

Ordinary depreciation of fixed assets, computed at the maximum rates allowed by the law, resulted in charges of EUR 36,332,000 for furniture and equipment and EUR 37,635,000 for buildings. In addition, accelerated depreciation as allowed by tax law was taken in the amount of EUR 16,860,000 for furniture and equipment and in the amount of EUR 891,000 for buildings. Depreciation rates are deemed representative of the residual useful life of the assets, taking into consideration obsolescence and the type of activity carried out by the Bank.



Following is a schedule of ordinary depreciation rates:

Buildings	3%
Office fixtures and equipment	12%
Computer equipment	20%
Motor vehicles	25%
File cabinets	10%
Various equipment	15%
Furniture	15%
Alarm systems	30%
Communications and remote signaling systems	25%
Bullet-proof counters and glass	20%
Fork lifts	7.50%
Heavy vehicles and internal transport	20%

Assets under financial leases are depreciated on the basis of the contractual agreements.

# 5.3 COMPOSITION OF ACCOUNT 150- VALUATION ADJUSTMENTS TO NON-CURRENT FINANCIAL ASSETS

	31.12.2002	31.12.2001
Capital losses on equity investments	354,652	74,023
Capital losses on investment securities (°)	11,465	10,420
Total	366,117	84,443

<sup>(\*)</sup> See Section 2.2

The detail on the losses on equity investments is provided in the comments on the relative balance-sheet account.

# SECTION 6 - OTHER PROFIT AND LOSS ACCOUNTS

# 6.1 COMPOSITION OF ACCOUNT 70 - OTHER OPERATING INCOME

	31.12.2002	31.12.2001
Income from assets under financial leases	233,921	439,194
Rental and similar income	14,711	11,931
Expense recovery and other income: deposits and current account	s 94,541	87,527
Expense recovery: personnel working off-site with other companie	es 96,169	83,509
Recovery of duties and other expenses	80,550	88,942
Premiums received	2,091	5,291
Recovery of expenses on mortgage loans	10,241	7,823
Revenues from the transfer of loans (°)	78,449	59,289
Other	34,806	26,083
Total	645,479	809,589

<sup>(\*)</sup> See Section 11.9 – Siena Mortgages 02 - 3 S.r.l. and MPS Assets Securitisation S.p.A.

#### 6.2 COMPOSITION OF ACCOUNT 110 - OTHER OPERATING EXPENSES

Total	17,728	4,581
Other	17,291	1,480
Other options and premiums settled	-	1,946
lease and additional charges on leasing contracts	437	1,155
Capital losses on disposal of assets under financial		
	31.12.2002	31.12.2001

#### 6.3 COMPOSITION OF ACCOUNT 180 - EXTRAORDINARY INCOME

	31.12.2002	31.12.2001
Gains on disposal of equity investments (*)	39,537	2,890
Profit on disposal of investment securities	-	41,057
Profit on disposal of fixed assets	423	419
Capital gains from transfer of business units	-	7,439
Deferred tax assets regarding previous years	1,288	-
Retroactive quota for change of valuation criterion	-	251,934
Earnings to be realized from derivatives contracts relative to	1,870	
Other (**)	408,116	40,466
Total	449,364	346,075

<sup>(\*)</sup> The total amount (stated prior to taxes) includes the following transactions: Cassa Risparmio San Miniato (EUR 15,223,000) Cedel (EUR 14,028,000), Monte Titoli (EUR 6,757,000), and Banca Toscana (EUR 2,975,000).

<sup>(\*\*)</sup> The total amount (stated prior to taxes) includes the valuation of the commitment arising from the contract to sell the interest held in Cariprato (EUR 278,829,000)



# 6.4 COMPOSITION OF ACCOUNT 190- EXTRAORDINARY CHARGES

3	1.12.2002	31.12.2001
Losses on disposal of fixed assets	159	528
Losses on robberies	1,574	1,551
Losses on tax-collection activity	827	275
Losses on disposal of equity investments	12,561	133
Early-retirement incentives	11,129	11,758
Prior year taxes	-	172
Loss on disposal of investment securities (°)	4,888	3
Losses from cancellation of derivatives contracts related to investment	ts -	1,482
Other	40,067	62,404
Total	71,205	78,306

<sup>(\*)</sup> Includes EUR 4,156,000 of capital losses on the sale of Olimpia bonds (see Section 2.2)

#### 6.5 COMPOSITION OF ACCOUNT 220 - INCOME TAXES

	31.12.2002	31.12.2001
Current taxes (1)	(58,594)	(353,369)
Change in deferred tax assets	98,731	(39,293)
Change in deferred tax liabilities	(53,912)	(88,463)
Income taxes	(13,775)	(481,125)

<sup>(1)</sup> Includes the substitution tax of 19 percent (EUR 5,656,000) on the goodwill originated by Banca 121 merger, pursuant to Article 6 of Legislative Decree n. 358/97.

The reduction of the fiscal burden is mainly due to the non-recurring transactions relative to long-term equity investments which are described in Section 3.6 and to the transactions described in Section 6.3 relative to extraordinary income for the effect of the benefit of the 19-percent substitution tax provided by Legislative Decree n. 358/97.

# SECTION 7 – ADDITIONAL NOTES TO THE PROFIT AND LOSS STATEMENT

# 7.1 GEOGRAPHICAL DISTRIBUTION OF INCOME

31.12.2002

	ITALY	EU COUNTRIES	OTHER COUNTRIES	TOTAL
Interest and similar income	2,828,759	271,713	56,584	3,157,056
Dividends and other income	738,934	-	-	738,934
Commissions earned	871,962	2,307	1,890	876,159
Profits from other financial transactions	(192,876)	(18,929)	265	(211,540)
Other operating income	645,074	322	83	645,479
Total	4,891,853	255,413	58,822	5,206,088

31.12.2001

	ITALY	EU COUNTRIES	OTHER COUNTRIES	TOTAL
Interest and similar income	3,545,756	374,166	98,354	4,018,276
Dividends and other income	601,608	-	-	601,608
Commissions earned	823,857	365	2,840	827,062
Profits from other financial transactions	(15,526)	(4,174)	555	(19,145)
Other operating income	756,876	413	119	757,408
Total	5,712,571	370,770	101,868	6,185,209



# PART D OTHER INFORMATION

### SECTION 1 – DIRECTORS AND STATUTORY AUDITORS

### 1.1 COMPENSATION

	31.12.2002	31.12.2001
a) Directors	2,366	2,251
b) Statutory Auditors	553	491

# 1.2 LOANS TO DIRECTORS AND STATUTORY AUDITORS AND GUARANTEES RELEASED TO THE SAME

	31.12.2002	31.12.2001
a) Directors	1,922	3,914
b) Statutory Auditors	-	18

### **SECTION 2 - PARENT COMPANY**

### 2.1 NAME

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

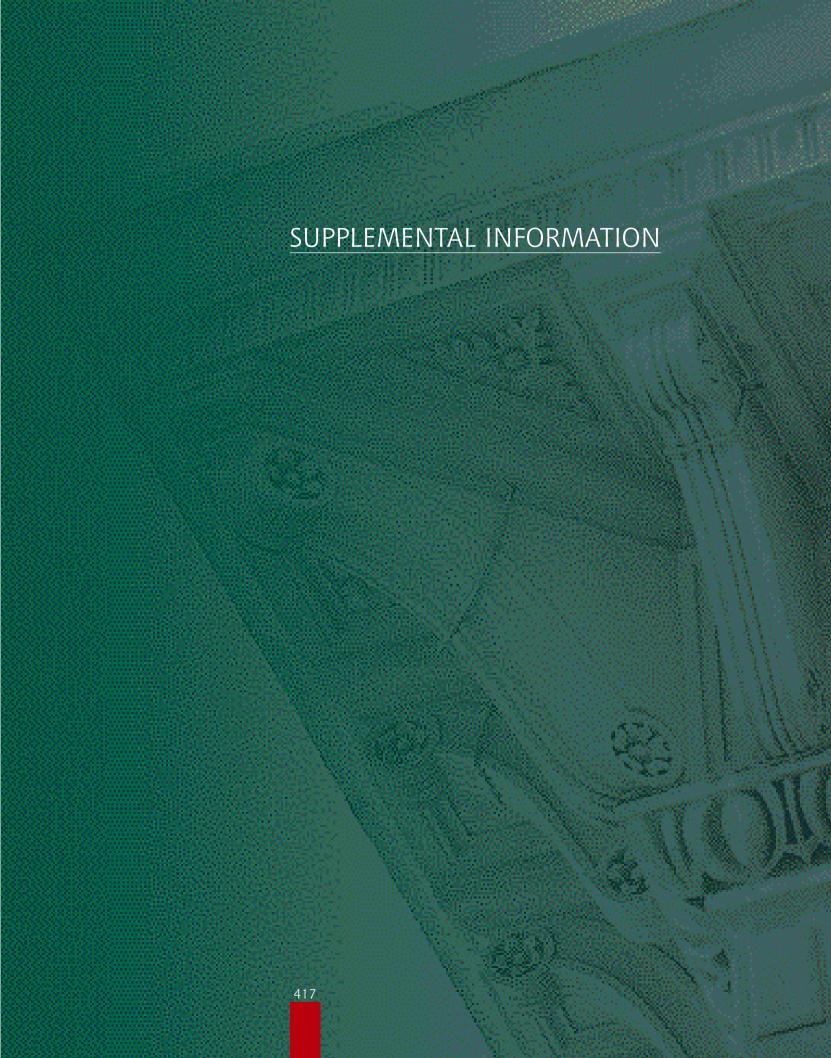
### 2.2 HEAD OFFICE

PIAZZA SALIMBENI, 3 - SIENA

Registered with the Court of Siena under n. 9782 on 23 August 1995

Registered on the Register of Banks under n. 325 Code No. 1030.6

Participant in the Interbank Deposit Protection Fund



### ■ STATEMENT OF CHANGES IN FINANCIAL POSITION

	31.12.2002	31.12.2001
Sources of funds		
Net profit to be allocated	599,497	618,962
Provision for loan loss reserve	38,000	10,329
Provisions for other reserves	12,757	32,809
Share capital increase	318,868	137,362
Provision for staff severance indemnity reserve	53,985	47,973
Provision for pension fund	22,681	13,924
Funds generated from operations	1,045,788	861,359
Increases:		
Customer deposits	1,646,101	324,835
Due to banks	5,492,994	(4,605,540)
Other liabilities	2,732,684	2,438,655
Subordinated debt	198,506	1,230,685
Other reserves	-	25,167
Decreases:		
Non-current assets	1,038,551	(358,723)
Own shares	1,436	(806)
Accrued income and prepayments	177,340	(103,798)
Total sources of funds	12,333,400	(188,166)
Uses of funds		
Payment of dividends	278,178	281,067
Use of reserve for own shares	1,436	(806)
Use of reserve for loan losses	10,329	10,329
Use of staff severance indemnity reserve	45,928	46,070
Use of pension funds	8,103	4,776
Use of revaluation reserve	715,496	121,908
Use of other reserves	45,968	3,220
Use of reserve for general banking risks	85,000	-
Increases:		
Cash and cash equivalents	71,370	189,694
Equity investments	77,636	1,226,114
Other assets	3,035,195	3,504,309
Decreases:		
Other borrowed funds backed by negotiable instruments	1,640,184	(1,824,812)
Accrued liabilities and deferred income	398,242	(243,819)
Third-party funds under administration	6,270	13,347
Reserve for taxes	194,973	52,459
Other reserves	3,900	5,616
TOTAL USES OF FUNDS	6,618,208	3,389,472
Difference	5,715,192	(3,577,638)
CHANGES IN INTEREST-BEARING USES OF FUNDS		
Customer loans and advances	(124,575)	(299,547)
Amounts due from banks	4,607,957	(2,199,049)
Securities and certificates of deposit	1,231,810	(1,079,042)
and commences or deposit	5,715,192	(3,577,638)
	J,1 1J,13Z	(3,777,036)



# ■ STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share	Paid-In	Legal	Statutory
	Capital	Capital	Reserve	Reserve
Balances as of 31/12/2000	1,219,081	522,925	223,126	535,824
Allocation of 2000 net profit:				
- residual earnings of prior year				
- to the legal reserve			20,690	
- to the statutory reserves				130,664
- to the reserve established under Art. 13 Law 124/93				
- payment of dividends				
- retained earnings				
Provision to reserve established under Art. 23 of Legislative Dec	ree 153/99			
Bonus capital increase under Law 342/2000	121,908			
Share capital conversion into euros	9,200			
Use of extraordinary reserve for losses due to securitization tran				
Additions to extraordinary reserve relative to deferred taxes on				
Usage of/additions to extraordinary reserve for adjustments for	purchase of own share	es, net of writedown		
Establishment of employee profit sharing reserve				
Use of extraordinary reserve for employee profit sharing				
Bonus capital increase with use of employee profit sharing reser	rve 5,966			
Net profit to be allocated				
Balances as of 31/12/2001 (as approved by the Board of Direct	ors) 1,356,155	522,925	243,816	666,488
Allocation of 2001 net profit:				
- residual earnings of prior year				
- to the legal reserve			27,415	
- to the statutory reserves				308,325
- to the reserve established under Art. 13 Law 124/93				
- payment of dividends				
- retained earnings				
Prepayment of taxes on losses on securitizations				
Use of reserves for adjustments to securities related to securitiza	ation transactions			
Reconstruction of reserve for losses on securitization transaction	S			
Usage of/additions to extraordinary reserve for				
adjustments for purchase of own shares, net of writedown				
Use of extraordinary reserve for employee profit sharing	86			
Use of revaluation reserve set up under Law 342/2000				
- use of residual revaluation reserve under Law 342/2000	290,178			
- use of extraordinary reserve	23,889			
Capital increase in relation to Banca 121 merger	4,716			
Use of reserve for general banking risks				
Net profit to be allocated				
Balances as of 31/12/2002	1,675,024	522,925	271,231	974,813

Total Shareholders'	Net Profit	Retained	Reserve for General	Other Tax	Other	Reserve for
Equity	to be Allocated	Earnings	Banking Risks	Exempt Reserves	Reserves	Own Shares
5,400,573	395,958	51	419,879	575,027	1,502,847	5,855
-	51	(51)				
-	(20,690)					
-	(130,664)					
-	(818)				818	
(243,748)	(243,748)					
-	(89)	89				
111,570					111,570	
-					(121,908)	
-					(9,200)	
(108,854)					(108,854)	
					43,133	
				2,125	(2,125)	
7,020					7,020	
(7,020)					(7,020)	
-					(5,966)	
605,899	605,899					
5,808,573	605,899	89	419,879	575,027	1,414,565	3,730
-	89	(89)				
-	(27,415)					
-	(308,325)					
-	(796)				796	
(269,382)	(269,382)					
-	(70)	70				
(11,906)					(11,906)	
					(14,960)	
32,936					32,936	
(29,499)					(28,063)	(1,436)
-					(86)	,
(425,318)					(425,318)	
-					(290,178)	
-					(23,889)	
17,473					12,757	
(85,000)			(85,000)			
599,497	599,497					
5,622,414	599,497	70	334,879	575,027	666,654	2,294

# FINANCIAL STATEMENTS WITH COMPARATIVE DATA FROM PRIOR YEAR THIS SECTION PROVIDES A COMPARISON BETWEEN THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002 AND THE RESULTS AS OF 31 DECEMBER 2001 AS APPROVED BY THE BOARD OF DIRECTORS, WITH THE EXCLUSION OF THE DATA RELATIVE TO BANCA 121 S.P.A.



## ■ BALANCE SHEET

(in EUR 000's)
----------------

Asse	its 31/1	12/02	31/	12/01	Ahsolute	and Percentag	EUR 000's)
71550	517	12,02	317	12/01	Aussolute	and refeemag	c change
10	Cash and cash on deposit with banks and post offices	522,659		391,813		130,846	33.40
20	Italian government securities and similar instruments eligible for refinancing at central banks	486,630		438,683		47,947	10.93
30	Amounts due from banks a) sight 3,675,059 b) other 17,068,967	20,744,026	1,366,652 13,425,615	14,792,267	2,308,407 3,643,352	5,951,759	40.24 168.91 27.14
40	Customer loans and advances including: - loans with third-party funds under administration 11,851	36,802,648	12,334	35,266,910	(483)	1,535,738	4.35 (3.92)
50	Bonds and other fixed-income securities a) of public issuers b) of banks - including: own securities c) of financial institutions - including: own securities d) of other issuers  1,810,505 837,763 2,213,601 - including: own securities - d		1,785,589 1,995,038 293,982 1,660,594 - 751,240	6,192,461	24,916 1,208,308 543,781 453,007 - 1,465,923	3,152,154	50.90 1.40 60.57 184.97 27.28
60	Shares, quotas and other equity securities	534,709		526,886		7,823	1.48
70	Equity investments	1,392,169		2,170,821		(778,652)	(35.87)
80	<b>Equity investments in Group companies</b> a) valued with net equity method b) other 4,046,682	4,046,682	- 3,689,960	3,689,960	- 356,722	356,722	9.67 9.67
90	Intangible assets including: - start-up costs 6,399		8,042	130,542	(1,643)	344,081	263.58 (20.43)
100	- goodwill 362,410  Fixed assets including: assets under financial lease -	1,017,889	32,537 1,267,492	2,203,244	329,873 (1,267,492)	(1,185,355)	1,013.84 (53.80) (100.00)
110	Unpaid subscribed capital including: called up capital	-		-		-	
120	Own shares or quotas	2,294		3,730		(1,436)	(38.50)
130	Other assets	12,125,367		7,909,054		4,216,313	53.31
140	Accrued income and prepayments a) accrued income 955,321 b) prepayments 150,677 including:	1,105,998	1,146,672 51,112	1,197,784	(191,351) 99,565	(91,786)	(7.66) (16.69) 194.80
	- issuing discounts 76,544		17,050		59,494		348.94
Tota	l Assets	88,600,309		74,914,155		13,686,154	18.27

## ■ BALANCE SHEET

( in EUR 000's)

Liab	oilities and Shareholders' Equity	31/1	12/02	31/1	2/01	Absolute a	( in EUR 000  Absolute and Percentage Chang		
10	Due to banks		17,079,260		11,490,890		5,588,370	48.63	
	a) sight	1,850,826		1,079,417		771,409		71.47	
	b) time or requiring advance notice of withdrawal	15,228,434		10,411,473		4,816,961		46.27	
20	Customer deposits		32,697,231		27,355,157		5,342,074	19.53	
	a) sight	26,051,134		21,449,199		4,601,935		21.46	
	b) time or requiring advance notice of withdrawa	6,646,097		5,905,958		740,139		12.53	
30	Other borrowed funds backed								
	by negotiable instruments		17,554,031		17,833,319		(279,288)	(1.57)	
	a) bonds	12,138,759		10,951,687		1,187,072		10.84	
	b) certificates of deposit	4,918,182		6,401,971		(1,483,789)		(23.18)	
	c) other instruments	497,090		479,661		17,429		3.63	
40	Third-party funds under administration	on	31,331		37,601		(6,270)	(16.68)	
50	Other liabilities		10,084,275		6,623,947		3,460,328	52.24	
60	Accrued liabilities and deferred incom	ne	1,045,754		1,413,668		(367,914)	(26.03)	
	a) accrued liabilities	936,852		1,241,884		(305,032)		(24.56)	
	b) deferred income	108,902		171,784		(62,882)		(36.61)	
70	Staff severance indemnity reserve		274,527		243,476		31,051	12.75	
80	Reserves for risks and other charges:		828,678		1,002,539		(173,861)	(17.34)	
	a) pension fund and similar obligations	110,467		95,889		14,578		15.20	
	b) reserve for taxes	381,289		570,865		(189,576)		(33.21)	
	c) other reserves	336,922		335,785		1,137		0.34	
90	Reserve for loan losses		182,608		154,937		27,671	17.86	
100	Reserve for general banking risks		334,879		419,879		(85,000)	(20.24)	
110	Subordinated debt		3,200,200		2,950,048		250,152	8.48	
120	Share capital		1,675,023		1,356,155		318,868	23.51	
130	Additional paid-in capital		522,925		522,925		-	0.00	
140	Reserves:		2,490,020		2,188,130		301,890	13.80	
	a) legal reserve	271,231		243,816		27,415		11.24	
	b) reserve for own shares or quotas	2,294		3,730		(1,436)		(38.50)	
	c) statutory reserves	974,812		666,488		308,324		46.26	
	d) other reserves	1,241,683		1,274,096		(32,413)		(2.54)	
150	Revaluation reserves		-		715,496		(715,496)	(100.00)	
160	Retained earnings		70		89		(19)	(21.35)	
170	Profit (loss) for the year		599,497		605,899		(6,402)	(1.06)	
Tota	al Liabilities and Shareholders' Equity		88,600,309		74,914,155		13,686,154	18.27	



## ■ GUARANTEES AND COMMITMENTS

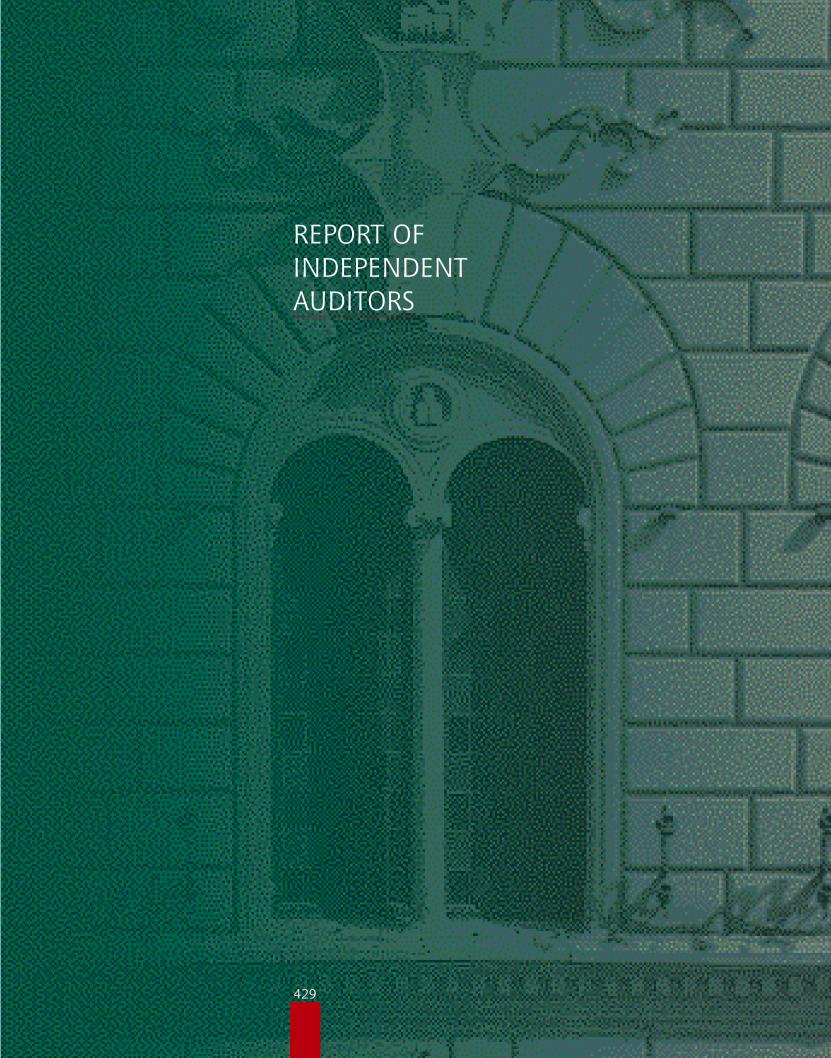
(in EUR 000's)

Accounts 3		31/1	/12/02 31/12		12/01 Absolute		and Percentage Change	
10	Guarantees released including: - acceptances - other guarantees	56,990 7,605,169	7,662,159	31,338 7,494,056	7,525,394	25,652 111,113	136,765	1.82 81.86 1.48
20	Commitments including: for sales with obligation to repurchase	-	4,993,915	-	6,781,731	-	(1,787,816)	(26.36)
30	Commitments for credit derivatives		1,064,216		176,979		887,237	501.32

## ■ PROFIT AND LOSS STATEMENT

(in EUR 000's)

A	ounts 31		12/02 31/12/01		12/01	Absoluto a	EUR 000's)	
10	Interest and similar income:	31/12	3,157,056	31/	3,531,586	Absolute a	nd Percentag	(10.61)
10	including:		3,137,030		3,331,300		(374,530)	(10.01)
	- on customer loans and advances 2	,242,055		2,352,726		(110,671)		(4.70)
20	- on debt securities	372,776		344,705		28,071		8.14
20	Interest expense and other expense on borrowed funds:		1,895,392		2,370,677		(475,285)	(20,05)
	including:		, ,		,, -		( 2, 22,	(-1,11)
	- on customer deposits	621,434		782,846		(161,412)		(20.62)
	- on other borrowed funds							
	backed by negotiable instruments	619,805		723,164		(103,359)		(14.29)
30	Dividends and other income		738,934		601,608		137,326	22.83
	a) on shares, quotas and other equity securitie			94,280		203,096		215.42
	<ul><li>b) on equity investments</li><li>c) on equity investments in Group companies</li></ul>	104,852 336,706		222,737 284,591		(117,885) 52,115		(52.93) 18.31
40	Commissions earned	330,700	876,159	204,331	827,063	32,113	49,096	5.94
50	Commission expense		125,767		64,008		61,759	96.49
60	Profit (loss) from financial transactions		(211,540)		(19,145)		(192,395)	50.15
65	Earnings on investment of		(211,540)		(15,145)		(1)2,3)3)	
05	pension funds and similar funds	(327)		1,091		(1,418)		
70	Other operating income	(==-)	645,479	1,011	757,408	(1,111)	(111,929)	(14.78)
80	Administrative expenses		1,833,827		1,547,392		286,435	18.51
		,071,095	1,000,000	918,332	.,,	152,763		16.63
	including:	755.005		652.444		101.614		15.55
	- salaries and wages - social-welfare charges	755,025 200,682		653,411 180,691		101,614 19,991		15.55 11.06
	- staff severance indemnity reserve	61,543		47,065		14,478		30.76
	- pension fund and similar obligations	15,653		11,615		4,038		34.77
	b) other administrative expenses	762,732		629,060		133,672		21.25
85	Allocation of earnings on investments	4				4		<b>4</b>
90	of pension and similar funds Valuation adjustments to	(327)		1,091		(1,418)		(327)
	fixed and intangible assets		472,297		471,324		973	0.21
100	Provisions for risks and charges		18,729		25,161		(6,432)	(25.56)
110	Other operating expenses		17,728		3,229		14,499	449.02
120	Valuation adjustments to loans and							
	provisions for guarantees & commitments	5	420,889		335,262		85,627	25.54
130	Recoveries on loans and on							
	provisions for guarantees and commitmen	nts	131,542		140,567		(9,025)	(6.42)
	Provision to loan loss reserve		38,000		10,329		27,671	267.90
	Valuation adjustments to non-current financia		366,117		84,384		281,733	333.87
	Recoveries on non-current financial asset	:s	1,229		452		777	171.90
	Profit (loss) from ordinary operations		150,113		927,773		(777,660)	(83.82)
	Extraordinary income		449,364		327,114		122,250	37.37
	Extraordinary charges		71,205		57,441		13,764	23.96
	Extraordinary income (charges)	1 .	378,159		269,673		108,486	40.23
	Change in reserve for general banking ris	KS	85,000		- (470.077)		85,000	(07.12)
	Income taxes		(13,775)		(479,977)		(466,202)	(97.13)
	Profit for the year		599,497		717,469		(117,972)	(16.44)
240	Reserve provisions under Law 218/90				111 570		/111 F70\	(100.00)
250	and Legislative Decree 153/99		500 407		111,570		(111,570)	(100.00)
250	Net profit for the year		599,497		605,899		(6,402)	(1.06





#### KPMG Assurance

KPMG S.p.A. Piazza Vittorio Veneto, 1 I-50123 FLORENCE (FI) Telephone +39 (055) 21391 Telefax +39 (055) 215824

# 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.

- 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 2002. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- 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 financial statements of certain subsidiaries have been audited by other auditors who provided us with their reports thereon. Our opinion, expressed herein, with respect to the figures relating to such companies representing approximately 38% and 2% of the captions "Investments" and "Total assets" respectively, is based, inter alia, on the audits performed by the other auditors.

Reference should be made to the report dated 11 April 2002 for our opinion on the prior year figures which are presented for comparative purposes as required by law.

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 2002 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 bank.





- 4 We draw your attention to the following matters:
- 4.1 During 2002, the bank sold its investment in S. Paolo-IMI, previously revalued pursuant to Law no. 342/2000. The accounting treatment and the related effects on the 2002 financial statements are described in the notes thereto.
- 4.2 In December 2002, the bank signed an agreement to sell its investment in the subsidiary Cassa di Risparmio di Prato S.p.A.. The Bank of Italy authorised the sale, the shares were transferred and the related consideration collected in 2003, before the approval of the draft financial statements by the directors. The accounting treatment and the related effects on the 2002 financial statements are described in the notes thereto.
- 4.3 As described in the notes, with reference to directly-managed tax collections, the bank has taken premiums relating to the difference between the 2002 allocated amounts and those actually collected to the 2002 profit and loss account, rather than recording them when the relevant tax is collected as required by generally accepted accounting principles. Such treatment is provided for by the Legislative decree of 24 September 2002, converted into Law no. 265 of 22 November 2002. The accounting treatment and the related effects on the 2002 financial statements are described in the notes thereto.
- 4.4 As described in the notes to the financial statements, the bank has charged directly to reserves and partly deferred to future years the write-down of junior securities relating to a non-performing loan securitisation transaction carried out by the bank. 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 as required by correct accounting principles. The accounting treatment applied and the related effects on the 2002 financial statements are described in the notes thereto.
- 4.5 In the previous year, the bank charged directly to reserves and partly deferred to future years the effects of the losses incurred following a non-performing loan securitisation transaction. 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 losses are incurred as required by correct accounting principles. The accounting treatment applied and the related effects on the 2002 financial statements are described in the notes thereto.
- 4.6 During 2002, the bank used the provision for general banking risks by crediting the profit and loss account. The related effects on the 2002 financial statements are described in the directors' report.

2



4.7 The bank 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 bank 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, 9 April 2003

KPMG S.p.A.

(signed on the original)

Roberto Todeschini
Director of Audit

# BANCA MONTE DEI PASCHI DI SIENA S.p.A.

Registered office: Piazza Salimbeni, 3 - Siena

Fully paid-up share capital € 1,356,240,334.28

Register of Companies 00884060526

Register of Banks n° 5274.

Monte dei Paschi di Siena Banking Group

Member of the Italian Interbank Deposit Protection Fund.

Internet: www.mps.it

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