

2005 Annual Report



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MPS Finance Banca Mobiliare S.p.A.

Monte dei Paschi di Siena Banking Group (MPS Group)

Share Capital: €130,000,000, fully paid

Fiscal Code: 80035550153

VAT Registration: 01028240529

Bank Code: 3163.3

Group Code: 1030.6

Registered on the Register of Companies of Siena: REA 114715

Registered on the Register of the Bank of Italy: 5461

Member of the Interbank Fund for the Protection of Deposits

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1 Corporate Officers and Independent Auditors

1.1 Board of Directors

Mauro Faneschi	Chairman
Giuseppe Catturi	Vice Chairman
Marco Morelli	Managing Director
Luca Fiorito	Director
Gian Luca Baldassarri	Director
Fabio Carlesi	Director
Mauro Fabbrini	Director
Mauro Bellavista	Secretary

1.2 Board of Statutory Auditors

Giuseppe Vittimberga	Chairman
Stefano Bartalini	Acting Auditor
Ottaviano Orzali	Acting Auditor
Duccio Neri	Substitute Auditor

1.3 Senior Management

Fabio Accorinti	CEO
Vasco Rossi	Deputy CEO

1.4 Independent Auditors

KPMG S.p.A.

2 Report on Operations

The year of **2005** ended with the U.S. economy expanding by roughly 3.5 percent, which was well above the estimated 1.4-percent growth reported for the Eurozone. In the meantime, the Japanese economy continued on the recovery that began to take shape at the start of the year, with signs that it would finally emerge from a lengthy deflationary period.

Long-term **market interest rates** remained at historically low levels in both Europe and the United States. In the United States, the **Federal Reserve Bank** adjusted the federal funds rate by a total of 200 basis points during 2005, raising the rate from 2.25 percent to 4.25 percent. Instead, the **European Central Bank (ECB)** adjusted the refinancing rate only once, during the month of December, raising it from 2.0 percent to 2.25 percent. For practically the entire year, the press releases following each meeting of the U.S. central bank's Federal Open Markets Committee made explicit reference to an accommodating monetary-policy stance, which basically translated into a series of upward adjustments of 25 basis points each. This reference was eliminated following the last meeting of the FOMC on 13 December, thereby suggesting that the bank's stance could no longer be considered as accommodating.

The expansion of the differential between interest rates in the U.S. and those in the Eurozone accounted for a good part of the **dollar's appreciation** against leading currencies for the full year of 2005. The U.S. currency, for example, regained some 13 percent in value against the euro in nominal terms. Furthermore, at the end of July, the Chinese central bank formally adopted changes to the system governing the yuan exchange rate, announcing an immediate revaluation of 2.1 percent against the U.S. dollar, with possible subsequent fluctuation within a very limited range against both the dollar and a basket of currencies. However, given the Chinese central bank's significant discretion in managing the domestic currency, the yuan essentially stabilized, and then toward the end of the year, it appreciated by a slight 0.5 percent against the dollar in nominal terms versus the value established with the changes adopted in July.

Chart 1: *Trend of EUR/USD cross*

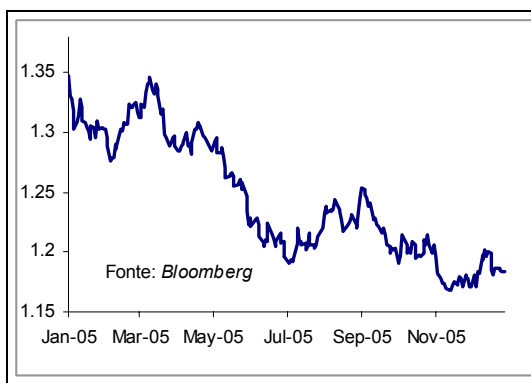
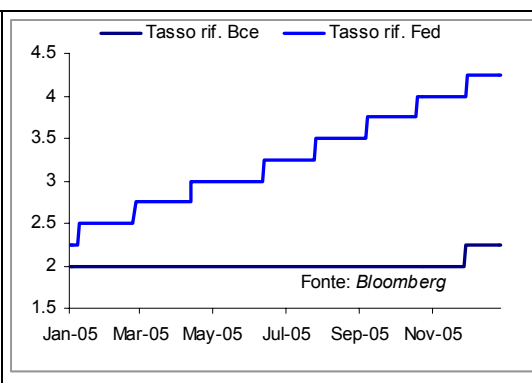


Table 1: *ECB/Fed reference rates*

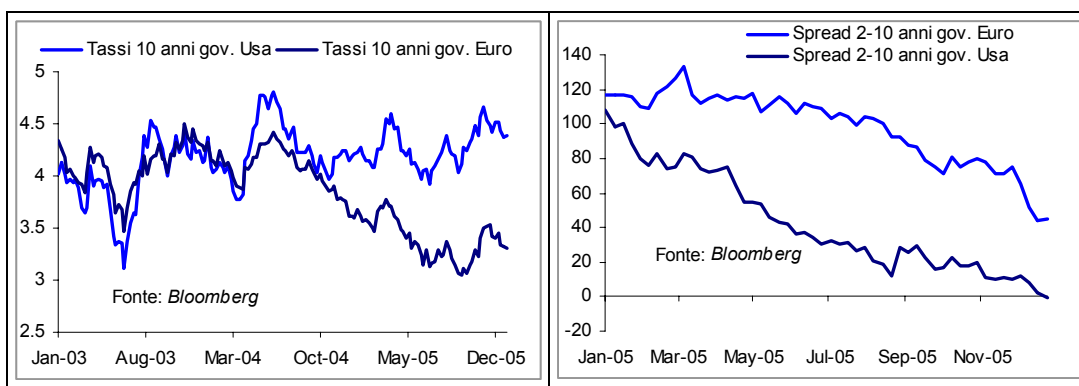


Interest rates on USD and EUR government securities experienced an abrupt decline, mostly in the early months of the year, with the rates on 10-year maturities declining to a low of 3.8 percent in the U.S. in June and 3.0 percent in Europe in September. The lag is mostly attributable to the different posture adopted by the respective central banks.

The most significant development in terms of the trend of rates was the pronounced levelling off of **the slope of the rate curves** for both the USD and EUR markets. In the U.S. market, rates on two-year government securities at the end of the year were exactly equal to those for ten-year maturities. The less pronounced slope of the rate curve was partially a reflection of the effects of monetary policy, and partially due to ongoing portfolio changes being made by international money managers in response to changes in market demand that emerged in 2004. Based on data published in the IMF's Global Financial Stability Report in September 2005, pension funds in OECD countries increased their holdings of fixed-income securities from 24 percent to 26 percent during the 2002-2004 period, and over the same period, reduced their holdings of equity securities from 55 percent to 42 percent.

Chart 2: Rates on 10-year government securities

Chart 3 2-/10-year spread (basis points)



With the modest level of market interest rates paid on government securities, asset managers moved increasingly into **corporate securities** and **emerging markets issues** in search for additional returns. Reflecting this trend, the spread between the EMBI+ emerging markets index and risk-free rates fell to a new historical low of 238 basis points during 2005.

Commodity prices continued to rise in 2005, with the increases even more pronounced than in 2004. The CRB index covering 19 commodities reached a new high, with its annual increase of 16.88 percent surpassing the growth of 11.21 percent in 2004. Energy prices (first and foremost, natural gas and oil) experienced the strongest gains, while among soft commodities, the trend of sugar prices benefited from greater expectations of the product's use as a base for ethanol production.

In local currency terms, the **stock markets** performed positively in 2005, with the modest gain in U.S. (S&P500 +3 percent) far behind the significant increases posted in Europe (where, for example, the Eurostoxx 600 Index advanced by 24 percent). The Japanese Nikkei 225 Index had an even stronger showing, rising by roughly 40 percent for the year.

The differences in performance between the U.S., European and Japanese markets can be partially explained by the European markets' general preference for securities with a high dividend yield (which look even more appetizing in light of the low levels of market interest rates). Instead, investors were likely drawn to the Japanese market because of the improved prospects for the nation's economy, after years of the poor economic performance marked by sluggish growth and deflation.

The **volatility of the equity indices** declined in early 2005, in both the United States and the Eurozone, and then basically stabilized in the second half of the year in the Eurozone, with its level remaining very low from an historical perspective.

Chart 4 CRB Index

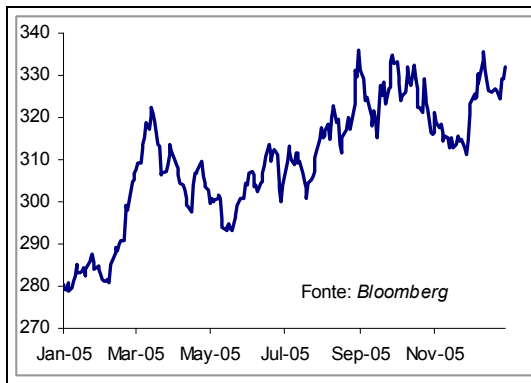
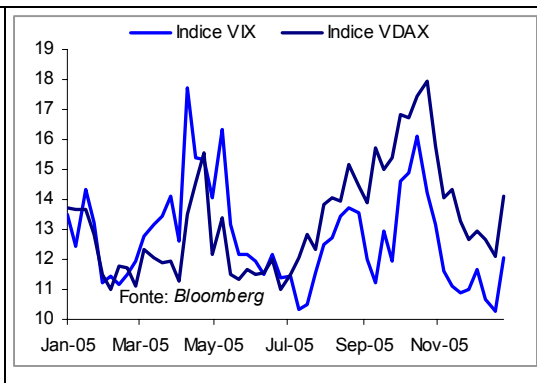


Chart 5 Vix vs. Vdax



Against this macroeconomic backdrop, MPS Finance closed the year of 2005 with a net profit (computed in accordance with the International Accounting Standard (IAS) adopted for the first time in 2005) of €34.278 million, a 15-percent increase over the prior year¹. Excluding the dividends received from the affiliate, Intermonte Securities S.p.A., the net profit amounted to €21.179 million (-1.0 percent year on year).

By comparison, the net profit calculated according to national accounting principles (IT GAAP) came to €39.475 million, for a 15-percent increase over the prior year, while the increase in operating earnings was equal to 12 percent. The difference between the net profit computed on the basis of IAS and the net profit computed on the basis of IT GAAP is mainly related to the different treatment of the dividends, and to the reporting of unlisted securities held in the portfolio at their fair values.

In addition, the computation of the net profit based on IAS incorporates the application of the Day-1 P&L valuation technique, and the consequent deferral to subsequent periods of income earned during the year.

<i>(in € 000's)</i>	December 2005 IAS	December 2004 IAS	% Change 2004/2005
Total banking income	54,069	69,449	(22%)
Net profit	34,278	29,851	15%
Net profit excluding Intermonte dividends	21,179	21,365	(1%)

¹ The IAS figure for 2004 is deducted from the comparative data in the financial statements inasmuch as the international accounting principles did not go into effect until 2005.

In June 2005, the Bank adopted a new organizational model in response to the guidelines issued by the parent company in a document entitled "MPS Finance Repositioning Plan".

According to the plan, the Bank's future development will revolve around the following pivotal points:

- The refocusing of business on services for corporate customers
- The streamlining of the retail product factory activity
- Improvement of operational capacity in the capital markets.

The most significant preliminary changes to the organization made in the second half of 2005 were the appointment of a CEO and the splitting up of the operations area into two macro units: the Commercial Division and the Markets Division.

The Commercial Division's business with corporate customers increased by 23 percent over 2004 in terms of volume, while the unit's total revenues of roughly €6.5 million remaining on par with the prior year.

The sales of derivatives to corporate clients and public entities were nonetheless adversely affected by aggressive marketing on the part of some competitors, bad press about the use of derivative products, and the introduction of the IAS principles (whose impact was similar with regard to innovative finance products). Furthermore, the market witnessed an increasing number of domestic and foreign intermediaries who were going after the business with small- and medium-sized enterprises (SMEs) and municipal and regional entities, and this created a highly competitive environment that had previously only been seen with respect to large corporations.

With the new organizational model, the structuring of the products for retail, corporate and institutional clients has been concentrated in the Structuring Solutions Business Unit with the objective of improving the efficiency in terms of product delivery, and simultaneously reducing operating costs. The efficiency gains, in particular, are expected from the economies of scale attainable from servicing a broader base of customers, which extends across all customer segments.

The Structuring Solutions Business Unit is divided into two sub-units: Product Factory and Financial Engineering. The former supervises the structuring of standard products for the MPS Group's networks, the financial networks, and corporate and institutional customers, while it also maintains the relationships with the MPS Group networks. The second sub-unit serves as a product innovation center for the principal asset classes.

With regard to products for the retail segment, the pre-booked volumes of innovative finance products declined by 18 percent in 2005. The production of pension, retirement-plan and insurance products was instead 21 percent higher year on year in terms of volumes, but with revenues equal to only one-half of those posted in 2004. The profitability was adversely impacted by both lower interest rates and the transfer-pricing policy introduced with regard to the structuring of insurance policies.

Within the Markets Division, the trading activity was mainly concentrated on managing the hedged positions created with the structuring of products sold to corporate and retail customers. Such activity is consistent with MPS Finance's long-standing strategic commitments to market a range of

innovative products designed to maximize customer satisfaction, and to give liquidity to the products issued, including on the secondary market.

The management of the trading portfolios was instead focused on the maintenance of limited levels of risk, in line with the Bank's policies.

The Equity and Debt Syndication Business Unit's activity in 2005 also yielded lower revenues year on year, partly due to the divestiture of the Origination and Securitization Sub-Unit in 2004. The results for 2005 were also affected by the decision of various local public entities and corporate and institutional customers not to proceed with various debt/equity issues during the year.

In the primary market, the Bank served as lead manager and bookrunner for 15 bond issues with a countervalue of €2.8 billion.

With reference to the information disclosed as of 30 June 2005 in the interim report on operations accompanying the consolidated financial statements of the parent company, Banca MPS S.p.A. ("Events Subsequent to the End of the First Half"), and specifically, with regard to the claim filed by the Temporary Administrator of Parmalat S.p.A. for damage compensation to be paid by Banca Monte dei Paschi di Siena and MPS Finance, the analyses of the claim and of the actions of the MPS Group companies would suggest that, even though the case is only in a preliminary phase (first hearing set for 31 May 2006), the claim is, in many aspects, inadmissible, and that the quantification of the damages asserted is completely unfounded. At present, it is deemed that the risk of losing the case is remote, and thus, no risk provisions have been made.

With respect to planning, operational controls, and risk management, the Bank has continued with the development and consolidation of both its instrumentation and its activity to support internal decision making. A management control system was designed and implemented, with the initial focus on transactions with customers. The MPS Group also continued to provide support for the implementation of the internal market-risks model and the application of IAS.

In 2005, as part of its participation in an operational risks project coordinated by the parent company, MPS Finance proceeded with the periodic and systematic reporting of operational risks and the controls in relation thereto.

This initiative has been flanked by the activity of loss data collection, which has also been coordinated by parent company, with the objective of contributing to the Interbank Database on Operational Losses managed by the Italian Banking Association. As a result of the two activities, both MPS Finance and the MPS Group will be able to come up with a model for calculating the capital absorbed by operational risks, as outlined by the Basle II Accord which introduces new capital requirements for operational risks (the newest aspect of banking regulation).

Furthermore, as provided by the new regulations issued by the Bank of Italy's Lending and Financial Oversight Committee on financial statements, the Bank has expanded the notes to its financial statements to include a special section on operational risks containing information of a qualitative nature.

Following the Italian Cabinet's approval of a law decree on the application of international accounting principles, Banca Monte dei Paschi di Siena, as a parent company issuing publicly traded securities, was obligated to prepare its consolidated financial statements in conformity with the new principles as from 2005 (Article 3, Paragraph 1 of the decree). In addition, Banca Monte dei Paschi di Siena elected to prepare its non-consolidated financial statements in accordance with the international accounting principles (IAS) pursuant to the option provided by Article 4, Paragraph 2 of the aforementioned decree.

In accordance with the guidelines provided by the parent company and in consideration of the activity carried out by MPS Finance within the MPS Group, the MPS Finance Board of Directors approved a resolution on 24 May 2005 (International Financial Reporting Standards – IFRS – f/k/a International Accounting Standards – IAS) which provided that MPS Finance would also elect the same option, and approve the financial statement formats with reference to First-Time Adoption (FTA).

The Bank has placed a special emphasis on socio-environmental issues, and prepared another socio-environmental report for the year of 2004.

It is finally noted that the Bank prepared a security planning document as of 31 December 2005, pursuant to the provisions of Legislative Decree n. 196 of 30 June 2003 (Code on the Protection of Personal Data).

3 Economic Overview

3.1 The Global Economy

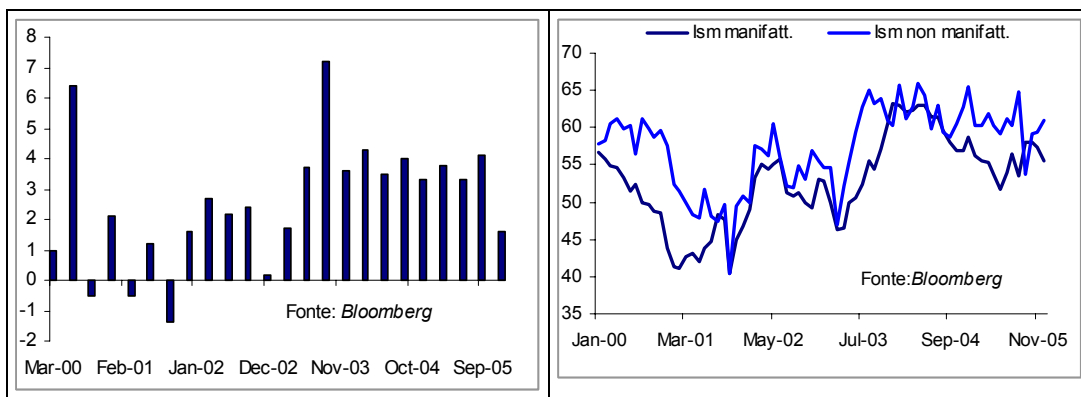
Based on the statistics available to date, GDP in the U.S. expanded by 3.5 percent in 2005, in comparison with 4.2 percent for the preceding year. The U.S. economy thus continued to perform well, despite the lack of support offered by the tax refunds in 2004 (essentially a retroactive effect of the tax cuts orchestrated by the Bush administration in 2003). The much feared negative impact of the hurricanes that hit the U.S. between August and October turned out to be only temporary, and was basically confined to the labour market, which managed to bounce back as early as November.

The **increasingly higher value of real estate** represented the main stimulus to U.S. consumer spending in 2005. Adjustable-rate mortgages ("ARMs") and their widespread availability helped to fuel the revaluation process even further. According to the Mortgage Bankers Association, ARMs accounted for 46 percent of the value of mortgages funded in the second half of 2004, and 23.3 percent of all mortgages outstanding in the first quarter of 2005.

Alongside mortgages, many consumers leveraged the higher value of their properties by taking out home-equity lines of credit, which basically offer two advantages over traditional credit cards: the tax deductibility of the interest paid and lower interest rates. Consumer credit continued to decline in 2005, partly in response to these products.

Chart 1: U.S.: Annualized quarterly growth of GDP

Chart 2: U.S.: ISM indices



The growth of the U.S. economy slowed toward the end of the year, with GDP for the fourth quarter expanding by 1.6 percent (annualized quarterly growth). The figure was disappointing, not so much due to the slowdown of consumer spending (which was altogether much less dramatic than expected and mostly attributable to the automobile market), but rather for the modest positive contribution of fixed investments and negative contribution of government spending (partly due to the downsizing of defense spending). The last two factors together with the negative contribution of net exports (which was expected) more than offset the positive impact of the accumulation of inventories. As a result, the year ended with an average growth rate of 3.5 percent.

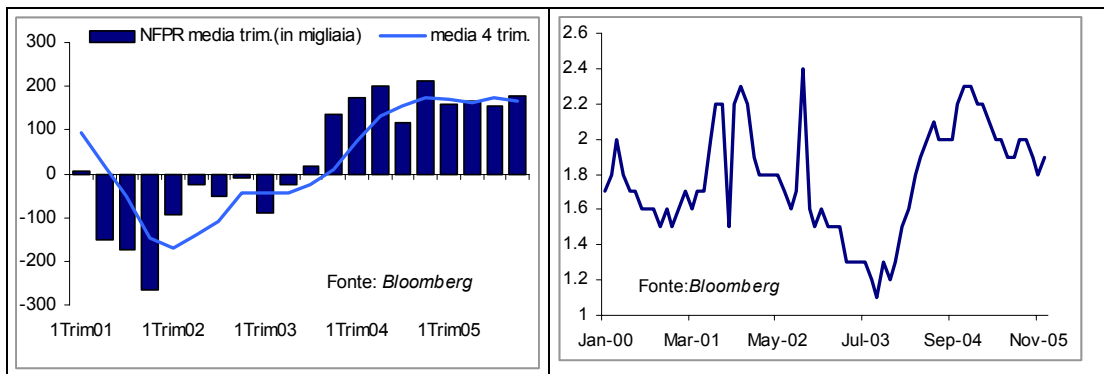
Although decelerating with respect to 2004, the **leading indicators** (ISM) remained steadily above the 50-point threshold, thereby suggesting a possible continuation of the expansion.

The **labour market** in the U.S. continued to perform positively in 2005, with the unemployment rate at 4.9 percent as of December versus 5.2 percent at the start of the year. Total jobs created in the non-farm sector averaged 165,000 per month versus 174,000 in 2004. In spite of these figures, the job market did experience a slowdown in May, when there were expectations of a looming economic "soft patch", and again, in September and October, in the aftermath of the hurricanes. The growth of new jobs tended to pick up around year end, thereby confirming the positive perception of a status quo evidenced by the indices underlying consumer confidence indicators.

As far as **prices** are concerned, the personal consumption deflator, net of energy and food products, rose on average by 2 percent for the year, thus remaining in line with the increase reported for 2004. Decreasing throughout the year, the deflator ended up at 1.9 percent in December, or just below the upper boundary of the Fed's target range (1.0-2.0 percent).

Chart 3: U.S.: Non-farm payrolls

Chart 4: U.S.: Core personal consumption deflator (% change y/y)



On the **corporate front**, the plant capacity-utilization rate continued to expand, moving in line with a trend that began to take shape in mid-2003. As of December, the indicator had climbed to 81.2 percent, its highest level since September 2002 and a figure close to the long-term average (1972-2005), partly due to the recovery of production in the energy sector after the hurricane season (August-October).

The **Federal Reserve Bank** adjusted the federal funds rate upward by a total of 200 basis points during 2005. The reference to the central bank's accommodating monetary policy which appeared in many press releases throughout the year was eliminated following the last meeting of the FOMC on 13 December, thereby suggesting that the current level of interest rates is reflective of a neutral stance. At the same time, the Fed's final press release for the year made explicit mention of the increased use of resources as a potential cause of inflation.

In the **foreign-exchange market**, the dollar rose in value against other major currencies in 2005, as shown in nominal terms by the U.S. Dollar Index®, an index using a trade-weighted geometric average of six currencies. The expected continuing expansion of the differential between interest

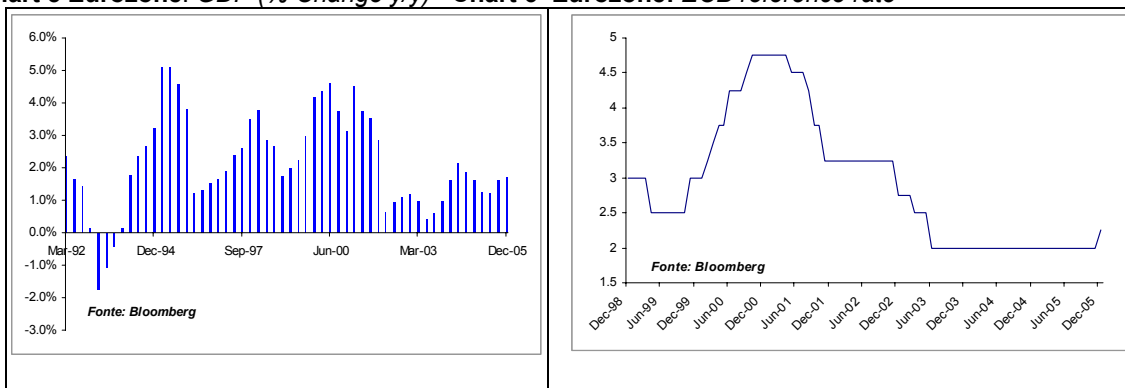
rates in the U.S. and those in other markets was undoubtedly a factor to support the dollar's appreciation.

The **stock market** also performed positively, with the S&P500 index closing the year with a gain of 3 percent, after having climbed to a five-year high in November.

The **Eurozone** reported a **slowdown in GDP growth** in 2005 as a result of a deceleration in both consumer spending and investments, and the negative contribution of net exports. Some improvement in the leading indicators was nonetheless evidenced in the final quarter of the year. In December, the IFO Index in relation to the German economy was at its highest levels since August 2000. Indicators compiled from surveys of small- and medium-sized enterprises (SMEs) in the services and manufacturing sectors also rebounded on improved growth prospects for both sectors.

Despite the **recovery of the leading indicators**, the definitive data for December cannot be considered very encouraging, particularly taking into account the general trend of commodity prices and the trend of oil prices in particular. Both France and Germany experienced an unexpected decrease in retail sales during the final month of 2005, while new orders in Germany's manufacturing sector came to a standstill as a result of a decrease in orders from abroad (a decrease that could create new questions about the strength of the country's exports in the months to come). The monetary authorities have nonetheless continued to affirm their optimism about a recovery. On several occasions, Jean-Claude Trichet, President of the European Central Bank (ECB), admitted that the Eurozone's economy, although still subject to the risk of a downturn, was regaining its momentum at such a pace that a 25-basis point increase in the cost of money might be on order when the ECB Governing Council was to meet on 1 December 2005

Chart 5 Eurozone: GDP (% Change y/y) **Chart 6 Eurozone: ECB reference rate**



At the press conference held after the meeting, **Trichet** reiterated the importance of keeping inflationary expectations in check, thereby giving some credibility to the assumptions of more rate increases. On the other hand, the authorities have continued to remain cautious about the extent to which they will tighten monetary policy, already indicating that the December 2005 adjustment will not be the first of a long series of increases. The leading assumption is that the reference rate will be in the range of 2.75-3.00 percent by the end of 2006, particularly if inflation remains below 2.0 percent during the summer months and if economic growth continues to be driven by domestic demand.

As far as **inflation** is concerned, the consumer price index rose by 2.2 percent in 2005. The annual inflation rate peaked at 2.6 percent in September, as a result of higher oil prices and the adjustments made by various countries within the Eurozone to the prices of regulated goods and

services. While inflation decelerated in the final quarter of the year, the annual rate of 2.2 percent as of December was still above the 2.0 percent threshold set by the ECB.

Following the slowdown in the final three quarters of 2004 (partly due to the working off of excess inventories in IT-related sectors), **Japan** seemed to have finally embarked on a domestically driven expansion in 2005, at least from a long-term point of view. With the first and second quarters proving exceptional (partly as a result of non-recurring factors), the Japanese economy ended 2005 with average growth of 4.3 percent, with domestic demand evidently accounting for the bulk of the increase for the first time since World War II. Japan was thus no longer passively tracking the international trade cycle.

The high levels of corporate profits was partially generated by the growth of the global economy (as well as the Chinese economy in particular), but they were mainly the by-product of the slow and long period of restructuring after the bursting of the speculative bubbles during the early nineties. Japanese companies have ploughed their earnings into significant capital investments, which represent by far the biggest factor contributing to the nation's economic growth. The widespread optimism about the prospects for the Japanese economy for the next two years is largely related to the positive outlook for fixed investments, especially considering (i) the stock of obsolete capital goods accumulated during the "lost decade" that still needs to be replaced, (ii) the ongoing strength of corporate cash flows, and (iii) banks - at least, the large national banks - that have completely cleaned up their balance sheets (which naturally includes the return to performing status for credits previously classified on the watchlist).

Deflation has significantly hampered the Japanese economy's attempts to recover, and its end is viewed as critical to the continuation of the growth. After a long, practically uninterrupted term of months of negative changes going back to mid-1998, the core consumer price index rose by 0.1 percent in both November and December 2005, with representatives of the Bank of Japan indicating they were relatively optimistic that the inflation would continue.

In **China**, the recalculation of GDP for recent years conducted on the basis of a national census survey has produced a substantial upward revision to the country's economic growth rate for 2004. The country's GDP rose by 9.9 percent in 2005, in comparison with 10.1 percent for 2004 (revised from 9.5 percent). The magnitude of the revision is significant, with real GDP rising by roughly one-sixth over what had previously been figured, and with 93 percent of the revision attributable to the value of services that had not been reported earlier. The new figure thus reflects a more balanced mix of GDP, which had previously appeared dominated by capital investment.

Chart 7: Japan: Annualized quarterly growth

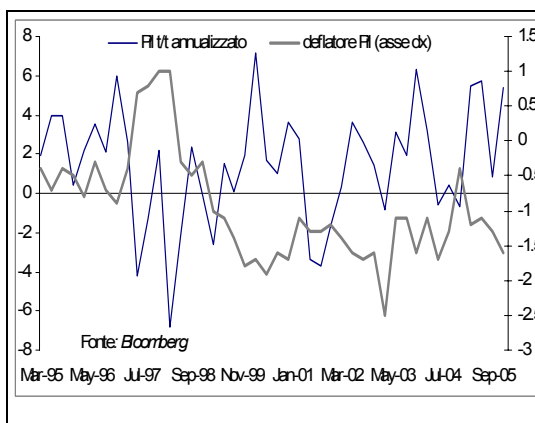
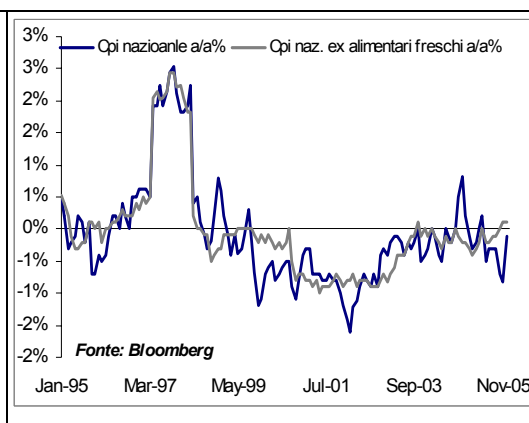


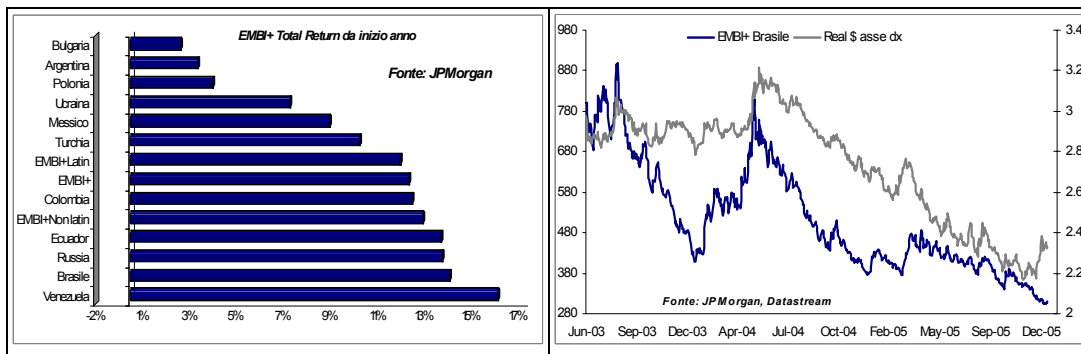
Chart 8 Japan: CPI (% change y/y) of GDP and deflator



An analysis of the **EMBI+ Total Return Index** shows the emerging markets performed well in 2005, with the oil-producing countries such as Venezuela, Ecuador and Russia logging gains of between 13.2 percent and 15.7 percent. The higher price of crude oil aided producer countries whose economic growth mainly depends on oil exports. Other countries benefiting from higher commodity prices were Brazil (sugar and coffee) and Chile (copper); the exports of these nations grew significantly, thereby stimulating the growth of the domestic economies. The spread between the EMBI+ Index and risk-free rates contracted by more than 100 basis points in 2005, mainly as a result of increased market demand for high-yielding investments.

Chart 9: EMBI+ Total Return Index in 2005

Chart 10: EMBI+ Brazil; BRC/USD exchange rate



In **Argentina**, the government concluded the largest debt restructuring in history, with the involvement of roughly 76 percent of the creditors. The improvement of the debt situation prompted Moody's to upgrade of the credit rating on the country's foreign-currency denominated debt (to B3 from Caa1) and the rating on foreign bank deposits (to Caa1 from Caa2). Similar decisions were taken by S&P, which changed the debt rating to B- from SD, and Fitch, which altered its rating on short-term debt denominated in foreign currency to B from C.

In **Brazil**, President Lula da Silva reshuffled his government following a corruption scandal involving several high-ranking officials, with the objective of regaining voter consensus in view of the 2006 elections. With the economy subject to continuing inflationary pressure, the monetary authorities intervened to increase official interest rates from 18.25 percent to 19.75 percent, through a series of adjustments from January to May. The rate increases to hold down inflation were followed by a slowing of the economy, and as of September, the monetary authorities began a series of rate reductions which put official rates at 18 percent as of December.

In Europe, **Russia** proved to be the best performing country, mainly as a result of the high prices for energy. Russia remains the world's second largest producer of crude oil after Saudi Arabia, with the drilling and refining industries accounting from more than 25 percent of the country's GDP, and the exports of crude oil, gasoline and natural gas representing roughly 55 percent of total exports. Despite the growth of commodity prices, and in particular, oil and gas, the growth of GDP for the first three quarters of 2005 decelerated to 6 percent from 7.5 percent for the same period in 2004. The country's economic growth was also adversely influenced by the appreciation of the rouble, as well as the decrease in direct foreign investment consequence to political uncertainty.

The year of 2005 was yet another favourable year for **commodities**, and in particular, energy products, precious metals, and industrial and soft commodities. The CRB Index rose by roughly 17 percent in 2005 compared with a 11.2 percent increase in 2004. Even though crude oil prices at the end of the year had receded significantly from their August highs, the energy sector within the CRB Index (which includes gasoline, heating fuel, and natural gas) climbed by about 47 percent,

with crude oil getting above \$70 per barrel. The industrial sector within the CRB Index also continued on a positive trend, rising by 30 percent, while the precious metals sector was up by 21 percent, and included new highs for the prices of copper and gold.

Chart 9: CRB Index Sub-Components in 200

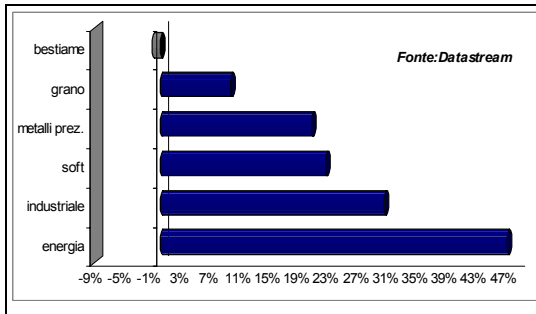
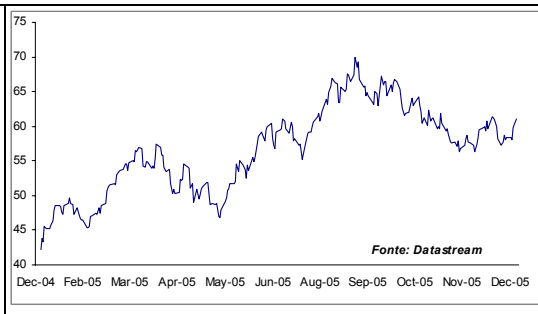


Chart 10: WTI Index - Crude Oil Prices



3.2 The Italian Economy

Italy is likely to have ended 2005 with a **practically nil growth rate**, compared with the 1.4 percent estimated for the Eurozone as a whole. Based on the data available for the first three quarters of 2005, both private investments and net exports had a negative impact on growth, while public spending was once again accelerating. Industrial production, adjusted for seasonality and the number of business days, was down by 0.5 percent with respect to 2004, even though there were signs of a rebound in the second half. The leading indicators with regard to small- and medium-sized enterprises (SMEs) operating in the services and manufacturing sectors were at their highest levels in December since August 2004 and November 2000, respectively. Consumer confidence also improved as of September, even though the December indicator receded on uncertainty over the future possibilities for setting aside savings.

Chart 11: Italy: GDP (% Change y/y)

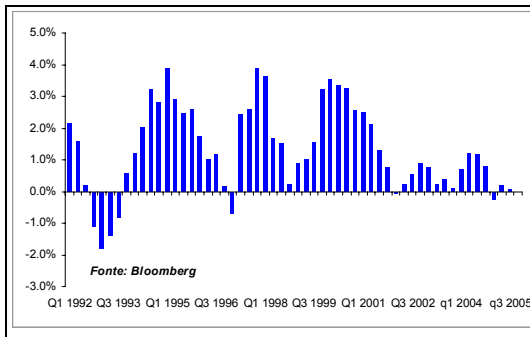
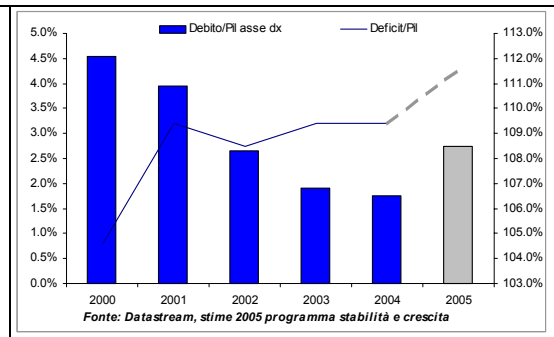


Chart 12: Italy: Debt and Deficit/GDP



The **public-sector accounts** remained under pressure. In July, **S&P** downgraded the outlook for Italy from stable to negative because of the growing risks for the country's finances in light of the limited economic growth and the further easing of the conditions required by the Stability and Growth Pact. The agency furthermore stated that the country's debt rating might be lowered within

18 months if corrective measures were not to be taken, though it looked apparent that no decision in this regard would be taken until after the national elections. Fitch also elected to downgrade its outlook for Italy to negative.

4 Results by Business Unit

For the year ending 31 December 2005, MPS Finance earned an operating profit of **€53.954 million**, a decrease of 34 percent in comparison with the preceding year. Part of the reduction is attributable to the recognition of tax-exempt earnings which, if net profit were to be held equal, imply a decrease of roughly 33 percent in pre-tax earnings as a result of the decline in gross operating profit.

Results by business unit are disclosed in the table hereunder:

<i>(in € 000's)</i>	December 2005	December 2004	% Change 2004-2005
MARKETS DIVISION	36,248	58,420	(38%)
Structuring Solutions	10,199	15,138	(33%)
COMMERCIAL DIVISION: Corporate	6,455	6,533	(1%)
Strategic Investment	1,052	1,369	(23%)
TOTAL OPERATING PROFIT	53,954	81,460	(34%)

The profitability of the trading units (Interest Rate Derivatives, Equity Derivatives, Credit Products and Government and Money Market), the Equity and Debt Syndication Business Unit, and the Group Networks Portfolio incorporates the compensation to the electronic distribution channels and the entire sales force which is split between two different business units in relation to the type of business served: Institutional Sales for business with domestic and foreign institutional clients, cooperatives, foundations and social-welfare institutions; and Debt Origination and Structured Finance for origination activity.

4.1 MARKETS DIVISION

The Markets Division was set up at the end of the second quarter pursuant to the provisions of the Repositioning Plan, and consists of the following business units:

- Equity Derivatives
- Interest Rate Derivatives
- Credit Products
- Government and Money Market
- Equity and Debt Syndication
- Dynamic Allocation Models Quantitative Support

The Markets Division and the Group Networks Portfolio generated operating earnings of €36.248 million, thus reflecting a decrease of 38 percent in comparison with the previous year.

OPERATING PROFIT (in € 000's)	December 2005	December 2004	% Change 2004-2005
MARKETS DIVISION	36,248	58,420	(38%)

The activity during the year was focused on (i) strengthening the competitive position in businesses with higher added value, and (ii) recovering efficiency in the more mature businesses, so as to lay the foundation for a gradual earnings improvement in 2006.

Tactical risk-taking was concentrated on modulating structural risks (correlation, volatility spreads), with recourse to directional risks that entailed the rapid rotation of exposure and a moderate contribution to total risk.

At the same time, efforts were made to streamline and reduce structural exposure, with the positive results achieved in the secondary market also taken into account.

The focus on the product/market innovation process was critical for certain business areas, and initiatives were undertaken to pave the way an effective and complete redefinition of the portfolio of products and services.

4.1.1 Equity Derivatives

The business unit's positive performance is partly attributable to the dynamic management approach taken with respect to positions created as a result of business booked in both 2005 and preceding years.

At the start of the year, the concentration of business in structures entailing risk in the event of changes in volatility (regardless of the sign, the so-called "vol-convexity") had a negative impact on results. With all of the market makers having this sort of structural exposure, each decline in volatility forced new volatility sales.

In this scenario, the best stance appeared to be a defensive posture against structural positions and an opportunistic approach to directional positioning, with short-range positions that effectively balanced the long positioning on medium-/long-term volatility.

During the second half of the year, the downward pressure on implicit volatilities tended to ease, while the decline in actual and implicit correlations (both between and within the indices) was a continuing trend. For both situations, the positioning of the Bank's books was in line with the market trend.

The Bank's operations in underlying commodities were also brought fully on stream during the year. With the market's renewed focus on such commodities, the Bank was able to structure and manage products that proved successful solutions for investors.

The Bank's business in the secondary market was also significant in terms of earnings, and was carried out for the purpose of providing liquidity to the MPS Group's issues placed with retail customers.

4.1.2 Interest Rate Derivatives

The business unit achieved positive results through its dynamic management of the risk profiles within the portfolios, which were created as a result of business closed in 2005 and preceding years.

The Bank also consolidated its secondary-market management of almost 300 structured securities placed through the MPS Group's networks. More specifically, the continued tracking of securities' pricing and risk made it possible to improve performance with increasingly less complicated management of the risk from an operational perspective. This activity proved to be significant in terms of both operations and earnings.

With regard to the inflation segment, efforts continued to curtail and streamline the risk profiles, through the closing out of positions with deflation-related risk and the virtual total elimination of the risks inherent to various national indices.

4.1.3 Credit Products

The market for credit products in 2005 experienced rather limited volatility and a general contraction of spreads.

From a risk-management perspective, the market focused on idiosyncratic risks, thereby implying that the vulnerability when risk premiums are virtually stable or contracting is limited only to certain business segments and/or names involved in extraordinary financing transactions.

The activity was concentrated on streamlining the structure of the risks and ensuring proper development of the technological base, so as to position the business in products having a higher added value per unit of risk. Initiatives were thus concentrated on bringing the product portfolio back in line with the market standards.

The Bank also took advantage of several relative-value trading opportunities with regard to capitalization certificates.

4.1.4 Government and Money Market

The market's contingent conditions made the trading activity rather difficult, with fluctuating results as a consequence. The ongoing reduction of market's volatility was instead favourable for market making, with the Bank managing to place among the market leaders with respect all of the various categories of rankings in the secondary market for government securities.

In the short-term segment, the relative value of Italian securities decreased vis-à-vis hedge instruments (such as swaps and futures) in the first half of the year, however, in the second half of the year, short-term Italian paper firmed significantly. The Bank also achieved sound earnings in this segment. Repurchase agreement volumes decreased on a net basis in 2005, though a strong increase was recorded in the volumes of such instruments traded on the screen-based market ("MTS").

Finally, the business of stock lending yielded solid total volumes (around €15.7 billion) with most of the transactions concentrated in Italian names (53.88 percent). Indeed, the fact that Italian securities were involved in numerous corporate actions or were the target of speculation had the effect of fuelling stock-lending market in 2005. Another interesting development, particularly with regard to 2006, is the continuation of a process to activate a new stock lending service with respect to shares owned by the MPS Group's private clients.


4.1.5 Equity and Debt Syndications

Although the **equity and debt syndication** market came to a brief standstill due to the introduction of new standards and regulations for prospectuses published in Europe, the Eurobond market hit yet another record in 2005, with 9,225 issues for a countervalue of \$1.874 trillion, for a 10.27 increase over the prior year. In Italy, the primary market was flooded with liquidity, with spreads increasingly on the decline.

During the year, MPS Finance served as the lead manager and bookrunner for 15 bond issues, with a countervalue of roughly €2.8 billion:


<p>Issuer BMPS</p>  <p>Floating Rate Notes due 2010 Febbraio 2005</p> <p>Lead Manager & Bookrunner</p>  <p>€ 1,000,000,000</p>	<p>Issuer BMPS</p>  <p>3.875% Notes due 2015 Febbraio 2005</p> <p>Lead Manager & Bookrunner</p>  <p>€ 500,000,000</p>	<p>Issuer BMPS</p>  <p>CMS due 2010 Aprile 2005</p> <p>Sole Lead Manager</p>  <p>€ 70,000,000</p>	<p>Issuer BMPS</p>  <p>Tier 3 Floating Rates Notes due 2007 Giugno 2005</p> <p>Lead Manager & Bookrunner</p>  <p>€ 250,000,000</p>
<p>Issuer BMPS</p>  <p>LT2 10NC5 FRN Notes due 2015 Giugno 2005</p> <p>Lead Manager & Bookrunner</p>  <p>€ 350,000,000</p>	<p>Issuer MPSFinance</p>  <p>Tier 3 Floating Rates Notes due 2008 Giugno 2005</p> <p>Lead Manager & Bookrunner</p>  <p>€ 50,000,000</p>	<p>Issuer CITTA' DI SIENA</p>  <p>2.983% Notes due 2015 Giugno 2005</p> <p>Lead Manager</p>  <p>€ 2,365,000</p>	<p>Issuer CITTA' DI SIENA</p>  <p>2.983% Notes due 2015 Giugno 2005</p> <p>Lead Manager</p>  <p>€ 5,414,000</p>
<p>Issuer CITTA' DI SIENA</p>  <p>3.113% Notes due 2015 Luglio 2005</p> <p>Lead Manager</p>  <p>€ 1,823,000</p>	<p>Issuer CITTA' DI GROSSETO</p>  <p>3.705% Notes due 2025 Agosto 2005</p> <p>Lead Manager</p>  <p>€ 11,863,000</p>	<p>Issuer CITTA' DI SIENA</p>  <p>Floating Rates Notes due 2036 Ottobre 2005</p> <p>Lead Manager</p>  <p>€ 18,380,000</p>	<p>Issuer CITTA' DI SIENA</p>  <p>3.499% due 2015 Novembre 2005</p> <p>Lead Manager</p>  <p>€ 3,543,000</p>

Issuer
BMPS




LT2 12NC7 FRN Notes
due 2017
Novembre 2005

Lead Manager & Bookrunner




€ 500,000,000

Issuer
BPSpoletto




LT2 10NC5 FRN Notes
due 2015
Novembre 2005

Lead Manager & Bookrunner




€ 30,000,000

Issuer
CITTA' DI SIENA



3.406%
due 2015
Dicembre 2005


Lead Manager



€ 2,427,000


The syndication desk also participated in the following underwriting and placement syndicates in the euro market, taking on the role of co-lead manager:

Issuer
BTP



Inflation Linked Notes
due 2010
Gennaio 2005

Co-Lead Manager



€ 5,000,000,000

Issuer
CR Bolzano




Floating Rate Notes
due 2012
Febbraio 2005

Co-Lead Manager




€ 400,000,000

Issuer
Media Finance Srl




Floating Rate Notes
due 2039
Febbraio 2005

Co-Lead Manager




€ 277,100,000

Issuer
Merrill Lynch & Co.




Floating Rate Notes
due 2010
Febbraio 2005

Co-Lead Manager




€ 1,500,000,000

Issuer
UBS Preferred Funding Ltd




4.28% Perp T1 NC10 Notes
due 2049
Aprile 2005

Co-Manager




€ 1,000,000,000

Issuer
JPMORGAN CHASE & CO.




Floating Rate Notes
due 2010
Maggio 2005

Co-Lead Manager




€ 500,000,000

Issuer
Republic of Italy




CMS Notes
due 2020
Giugno 2005

Co-Lead Manager




€ 2,000,000,000

Issuer
Merrill Lynch & Co.








Floating Rate Notes
due 2008
Agosto 2005

Co-Lead Manager



€ 1,000,000,000

<p>Issuer GOLDMAN SACHS</p>  <p>3.125% Notes due 2012 Settembre 2005 Co-Lead Manager</p>  <p>€ 500,000,000</p>	<p>Issuer GOLDMAN SACHS</p>  <p>Floating Rate Notes due 2012 Settembre 2005 Co-Lead Manager</p>  <p>€ 500,000,000</p>	<p>Issuer Republic of Italy</p>  <p>4.00% BTP due 2037 Ottobre 2005</p> <p>Co-Lead Manager</p>  <p>€ 6,000,000,000</p>	<p>Issuer Merrill Lynch</p>  <p>Floating Rates Notes due 2011 Novembre 2005</p> <p>Co-Lead Manager</p>  <p>€ 500,000,000</p>
<p>Issuer Telecom Italia</p>  <p>7NC5 Floating Rates Notes due 2012 Novembre 2005</p> <p>Co-Lead Manager</p>  <p>€ 1,000,000,000</p>		<p>Issuer Taurus CMBS No. 2 Srl</p>  <p>CMB Floating Rates Notes CI A due 2019 Dicembre 2005</p> <p>Co-Lead Manager</p>  <p>€ 239,000,000</p>	

The syndication desk also worked with issuers to conclude two institutional **private placements**.

The **equity syndication** business experienced a positive trend in 2005, with the rising indices supported by sizeable volumes. For the first time since 2000, the Italian stock market witnessed net new listings (total of five). The shift serves to demonstrate increasing investor confidence in Italian equities.

MPS Finance reaffirmed its traditional leading role in this business, successfully taking part in the following transactions:

Public sale offers / public offers for the sale or exchange of shares

<p>Issuer IGD S.p.A.</p>  <p>Offerta Pubblica di Vendita e Sottoscrizione di n.105.000.000 azioni Gennaio 2005</p>  <p>Banca Garante del Consorzio di Garanzia</p>	<p>Issuer Toro Assicurazioni S.p.A</p>  <p>OPV di n. 54.552.000 di azioni Maggio 2005</p>  <p>Banca Garante del Consorzio di Garanzia</p>	<p>Issuer Enel S.p.A.</p>  <p>OPV di n. 575.000.000 di azioni Giugno 2005</p>  <p>Banca Garante del Consorzio di Garanzia</p>
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Issuer
Marr S.p.A.



OPVS
di n. 26.400.000 di azioni

Giugno 2005



**Banca Garante del
Consorzio di Garanzia**

Issuer
Banca Italease S.p.A.



OPVS
di n. 18.541.000 di azioni

Giugno 2005



**Banca Garante del
Consorzio di Garanzia**

Issuer
Anima S.p.A.



OPVS
di n. 27.400.000 di azioni

Ottobre 2005



**Banca Garante del
Consorzio di Garanzia**

Issuer
Caleffi S.p.A.



OPVS
di n. 14.000.000 di azioni

Ottobre 2005



**Banca Garante del
Consorzio di Garanzia**

Issuer
Safilo S.p.A.



OPVS
di n. 140.000.000 di azioni

Dicembre 2005



**Banca Garante del
Consorzio di Garanzia**

Issuer
Apulia Prontoprestito S.p.A.



OPVS
di n. 24.000.000 di azioni

Dicembre 2005



**Banca Garante del
Consorzio di Garanzia**

Rights issues

Issuer
Pirelli & C.



Aumento di capitale
di n. 1.539.291.916 di azioni

Febbraio 2005



**Banca Garante del
Consorzio di Garanzia**

Issuer
Cam Fin



Aumento di capitale
di n.154.227.692 di azioni.

Febbraio 2005



**Banca Garante del
Consorzio di Garanzia**

Issuer
Banca Popolare Etruria e Lazio



Aumento di capitale
di n.16.000.000 di azioni.

Maggio 2005



**Banca Garante del
Consorzio di Garanzia**

4.1.6 Group Networks

The Corporate Center has come up with a secondary-market pricing policy regarding securities issued by the MPS Group companies and other securities. The Group Networks Portfolio has been established for the purpose of recognizing the profits and losses resulting from this policy, which has been implemented by MPS Finance for the benefit of the MPS Group.

From an accounting standpoint, the amounts accrued the Group Networks Portfolio are booked to "Account 80 - Net profit (loss) from trading activity" of the profit and loss statement.

4.2 Structuring Solutions

OPERATING PROFIT (in € 000's)	December 2005	December 2004	% Change 2004-2005
STRUCTURING SOLUTIONS	10,199	15,138	(33%)

In June 2005, as part of its reorganization, the Bank concentrated all structuring activity in one unit, regardless of the customer segment involved. Thereafter, the Structuring Solutions Business Unit began offering support and pricing services to the sales and marketing areas in response to requests for ad-hoc structuring and production of catalogues to be floated to institutional and corporate clients.

The unit exceeded its pre-set targets in terms of earnings and volumes, thereby turning in an impressive performance, particularly considering a disappointing start in the early months of the year (due partly to the introduction of the international accounting principles which prompted the MPS Group to change the logic for the transfer pricing that had been adopted through 2004 for upfront underwriting commissions and commissions earned on an ongoing basis).

The unit earned roughly €10 million, and while this number was above the initial expectations, it was still below the comparable figure for the preceding year. The shortfall was basically the result of the transfer pricing introduced in the second half of 2004 with respect to the activity of structuring insurance policies.

In terms of production, the unit introduced new structured products linked to commodities such as precious metals and combustible fuel. Such products accounted for around 7.0 percent of total production, and considering the timing for their placement, the returns to the customers just a few months later were already well above those available on risk-free securities with the same maturities. In the area of interest-rate products, the declining volumes of inflation-linked structures were more than offset by the issue of very simple structures such as step-up callables, bonds with increasing coupons which can be called by the issuer starting in the second year after their placement; such structures have represented a good opportunity for switching out of ordinary fixed-rate bonds.

The remaining 45 percent of the unit's production was concentrated on growth products linked to the equity markets, and in particular, the European, American and Japanese markets. Two rather interesting products should be mentioned in this regard: the "bull-and-bear" structure which pays a coupon at a specific due date, regardless of whether the underlying index rises or falls; and the "winning strategy" solution, which links the coupon payment at maturity to the single portfolio strategy that performed the best among the strategies identified at the outset.

With regard to the production of pension, retirement-plan and insurance products, the volumes were up by 21 percent over the prior year, but the increase failed to offset a 55-percent decrease in earnings which was the result of a change in the transfer pricing introduced in the second half of 2004.

The issues were mainly concentrated in digital payouts, with the underlying baskets of European and American equities selected on the basis of specific rating and capitalization criteria.

4.3 COMMERCIAL DIVISION

The Commercial Division was set up at the end of the second quarter pursuant to the provisions of the Repositioning Plan, and consists of the following three business units:

- Corporate
- Institutional Sales and Innovative Channels
- Debt Origination and Structured Finance

4.3.1 Corporate

OPERATING PROFIT (in € 000's)	December 2005	December 2004	% Change 2004-2005
CORPORATE	6,455	6,533	(1%)

For its first six months of activity, the business unit generated operating earnings of roughly €6.5 million, for a decrease of 1.0 percent with respect to the prior year.

The Corporate Business Unit's earnings in 2005 were impacted by the adoption of the international accounting principles, which radically changed the accounting treatment of derivatives. With this development flanked by changes to the formats for the reporting of derivatives to the regulatory authorities, the Bank obviously needed a certain amount of time for adapting to the new standards.

The competitive environment changed as well. With the corporate hedging business already at a very mature stage, the market's counterparties are now primarily businesses with a better general awareness of the products, and this has had the effect of steadily decreasing profit margins.

Earnings highlights include income on foreign-exchange trading for corporate clients that rose significantly, hitting around €1.3 million, and thus almost doubling with respect to the prior year.

As of 31 December 2005, the Corporate Business Unit had closed transactions with a total countervalue of roughly €4.85 billion, including around €4.35 billion of financial risk hedging transactions (around €3 billion for interest-rate risk hedging and €1.3 billion for foreign-exchange risk hedging), €400 million in investment transactions, and €100 million of structured financing.

The business with large corporate clients was concentrated within a special area of the Corporate Business Unit starting in the second quarter of 2005. During the remainder of the year, this area generated hedging volume of roughly €600 million.

The Corporate Business Unit closed 2005 having completed around 1,000 transactions for a nominal amount of around €4 billion. Some 35 innovative finance issues were perfected during the

year for a countervalue of around €460 million; these issues embraced securities with 4-, 6- and 24-month maturities and structured financing.

The business with public-sector entities accelerated significantly in the second half of 2005, partly due to the perfection of certain transactions covered by advisor mandates secured in the early months of the year. This area of the Corporate Business Unit ended 2005 with having completed 47 new transactions for a total countervalue of approximately €326 million.

The business unit's results do not take into account the activity of supporting Banca MPS carried out during the year in relation to bond issues and the renegotiation of mortgages with local public-sector entities. The current budget system does not take such activity into account.

4.3.2 Institutional Sales and Innovative Channels

The business unit's activity in 2005 was significantly impacted by the low interest rate environment and very thin spreads, with both factors having also affected the operational profile for 2004.

Institutional sales activity yielded total volumes of around €12 billion, for a decrease of 22 percent with respect to 2004.

The transactions and the volumes executed via telephone were slightly lower year on year, mainly due to the evident contraction of spreads that made buying bonds in the secondary market a less-than-appetizing prospect. The business was also impacted by pricing that was less competitive than in the past.

The transactions in government securities were instead much higher than in 2004.

The business unit also experienced a pronounced slowdown in its activity of hedging both structured bonds for the direct funding of banks and the assets underlying index-linked insurance policies.

The business unit continued with the institutional placement of issued for which MPS Finance served as lead manager.

The amount traded through electronic channels came to roughly €3.5 billion, decreasing by 22 percent year on year and accounting for 26 percent of total trading.

The Bloomberg Electronic Trading (BET), a system for trading debt securities and the top business-to-business trading channel within the multi-channel De@IDone trading platform, lost significant ground in competitive terms in 2005, partly due to the increasing number of counterparties active in this business. More than 650 securities are quoted on the BET, with the number of active counterparties around 200 and the volumes transacted equal to around €992 million.

In terms of sales, the volumes traded on the De@IDone platform were down by 40 percent with respect to 2004. The platform is increasingly becoming a liquidity mechanism for the MPS Group's domestic issues, with around 400 bonds issued by the banks of the MPS Group listed and traded.

Business with cooperatives, foundations and social-welfare institutions entailed the placement of securities with a nominal value of around €3.5 billion.

During the year, this area of the business unit concentrated on supplying portfolio-analysis advisory services to both foundations and social-welfare institutions. An expansion of the

cooperative customer base was also achieved in 2005, as a result of initiatives jointly undertaken with the market research area.

4.3.3 Debt Origination and Structured Finance

The Debt Origination and Structured Finance Business Unit was set up in the second quarter, and during its first months of activity, it focused on preparing for its strategic mission as laid out in the Repositioning Plan that was still pending approval.

4.4 Strategic Investment

OPERATING PROFIT (in € 000's)	December 2005	December 2004	% Change 2004-2005
STRATEGIC INVESTMENT	1,052	1,369	(23%)

The Strategic Investment Portfolio as of 31 December 2005 consisted of the following instruments:

- €15 million of units (nominal value) in the MPS SGR Hedge Fund

From an accounting standpoint, the amounts accrued the Strategic Investment Portfolio are booked to "Account 80 - Net profit (loss) from trading activity" in the profit and loss statement.

5 Risk Management

In line with its traditional business orientation and consistent with its mission, MPS Finance recognizes the management, measurement and monitoring of risks are critical to the Bank's success, and crucial to the process of value creation and the safeguarding the Bank's assets.

MPS Finance has equipped itself with a risk-management system based on a complex architecture which embraces various systems and applications that are designed to supply senior management and the Bank's internal controls staff with information to support strategic decisions, detail on the risk profiles of the trading portfolios, and timely data on earnings performance. The system is also based on integration and coordination of the risk management and internal controls activity.

The Bank uses an internally developed application for the estimation of value at risk (VaR). The calculation of VaR on MPS Finance's trading positions is based on the historical simulation of the three risk components (equity, interest rates and foreign-exchange rates).

The advantages of the historical simulation method in calculating VaR are summarized as follows:

1. It is not parametric, and thus it calculates the value of the portfolio in local currency in response to any change in the risk factors.
2. Assumptions about the distribution of yields are not required.
3. The correlation between risk factors is implicitly considered in the calculation of VaR.
4. The correlation between risk components is also implicitly considered in the calculation of VaR.
5. It is considered the best practice on an international scale.

The parameters for calculating VaR are as follows:

1. holding period of one day;
2. confidence level at 99 percent;
3. historic analysis extended over a period of two years.

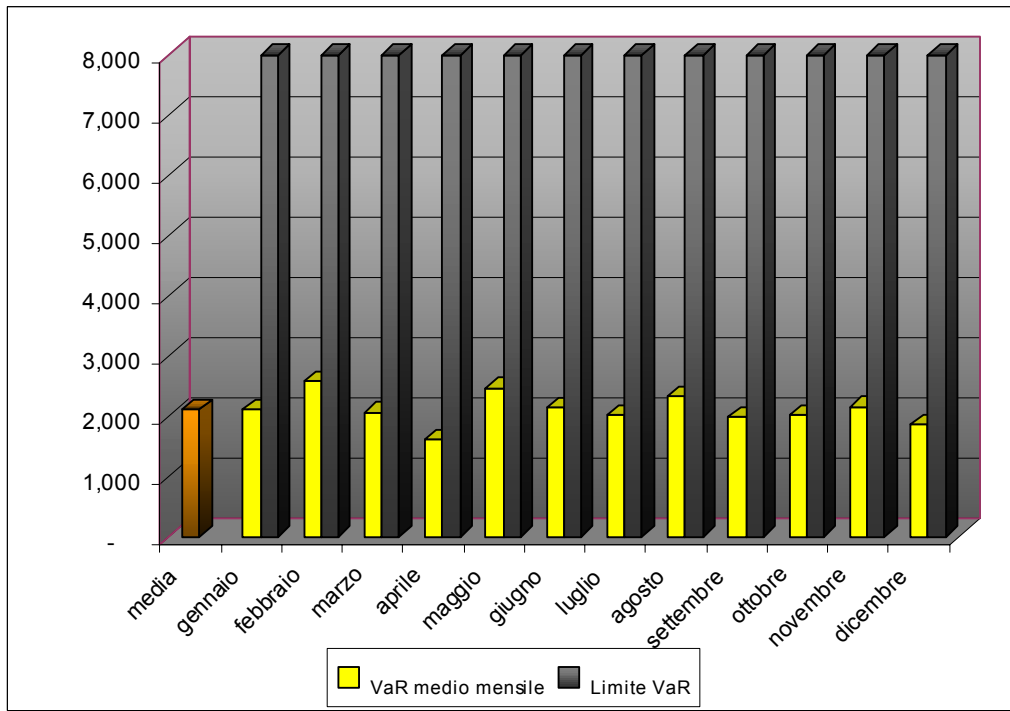
Using the data produced in the calculation of VaR, the Bank is also able to study the marginal VaR per portfolio. This measure identifies the contribution of a portfolio to the overall VaR of the business unit and/or of the bank to which the portfolio belongs. In other words, it pinpoints the increase or decrease in the business unit's or bank's total VaR that would be realized without the portfolio.

The Bank's experience in controlling risks has basically reinforced the conviction that the analysis and monitoring of risks and the reporting of profit-and-loss aggregates cannot be done without specific and appropriate price-verification procedures.

During 2005, the Bank further developed instruments in relation to specific areas of risk to which the Bank is exposed by virtue of its regular business activity, including, for example, specific tools to control the pricing of structured bonds and the exposure to synthetic risk.

The chart which follows shows a summary of the monthly averages of the daily VaR in relation to market risks for the year of 2005:

Chart 1 – Average daily VaR by month for the year of 2005 (in € 000's)

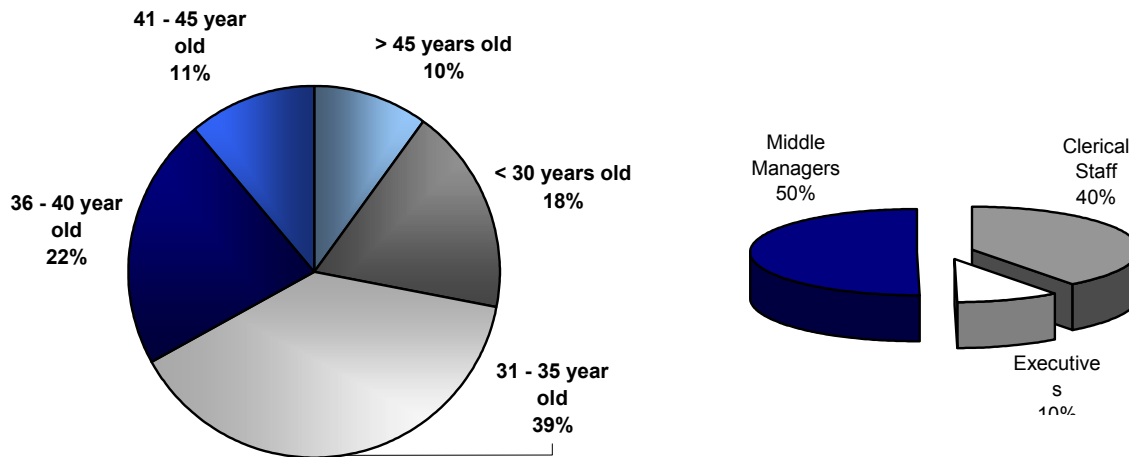


The actual absorption of VaR was constantly kept below the overall limit set by the Board of Directors.

6 Human Resources

After sharply reducing its work force in 2004, the Bank increased staffing in 2005 by a total of six employees in line with the guidelines set out in the Repositioning Plan. The new staff was recruited through the placement offices of various Italian universities and/or through the direct selection of apprentices, and with the market recruitment of individuals having the profiles described in the job descriptions and requirements that are an integral part of the Repositioning Plan.

As of 31 December 2005, MPS Finance had a total work force of 171, including 10 employees on assignment from Banca Monte dei Paschi and other companies of the MPS Group. The Bank had



another 17 full-time employees on assignment with various companies of the MPS Group. Given the overall effect of the assignments, the number of employees on the payroll as of the end of 2005 was 178.

The charts below illustrate the distribution of the work force by age and by job category:

The table hereunder shows the distribution of staffing over the various sectors of the Bank's activity as of 31 December 2005.

Distribution of Resources by Sector of Activity

	Number	%
Operating Areas	74	43%
Control	15	9%
Staff and Support	82	48%
Total	171	100%

7 Acknowledgement of Law Decree 231/2001

At its meeting of 16 December 2004, the Board of Directors of MPS Finance adopted the organizational and operational model ("Model 231") referenced in Article 6, Paragraph 1, Letter a) of the Law Decree No. 231 of 8 June 2001 ("Governance of the administrative responsibility of legal persons, companies, and associations, including those without legal status").

At the same meeting, the Board set up a Governance Committee which will be responsible for overseeing the activation and continuous operation of the model, the organizational compliance with the various aspects of the model, and the updating of the model as provided by Article 6, Paragraph 1, Letter b) of the aforementioned law decree.

The Bank's Model 231 was submitted for a preliminary review to Banca Monte dei Paschi di Siena S.p.A.'s Internal Controls Committee which is the unit aiding all companies of the MPS Group in the development of their respective models and in coordinating the governance function. This unit returned a favourable opinion on the Bank's model.

The Bank's Model 231 was prepared in accordance with the general principles and criteria supplied through a special MPS Group Directive on the acknowledgement of Law Decree 231 of 2001 and by observing the guidelines made available by the Italian Banking Association.

The MPS Finance Governance Committee set up pursuant to Law Decree 231 of 2001 was formally established on 17 November 2005, and after officially acknowledging its functions, it defined a series of measures to make the Model 231 fully operative. Such measures take into account the guidelines provided by Banca Monte dei Paschi di Siena S.p.A.'s Internal Controls Committee.

The Governance Committee set up pursuant to Law Decree 231 of 2001 also handled the updating the Model 231 in relation to new legislation on the subject of market abuse and market manipulation. Another update to the Model 231 became necessary with the enactment of Law n. 262 of 28 December 2005, which has made the non-disclosure of conflicts of interest one of the crimes governed by Law Decree 231 of 2001.

The Model 231 may be consulted on the MPS Finance Internet site.

8 Relationships with Group Companies

The Bank had numerous and significant relationships with the parent company, Banca Monte dei Paschi di Siena, and with the other companies of the MPS Group during 2005.

While details of these transactions are provided in Section 2 of "Part H - Transactions with related parties" in the notes to the financial statements, details on their more important aspects are disclosed hereunder.

As in 2004, the Bank pursued its business development in 2005 by continuing to rely on the direct support supplied by the parent company, and in particular, with the use of credit lines made available by the parent.

The aforementioned relationships also involved the parent company's intermediation in the opening of market positions which both absorbed capital and required the use of middle- and back-office staff of the parent company.

The Bank and the parent company have ongoing supply relationships covering various types of services to support normal operating activity.

The economic effects of the services supplied on a reciprocal basis between the Bank and the parent company during 2005 and determined on the basis of this agreement are included in the results for the period.

The relationships with the parent company also regard:

- the market transactions executed by the Bank as part of its strategic mission involving the subscription to financial instruments issued by third parties, which are sold thereafter to the banks of the MPS Group;
- the presence of the personnel of the parent company at the Bank and the presence of Bank personnel at Banca Monte dei Paschi di Siena;
- the granting of temporary loans by BMPS and used for the Bank's normal funding activity.

As part of the governance of the relationships with the companies of the MPS Group, an agreement has been in effect since January 2003 covering the Bank's repurchase of innovative finance products created by the Bank and placed with the commercial networks of the MPS Group.

During 2005, the Bank directly effected one transaction involving securities of the parent company, Banca Monte dei Paschi di Siena S.p.A., namely, the sale of 125,000 of the parent company's shares.

The shareholder meeting of 28 April 2005 passed a resolution governing the terms and conditions for effecting transactions in the securities of the parent company, Banca Monte dei Paschi di Siena S.p.A., in conformity with the provisions of prevailing law. Mostly due to technical factors, this activity is linked to hedging-based risk management strategies which can require recourse to the spot markets through trading of the securities underlying positions in derivatives contracts (including the BMPS securities).

Finally, it is noted that all relationships with the companies of the MPS Group are governed by normal market conditions.

9 Proposals of the Board of Directors

The shareholders are requested to approve the financial statements as of 31 December 2005 (balance sheet, profit and loss statement, and notes to the financial statements) and the report on operations, and to approve the following allocation of the profit of €34,278,118, computed pursuant to IAS:

- five percent to the legal reserve, for a total of **€1,713,906**;
- dividends of €0.125 per share, for a total of **€16,250,000**;
- amounts credited to other reserves for a total of **€16,314,212**.

It is also noted that the previously applied national accounting principles (IT GAAP) must be used in the computation of the earnings to be capitalized for the purpose of the determination of regulatory capital. With the application of such accounting principles, the Bank's net profit for 2005 comes to €39,475,026, with €23,225,025 to be capitalized.

10 Events Subsequent to Year End and Outlook for 2006

The Bank's activity from the end of 2005 through the date of the approval of these financial statements is consistent with its activity in the past and has mainly developed in accordance with the guidelines provided by the parent company.

Pursuant to a resolution passed by the Board of Directors of the parent company on 27 May 2005, MPS Finance's Information Technology unit was transferred to the MPS Operating Consortium on 1 January 2006. The transfer also entailed the re-assignment of 17 employees to the Operating Consortium, and the assignment of the contracts inherent to the information systems. This transaction will have a neutral effect on earnings inasmuch as the elimination of the direct expenditures of operating the unit will be offset by an increase in the annual fees paid by the Bank to the MPS Operating Consortium.

In the meantime, the Bank continues to invest in information systems that are designed in part to provide a higher level of security. Efforts are also ongoing in the implementation of risk-monitoring instruments and general controls over operations.

11 Financial Statements and Notes to the Financial Statements

Balance Sheet and Profit and Loss Statement
Statement of Changes in Shareholders' Equity
Statement of Changes in Financial Position (Indirect Method)
as of 31 December 2005

BALANCE SHEET

Assets		31/12/2005
10	Cash and cash equivalents	784
20	Financial assets held for trading	19,357,034,772
60	Due from banks	1,541,801,668
70	Due from customers	3,915,000
100	Equity investments	20,448,098
110	Fixed assets	447,705
120	Intangible assets <i>including: goodwill</i>	1,323,359
130	Tax assets	3,710,239
	<i>a) current</i>	
	<i>b) deferred</i>	3,710,239
150	Other assets	53,716,246
Total assets		20,982,397,871

BALANCE SHEET

Liabilities and Shareholders' Equity		31/12/2005
10	Due to banks	3,369,111,814
20	Due to customers	36,889,436
30	Securities issued	155,022,498
40	Financial liabilities for trading	17,158,130,860
80	Tax liabilities	7,536,480
	<i>a) current</i>	
	<i>b) deferred</i>	7,536,480
100	Other liabilities	32,686,658
110	Staff severance indemnity reserve	1,253,182
160	Reserves	56,197,683
170	Paid-in capital	1,291,142
180	Share capital	130,000,000
200	Profit (loss) for the period (+/-)	34,278,118
Total liabilities and shareholders' equity		20,982,397,871

PROFIT AND LOSS STATEMENT

Accounts		31/12/2005
10	Interest and similar income	296,309,659
20	Interest and similar expense	(264,037,343)
30	Interest margin	32,272,316
40	Commissions earned	2,780,546
50	Commissions expense	(21,232,039)
60	Net commissions	(18,451,493)
70	Dividends and similar income	135,824,588
80	Net profit (loss) from trading activity	(95,576,511)
120	Total banking income	54,068,900
140	Net profit (loss) from financial operations	54,068,900
150	Administrative expenses:	(37,122,247)
	<i>a) personnel expenses</i>	(18,862,028)
	<i>b) other administrative expenses</i>	(18,260,219)
170	Net adjustments (writebacks) to the value of fixed assets	(698,047)
180	Net adjustments (writebacks) to the value of intangible assets	(1,640,446)
190	Other operating expenses (income)	1,694,405
200	Operating expenses	(37,766,335)
250	Pre-tax profit (loss) from continuing operations	16,302,565
260	Taxes on income from continuing operations	17,975,553
270	Net profit (loss) from continuing operations	34,278,118
290	Profit (loss) for the period	34,278,118

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

	Shareholders' Equity as of 31/12/2004	Adjustments to Opening Balances	Shareholders' Equity as of 31/12/2004	Allocation of Prior Period Income		Changes in Reserves	Shareholders' Equity Transactions					Net Profit (Loss) 31/12/2005	
				Reserves	Dividends and Other Allocations		Issue of New Shares	Purchase of Own Shares	Extraordinary Dividends	Change in Capital Instruments	Derivatives on Own Shares		Stock Options
Share capital:	130.000	-	130.000	-	-	-	-	-	-	-	-	-	-
a) Ordinary shares													
b) Other shares													
Paid-in capital	1.291		1.291										
Reserves	52.526	(4.852)	47.674	8.524	21.327								
a) Earnings													
b) Other:													
Valuation reserves:													
a) Available for sale													
b) Coverage of financial flows													
c) Other:													
Capital instruments													
Own Shares													
Net profit (loss) for the period	34.399	(4.548)	29.851	(8.524)	(21.327)								34.278
Shareholder's equity	218.216	(9.400)	208.816	0	0	0	0	0	0	0	0	0	34.278

**Statement of Changes in Financial Position
(Indirect Method)**

	<u>Amount</u>
	<u>31/12/2005</u>
A. OPERATING ACTIVITY	83,551
1. Operations	83,551
Profit for the period (+/-)	34,278
Capital gains (losses) on financial assets held for trading and financial assets/liabilities stated at fair value (+/-)	76,163
Net impairment-related valuation adjustments/writebacks (+/-)	39
Net adjustments/writebacks to the value of fixed and intangible assets (+/-)	2,338
Net provisions to reserves for risks and charges and other costs/revenues (+/-)	(225)
Taxes and duties not yet settled (+)	(17,976)
Other adjustments (+/-)	(11,066)
2. Liquidity generated/absorbed by financial assets	(3,100,994)
Financial assets held for trading	(3,046,263)
Financial assets available for sale	422
Due from customers	(1,712)
Due from banks: other receivables	(52,421)
Other assets	(1,020)
3. Liquidity generated/absorbed by financial liabilities	3,051,822
Due to banks: other payables	(200,821)
Due to customers	31,473
Securities issued	50,005
Financial liabilities for trading	3,157,617
Other liabilities	13,548
A - Net liquidity generated/absorbed by operations	34,379
B. INVESTMENT ACTIVITY	
1. Liquidity generated by:	13,099
Dividends received from companies in which investments are held	13,099
2. Liquidity absorbed by:	(392)
Purchase of fixed assets	(71)
Purchase of intangible assets	(321)
B - Net liquidity generated/absorbed investment activity	12,707
C. FUNDING ACTIVITY	
Distribution of dividends and other	(21,327)
C - Net liquidity generated/absorbed by funding activity	(21,327)
D (A+B+C) - NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD	25,759

Reconciliation

Balance Sheet Accounts	<u>Amount</u>
	<u>31/12/2005</u>
Opening balance of cash and cash equivalents (including sight receivables and payables)	232,876
Total net liquidity generated/absorbed during the year	25,759
Closing balance of cash and cash equivalents (including sight receivables and payables)	258,635

COMPARATIVE SCHEDULES

BALANCE SHEET (in € 000's)

Assets		31/12/2005	31/12/2004*
10	Cash and cash equivalents	1	-
20	Financial assets held for trading	19,357,035	16,374,205
40	Financial assets available for sale	-	422
60	Due from banks	1,541,802	1,553,242
70	Due from customers	3,915	2,203
100	Equity investments	20,448	20,448
110	Fixed assets	448	1,075
120	Intangible assets <i>including: goodwill</i>	1,323	2,681
130	Tax assets	3,710	4,230
	<i>a) current</i>		
	<i>b) deferred</i>	3,710	4,230
150	Other assets	53,716	41,599
Total assets		20,982,398	18,000,105

(*) The data for 2004 have been computed without the application of IAS 32, IAS 39 and IFRS 4, and are subject to reclassification.

		BALANCE SHEET		(in € 000's)
Liabilities and Shareholders' Equity		31/12/2005	31/12/2004*	
10	Due to banks	3,369,112		3,659,552
20	Due to customers	36,889		5,416
30	Securities issued	155,022		105,017
40	Financial liabilities for trading	17,158,131		13,990,818
80	Tax liabilities	7,536		14,733
	<i>a) current</i>			
	<i>b) deferred</i>	7,536		14,733
100	Other liabilities **	32,687		17,806
110	Staff severance indemnity reserve	1,253		1,039
120	Reserves for risks and charges:			
	<i>a) pension funds and similar obligations</i>			225
	<i>b) other reserves</i>			225
160	Reserves	56,198		44,357
170	Paid-in capital	1,291		1,291
180	Share capital	130,000		130,000
200	Profit (loss) for the period (+/-)	34,278		29,851
Total liabilities and shareholders' equity		20,982,398		18,000,105

(*) The data for 2004 have been computed without the application of IAS 32, IAS 39 and IFRS 4, and are subject to reclassification.

**PROFIT AND LOSS
STATEMENT**

(in € 000's)

Accounts	31/12/2005	31/12/2004*
10 Interest and similar income	296,310	229,124
20 Interest and similar expense	(264,037)	(209,818)
30 Interest margin	32,272	19,306
40 Commissions earned	2,781	9,304
50 Commissions expense	(21,232)	(59,416)
60 Net commissions	(18,451)	(50,112)
70 Dividends and similar income	135,825	39,110
80 Net profit (loss) from trading activity	(95,577)	61,167
120 Total banking income	54,069	69,471
140 Net profit (loss) from financial operations	54,069	69,471
150 Administrative expenses:	(37,122)	(40,870)
<i>a) personnel expenses</i>	(18,862)	(18,921)
<i>b) other administrative expenses</i>	(18,260)	21,949
160 Net provisions to the reserves for risks and charges	-	(225)
170 Net adjustments (writebacks) to the value of fixed assets	(698)	(1,407)
180 Net adjustments (writebacks) to the value of intangible assets	(1,640)	(1,671)
190 Other operating expenses (income)	1,694	4,440
200 Operating expenses	(37,766)	(39,733)
250 Pre-tax profit (loss) from continuing operations	16,303	29,738
260 Taxes on income from continuing operations	17,976	113
270 Net profit (loss) from continuing operations	34,278	29,851
290 Profit (loss) for the period	34,278	29,851

(*)The data for 2004 have been computed without the application of IAS 32, IAS 39 and IFRS 4, and are subject to reclassification.

NOTES TO THE FINANCIAL STATEMENTS

Part A - Accounting policies

A.1 - General information:

- Section 1 - Statement of conformity with international accounting principles
- Section 2 - General principles for the preparation of the financial statements
- Section 3 - Events subsequent to the close of the accounting period
- Section 4 - Other information

A.2 - Principal financial statement aggregates:

- Section 1 – Financial assets held for trading
- Section 2 – Financial assets stated at fair value
- Section 3 – Financial assets available for sale
- Section 4 – Financial assets held to maturity
- Section 5 – Receivables
- Section 6 – Hedging transactions
- Section 7 – Equity investments
- Section 8 – Fixed assets
- Section 9 – Intangible assets
- Section 10 – Non-current assets held for sale
- Section 11 – Current and deferred taxation
- Section 12 – Payables and securities issued
- Section 13 – Financial liabilities for trading
- Section 14 - Financial liabilities stated at fair value
- Section 15 - Employee benefits and payables
- Section 16 – Reserves for risks and charges
- Section 17 – Transactions in foreign currency
- Section 18 – Other information

Part B - Information on the balance sheet

Assets:

- Section 1 – Cash and cash equivalents
- Section 2 – Financial assets held for trading
- Section 3 – Financial assets available for sale
- Section 4 – Due from banks
- Section 5 – Due from customers
- Section 6 – Equity investments
- Section 7 – Fixed assets
- Section 8 – Intangible assets
- Section 9 – Tax assets and tax liabilities
- Section 10 – Other assets

Liabilities and Shareholders' Equity:

- Section 1 – Due to banks
- Section 2 – Due to customers
- Section 3 – Securities issued
- Section 4 – Financial liabilities for trading
- Section 5 – Tax liabilities

Section 6 – Other liabilities
 Section 7 – Staff severance indemnity reserve
 Section 8 - Reserves for risks and charges
 Section 9 – Shareholders' equity
 Section 10 - Other information

Part C - Information on the profit and loss statement

Section 1 – Interest
 Section 2 – Commissions
 Section 3 – Dividends and similar income
 Section 4 – Net profit (loss) from trading activity
 Section 5 – Administrative expenses
 Section 6 – Net adjustments (writebacks) to the value of fixed assets
 Section 7 – Net adjustments (writebacks) to the value of intangible assets
 Section 8 – Other operating income and expenses
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Part D - Segment reporting

Part E - Information on risks and hedging policies

Section 1 – Credit risk

Qualitative information
 Quantitative information:
 A. Credit quality
 B. Distribution and concentration of credit
 C. Securitizations and the transfer of assets

Section 2 – Market risks

Section 2.1 - Interest-rate risk - trading portfolio
 Qualitative information
 Quantitative information
 Section 2.2 - Interest-rate risk - banking portfolio
 Qualitative information
 Quantitative information
 Section 2.3 - Pricing risk - trading portfolio
 Qualitative information
 Quantitative information
 Section 2.4 - Foreign-exchange risk
 Qualitative information
 Quantitative information
 Section 2.5 - Financial derivatives
 A. Financial derivatives
 B. Credit derivatives

Section 3 – Liquidity risk

Qualitative information
 Quantitative information

Section 4 – Operational risks

Qualitative information
 Quantitative information

Part F - Information on capital

Section 1 – Shareholders' equity

Qualitative information

Quantitative information

Section 2 – Regulatory capital and capital-adequacy ratios

Section 2.1 - Regulatory capital

Qualitative information

Quantitative information

Section 2.2 - Capital adequacy

Qualitative information

Quantitative information

Part G - Business combinations regarding companies or business units

Section 1 – Transactions carried out during the year

Part H - Transactions with related parties

Part I - Share-based payments

NOTES TO THE FINANCIAL STATEMENTS

PART A

ACCOUNTING POLICIES

A.1 - General information

Section 1 – Statement of conformity with international accounting principles

The financial statements as of 31 December 2005 have been prepared in accordance with the international accounting principles issued by International Accounting Standard Board (IASB) and the interpretations thereof effected by the International Financial Reporting Interpretations Committee (IFRIC). The aforementioned international accounting principles were ratified by the European Commission with its EU Regulation n. 1606 of 19 July 2002.

The Bank elected to adopt the international accounting principles in the preparation of its 2005 financial statements on the basis of the provisions of Article 4, Paragraph 2 of Law Decree n. 38 of February 2005.

The application of the international accounting principles was also effected with reference to the IASB "Framework for the Preparation and Presentation of Financial Statements" (the "Framework").

In the absence of an accounting principle or an interpretation specifically applicable to a transaction, other event or circumstance, the Bank's senior management had to use its own judgment in developing and applying an accounting principle in order to provide disclosure that is significant and reliable for the purposes of the economic decisions made by the users;

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

- the provisions of the principles and the interpretations dealing with similar or related cases, and the guidelines for the application thereof;
- the definitions, the reporting criteria, and the measurement concepts contained in the Framework for the accounting registration of assets, liabilities, revenues and expenses.

In expressing a judgment, the Bank's senior management may also consider the provisions most recently issued by other entities responsible for ratifying accounting principles which are using a conceptually similar framework for developing: the accounting principles, other accounting-related documentation and generally accepted accounting practices in the banking sector.

Pursuant to Article 5 of Law Decree n. 38 of 28 February 2005, whenever, in exceptional cases, the application of a provision required by the international accounting principles was not compatible with the objective of providing a true and accurate representation of earnings, financial position or capital, the provision was not applied. The notes to the financial statements provide explanations for any exceptions to the international accounting principles, and illustrate the effects thereof on the representation of earnings, financial position and capital.

In the case of non-consolidated financial statements, any earnings arising from an exception are recorded in a reserve that may be distributed only to the extent of the actual amount recovered.

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

From the standpoint of presentation and valuation, the non-consolidated financial statements have been prepared in accordance with the international accounting principles (IAS) issued by the International Accounting Standard Board (IASB) and the interpretations thereof issued by the International Financial Reporting Interpretations Committee (IFRIC), as ratified by the European Union, as well as the provisions of the Bank of Italy's Circular n. 262 of 22 December 2005 governing the format and rules for the preparation of bank financial statements.

The non-consolidated financial statements consist of (i) the balance sheet, (ii) the profit and loss statement, (iii) the statement of changes in shareholders' equity, (iv) the statement of changes in financial position, and (v) the notes to the financial statements. The non-consolidated financial statements are supplemented by a report on the Bank's business and operating performance prepared by the board of directors.

The non-consolidated financial statements have been prepared with clarity, and provide a true and accurate representation of the Bank's capital, financial position and earnings for the period.

If the information disclosures required by the international accounting principles or by the provisions contained in the Bank of Italy's Circular n. 262 of 22 December 2005 are not sufficient to provide a true, accurate, meaningful, reliable, comparable and understandable representation of the Bank's capital, financial position and earnings, then supplemental information needed therefor is provided in the notes to the financial statements.

The balance sheet and profit and loss statement consist of numbered accounts, sub-accounts marked by letters, and additional details. The accounts, sub-accounts and additional details constitute the financial statement accounts.

A prior-year balance for each balance-sheet and profit-and-loss account has also been reported. Should the account balances for the two years not be comparable, the account balance for the preceding year has been restated. The lack of comparability and the restatement or the impossibility of a restatement are pointed out and discussed in the notes to the financial statements.

On the basis of the provisions contained in IFRS 1 (First-time application of the international accounting principles), the comparable data for the prior year with reference to financial instruments and insurance contracts (IAS 32, IAS 39 and IFRS 4) have not been restated, and thus have been classified, reported and valued in accordance with the previously applied national accounting principles. The accounting principles used through 2004 and disclosed in the relative financial statements have been used for the valuation and presentation of the 2004 balance-sheet accounts covering receivables, payables, securities, derivative contracts, equity investments and hedging transactions. The differences between such principles and IAS have been illustrated in detail in the discussion of the adoption of the new international accounting principles which is provided as an exhibit to the financial statements.

Except where admitted or required by the international accounting principles or by the provisions of the Bank of Italy Circular n. 262 of 22 December 2005, the offsetting of assets and liabilities and the offsetting of revenues and expenses are not permitted.

The daily closing balance of the securities portfolio is reported by applying the daily weighted average cost method.

Fair value is defined as the value at which an asset could be exchanged or a liability could be settled in normal business transactions effected on active markets. In the case of securities and derivatives traded in active markets, the fair value is equal to the official market price available from the lists published by authorized intermediaries and the regulatory authorities. When the price is not available, the value of the most recent transaction provides an indication of the present fair value, provided that no significant changes have occurred in the economic circumstances since the date of the transaction. Otherwise, the price is adjusted by using the valuation techniques contemplated for financial instruments not traded in active markets. If a rate is quoted in an active market, the Bank uses such quoted market rate as an input in determining the fair value. If the market for a financial instrument is not active, the Bank computes the fair value by using a valuation technique which includes, if available, the comparison with recent, normal market transactions between knowledgeable and willing parties; otherwise, reference is made to the

present fair value of a similar instrument or an analysis of discounted financial flows and pricing models for options.

Expenses are booked inclusive of value-added taxes, if due, with the Bank having opted for the exclusion of exempt transactions pursuant to Article 36 bis of the Decree of the President of the Republic of Italy n. 633 of 1972 (value-added taxes) and subsequent additions and modifications thereto.

Balance-sheet and profit-and-loss accounts with a zero balance as of the date of the financial statements and as of the date of the financial statements for the prior period are not presented. Should it be possible to book a specific asset or a specific liability to more than one balance-sheet account, an explanation of its referability to accounts other than the account to which it is booked is provided in the notes to the financial statements, if such an explanation is necessary for the purpose of understanding the financial statements. Revenues are reported in the profit and loss statement and in the notes to the financial statements without any sign, whereas expenses are indicated between parentheses.

In accordance with the provisions of Article 5 of Law Decree n. 38 of 28 February 2005, the financial statements were prepared by using the euro as the currency of account. The financial statements are presented in units of euros, with the exception of the notes to the financial statements whose amounts are presented in thousands of euros. The financial statements have been prepared with the prospect of the Bank remaining a going concern, in accordance with the matching principle, and in respect of the principle of the importance and significance of information, and the principle of the prevalence of substance over form. The financial statements have also been prepared in a manner so as to facilitate consistency with future presentations. Accounts whose nature or purpose is different have been presented separately, unless the related amounts are not material. The amounts reported in the financial statements have been adjusted to reflect events subsequent to the date of reference that require an adjustment pursuant to IAS 10. Subsequent events not requiring adjustments and reflecting circumstances occurring after the date of reference are disclosed in Section 3 of the notes to the financial statements when significant, and thus, when they are capable of influencing the economic decisions of the users.

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

No significant events occurred subsequent to the close of the accounting period.

Section 4 – Other information

The estimation of the carrying values of certain assets and liabilities as of the date of the financial statements does not incorporate any uncertainties that might cause material adjustments to such carrying values in the subsequent year.

The financial statements as of 31 December 2005 represent the first financial statements prepared in accordance with IAS. The reconciliations required by IFRS 1 (First-Time Adoption) and the notes in relation thereto are provided as exhibits to these financial statements in order to ensure adequate disclosure of the effects of the changeover to the international accounting principles.

A.2 – Principal financial statement aggregates

The accounting principles adopted with reference to the main financial-statement accounts for the preparation of the first IAS-compliant financial statements as of 31 December 2005 are described below.

Section 1 – Financial assets held for trading

Financial assets held for trading include the following:

- financial assets acquired primarily for the purpose of generating earnings as a result of price fluctuations in the near term;
- financial assets that are part of portfolios of financial instruments whose overall management is geared to strategies for securing profits in the near term;
- derivatives contracts;
- hybrid instruments (for these instruments, the derivatives embedded in the primary contracts have not been reported separately).

The assets are initially recorded in the balance sheet at the fair value at which they are acquired. In the case of purchase and sale transactions involving standard financial instruments (so-called "regular way", whose settlement terms are generally established by regulations or market conventions), the assets are booked as of the settlement date. In the case of other financial instruments, the assets are booked as of the transaction date. The transaction costs directly attributable to the instrument are booked directly to "Account 50 - Commissions expense" in the profit and loss statement.

In the case of some financial instruments valued at fair value and not traded in active markets, which are valued on the basis of models incorporating parameters not observable on the market, there may be a difference between the fair value as of the date on which the assets are initially booked (i.e. the amount paid or received) and the amount computed as of such date by using the aforementioned valuation technique: such difference (which is known as the "Day-1 P&L") is not immediately recorded in the profit and loss statement, but is deferred and amortized on a straight-line basis for the term of the transaction, with the amortization booked to "Account 80 - Net profit (loss) from trading activity". Should the instrument be liquidated before the agreed maturity, the amount of any unamortized Day-1 P&L is immediately booked to the profit and loss statement.

Financial assets are eliminated from the balance sheet on the basis of the same temporal criteria applied for their initial registration, as of the date of the expiration of the contractual rights to the assets, or whenever the asset is sold and all of the risks/benefits in relation to the assets are substantially transferred. Upon the elimination of the asset, the difference between the carrying value and the amount of the compensation received is booked to "Account 80 - Net profit (loss) from trading activity" in the profit and loss statement. Given the nature of repurchase agreements and securities lending transactions (with the risks and benefits related to the ownership of the asset transferred continuing to remain with the Bank), the asset transferred continues to be reported on the Bank's balance sheet and is offset by a financial liability equal to the amount of payment received.

The valuation criteria adopted are summarized as follows:

- Financial instruments such as securities and derivatives are stated at fair value, including unsettled positions related to regular-way financial instruments.
- Financial instruments such as repurchase agreements and the loan of securities are stated at fair value, inclusive of the accrued income and expenses as of the balance-sheet date.
- Instruments representative of capital which do not have a market price quoted in an active market and whose fair value cannot be reliably measured, are stated at purchase cost; the derivatives in relation to such instruments are also stated at purchase cost. Furthermore, in the event of objective evidence of permanent impairment of value, a loss is calculated as the difference between the carrying value of the financial asset and the present value of the expected future cash flows which are discounted by using the current market rate of return for a similar financial asset. Any subsequent recovery of value may not be recognized.

The gains and losses arising on the valuation of the assets are booked to "Account 80 - Net profit (loss) from trading activity" in the profit and loss statement. Coupon interest and any income or

expenses accrued in relation to repurchase agreements and securities lending transactions are booked to "Account 10 - Interest and similar income" and "Account 20 - Interest and similar expense" in the profit and loss statement.

Dividends on instruments representative of capital are booked to "Account 70 - Dividends and similar income" in the profit and loss statement as of the date on which the Bank has the right to receive the payment.

Section 2 – Financial assets stated at fair value

The Bank's assets do not include any financial assets stated at fair value.

Section 3 – Financial assets available for sale

Financial assets available for sale include non-derivative financial assets not classified as (i) receivables, (ii) assets held for trading, or (iii) assets held to maturity.

This category includes equity investments not held for trading purposes and not qualifiable as controlling interests, affiliates or jointly controlled companies.

The assets are initially recorded in the balance sheet at the fair value at which they are acquired, inclusive of transaction costs. In the case of purchase and sale transactions involving standard financial instruments (so-called "regular way", whose settlement terms are generally established by regulations or market conventions), the assets are booked as of the settlement date. In the case of the remaining financial instruments, the assets are booked as of the transaction date (with receivables booked as of the actual disbursement date).

The assets are eliminated from the balance sheet on the basis of the same criteria applied for the financial assets held for trading. Any gains or losses, along with the revaluation reserve accrued with reference to the instrument sold, are booked to "Account 100 - Gains/losses from the sale of financial assets available for sale" in the profit and loss statement.

The financial instruments in this account (including the regular-way financial assets still to be settled) are stated at fair value, with the exception of instruments representative of capital which do not have a market price quoted in an active market and whose fair value cannot be reliably measured; the latter are stated at cost.

In the case of interest-bearing financial assets with variable interest rates, the financial flows are periodically recalculated in order to reflect changes in market interest rates, with the effective interest rate thus being recomputed.

The difference between the amortized cost (determined on the basis of the effective interest rate method) calculated as of the balance-sheet date and the fair value of the assets is booked to "Account 130 - Valuation reserves" in shareholders' equity, with the exception of impairment losses (see below) and foreign-exchange gains and losses (see Section 15 - Transactions in foreign currency). Upon the elimination of the financial assets, any gains or losses accrued to shareholders' equity are transferred to the profit and loss statement ("Account 100 - Gains/losses from the sale of financial assets available for sale"), inclusive of any differences accrued during the period. The interest earned is accrued to "Account 10 - Interest and similar income" in the profit and loss statement.

Dividends on instruments representative of capital are booked to "Account 70 - Dividends and similar income" in the profit and loss statement as of the date on which the Bank has the right to receive the payment, which generally corresponds to the payment date.

At each balance-sheet date, the Bank effects an impairment test to determine if there is any objective evidence that a financial asset or group of financial assets has experienced impairment in value. In the presence of such evidence, the impairment loss is reported in "Account 130 - Net impairment-related valuation adjustments to financial assets available for sale" in the profit and loss statement, along with any amount previously booked as a revaluation reserve. The amount of

the loss is equal to the difference between the acquisition cost (net of any reimbursement of principal and amortization) and the present fair value, net of any impairment losses previously recorded in the profit and loss statement. Should the reasons for the loss of value no longer apply as a result of an event occurring after the reporting of the loss, the asset's value may be reinstated. Losses related to receivables and payables are reversed through a credit to Account 130 of the profit and loss statement; losses related to instruments representative of capital are reversed through "Account 130 - Valuation reserves" in shareholders' equity. In the event of a reversal, the asset's resulting carrying value may not exceed the amortized cost at which the asset would have been valued in the absence of the aforementioned adjustments. Subsequent increases in excess of cost are to be booked to shareholders' equity as revaluation reserves.

Section 4 – Financial assets held to maturity

The Bank's assets do not include any financial assets held to maturity.

Section 5 – Receivables

Receivables include non-derivative financial assets with fixed or determinable payments which are not quoted in an active market and which are booked as of the settlement date.

The assets are recorded at the transaction price which is equal to the amount paid (normally in line with market interest rates) as of the disbursement date.

Receivables are valued at amortized cost, which is equal to the initial carrying value decreased/increased by principal repayment, valuation adjustments/writebacks, and the amortization (calculated with the effective interest rate method) of the difference between the amount disbursed and the amount reimbursable at maturity, inclusive of expenses/income directly attributable to the individual receivables. The amortized cost method is not applied in the case of short-term receivables (term of 18 months or less) since its effects would be negligible; such receivables are stated at their original carrying values. The same valuation criterion is applied with respect to receivables without a definitive maturity and receivables subject to revocation.

As of the date of each annual or interim financial statement, a review of the receivables is effected so as to pinpoint the receivables which show objective evidence of possible impairment of value as a result of events occurring subsequent to the dates on which the receivables were originally booked.

Non-performing positions are analyzed individually. Valuation adjustments to the individual receivables are equal to the difference between the carrying value as of the valuation date (amortized cost) and the present value of the expected future cash flows (excluding future credit losses that have not yet been sustained), calculated by using the original interest rate. The expected cash flows take into account the expected timing of the recovery, the estimated realizable value of any guarantees, and any expenses expected to be sustained for the recovery of the receivable. The cash flows related to receivables whose recovery is expected in the short term are not discounted.

The carrying value of the assets is reduced directly (without the use of provisions) and the value of the loss reported in "Account 130 - Net impairment-related valuation adjustments to receivables" of the profit and loss statement.

The original value of may be reinstated to the extent that the reasons for the writedown no longer apply, provided the reinstatement of value is objectively linked to an event occurring subsequent to the writedown (e.g. improvement in the debtor's financial solvency). The writeback is booked to Account 130 in the profit and loss statement. In the event of a writeback, the resulting carrying value may not exceed the amortized cost at which the receivable would have been valued as of the date of the writeback.

Receivables for which no individual analysis is effected in order to detect objective evidence of impairment (normally, performing receivables, including amounts due from counterparties resident in high-risk nations) are evaluated on a lump-sum basis in order to determine an estimate of impairment of value. The evaluation is effected by subdividing the positions into standard categories in terms of credit risk, and estimating the relative loss percentages by taking into account series of historical data and elements observable as of the valuation date which allow for estimating the value of the underlying loss on each category of receivables.

As of the date of each annual or interim financial statement, any additional valuation adjustments or writebacks are recalculated, with reference to the entire portfolio of performing receivables as of the same date.

The valuation adjustments and writebacks computed on a lump-sum basis are accrued to the profit and loss statement to "Account 130 - Net impairment-related valuation adjustments to receivables". Should a financial asset or group of similar financial assets be written down as a result of the impairment of value, the interest income is reported by using the interest rate used for discounting the future cash flows in the computation of the impairment loss.

Receivables include the contractual interest accrued and paid as of 31 December 2005. The interest accrued and not paid as of such date is reported as income in the profit and loss statement, with an offsetting entry to "Account 150 - Other assets" in the balance sheet.

Receivables sold are cancelled from the balance sheet only if the sale entails the substantial transfer of all risks and benefits in relation to the receivables. Should the risks and benefits of the receivables sold continue to remain with the Bank, the receivables continue to be reported as the Bank's assets, even if the legal title to the receivables has effectively been transferred.

Should it not be possible to ascertain the substantial transfer of the risks and benefits, the receivables are eliminated from the balance sheet at the point when the control over the same is no longer maintained. Otherwise, with the retention of such control, even partially, the Bank continues to report the receivables as its assets to the extent of the Bank's remaining involvement (measured by the Bank's exposure to (i) changes in the sold receivables' value and (ii) changes in the receivables' financial flows).

Finally, the receivables sold are eliminated from the balance sheet whenever the Bank retains the contractual rights to receive the related cash flows and has a simultaneous obligation to pay such flows, and only such flows, to third parties.

Section 6 – Hedging transactions

The Bank does not hold any financial instruments earmarked for hedging, for hedge-accounting purposes.

Section 7 – Equity investments

Equity investments (Account 100) include long-term and strategic investments in instruments representative of capital issued by other entities. In particular, the account includes investments in companies belonging to the MPS Banking Group.

The investments, which are initially booked as of the transaction settlement dates, are valued at purchase cost, net of any valuation adjustments.

The companies in which the investments are held are consolidated by the parent company, Banca Monte dei Paschi di Siena S.p.A.

The financial assets are eliminated from the balance sheet when the Bank no longer has the contractual right to the financial flows derived from the assets, or when the financial assets are sold and all of the risks/benefits in relation to the assets are substantially transferred.

Section 8 – Fixed assets

Fixed assets include furnishings, fixtures and equipment of any type, including assets leased under financial leases, even if the title to the assets remains with the lessor company. Fixed assets include assets used in production or in the supply of goods and services or for administrative purposes, and whose use extends over two or more years.

The assets are initially booked at the cost sustained for their acquisition (including any value-added taxes), as evidenced by an invoice or similar document, and increased by any charges sustained in relation thereto.

The carrying value of the assets is equal to the purchase cost, net of any accumulated depreciation and any writedowns for impairment of value.

The costs incurred subsequent to the purchase of a fixed asset are capitalized as part of the carrying value only if it is probable that such costs will produce future economic benefits, and if the cost is determinable in a reliable manner. Ordinary maintenance and repair costs are booked to "Account 150 - Administrative expenses - other" in the profit and loss statement. Financial charges booked as operating expenses are recorded in "Account 20 - Interest and similar expense" as specified by IAS 23 (see "Section 18 - Other information" below).

Depreciation is computed on a straight-line, pro-rata temporis basis, thereby taking into account periods of ownership of less than one year.

The estimated lives of the individual categories of assets (including fixed assets with a value of less than €516.45) are shown below:

Computer equipment	3 years
Office furniture and machinery	9 years
Furnishings	8 years
Electronic systems	5 years

The depreciation criterion (useful life) and the residual value (normally considered irrelevant) are reviewed at least once each year (at year end), with any changes to the previous estimates recognized as a change to the accounting estimate (IAS 8).

As of the date of each annual or interim financial statement, the fixed assets undergo an impairment test in order to determine the existence of any permanent impairment of value. Any writedowns are booked to "Account 170 - Net adjustments to the value of fixed assets" in the profit and loss statement.

Fixed assets are eliminated from the balance sheet at the time of their sale or when they are permanently retired from use and there are no future economic benefits expected from their disposal. Should a fixed asset not be available for use on a temporary basis or should a fixed asset be retired from use for the purpose of being sold, depreciation continues to be charged, unless the asset is fully depreciated.

Expenditures for improvements to third-party assets (typically for leased buildings) other than the expenditures referable to this section are capitalized, thereby aligning the useful life of the asset to the term of the lease contract. The capitalized expenditures are booked to "Account 150 -Other assets", while the related amortization flows through "Account 190 - Other operating expenses (income)".

Section 9 – Intangible assets

Intangible assets are booked as such only if it is probable that they will generate future economic benefits and if the cost of the assets may be computed in a reliable manner. Otherwise, the cost of the intangible asset is booked to the profit and loss statement as incurred. The account currently consists exclusively of capitalized costs for software acquired from third parties.

Intangible assets are initially booked at purchase cost, increased by all costs sustained in order to place the assets in service. Expenditures attributable to intangible assets which are incurred after the purchase of the assets are added to cost only if it is probable that the expenditures will make it possible for the assets to generate future economic benefits in excess of the level originally contemplated, and if the additional expenditures can be reliably determined and allocated to the specific assets.

The carrying value of the assets is equal to historical cost, net of residual value (assumed to be zero), as adjusted by accumulated amortization and any impairment losses.

The estimated useful life of five years is annually reviewed upon the preparation of the financial statements (and if changed, the carrying value of the asset as of the date of the change in the estimate of the useful life, net of accumulated amortization, becomes the basis for the calculation of future amortization).

The assets are amortized on a straight-line basis, as from the date on which the assets become available for service.

Should an intangible asset not be used on a temporary basis or should an intangible asset be retired from use for the purpose of being sold, amortization continues to be charged. Intangible assets are also subject to an impairment test at least once a year (in order to verify that the recoverable value does not exceed the carrying value). Intangible assets are eliminated from the balance sheet upon their disposal or whenever there are no future economic benefits expected from the assets.

Section 10 – Non-current assets held for sale

The account includes individual assets and groups of assets which the Bank has elected to sell, and whose sale is probable within a term of one year.

Such assets, except for assets already carried at fair value, are valued at the lower of carrying value and the fair value, net of the selling costs. The related charges (net of the fiscal effect) and any income realized on the sale are booked to "Account 280 - Gain/loss on non-current assets held for sale, net of taxes" in the profit and loss statement. Should a non-current asset be classified among the non-current assets held for sale, the depreciation of the asset is discontinued. As of 31 December 2005, the Bank did not have any non-current assets available for sale.

Section 11 – Current and deferred taxation

The provisions for income taxes are computed in accordance with prevailing fiscal legislation.

The provisions for current and deferred taxes are booked to "Account 260 - Taxes on income from continuing operations" in the profit and loss statement.

Deferred taxes are booked as assets ("Account 130 - Deferred tax assets") and liabilities ("Account 80 - Deferred tax liabilities"), thus, respectively reflecting prepaid and deferred taxes in relationship to timing differences between carrying values and values considered for tax purposes. In accordance with the general principle of prudence, deferred tax assets are booked only if it is reasonably certain that the Bank will generate taxable income in future years that is sufficient to recover the assets during the years in which the aforementioned timing differences become deductible for tax purposes. The assessment of the reasonable certainty is also made with reference to the forecasts approved by the Bank and the parent company within the framework of the internal reorganization of the MPS Group. The Bank reviews the situation at the end of each year in order to verify the permanence of the recoverability condition. Deferred taxes have been calculated by using the tax rates provided for the periods in which the asset is to be converted into cash or the liability is to be extinguished.

Given the Bank's participation in the MPS Group's consolidated tax return, the amount of corporate income taxes payable (which has been computed in relation to a conservative estimate of taxable

income and on the basis of prevailing tax laws and practices) has been booked as a payable to the parent company in "Account 100 - Other liabilities". In the case of tax losses, the receivable from the parent company is booked on the condition, and to the extent, that the Bank would have been able to use the losses over the five-year period provided by the law (in other words, as if the Bank were not to have participated in the consolidated income tax return). Any receivable from the parent company booked in this regard is reviewed each year in order to verify the permanence of the conditions of recoverability.

Section 12 – Payables and securities issued

Payables consist of non-derivative financial liabilities with fixed or determinable payments which are not traded in an active market. Payables to banks and customers are booked at fair value (i.e. the transaction price which is equal to the amount received, in line with market interest rates) as of the settlement date. Payables to banks and customers include contractual interest accrued and paid as of 31 December 2005. Interest accrued and not paid as of such date is reported as income in "Account 20 - Interest and similar expense" in the profit and loss statement, with an offsetting entry to "Account 100 - Other liabilities" in the balance sheet.

Securities issued by the Bank are booked as of the settlement date, and are initially stated at fair value (normally the issuing price), which is increased/decreased by any additional costs/income directly attributable to the transactions (except for internal administrative costs which are excluded). In the case of structured instruments, embedded derivatives are separated from the contracts and reported at fair value in "Account 40 - Financial liabilities for trading" whenever the requisites provided by IAS 39 are met. In such cases, the contracts are initially booked on the basis of amortized cost.

Securities issued by the Bank and the Bank's borrowings are stated at amortized cost (calculated with the effective interest rate method). The amortized cost method is not applied in the case of short-term borrowings (term of 18 months or less) since its effects would be negligible. In the event of an effective hedge of these instruments, the instruments are valued in accordance with the criteria provided for the hedging instrument and not on the basis of amortized cost.

Financial liabilities are eliminated from the balance sheet when they have matured or been extinguished. The elimination also occurs upon the repurchase of any previously issued debt instruments. The difference between carrying value of the liabilities and the amount paid for the purchase is booked to "Account 100 - Gain/loss from transfer or repurchase of financial liabilities" in the profit and loss statement.

The reissue of the Bank's own securities after their repurchase is considered a new issue, with the liability booked at the new price, without any effect on the profit and loss statement.

Section 13 – Financial liabilities for trading

The account consists of derivatives (except for those derivatives designated as effective hedging instruments), including the derivatives embedded in structured financial instruments which, according to IAS 39, are to be separated from such instruments and booked separately.

The determination of the initial valuation and the subsequent carrying value of the financial liabilities for trading is based on the criteria adopted for the financial assets held for trading which are disclosed in Section 1 above.

Financial liabilities for trading are eliminated from the balance sheet when, and only when, they are extinguished.

Section 14 – Financial liabilities stated at fair value

The Bank's liabilities do not include any financial liabilities stated at fair value.

Section 15 – Employee benefits and payables

The liabilities for defined benefit plans, including the staff severance indemnity reserve (required by prevailing legislation and by the national collective bargaining agreement in effect for the Bank's employees), are computed by using objective actuarial assumptions that are compatible with one another in relation to demographic changes (such as the rate of personnel turnover and mortality) and financial variables (such as future increases in salaries and wages).

The Bank is assisted by an MPS Group actuary who is authorized to make such valuations, and has elected to report the actuarial gains/losses with the corridor method.

The discounting is effected by using the projected unit credit method, according to which the Bank (i) estimated the residual term of the employment relationship for all of its full-time employees; (ii) estimated the future trends of employee compensation and inflation; and (iii) projected the Bank's liability accrued to date (inclusive of future annual provisions) in order to estimate the amount to be paid upon the termination of the employment relationship for any reason. The interest rate used is based on the spot zero-coupon curve as of the valuation date, as inferred by the euro swap rates.

As of the date of each annual or interim financial statement, the staff severance indemnity reserve is reported as a liability in "Account 110 - Staff severance indemnity reserve", with the balance determined by the discounting of the actuarial calculation related to the probability, as of the balance-sheet date, of paying a termination indemnity at the termination of each employee's employment (whether due to voluntary termination or to the impossibility of the employee to continue working); the liability is also adjusted to reflect advances and payments to employees occurring during the accounting period. The cost accrued for the current period, net of the effect of the time value of money (interest cost) and actuarial gains/losses, is booked to "Account 150 - Administrative expenses - personnel expenses" in the profit and loss statement. The actuarial gains and losses are computed by using the corridor method, i.e. as the excess of the cumulative actuarial gains/losses as of the close of the previous year over the greater of 10 percent of the present value of the benefits generated by the plan and 10 percent of the fair value of the assets to service the plan. This excess is also measured in relation to the average working life expected for the plan participants. It is also noted that the Bank sponsors defined contribution plans for its employees, with the amounts accrued in relation thereto paid to the open pension fund known as "Paschi Previdenza" on the final day of the payroll period each month. The related charge is booked to "Account 150 - Administrative expenses - personnel expenses" in the profit and loss statement.

All other liabilities for regular employee benefits (salaries, wages, vacation pay, amounts paid for vacations earned but not taken, and bonuses) are settled within 12 months of the balance-sheet date (short-term liabilities) and are thus booked at their nominal value to "Account 100 - Other liabilities".

Section 16 – Reserves for risks and charges

The reserves for risks and charges cover provisions for liabilities that are probable and of a predictable amount and whose settlement requires a disbursement by the Bank (e.g. interest-bearing contracts), but whose exact amounts and settlement dates are not known as of the date of the financial statements.

Contingent liabilities and provisions for future operating losses are not booked as liabilities, but simply evidenced in the notes to the financial statements.

The liabilities included in the aforementioned reserves are discounted only if the effect of the discounting is significant; the discount rate is taken from the zero-coupon rate curve at a maturity corresponding to the date when the reserve will be utilized for the expected settlement of the

estimated liability. The interest component is booked as interest expense to "Account 20 - Interest and similar expense" in the profit and loss statement.

The usage of the reserves is limited to the expenditures for which the reserves were originally established.

At each balance-sheet date, the reserves are adjusted to reflect the best current estimate of the liabilities. Should any provisions no longer be necessary, they are reversed out of the reserve and credited to "Account 160 - Net provisions to the reserves for risks and charges" in the profit and loss statement.

Section 17 – Transactions in foreign currency

Transactions in foreign currency are booked as of the settlement date in the currency of account, with the conversion into euros effected on the basis of exchange rates in effect as of the transaction date.

At each balance-sheet date, the financial statement account balances denominated in foreign currency are valued as follows:

- Monetary items are converted into the currency of account on the basis of the exchange rates in effect as of the close of the accounting period;
- Non-monetary items valued at historical cost are converted into the currency of account on the basis of the exchange rates in effect as of the transaction dates;
- Non-monetary items valued at fair value are converted into the currency of account by using the exchange rates in effect as of the close of the accounting period.

Any foreign-exchange gains or losses on monetary assets and liabilities are booked to "Account 80 - Net profit (loss) from trading activity" in the profit and loss statement (with the exception of the financial instruments stated at fair value). When a gain or loss related to a non-monetary item is booked to shareholders' equity, the foreign-exchange difference with regard to this item is also booked to equity.

In the case of financial assets available for sale with a foreign-currency denominated amortized cost, the foreign-exchange differences arising from changes in the amortized cost are booked to the profit and loss statement, while other changes in the carrying value are booked in accordance with the criteria set forth in the preceding "Section 2 - Financial assets available for sale". In the event of financial assets available for sale that are not monetary items (e.g. instruments representative of capital), the gain or loss booked directly to shareholders' equity includes any correlated foreign-exchange differences.

Section 18 – Other information

a) Other assets and other liabilities

Other assets (Account 150) and other liabilities (Account 100) mainly refer to items in transit, trade receivables and payables, fiscal receivables and payables, and receivables and payables related to the consolidated tax return.

The assets and liabilities are booked only when one of the parties has supplied a good or rendered a services as provided by a contract. The assets and liabilities are eliminated from the balance sheet at maturity, which normally corresponds with the collection or payment date.

b) Financial charges

Financial charges are booked to the profit and loss statement as incurred, with the exception of financial charges directly attributable to the acquisition, construction or production of an asset, when the capitalization thereof can be justified. In the latter case, the charges are capitalized as

part of the cost of the asset only if (i) it is probable that the charges will entail future economic benefits for the Bank and (ii) the charges can be reliably determined (charges that, in any event, would not have been sustained had it not been for the expenditure for such asset). The charges are capitalized by using an interest rate derived from the weighted average of the financial charges related to the borrowings outstanding during the year, other than the borrowing obtained specifically for the purpose of acquiring the asset which justifies the capitalization. The amount of the financial charges capitalized during a year may not exceed the amount of the financial charges sustained during that year.

c) Dividends – Interest and similar income – Interest and similar income

Dividends are booked when the shareholder has the right to receive the payment (which normally coincides with the date on which the meeting of the shareholders of the company in which the investment is held passes a resolution approving the financial statements and the proposed allocation of earnings).

Interest is booked on the basis of the matching concept, using:

- the effective interest rate criterion for the assets and liabilities included in the following accounts: financial assets held to maturity, financial assets held for sale, and securities issued;
- the nominal interest rate criterion for the financial assets held for trading and the financial liabilities for trading;
- the effective interest rate criterion or the nominal interest rate criterion for amounts due to banks and customers, and amounts due from banks and customers, depending on the maturity.

d) Other revenues and expenses

The value of services purchased or rendered is booked whenever the related compensation can be reliably estimated, including pursuant to a valuation of the work carried out and/or delivered as of the date of the financial statements.

Revenues are booked whenever it is probable that the future economic benefits will be enjoyed by the Bank and, if the result of the rendering of services cannot be reliably estimated, the revenues are booked only in an amount equal to the amount of costs that can be recovered. If costs cannot be recovered, no revenues are recognized. In the event of uncertainty about the recoverability of an amount already recorded as revenue, the non-recoverable amount or the amount whose recovery is no longer probable, is reported as a cost, without any adjustment to the amount of revenue originally booked.

Any errors in the estimation of costs recorded in prior years are booked to the pertinent accounts.

e) Share-based payments

During 2005, the Bank did not receive any instruments representative of its own capital or the capital of any other company of the MPS Group in exchange for goods and services.

In addition, the Bank does not currently contemplate the activation of any stock-granting plans in favour of employees or directors.

PART B
INFORMATION ON THE BALANCE SHEET

ASSETS

Section 1

Account 10 - Cash and cash equivalents

1.1 Cash and cash equivalents

	31/12/2005	31/12/2004
a. Cash	1	-
b. Unrestricted deposits with central banks	-	-
Total	1	-

Section 2

Account 20 - Financial assets held for trading

2.1 Financial assets held for trading: breakdown by type of instrument

Accounts / Amounts	31/12/2005			31/12/2004		
	Listed	Unlisted	Total	Listed	Unlisted	Total
A. Cash assets						
1. Debt securities	2,292,201	929,932	3,222,133	2,510,308	1,198,664	3,708,972
1.1 Structured securities	139,139	542,683	681,822	153,903	726,211	880,114
1.2 Other debt securities	2,153,062	387,249	2,540,311	2,356,405	472,453	2,828,858
2. Equity securities	335,076	-	335,076	458,818	-	458,818
3. Mutual-fund shares	6,890	10,443	17,333	6,689	10,040	16,729
4. Financing	8,122,390	-	8,122,390	5,145,685	-	5,145,685
4.1 Repurchase agreements	6,567,304	-	6,567,304	4,528,358	-	4,528,358
4.2 Other	1,555,086	-	1,555,086	617,327	-	617,327
Total (A)	10,756,557	940,375	11,696,932	8,121,500	1,208,704	9,330,204
B. Derivatives instruments						
1. Financial derivatives:	196,355	7,354,794	7,551,149	97,968	6,856,618	6,954,586
1.1 Trading	196,355	7,354,794	7,551,149	97,968	6,856,618	6,954,586
2. Credit derivatives	-	108,954	108,954	-	89,415	89,415
2.1 Trading	-	108,954	108,954	-	89,415	89,415
Total (B)	196,355	7,463,748	7,660,103	97,968	6,946,033	7,044,001
Total (A+B)	10,952,912	8,404,123	19,357,035	8,219,468	8,154,737	16,374,205

The data as of 31 December 2004 exclude the effect of the retroactive application of IAS 39, estimated to be equal to €5,299,000.

2.1.a Detail of debt securities: structured securities (carrying value)

Structured debt securities	31/12/2005
Index-linked	372,842
Equity-linked	84,329
Step-up/Step-down	4,916
Cap floater	11,609
Credit linked notes	142,039
Other	62,383
Total	678,118

2.2 Financial assets held for trading: breakdown by debtors/issuers

Accounts / Amounts	31/12/2005	31/12/2004
A. Cash assets		
1. Debt securities	3,222,133	3,708,972
a) Governments and central banks	2,077,376	2,118,532
b) Other public-sector entities	40,740	16,277
c) Banks	784,379	1,205,847
d) Other issuers	319,638	368,316
2. Equity securities	335,076	458,818
a) Banks	6,479	21,568
b) Other issuers:	328,597	437,250
- Insurance companies	2,580	15,233
- Financial companies	39,290	9,670
- Non-financial companies	260,128	412,347
- Other	26,599	
3. Mutual-fund shares	17,333	16,729
4. Financing	8,122,390	5,145,685
a) Governments and central banks		
b) Other public-sector entities		
c) Banks	5,882,215	4,519,648
d) Other	2,240,175	626,037
Total A	11,696,932	9,330,204
B. Derivatives instruments		
a) Banks	7,003,488	2,173,417
b) Customers	656,615	4,870,584
Total B	7,660,103	7,044,001
Total (A+B)	19,357,035	16,374,205

2.2.a Mutual-fund shares: breakdown by principal categories

Categories/Amounts	31/12/2005	31/12/2004
Equity funds	82	65
Balanced funds	17,251	16,664
Total	17,333	16,729

2.3 Financial assets held for trading: derivatives instruments

Accounts / Amounts	Interest Rates	Foreign Currencies and Gold	Equity Securities	Receivables	Total as of 31/12/2005
A. Derivatives listed					
1. Financial derivatives:					
- With exchange of principal	1,094	-	195,261	-	196,355
Options purchased	-	-	13,076	-	13,076
Other derivatives	-	-	13,076	-	13,076
- Without exchange of principal	1,094	-	182,185	-	183,279
Options purchased	1,094	-	182,185	-	183,279
Other derivatives	xxxx	xxxxx	xxxxx	xxxxx	-
Total A	1,094	-	195,261	-	196,355
B. Unlisted derivatives					
1. Financial derivatives:					
- With exchange of principal	6,690,432	33,530	630,832	-	7,354,794
Options purchased	21,577	25,310	113,329	-	160,216
Other derivatives	21,577	19,105	113,329	-	154,011
- Without exchange of principal	6,668,855	6,205	-	-	6,205
Options purchased	6,668,855	8,220	517,503	-	7,194,578
Other derivatives	556,971	8,220	517,503	-	1,082,694
Other derivatives	6,111,884	-	-	-	6,111,884
2. Credit derivatives:					
- With exchange of principal	-	-	-	108,954	108,954
- Without exchange of principal	-	-	-	106,779	106,779
- Without exchange of principal	-	-	-	2,175	2,175
Total B	6,690,432	33,530	630,832	108,954	7,463,748
Total (A+B)	6,691,526	33,530	826,093	108,954	7,660,103

It is noted that 35.68 percent of the market value as of 31 December 2005 is related to derivatives contracts executed with companies belonging to the MPS Group (versus 42.77 percent as of 31 December 2004).

2.4 Cash financial assets held for trading other than those sold and not cancelled and those with impairment of value: annual changes

Changes/Type	Debt Securities	Equity Securities	Mutual-Fund Shares	Financing	Total
Closing balances - prior year	3,708,972	458,818	16,729	5,145,685	9,330,204
Effects of the changes in accounting principles	5,299	-	-	-	5,299
A. Opening balances	3,714,271	458,818	16,729	5,145,685	9,335,503
B. Increases	114,967,493	5,366,212	604	416,779,695	537,114,004
B1. Purchases	113,944,755	5,253,893	-	416,766,529	535,965,177
B2. Increases in fair value	30,055	16,762	604	-	47,421
B3. Other changes	992,683	95,557	-	13,166	1,101,406
B. Decreases	115,459,631	5,489,954	-	413,802,990	534,752,575
C1. Sales	114,749,305	5,327,882	-	413,790,949	533,868,136
C2. Decreases in fair value	9,484	6,012	-	-	15,496
C3. Other changes	700,842	156,060	-	12,041	868,943
D. Closing balances	3,222,133	335,076	17,333	8,122,390	11,696,932

The sums reported for accounts B3 and C3 in debt and equity securities columns include amounts in relation to technical overdrafts, while the sums reported for the same accounts in the financing column include the accrual of interest as of 31 December 2005.

Section 3

Account 40 - Financial assets available for sale

3.1 Financial assets available for sale: breakdown by type of instrument

Accounts / Amounts	31/12/2005		31/12/2004	
	Unlisted	Total	Unlisted	Total
2. Equity securities	-	-	422	422
- Valued at cost	-	-	422	422
Total	-	-	422	422

As of the end of 2004, the account consisted solely of SIA shares, which were valued at cost inasmuch as their fair value could not be reliably determined with the instruments available to the Bank. Such shares were sold in 2005 at a price of €422,000.

3.2 Financial assets available for sale: breakdown by debtors/issuers

Accounts / Amounts	31/12/2005	31/12/2004
2. Equity securities	-	422
Customers:	-	422
- Non-financial companies	-	422
Total	-	422

3.3 Financial assets available for sale other than those sold and not cancelled and those with impairment of value: annual changes

	Equity securities	Total
A. Opening balances	422	422
B. Increases	-	-
B. Decreases	422	-
C1. Sales	422	-
D. Closing balances	-	-

Section 4

Account 60 - Due from banks

4.1 Due from banks: breakdown by type of instrument

Transaction Type / Amounts	31/12/2005	31/12/2004
A. Due from central banks	-	-
B. Due from banks	1,541,802	1,553,242
1. Current accounts and unrestricted deposits	351,686	415,546
2. Restricted deposits	1,101,975	1,030,438
3. Other financing:	88,141	107,258
3.1 Repurchase agreements	-	-
3.2 Financial leases	-	-
3.3 Other	88,141	107,258
Total carrying value	1,541,802	1,553,242
Total fair value	-	-

The balance covers performing assets only. Given the short-term nature of the instruments involved (cash and collateral), the amortized cost method has not been applied since the effect of the discounting would have been negligible.

Section 5

Account 70 - Due from customers

5.1 Due from customers: breakdown by type of instrument

Transaction Type / Amounts	31/12/2005	31/12/2004
Other transactions	3,915	2,203
Total carrying value	3,915	2,203
Total fair value	-	-

The balance covers performing assets only. Given the short-term nature of the instruments involved (cash and collateral), the amortized cost method has not been applied since the effect of the discounting would have been negligible.

5.2 Due from customers: breakdown by debtors/issuers Transaction Type / Amounts	31/12/2005	31/12/2004
Financing to:		
Other	3,915	2,203
- Financial companies	3,915	2,203
Total	3,915	2,203

Section 6

Account 100 - Equity investments

6.1 Equity investments in subsidiaries, joint ventures or companies subject to significant influence: information on investment relationships

		% Held	% of Votes
Companies subject to significant influence:			
Intermonte Securities SIM S.p.A.	Milan	33.9535%	33.9535%
Consorzio Operativo Gruppo MPS	Siena	1.1724%	1.1724%

Both companies are consolidated by the Bank's parent, Banca Monte dei Paschi di Siena.

6.2 Equity investments in subsidiaries, joint ventures or companies subject to significant influence: accounting information

Company	Total Assets	Total Revenues	Net Profit (Loss)	Shareholders' Equity	Book Value	Fair Value
Companies subject to significant influence:						
Intermonte Securities SIM S.p.A.	197,690	194,227	16,431	129,690	20,409	-
Consorzio Operativo Gruppo MPS	241,619	389,429	-	129,871	39	-

The data reported in the table above refer to the most recently approved financial statements (2005).

	31/12/2005	31/12/2004
A. Opening balance	20,448	20,448
B. Increases	-	-
C. Decreases	-	-
D. Closing balance	20,448	20,448
E. Total revaluation	-	-
F. Total valuation adjustments	-	-

6.3 Equity investments: annual changes

6.4 Commitments referring to companies subject to significant influence

As of 31 December 2005, there were no commitments or guarantees issued in effect.

Section 7

Account 110 - Fixed assets

7.1 Fixed assets: breakdown of assets valued at cost

Accounts / Amounts	31/12/2005	31/12/2004
Assets used in the business		
1.1 Owned assets	268	437
- Office furniture and machinery	129	128
- Electronic systems	63	90
- Other	76	219
1.2 Assets under financial lease	180	638
- Other	180	638
Total	448	1,075

The carrying value indicated is the amount at which the asset was booked, net of accumulated depreciation (no impairment losses have been detected). The assets under financial lease refer to computer equipment. The residual debt amounts to €179,000, plus €4,000 of interest (with €157,000 due within one year, and €26,000 due within one and two years).

7.2 Fixed assets used in the business: annual changes

	Office Furniture and Machinery	Electronic Systems	Other	Total
A. Opening balances, gross	344	626	5,231	6,201
A. 1 Total net reductions of value	217	536	4,372	5,125
A.2 Opening balances, net	128	90	857	1,075
B. Increases	24	9	38	71
- Purchases	24	9	32	65
- Other changes		-	6	6
C. Decreases	(22)	(36)	(640)	(698)
- Depreciation	(22)	(36)	(640)	(698)
D. Closing balances	130	63	255	448
D.1 Total net reductions of value	239	572	5,012	5,823
D.2 Closing balances, gross	369	635	5,267	6,271

All assets have been valued based on the cost criterion.

7.3 Commitments for the purchase of fixed assets

The contractual commitments in effect for the purchase of computer equipment amount to €600.

7.4 Fixed assets: residual life for depreciation purposes

Principal categories of fixed assets	Residual Life
Office furniture and machinery	9
Furnishings	8
Computer equipment	3
Electronic systems	5

Section 8

Account 120 - Intangible assets

8.1 Intangible assets: breakdown by type of asset

Asset / Amounts	31/12/2005	31/12/2004
	Limited Life	Limited Life
Other intangible assets	1,323	2,681
Assets valued at cost:	1,323	2,681
Other assets	1,323	2,681
Total	1,323	2,681

The other assets indicated above refer to software acquired from external suppliers.

8.2 Intangible assets: annual changes

	Other Intangible Assets: Other
	Limited Life
A. Opening balances, gross	11,857
A. 1 Total net reductions of value	9,176
A.2 Opening balances, net	2,681
B. Increases	321
- Purchases	321
C. Decreases	(1,679)
- Valuation adjustments:	(1,679)
- Amortization	(1,640)
- Writedowns	(39)
Amount accrued to the profit and loss statement	(39)
D. Closing balances	1,323
D.1 Total net valuation adjustments	10,816
D.2 Closing balances, gross	12,139

All assets have been valued based on the cost criterion.

8.3 Other information

The contractual commitments in effect for the purchase of software amount to €62,000.

8.4 Intangible assets: residual life for amortization purposes

Main categories of intangible assets	Residual Life
Software	5

8.5 Estimate of future amortization of other intangible assets

Year	Amount
2006	896
2007	261
2008	86
2009	82
2010	60
Total	1,385

Section 9

Account 130 - Tax assets

Account 80 - Tax liabilities

9.1 Deferred tax assets

The balance of €11,203,000 as of 31 December 2005 includes deferred tax assets with respect to the following:

Accounts / Amounts	31/12/2005	31/12/2004
Other financial instruments	2,749	2,240
Fixed and intangible assets	17	10
Reserves for risks and charges	-	74
Business entertainment expenses	62	64
Personnel expenses	4	1,824
Tax losses	7,493	16,532
including: tax losses transferred to the parent company (consolidated tax return)	(7,493)	(16,532)
Other	878	18
Gross deferred tax assets	3,710	4,230
Offsetting with deferred tax liabilities	-	-
Net deferred tax assets	3,710	4,230

In the financial statements as of 31 December 2004, the Bank recorded deferred tax assets in the amount of €16,532,000 in relation to the 2004 tax loss. The amount was then reclassified as a receivable from the parent company as a result of the Bank's participation in the MPS Group consolidated tax return. The amount was booked on the basis of the projections contained in the 2005-2007 three-year plan, which indicate the Bank will be able to produce taxable income sufficient to take advantage of the tax benefits within the terms provided by prevailing regulations.

In 2005, the Bank realized a profit of €34,278,000 for financial reporting purposes, and sustained a loss for tax purposes in the amount of €82,811,000. With both the 2006 budget and the 2007 business plan containing projections of taxable income sufficient to suggest that the 2005 fiscal loss will be partially recovered, the Bank booked a tax credit in the amount of €7,493,000 in relation to the 2005 fiscal loss, and then reclassified it as a receivable from the parent company (Other assets). The tax assets not booked amount to €19,835,000.

9.2 Deferred tax liabilities

The balance of €7,536,000 as of 31 December 2005 includes deferred tax liabilities with respect to the following:

Accounts / Amounts	31/12/2005	31/12/2004
Fixed and intangible assets	59	50
Financial instruments	7,477	14,631
Personnel expenses	-	-
Other	-	52

Gross deferred tax liabilities	7,536	14,733
Offsetting with deferred tax assets	-	-
Net deferred tax liabilities	7,536	14,733

9.3 Changes in deferred tax assets (with offsetting entries to the profit and loss statement)

	31/12/2005	31/12/2004
Prior-year closing balance	4,230	4,157
Effects of the changes in accounting principles		7
1. Opening balance	4,230	4,164
2. Increases	3,171	4,185
2.1 Deferred tax assets booked during the year	3,171	4,185
- Other	3,171	4,185
3. Decreases	(3,691)	(4,119)
3.1 Deferred tax assets cancelled during the year	(1,867)	-
- Reversals	(1,867)	-
3.2 Other decreases	(1,824)	(4,119)
4. Closing balance	3,710	4,230

The amount reported as "other decreases" comes from the recalculation of taxable income as of the date of the filing of the 2005 income tax return, with changes being made with respect to the amounts calculated upon the preparation of the 2004 financial statements.

9.4 Changes in deferred tax liabilities (with offsetting entries to the profit and loss statement)

	31/12/2005	31/12/2004
Prior-year closing balance	14,733	140
Effects of the changes in accounting principles	1,982	(63)
1. Opening balance	16,715	77
2. Increases	6,309	14,679
2.1 Deferred tax liabilities booked during the year	6,309	14,679
- Other	6,309	14,679
3. Decreases	(15,488)	(23)
3.1 Deferred tax liabilities cancelled during the year	(15,488)	(23)
- Reversals	(15,488)	(23)
4. Closing balance	7,536	14,733

Section 10

Account 150 - Other assets

10.1 Other assets

Accounts	31/12/2005	31/12/2004
a) Items in transit	5,046	3,136
b) Trade receivables with the banks of the MPS Group	790	607
c) Trade receivables with the customers of the MPS Group	464	57
d) Amounts receivable from the parent company for consolidated tax return	24,080	32,989
e) Receivables for foreign withholding to be collected	457	343
f) Amounts due from the Treasury and other tax assessors	20,281	2,103
g) Other receivables	828	319
h) Accrued income on current accounts and deposits with the parent company	856	1,178
i) Accrued income on collateral placed with customers	43	39
l) Accrued income on collateral placed with banks	214	214
m) Commercial prepayments	573	518
n) Commercial prepayments with MPS Group suppliers	84	96
Total	53,716	41,599

LIABILITIES AND SHAREHOLDERS' EQUITY

Section 1

Account 10 - Due to banks

1.1 Due to banks: breakdown by type of instrument

Transaction Type / Amounts	31/12/2005	31/12/2004
1. Due to central banks		
2. Due to banks	3,369,112	3,659,552
2.1 Current accounts and unrestricted deposits	93,051	182,670
2.2 Restricted deposits	3,000,000	3,200,000
2.3 Financing	274,788	275,864
2.3.1 Financial leases	179	612
2.3.2 Other	274,609	275,252
2.4 Other	1,273	1,018
Total carrying value	3,369,112	3,659,552
Fair value	3,369,112	3,659,552

Given the short-term nature of the instruments involved (cash and collateral), the amortized cost method has not been applied since the effect of the discounting would have been negligible.

1.2 Detail of Account 10 - Due to banks: subordinated debt

The liabilities included in Account 10 do not contain any subordination provisions.

1.3 Due to banks for financial leases: reconciliation of minimum future instalments due (Bank as lessee)

Accounts / Amounts	31/12/2005		31/12/2004	
	Minimum Future Instalments Due	Present Value of Minimum Future Instalments Due	Minimum Future Instalments Due	Present Value of Minimum Future Instalments Due
Within 1 year	157	153	449	433
Between 1 and 5 years	26	26	183	179
Total	183	179	632	612
Future financial costs	(4)	x	(20)	x
Balance-sheet liability	179	179	612	612

Section 2

Account 20 - Due to customers

Given the short-term nature of the instruments involved (cash and collateral), the amortized cost method has not been applied since the effect of the discounting would have been negligible.

2.1 Due to customers: breakdown by type of instrument

Transaction Type / Amounts	31/12/2005	31/12/2004
Financing	36,889	5,416
Other	36,889	5,416
Total carrying value	36,889	5,416
Fair value	36,889	5,416

2.2 Detail of Account 20 - Due to customers: subordinated debt

The liabilities included in Account 20 do not contain any subordination provisions.

Section 3

Account 30 - Securities issued

3.1 Securities issued: breakdown by type of instrument

Type of Securities / Amounts	31/12/2005		31/12/2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Unlisted securities	155,022	155,111	105,017	105,311
1. Bonds	155,022	155,111	105,017	105,311
- Other	155,022	155,111	105,017	105,311
Total	155,022	155,111	105,017	105,311

3.2 Detail of Account 30 - Securities issued: subordinated securities

The securities consist of two subordinated bond issues. The bonds were issued at par for a total of €155 million, and consist of 155,000 securities with a nominal value of €1,000 each which may not be split. The bonds pay interest quarterly in arrears at the 3-month EURIBOR rate increased by a spread of 70 basis points per annum.

The bonds are classified as Tier III Subordinated Debt as defined in Title IV, Chapter 3, Section I, Paragraph 3 of Bank of Italy Regulatory Instructions and constitute direct and subordinated bonds of MPS Finance. The entire amount of the issues is included in the computation of the Bank's funding to cover market risks.

The bond issues do not incorporate any conditions for prepayments or for the conversion of the securities into capital or other types of liabilities, with the exception of the so-called lock-in clause provided by the terms and conditions of the issue.

In the event of the Bank's liquidation, the principal and any residual interest due on the bonds are to be repaid after the satisfaction of the claims of all senior creditors.

Type / Accounts	Issue Date	Maturity Date	Currency	Interest Rate
MPSFINANCE06 SUB 3 LIV	29/12/2003	29/12/2006	EURO	Indexed
MPSFINANCE08 SUB 3 LIV	30/06/2005	30/06/2008	EURO	Indexed
Total				

Section 4

Account 40 - Financial liabilities for trading

4.1 Financial liabilities for trading

Type of Instrument / Amount	31.12.2005				31.12.2004			
	Nominal Value	Fair Value: Listed	Fair Value: Unlisted	Fair value °	Nominal Value	Fair Value: Listed	Fair Value: Unlisted	Fair value °
A. Cash liabilities								
1. Due to Banks	5.186.174	5.159.340	2.218	5.161.558	5.749.565	5.756.554	4.631	5.761.185
1.1 Structured	8.793	6.791	2.043	X	2.422	149	2.480	X
1.2 Others	5.177.381	5.152.549	175	X	5.747.143	5.756.405	2.151	X
2. Due to Customers	4.045.053	4.085.607	3.165	4.088.772	1.161.797	1.170.932	158	1.171.090
2.1 Structured	628	27	531	X	6.530	5.926	-	X
2.2 Others	4.044.425	4.085.580	2.634	X	1.155.267	1.165.006	158	X
3. Other		47.329	-	X		20.503	-	X
Total A	9.231.227	9.292.276	5.383	9.250.330	6.911.362	6.947.989	4.789	6.932.275
B. Derivatives								
1. Financial Derivatives	X	195.496	7.559.921	X	X	106.583	6.850.408	X
1.1 Trading	X	195.496	7.559.921	X	X	106.583	6.850.408	X
2. Credit Derivatives	X	-	105.055	X	X	-	81.049	X
2.1 Trading	X	0	105.055	X	X	0	81.049	X
Total B	X	195.496	7.664.976	X	X	106.583	6.931.457	X
Total A+B	X	9.487.772	7.670.359	X	X	7.054.572	6.936.246	X

° Excluding changes due to changes in credit rating.

The effect of the Day-1 P&L (see Part A - Notes to the Financial Statements, A.2 - Principal financial statement aggregates, Section 1) is equal to €6,888,000.

The amounts due to banks and the amounts due to customers include amounts for technical overdrafts on bond securities, while other securities include amounts for technical overdrafts on equity and similar securities.

4.2 Detail of Account 40 - Financial liabilities for trading: subordinated liabilities

Type / Accounts	Issue Date	Maturity Date	Currency	Interest Rate	Total as of 31/12/2005
Due to banks					6,748
BSPOLETO 09TV SUB	28/06/2002	28/06/2009	EURO	Floating	41
BMPS TV 05/17	30/11/2005	30/11/2017	EURO	Floating	1,097
BMPS 2014 TV	01/06/2004	01/06/2014	EURO	Floating	1,896
BMPS 05/15 TV	30/06/2005	30/06/2015	EURO	Floating	3,714
Due to customers					26
General TV 00/22 SUB	20/07/2000	20/07/2012	EURO	Floating	26

4.3 Financial liabilities for trading: derivatives instruments

Type of Derivatives / Underlying Instrument	Interest Rates	Foreign Currencies and Gold	Equity Securities	Receivables	Total as of 31/12/2005
A. Listed derivatives					
1) Financial derivatives:	445	-	195,051	-	195,496
- With exchange of principal	-	-	31,200	-	31,200
Options issued	-	-	31,200	-	31,200
Other derivatives	-	-	-	-	-
- Without exchange of principal	445	-	163,851	-	164,296
Options issued	445	-	163,851	-	164,296
Other derivatives	xxxx	xxxxx	xxxxx	xxxxx	-
Total A	445	-	195,051	-	195,496
B. Unlisted derivatives					
1) Financial derivatives:	6,657,978	52,028	849,915	-	7,559,921
- With exchange of principal	13,330	41,642	116,843	-	171,815
Options issued	13,330	18,227	116,843	-	148,400
Other derivatives	-	23,415	-	-	23,415
- Without exchange of principal	6,644,648	10,386	733,072	-	7,388,106
Options issued	749,433	10,386	733,072	-	1,492,891
Other derivatives	5,895,215	-	-	-	5,895,215
2) Credit derivatives:	-	-	-	105,055	105,055
- With exchange of principal	-	-	-	102,166	102,166
- Without exchange of principal	-	-	-	2,889	2,889
Total B	6,657,978	52,028	849,915	105,055	7,664,976
Total (A+B)	6,658,423	52,028	1,044,966	105,055	7,860,472

It is noted that 36.39 percent of the market value as of 31 December 2005 is related to derivatives contracts booked with companies belonging to the MPS Group (versus 40.78 percent as of 31 December 2004).

4.4 Cash financial liabilities for trading (excluding "technical overdrafts"): annual changes

Changes / Type	Due to Banks	Due to Customers	Total
A. Opening balances	5,748,841	588,126	6,336,967
B. Increases	306,450,460	373,565,368	680,015,828
B1. Sales	306,438,633	373,563,739	680,002,372
B2. Other changes	11,827	1,629	13,456
B. Decreases	307,047,032	370,944,621	677,991,653
C1. Purchases	307,035,392	370,944,278	370,944,278
C2. Other changes	11,640	343	11,983
D. Closing balances	5,152,269	3,208,873	8,361,142

The balances of accounts B2 and C2 include amounts related to technical overdrafts.

Section 5

Account 80 - Tax liabilities

Type	31/12/2005	31/12/2004
A. Current tax liabilities	-	-
B. Deferred tax liabilities	7,536	14,733
Total (A+B)	7,536	14,733

Deferred tax liabilities are discussed in detail in Section 9 of the comments on assets.

Section 6

Account 100 - Other liabilities

6.1 Other liabilities

Accounts	31/12/2005	31/12/2004
a) Items in transit	21,358	521
b) Other payables to employees	4,273	4,644
c) Amounts due to the Treasury and other tax assessors	483	532
d) Amounts due to social-welfare institutions	1,594	1,718
e) Other payables	80	83
f) Accrued liabilities on current accounts and deposits with the parent company	519	4,150
g) Accrued liabilities on collateral placed with customers	130	12
h) Accrued liabilities on collateral placed with banks	664	623
i) Trade payables and accrued liabilities with banks of the MPS Group	1,129	901
l) Trade payables and accrued liabilities with customers of the MPS Group	533	1,562
m) Trade payables and accrued liabilities with suppliers	1,924	3,060
Total	32,687	17,806

Section 7

Account 110 - Staff severance indemnity reserve

7.1 Staff severance indemnity reserve: annual changes

	31/12/2005	31/12/2004
Closing balances - prior year	1,039	1,086
Effects of the changes in accounting principles		(224)
A. Opening balances	1,039	862
B. Increases	1,000	1,134
B.1 Provision for the year	1,000	1,134
including: cost of benefits in relation to employees currently on the payroll	982	1,112
including: financial charges	18	22
C. Decreases	(786)	(957)
C.1 Severance indemnities paid	(68)	(172)
C.2 Other decreases	(718)	(785)
including: actuarial earnings	-	(94)
including: payments to other, complementary funds	(718)	(691)
D. Closing balances	1,253	1,039

7.1.a Description of main actuarial assumptions: staff severance indemnity reserve (in %)

Assumptions / Percentages	31/12/2005	31/12/2004
Discount rate	3.79	4.47
Expected rate of growth of salaries/wages	2.65	2.67

Section 8

Account 120 - Reserves for risks and charges

8.1 Reserves for risks and charges

Accounts / Amounts	31/12/2005	31/12/2004
Other reserves for risks and charges	-	225
Personnel expenses	-	225
Total	-	225

8.2 Reserves for risks and charges: annual changes

	Other reserves	Total
A. Opening balances	225	225
B. Increases	-	-
C. Decreases	(225)	(225)
C.1 Usage during the year	(225)	(225)
D. Closing balances	-	-

Section 9

Shareholders' equity

Accounts: 160 - Reserves, 170 - Paid-in capital, 180 - Share capital,
200 - Profit (loss) for the period

9.1 Shareholders' equity

Accounts / Amounts	31/12/2005	31/12/2004
1. Share capital	130,000	130,000
2. Paid-in capital	1,291	1,291
3. Reserves	56,198	44,357
4. Profit (loss) for the period	34,278	29,851
Total	221,767	205,499

9.2 Share capital

Type	Amount
A. Share capital	
A.1 Ordinary shares	130,000

The share capital consists of 130 million ordinary shares with a par value of €1.00 each.

9.3 Share capital - number of shares: annual changes

No changes were made in 2005 in the number of shares issued and outstanding.

9.4 Share capital: other information

The share capital of €130 million has been fully subscribed and paid, and is held in its entirety by Banca Monte dei Paschi di Siena S.p.A.

9.5 Earnings reserves: components and annual changes

	Legal	Other	Total
A. Opening balances	12,925	31,432	44,357
B. Increases	1,720	10,121	11,841
- Allocation of earnings	1,720	10,121	11,841
C. Decreases	-	-	-
D. Closing balances	14,645	41,553	56,198

9.6 Earnings reserves: other information

At a meeting on 28 April 2005, the shareholder approved resolutions to vest the Board of Directors with the power to purchase shares of Banca Monte dei Paschi di Siena (parent company), in accordance with limits and formalities provided by Article 2359 bis and Article 2357, Paragraph 2, of the Italian Civil Code and as governed by Article 132 of Law Decree n. 58/98, so as to achieve proper management of risks related to financial derivatives instruments linked to equity securities or indices (should the listed securities of the parent company be present). Such purchases must be limited to an aggregate amount of €17,000,000 (as indicated in the sub-account of other reserves); as of 31 December 2005, a total of €476,000 of the allowance had been used.

Section 10

Other information

10.1 Guarantees issued and commitments

Transactions	31/12/2005	31/12/2004
1) Financial guarantees issued		
a) Banks	1,424,667	-
2) Irrevocable commitments to disburse funds	1,819,180	1,734,967
a) Banks	183,379	628,014
- Certain usage	183,379	628,014
b) Customers	1,635,801	1,106,953
- Certain usage	1,635,801	1,106,953
3) Commitments underlying credit derivatives: sales of protection	1,241,786	942,869
4) Other commitments	340,411	253,946
Total	4,826,044	2,931,782

Other commitments also include those commitments already reported in Section 7.3 and 8.3 of the assets.

10.2 Assets pledged to guarantee the Bank's liabilities and commitments

Transactions	31/12/2005	31/12/2004
1. Financial assets held for trading	1,457,781	168
2. Due from banks	1,494,280	76,820
3. Due from customers	3,915	2,202

The assets have been pledged to guarantee securities-lending and derivatives transactions.

10.3 Information on operating leases

10.3.1 Minimum future payments due on operating leases (Bank as lessee)

Accounts / Amounts	31/12/2005	31/12/2004
Within 1 year	248	573
Between 1 and 5 years	44	292
Minimum future payments due	292	865

10.4 Management and intermediation for the account of third parties

Type of Services	31/12/2005	31/12/2004
Custody and administration of securities		
a) Third-party securities on deposit with Bank (excluding securities in portfolios under management): other	767	
b) Third-party securities on deposit with third parties	767	
c) Bank's own securities on deposit with third parties	2,692,404	3,301,682

The amounts reported reflect the nominal value of the securities. The third-party securities are guarantees received in relation to securities-lending and derivatives transactions. Such guarantees have a total fair value of €1,051,000 and remain on deposit with the depositary bank, Banca Monte dei Paschi di Siena.

PART C
INFORMATION ON THE PROFIT AND LOSS STATEMENT

Section 1

Interest

Account 10 - Interest and similar income

Account 20 - Interest and similar expense

1.1 Interest and similar income

Accounts / Types of Assets	Performing Financial Assets		Other Assets	Total 31/12/2005	Total 31/12/2004
	Debt Securities	Financing			
1. Financial assets held for trading	133,928	119,758	-	253,686	216,066
2. Due from banks	-	-	42,209	42,209	12,807
3. Due from customers	-	-	414	414	251
Total	133,928	119,758	42,623	296,309	229,124

1.2 Interest and similar income: other information

Activity / Sector	Total 31/12/2005	Total 31/12/2004
Foreign-currency denominated assets	42,363	12,817

1.3 Interest and similar expense

Accounts / Types of Liabilities	Payables	Securities	Other Liabilities	Total 31/12/2005	Total 31/12/2004
1. Due to banks	(82,306)	x	-	(82,306)	(61,521)
2. Due to customers	(879)	x	-	(879)	(170)
3. Securities issued	x	(3,670)	-	(3,670)	(2,762)
4. Financial liabilities for trading	(177,118)	-	-	(177,118)	(145,285)
5. Other liabilities	x	x	(64)	(64)	(80)
6. Hedging derivatives	x	x	-	-	-
Total	(260,303)	(3,670)	(64)	(264,037)	(209,818)

Other liabilities include the interest from financial lease transactions.

1.4 Interest and similar expense: other information

Activity / Sector	Total 31/12/2005	Total 31/12/2004
1. Foreign-currency denominated liabilities	(7,196)	(2,988)
2. Financial lease transactions	(16)	(50)

Section 2

Commissions

Account 40 - Commissions earned

Account 50 - Commissions expense

2.1 Commissions earned

Type of Services / Amounts	Total 31/12/2005	Total 31/12/2004
a) Management, intermediation and advisory services:	2,139	7,678
- Securities placement	2,099	7,610
- Advisory services	40	68
b) Other services	642	1,626
Total	2,781	9,304

2.2 Commissions earned: breakdown by distribution channels

Channels / Amounts	Total 31/12/2005	Total 31/12/2004
a) Own branches:	2,099	7,610
- Securities placement	2,099	7,610
Total	2,099	7,610

2.3 Commissions expense

Type of Services / Amounts	Total 31/12/2005	Total 31/12/2004
a) Guarantees received	(720)	-
b) Management and intermediation services	(10,638)	(56,145)
- Trading of financial instruments	(7,910)	(9,974)
- Custody and administration of securities	(2,528)	(2,591)
- Securities placements	(200)	(43,580)
c) Other services	(9,874)	(3,271)
Total	(21,232)	(59,416)

The securities placements reported in b) include commissions paid to the banks of the MPS Group and to other banks for the placement and the distribution of investment products originated by MPS Finance. Commissions paid on the trading of financial instruments are mainly commissions for derivatives transactions carried out by the corporate area of the Commercial Division.

	
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Other services in c) for the year of 2005 mainly cover commissions related to the activity of third-party intermediaries in the trading of securities and derivatives, in both regulated and non-regulated markets, and annual commissions paid for the availability of third-party securities portfolios in relation to the Bank's securities-lending activity.

Section 3

Account 70 - Dividends and similar income

3.1 Dividends and similar income

Accounts / Income	31/12/2005	31/12/2004
	Dividends	Dividends
a) Financial assets held for trading	122,681	30,623
b) Financial assets available for sale	45	45
c) Equity investments	13,099	8,442
Total	135,825	39,110

Section 4

Account 80- Net profit (loss) from trading activity

4.1 Net profit (loss) from trading activity

Transactions / Income Components	Capital Gains	Trading Gains	Capital Losses	Trading Losses	Net Result 31/12/2005
1. Financial assets held for trading	38,812	97,820	(13,361)	(190,480)	(67,209)
1.1 Debt securities	21,767	56,169	(10,991)	(62,505)	4,440
1.2 Equity securities	16,441	41,651	(2,370)	(127,975)	(72,253)
1.3 Shares of mutual funds	604	-	-	-	604
2. Financial liabilities for trading	10,152	13,349	(4,417)	(18,277)	807
2.1 Debt securities	9,694	6,855	(726)	(10,675)	5,148
2.2 Other	458	6,494	(3,691)	(7,602)	(4,341)
3. Other financial assets and liabilities: foreign-exchange differences	X	X	X	X	-
4. Derivatives instruments	544,557	6,589,271	(651,906)	(6,484,001)	(29,175)
4.1 Financial derivatives, in relation to:	537,813	6,587,805	(645,520)	(6,479,949)	(26,947)
- Debt securities and interest rates	359,093	5,837,650	(494,987)	(5,702,179)	(423)
- Equity securities and equity indices	178,720	750,155	(150,533)	(777,770)	572
- Foreign currencies and gold	X	X	X	X	(27,096)
4.2 Credit derivatives	6,744	1,466	(6,386)	(4,052)	(2,228)
Total	593,521	6,700,440	(669,684)	(6,692,758)	(95,577)

The aggregate difference arising from the registration of the Day-1 P&L (see Part A - Notes to the Financial Statements, A.2 - Principal financial statement aggregates, Section 1) still to be reported in the profit and loss statement as of the end of 2005 amounted to €6,888,000 (to be amortized over a maximum of 5 years).

Section 5

Account 150 - Administrative expenses

5.1 Personnel expenses

Type of Expenses / Amounts	Total 31/12/2005	Total 31/12/2004
1. Full-time employees		
a) Salaries and wages	(13,472)	(13,445)
b) Social-welfare charges	(3,545)	(3,636)
c) Provision to the staff several indemnity reserve	(924)	(955)
- Staff severance indemnity reserve	(982)	(989)
- Reimbursements for personnel on assignment	58	34
d) Payments to other complementary funds:	(264)	(253)
- Defined contribution plan	(264)	(253)
2. Other personnel	(302)	(284)
3. Directors	(355)	(348)
Total	(18,862)	(18,921)

5.2 Average number of employees by job category

Employee category	Total 31/12/2005	Total 31/12/2004
1. Full-time employees		
a) Senior managers	17	19
b) Middle managers	83	88
- including:: Level III and Level IV managers	53	57
c) Remaining personnel	68	69
2. Other personnel	18	13
Total	186	189

5.3 Company sponsored defined benefit pension plans: total costs

Accounts / Amounts	31/12/2005	31/12/2004
	Staff Severance Indemnity Reserve	Staff Severance Indemnity Reserve
Cost of benefits in relation to employees currently on the payroll (+)	(982)	(1,112)
Financial charges (+)	(18)	(22)
Actuarial gains and losses (±)	-	94
Total	(1,000)	(1,040)

5.3.1 Bank's estimated plan contributions for the next year

Accounts / Amounts	2006
	Staff Severance Indemnity Reserve
Bank's estimated plan contributions to be paid in the next year	(1.000)

5.4 Other administrative expenses

Expenditure Accounts	Total 31/12/2005	Total 31/12/2004
Stamp duties	(169)	(224)
Indirect taxes and other taxes	(732)	(444)
Building rentals	(720)	(612)
Compensation to external professionals	(4,351)	(5,863)
Maintenance of personal property and real property used in the business	(116)	(149)
Postage, telephone and telex	(334)	(360)
Advertising and sponsorships	(161)	(532)
Various rentals	(2,689)	(2,623)
Transportation	(33)	(14)
Lighting, heating and water	(15)	(14)
Reimbursement of employee automobile and travel expenses	(137)	(156)
Other personnel expenses	(1,205)	(1,636)
Office cleaning services	(142)	(132)
Rental of data transmission lines	(4,143)	(4,311)
Printing and office supplies	(59)	(48)
Insurance	(150)	(173)
Expenses for outsourcing of services to companies and entities of the MPS Group	(2,163)	(3,469)
Association dues	(182)	(200)
Business entertainment expenses	(219)	(231)
Subscriptions and purchases of publications	(45)	(31)
Equipment rentals	(214)	(484)
Other	(281)	(243)
Total	(18,260)	(21,949)

5.4.1 Information on operating leases (Bank as lessee) (included in other administrative expenses)

Accounts / Amounts	31/12/2005	31/12/2004
Minimum instalments	459	719
Total	459	719

Section 6

Account 170 - Net adjustments (writebacks) to the value of fixed assets

6.1 Net adjustments to the value of fixed assets

Assets / Earnings Component	Depreciation	Total 31/12/2005	Total 31/12/2004
1. Owned assets	(266)	(266)	(863)
- Assets used in the business	(266)	(266)	(863)
2. Assets under financial lease	(432)	(432)	(544)
- Assets used in the business	(432)	(432)	(544)
Total	(698)	(698)	(1,407)

Section 7

Account 180 - Net adjustments (writebacks) to the value of intangible assets

7.1 Net adjustments to the value of intangible assets

Assets / Earnings Component	Amortization	Impairment-Related Adjustments	Total 31/12/2005	Total 31/12/2004
1. Owned assets	(1,640)	(39)	(1,679)	(1,671)
- other (externally produced)	(1,640)	(39)	(1,679)	(1,671)
Total	(1,640)	(39)	(1,679)	(1,671)

Section 8

Account 190 - Other income and expenses

8.1 Other operating expenses

Accounts	31/12/2005	31/12/2004
a) Foreign-exchange differentials on invoices	(50)	(23)
b) Various contributions (FNG, FIDT, CONSOB, Clearing House)	(94)	(77)
c) Other	(5)	(13)
d) Reversal of past income not referable to a specific account	(196)	(572)
Total	(345)	(685)

8.2 Other operating income

Accounts	31/12/2005	31/12/2004
a) Foreign-exchange differentials on invoices	4	64
b) Amounts charged back to third parties	356	326
c) Other	804	771
d) Reversal of past expenses not referable to a specific account	875	3,964
Total	2,039	5,125

Section 9

Account 260 - Taxes on income from continuing operations

9.1 Taxes on income from continuing operations

Component / Amounts	Total 31/12/2005	Total 31/12/2004
a) Change in deferred tax assets (+/-)	1,304	66
b) Change in deferred tax liabilities (+/-)	9,179	(14,656)
c) Charge / income for consolidated tax return	7,493	14,703
Tax provision for the year	17,976	113

9.2 Reconciliation between taxes computed at the statutory rate and the actual tax provision

Accounts / Amounts	31/12/2005	31/12/2004
Pre-tax profit (loss) from continuing operations	16,303	29,738
Profit (loss) of business unit transferred to MPS Banca Impresa		1,267
Pre-tax profit (loss)	16,303	31,005
Current corporate income tax rate (%)	33	33
Income taxes computed at the statutory rate	5,380	10,232
Permanent differences	(41,955)	(11,986)
Tax loss - deferred tax assets not booked	19,834	-
Regional tax on productivity	(1,235)	1,641
Income tax provision for the year	-17,976	-113
including: taxes on the income of continuing operations	-17,976	-113

Deferred tax liabilities are discussed in detail in Section 9 of the comments on assets.

PART D
SEGMENT REPORTING

Revenues and earnings by sector of activity

The MPS Group elected to take advantage of an option whereby the Bank does not have to prepare any segment reporting and pursuant to the instructions of the parent company, the Bank did not prepare such reporting.

PART E
INFORMATION ON RISKS AND HEDGING POLICIES

Section 1

CREDIT RISK

Qualitative information

1. General information

MPS Finance's trading activity covers securities, bonds and stocks, equity derivatives, interest-rate derivatives, commodity derivatives, and credit derivatives.

The credit risk related to such activity can be classified as follows:

- financial risk related to the securities portfolio and credit derivatives;
- issuer risk related to the securities portfolio and credit derivatives;
- counterparty risk related to the entire trading portfolio.

2. Credit risk management policies

2.1 Organizational aspects and management, measurement and control systems

With reference to the financial risk and the issuer risk on the securities portfolio and credit derivatives, the key factors and main aggregates involved are:

- Credit spreads;
- Recovery rate; and
- Risk of issuer default.

The credit risks in relation to the portfolio are identified, analyzed and monitored by MPS Finance's risk management unit, through risk measures calculated daily by the Murex system and other applications developed in house. The measures used for controlling the credit risks regard the following aspects:

- Nominal values of the instruments;
- Credit-spread sensitivity; and,
- Recovery-rate sensitivity, ad hoc whenever significant.

With regard to the nominal exposure, the net position of each guarantor is calculated, including by taking into account the positions in credit derivatives. This measure is particularly significant since the Board of Directors has defined and authorized specific limits to the Managing Director, who has, in turn, authorized limits for the CEO, who, in turn, authorizes the limits for the operating units.

The credit-spread sensitivity is measured daily by the Front Office system, and then reported to the Risk Management and Control system where the data can be consulted for analyses at various levels (portfolio, issuer, seniority, sector, category, country, geographic area, rating, etc).

The recovery-rate sensitivity is measured daily by the Front Office system, with the data analyzed on a periodic basis.

Stress-test methodologies have also been defined to look at potential monetary losses in the event of a "jump to default". The tests show the potential loss that the Bank would incur in the event of an immediate default of the guarantor, without taking into account the actual probability of default of the debtor examined. The test results can also be used for analyses at various levels (portfolio, product type, guarantor, etc.).

Counterparty risk is calculated by the Front Office Murex system and the related Murex Limit Controller (MLC) module. The latter has been programmed to store both the limits defined by the credit department, and the calculation rules implemented. During the year, the Bank installed and began operating the MLC real-time module which makes it possible to monitor over-the-counter transactions and to prevent their execution when an appropriate credit line is either not sufficient or not available.

The control is handled by the risk management unit which receives the appropriate MLC reporting on a daily basis.

The counterparty risk takes into account the actual credit/debit position (market value) by counterparty and the potential future credit exposure (add-on). Counterparty risk is subject to appropriate limits set by the credit department.

2.2 Techniques to mitigate credit risk

Whereas the Bank does business exclusively with institutional investors, the techniques for mitigating counterparty risk may be summarized as follows:

- Netting agreements: The agreements allow for the netting of receivable and payable positions; MPS Finance has signed agreements covering derivatives and/or repurchase agreement transactions with most counterparties.
- Collateral agreements: The agreements provide for taking collateral (cash or securities) from the counterparties in order to guarantee of the Bank's creditor position.
- Break clauses: The provisions make it possible to extinguish transactions in advance of their stated maturity dates, when contractually permitted.

The netting agreements are drawn up by the legal department, and are implemented by the credit department in relation to MPS Finance's activity.

The collateral management department is in charge of processing collateral, and on the basis of daily reporting, is responsible for:

- requesting collateral when the Bank is the creditor;
- verifying the counterparties' requests for collateral.

CREDIT RISK

Quantitative information

A. Credit quality

A.1. Performing and impaired positions: aggregates, valuation adjustments, changes, distribution by sector and distribution by geographic area

A.1.1 Distribution of the financial assets by portfolio and by credit quality (carrying values)

Portfolio / Quality	Non-Performing	Watchlist	Restructured	Past-Due	Country Risk	Performing	Total
1. Financial assets held for trading	-	-	-	-	-	19,357,035	19,357,035
2. Financial assets held for sale	-	-	-	-	-	-	-
3. Due from banks	-	-	-	-	-	1,541,802	1,541,802
4. Due from customers	-	-	-	-	-	3,915	3,915
Total as of 31/12/2005	-	-	-	-	-	20,902,752	20,902,752
Total as of 31/12/2004	-	-	-	-	-	17,930,072	17,930,072

The amounts indicated in the table above have been computed on the basis of international accounting principles (IAS). Instead, for the purpose of calculating regulatory capital requirements, the account totals have been computed in accordance with prevailing national regulations (using national accounting principles).

A.1.2 Distribution of the financial assets by portfolio and by credit quality (gross and net values)

Portfolio / Quality	Performing Assets			Total Net Exposure
	Gross Exposure	Portfolio Adjustments	Net Exposure	
1. Financial assets held for trading	x	x	19,357,035	19,357,035
2. Financial assets held for sale	-	-	-	-
3. Due from banks	1,541,802	-	1,541,802	1,541,802
4. Due from customers	3,915	-	3,915	3,915
Total as of 31/12/2005	1,545,717	-	20,902,752	20,902,752
Total as of 31/12/2004	1,555,867	-	17,930,072	17,930,072

The amounts indicated in the table above have been computed on the basis of international accounting principles (IAS). Instead, for the purpose of calculating regulatory capital requirements, the account totals have been computed in accordance with prevailing national regulations (using national accounting principles).

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

Type of Exposure / Amounts	Gross Exposure	Specific Valuation Adjustments	Portfolio Adjustments	Net Exposure
A. Cash exposure				
Other assets	8,205,557	x	9,318	8,214,875
Total A	8,205,557	x	9,318	8,214,875
B. Off-balance-sheet exposure				
Other	3,782,067	-	-	3,782,067
Total B	3,782,067	-	-	3,782,067

A.1.4 Cash exposure and off-balance-sheet exposure to customers: gross and net values

Type of Exposure / Amounts	Gross Exposure	Specific Valuation Adjustments	Portfolio Adjustments	Net Exposure
A. Cash exposure				
Other assets	5,011,633	x	16,142	5,027,775
Total A	5,011,633	x	16,142	5,027,775
B. Off-balance-sheet exposure				
Other	2,755,325	-	-	2,755,325
Total	2,755,325	-	-	2,755,325

A.2. Classification of exposure on the basis of external and internal ratings

A.2.1 Distribution of the cash and off-balance-sheet exposure by external rating classes (carrying values)

Exposure	External Rating Classes						Non-Rated	Total
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	Below B-		
A. Cash exposure	3,341,223	3,221,811	127,268	48,033	1,260	685	6,502,370	13,242,650
B. Derivatives	714,378	2,079,472	10,727	-	-	-	170,103	2,974,680
B.1 Financial derivatives	374,979	1,256,565	10,727	-	-	-	101,090	1,743,361
B.2 Credit derivatives	339,399	822,907	-	-	-	-	69,013	1,231,319
C. Guarantees issued	47,743	41,000	-	-	-	-	1,314,440	1,403,183
D. Commitments to disburse funds	1,151,431	73,623	83,816	21,721	246	109	828,583	2,159,529
Total	5,254,775	5,415,906	221,811	69,754	1,506	794	8,815,496	19,780,042

A.3. Distribution of secured exposure by type of guarantee

A.3.1 Secured cash exposure to banks and customers

	Amount of Exposure	Guarantees (Fair Value)	
		Secured Guarantees	
		Securities	Other assets
1. Secured exposure to banks:			
Fully secured	360	-	720
Partially secured	2,704	-	3,253
2. Secured exposure to customers:			
Partially secured	(1,016)	1,046	

The security indicated above consists of cash deposits and German debt securities. Such securities may be sold or pledged, and they are currently on deposit with MPS Finance.

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

	Amount of Exposure	Guarantees (Fair Value)	
		Secured Guarantees	
		Other assets	
1. Secured exposure to banks:			
Partially secured	1,111,679		272,404
2. Secured exposure to customers:			
Partially secured	116,462		35,121

The guarantees indicated above consist of cash deposited with MPS Finance.

B. Distribution and concentration of receivables

B.1 Due from customers - cash and off-balance-sheet exposure: breakdown by sector

Exposure/Counterparty	Governments and Central Banks		Other Public Entities		Financial Companies		Insurance Companies		Non-Financial Companies		Other							
	Gross Exposure	Portfolio Valuation Adjustments	Gross Exposure	Portfolio Valuation Adjustments	Gross Exposure	Portfolio Valuation Adjustments	Gross Exposure	Portfolio Valuation Adjustments	Gross Exposure	Portfolio Valuation Adjustments	Gross Exposure	Portfolio Valuation Adjustments						
A. Balance Sheet Exposure																		
Other	2,078,986	(1,610)	2,077,376	39,114	6,197	40,741	2,483,030	3,466	2,486,486	73,275	2,626	76,101	270,696	10,595	281,281	66,531	(740)	65,791
Sub-total	2,078,986	(1,610)	2,077,376	39,114	6,197	40,741	2,483,030	3,466	2,486,486	73,275	2,626	76,101	270,696	10,595	281,281	66,531	(740)	65,791
B. Off-Balance Sheet Exposure																		
B. Other	1,830,460	-	1,830,460	6,197	6,197	-	821,046	-	821,046	25,904	-	25,904	51,437	-	51,437	20,281	-	20,281
Sub-total	1,830,460	-	1,830,460	6,197	6,197	-	821,046	-	821,046	25,904	-	25,904	51,437	-	51,437	20,281	-	20,281
TOTAL AS OF 31-12-2005	3,909,446	(1,610)	3,907,836	45,311	1,627	46,938	3,304,076	3,466	3,307,532	99,179	2,626	102,005	322,133	10,595	332,718	86,812	(740)	86,072
TOTAL AS OF 31-12-2004																		

The amounts reported in the table have been calculated in accordance with IAS. The corresponding data used in the computation of regulatory capital have been calculated in accordance with national accounting principles (IT GAAP). The cash exposure to non-financial companies is related to long positions in securities held in the portfolio, and to issuer risk on put options issued.

B.2 Due from banks - cash and off-balance-sheet exposure: geographic distribution

Exposure / Geographic Area	Italy		Other EU		America		Asia		Rest of World	
	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure
A. Balance-sheet exposure	4.607.289	4.615.508	3.564.179	3.564.231	31.524	32.592	2.566	2.543	-	-
Other	4.607.289	4.615.508	3.564.179	3.564.231	31.524	32.592	2.566	2.543	-	-
Total A	4.607.289	4.615.508	3.564.179	3.564.231	31.524	32.592	2.566	2.543	-	-
B. Off-balance-sheet exposure	1.008.428	1.008.428	2.632.793	2.632.793	134.471	134.471	-	-	6.375	6.375
Other	1.008.428	1.008.428	2.632.793	2.632.793	134.471	134.471	-	-	6.375	6.375
Total B	1.008.428	1.008.428	2.632.793	2.632.793	134.471	134.471	-	-	6.375	6.375
Total as of 31/12/2005	5.615.717	5.623.936	6.196.972	6.197.024	165.995	167.063	2.566	2.543	6.375	6.375

The amounts reported in the table have been calculated in accordance with IAS.
The corresponding data used in the computation of regulatory capital have been calculated in accordance with national accounting principles (IT GAAP).

B.3 Due from customers - cash and off-balance-sheet exposure: geographic distribution

Exposure / Geographic Area	Italy		Other EU		America		Asia		Rest of World	
	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure
A. Balance-sheet exposure										
Other	4.444.906	4.447.587	336.857	344.619	182.192	185.714	31.982	33.909	15.893	15.946
Total A	4.444.906	4.447.587	336.857	344.619	182.192	185.714	31.982	33.909	15.893	15.946
B. Off-balance-sheet exposure										
Other	1.743.770	1.743.770	710.998	710.998	125.948	125.948	46.374	46.374	128.235	128.235
Total B	1.743.770	1.743.770	710.998	710.998	125.948	125.948	46.374	46.374	128.235	128.235
Total as of 31/12/2005	6.188.676	6.191.357	1.047.855	1.055.617	308.140	311.662	78.356	80.283	143.928	144.181

The amounts reported in the table have been calculated in accordance with IAS.
The corresponding data used in the computation of regulatory capital have been calculated in accordance with national accounting principles (IT GAAP).

B.4 Material risks (as defined by prevailing regulations)

	31.12.2005	31.12.2004
Amount	215.237	145.402
Number of Positions	6	5

C. Securitization transactions and asset transfers

C.1 Securitizations

Qualitative information

There is no qualitative information reported since the securitization transactions relating to assets held for trading are represented by assets issued by third parties and are thus included in the overall management of the individual portfolios.

Quantitative information

C.1.1 Exposure to securitization transactions broken down by quality of underlying assets

Quality of Underlying Assets / Exposure	Cash exposure					
	Senior		Mezzanine		Junior	
	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure
A. Bank's own underlying assets	-	-	-	-	-	-
B. Underlying assets of third parties:	118,439	119,176	18,038	17,986	4,843	5,210
Other	118,439	119,176	18,038	17,986	4,843	5,210
Total as of 31/12/2005	118,439	119,176	18,038	17,986	4,843	5,210
Total as of 31/12/2004	94,485	94,672	21,473	22,899	3,450	4,792

The Bank's exposure is limited cash exposure only. The amounts indicated in the table above are reported as financial assets held for trading (Account 20 of the assets).

C.1.2 Exposure to the main third-party securitization transactions broken down by type of assets securitized and by type of exposure

Exposure	Type of Underlying Assets	Cash Exposure					
		Senior		Mezzanine		Junior	
		Carrying value	Valuation Adjustments / Writebacks	Carrying value	Valuation Adjustments / Writebacks	Carrying value	Valuation Adjustments / Writebacks
ANTHEA CL B 11 TV	Bonds	-	-	17,113	307	-	-
ANTHEA CL C 11 TV	Bonds	-	-	-	-	5,210	368
SCCI JUL15 TV SERIE7	Social security contributions	551	(1)	-	-	-	-
SIENA MORTG 38 CL.A2	Mortgages	8,600	(7)	-	-	-	-
PMI 2 A	Loans	4,020	(1)	-	-	-	-
MEDIA FINANCECLA1 39	Mortgages	5,024	(3)	-	-	-	-
FE MORTGAGES 43 CL A	Mortgages	5,004	(4)	-	-	-	-
VELA LEASE 05-28CL A	Leases	5,006	(0)	-	-	-	-
SESTANTE FI CL.A45TV	Mortgages	4,007	2	-	-	-	-
LOCAT 2005-3 A2	Leases	6,019	1	-	-	-	-
SCCI05 SER7-16TV	Social security contributions	10,017	(0)	-	-	-	-
SCCI 05-18 TV SR9	Social security contributions	5,009	0	-	-	-	-
SCCI S.10 05-19 TV	Social security contributions	5,010	1	-	-	-	-
ASTI FIN 1A 05-41 TV	Mortgages	5,008	3	-	-	-	-
VINTAGE B-TV 00/10	Bonds	-	-	242	(360)	-	-
PATAGONIA-ZC 01/16	Bonds	49,380	749	-	-	-	-
BANCAJA 3 A2 TV04/37	Loans	4,007	(2)	-	-	-	-
SIENA MORT CLA2 37 C	Mortgages	-	-	631	0	-	-
BBVAF 4 A2 TV 38	Loans	2,514	-	-	-	-	-

The Bank's exposure is limited to cash exposure in the portfolio of assets held for trading; there are no guarantees or lines of credit related to such exposure.

C.1.3 Aggregate amount of securitized assets underlying junior securities and other types of credit support

Assets / Amounts	Traditional Securitizations
A. Bank's own underlying assets	
B. Underlying assets of third parties:	5,470
Other assets	5,470

Section 2

MARKET RISKS

Section 2.1 - INTEREST-RATE RISK - REGULATORY TRADING PORTFOLIO

Qualitative information

A. General information

The exposure to interest-rate risk mainly arises from the Bank's activity in structuring products, hedging issuers and trading structured products for both corporate and retail customers, whether as market maker in the structure securities issued or in relation to other bond securities. Such securities may be traded in various markets or through organized trading systems such as the Deal Done Trading system.

In addition, through its Government and Money Market Business Unit, the Bank operates as a specialist in the primary market for government bonds, while it is a super-primary dealer in the secondary market for government securities issued by the EU-member states.

The Bank's management of interest-rate exposure entails the management of medium-/long-term structural positions on linear instruments such as interest-rate swaps, basis swaps, and futures, and the management of volatility products (plain and exotic), such as caps and floors, swaptions and interest-rate futures.

B. Processes and methods for managing and measuring interest-rate risk

The market risk on the trading portfolio is identified, analyzed and monitored by MPS Finance's risk management unit, through risk measures calculated daily by the Murex system and other applications developed in house.

Like the other elements of market risk, interest-rate risk is mostly measured through the monitoring of sensitivities (delta, gamma and vega) and the calculation of the Value at Risk (VaR). This measure is particularly significant since the Board of Directors has defined and authorized specific limits to the Managing Director, who has, in turn, authorized limits for the CEO, who, in turn, authorizes the limits for the operating units.

The sensitivities are calculated by the Murex system with respect to individual positions, or through the finite-difference method, depending on the type of financial instrument used. The data on sensitivity are available with regard to both the products embedded in the Murex system and the products developed in house.

The VaR calculation method applied to MPS Finance's trading positions is based on the historical simulation of the three risk components (equity, interest rates and foreign-exchange rates) with a Taylor series approximation. With this method, the risks assumed in different areas can be automatically aggregated without having to come up with assumptions about the correlations of the different risk factors involved.

The parameters for calculating VaR are as follows:

1. holding period of one day;
2. confidence level at 99 percent;
3. historic analysis extended over a period of two years.

The calculation of the VaR is done by an application developed in house, and entails the following:

1. The greeks relative to the different types of risks (equity, interest-rate and foreign-exchange risks), subdivided in delta, gamma and vega are extracted from the Murex system.
2. Historical changes in market parameters (equity prices, interest rates, exchange rates, and the related volatilities (both implicit and calculated through the exponential weighted moving average)) are applied to the data extracted from the Murex system.
3. A vector consisting of 500 estimates of theoretical shifts of P&L for each portfolio is computed.
4. Such theoretical values are ordered, and using the series arising therefrom, the Bank obtains with a worst-case scenario at a confidence level of 99 percent.
5. With the appropriate recombinations of such vectors, the Bank obtains data regarding total VaR, additive VaR, and marginal VaR.

The method described above is used for management purposes. The amount of regulatory capital required to cover market risks is instead computed by the MPS Group with the use of the standard method provided by Bank of Italy regulations.

2.1.1. Regulatory trading portfolio: distribution of cash and derivative financial assets and liabilities by residual maturity (repricing date)

Euro-denominated instruments

Section 2.1 - INTEREST-RATE RISK - REGULATORY TRADING PORTFOLIO

Quantitative information

2.1.1. Regulatory trading portfolio: distribution of cash and derivative financial assets and liabilities by residual maturity (repricing date)

Euro-denominated instruments

Type / Residual Maturity	Up to 3 months	> 3 months < 6 months	> 6 months < 1 year	> 1 year < 5 years	> 5 years < 10 years	> 10 years
1. Cash assets	7,558,985	1,458,753	171,454	263,457	101,145	145,959
1.1 Debt securities:						
- other	1,300,733	1,183,831	171,454	263,457	101,145	145,959
1.2 Other assets	6,258,252	274,922	-	-	-	-
2. Cash liabilities	7,127,759	354,066	511,128	29,363	44,753	9,534
2.1 Repurchase agreements	6,953,745	276,702	1,901	-	-	-
2.2 Other liabilities	174,014	77,364	509,227	29,363	44,753	9,534
3. Financial derivatives	178,935,094	85,014,365	26,017,084	92,121,795	43,411,166	20,570,203
3.1 With underlying securities	889,940	437,312	1,294,844	3,703,028	292,768	97,373
- Options - long positions	292,352	263,922	674,620	1,910,032	176,135	5,221
- Options - short positions	198,231	173,390	620,224	1,641,444	95,034	-
- Other - long positions	287,584	-	-	-	21,599	-
- Other - short positions	111,773	-	-	151,552	-	92,152
3.2 Without underlying securities	174,508,209	83,051,928	24,602,398	87,997,846	42,617,348	20,248,174
- Options - long positions	2,373,277	2,532,333	1,526,297	6,531,327	1,899,228	931,845
- Options - short positions	1,777,553	2,813,158	1,124,444	7,389,829	2,096,877	567,601
- Other - long positions	85,411,006	37,534,587	12,063,223	37,665,768	19,072,633	9,538,660
- Other - short positions	84,946,373	40,171,850	9,888,434	36,410,922	19,548,610	9,210,068
3.3 Other transactions	3,536,945	1,525,125	119,842	420,921	501,050	224,656
- Securities to be delivered - long positions	1,364,586	-	-	-	-	-
- Securities to be delivered - short positions	168,153	652,633	50,106	151,435	227,035	115,223
- Securities to be received - long positions	204,522	872,492	69,736	269,486	274,015	109,433
- Securities to be received - short positions	1,799,684	-	-	-	-	-

Dollar-denominated instruments

Type / Residual Maturity	Up to 3 months	> 3 months < 6 months	> 6 months < 1 year	>1 year < 5 years	> 5 years < 10 years	> 10 years
1. Cash assets	11,711	2,829	649	3,279	300	8,955
1.1 Debt securities:						
- Other	1,988	2,829	649	3,279	300	8,955
1.2 Other assets	9,723	-	-	-	-	-
2. Cash liabilities	1,426	405	-	209	8,446	544
2.1 Repurchase agreements	-	-	-	-	-	-
2.2 Other liabilities	1,426	405	-	209	8,446	544
3. Financial derivatives	20,351,378	5,527,846	7,430,917	27,140,862	3,440,366	731,350
3.1 With underlying securities	124,976	241,729	189,368	358,538	632	8,376
- Options - long positions	28,725	125,748	89,709	147,907	-	-
- Options - short positions	42,785	115,981	99,659	210,631	-	-
- Other - long positions	15,473	-	-	-	-	-
- Other - short positions	37,993	-	-	-	632	8,376
3.2 Without underlying securities	20,223,419	5,286,117	7,241,486	26,780,978	3,438,869	721,205
- Options - long positions	1,618,385	811,024	1,479,479	4,015,823	306,698	75,590
- Options - short positions	3,302,128	309,874	690,532	3,729,713	191,686	100,137
- Other - long positions	7,216,080	1,578,587	1,697,312	10,607,805	1,613,546	238,408
- Other - short positions	8,086,826	2,586,632	3,374,163	8,427,637	1,326,939	307,070
3.3 Other transactions	2,983	-	63	1,346	865	1,769
- Securities to be delivered - long positions	2,574	-	-	-	-	-
- Securities to be delivered - short positions	233	-	44	531	443	1,323
- Securities to be received - long positions	176	-	19	815	422	446
- Securities to be received - short positions	-	-	-	-	-	-

Instruments denominated in currencies other than the EUR and the USD

Type / Residual Maturity	Up to 3 months	> 3 months < 6 months	> 6 months < 1 year	>1 year < 5 years	> 5 years < 10 years	> 10 years
1. Cash assets	21	-	216	117	42	-
1.1 Debt securities:						
- Other	21	-	216	117	42	-
2. Cash liabilities	-	50,801	-	276	-	-
2.1 Repurchase agreements	-	50,801	-	-	-	-
2.2 Other liabilities	-	-	-	276	-	-
3. Financial derivatives	2,027,525	975,586	1,035,314	1,690,982	229,639	334
3.1 With underlying securities	63,573	24,393	164,763	157,783	-	-
- Options - long positions	11,128	16,047	94,029	63,858	-	-
- Options - short positions	-	8,346	70,734	93,925	-	-
- Other - long positions	583	-	-	-	-	-
- Other - short positions	51,862	-	-	-	-	-
3.2 Without underlying securities	1,959,344	951,117	870,346	1,529,867	229,487	-
- Options - long positions	7,409	13,423	8,038	1,792	-	-
- Options - short positions	16,625	13,423	8,038	1,383	-	-
- Other - long positions	901,572	412,272	487,069	800,237	114,422	-
- Other - short positions	1,033,738	511,999	367,201	726,455	115,065	-
3.3 Other transactions	4,608	76	205	3,332	152	334
- Securities to be delivered - long positions	2,033	-	-	-	-	-
- Securities to be delivered - short positions	127	38	102	1,522	76	167
- Securities to be received - long positions	127	38	103	1,810	76	167
- Securities to be received - short positions	2,321	-	-	-	-	-

The tables above have been compiled with the data used for regulatory reporting purposes (capital requirements). The database analyzed did not allow for extracting sight positions.

If interest rates were to increase (decrease) by 100 basis points, the impact on total banking income, net profit, and shareholders equity would be equal to an increase (decrease) of €7,432,000.

Section 2.2 - INTEREST-RATE RISK - BANKING PORTFOLIO

Qualitative information

The banking portfolio mainly consists of current accounts, short-term bank deposits, and floating-rate subordinated loans issued by the Bank. The banking portfolio has limited exposure in terms of interest-rate risk.

Section 2.2 - INTEREST-RATE RISK - BANKING PORTFOLIO

Quantitative information

2.2.1. Banking portfolio: distribution of financial assets and liabilities by residual maturity (by repricing date)

Euro-denominated instruments

Type / Residual Maturity	Sight	Up to 3 months	> 3 months < 6 months	> 6 months < 1 year	>1 year < 5 years	Unspecified Maturity
1. Cash assets						
1.1 Due from banks	260,631	65,593	55		24,024	
1.2 Due from customers:		9,577				20,989
- Other financing:						
- Other		9,577				20,989
2. Cash liabilities						
2.1 Due to customers		10,260				
- Other payables:						
- Other		10,260				
2.2 Due to banks	41,818	3,201,799		17	179	
- Current accounts	41,818					
- Other payables		3,201,799		17	179	
2.3 Debt securities			155,022			
- Other			155,022			
2.4 Other liabilities		32,262				
- Other		32,262				

Instruments denominated in currencies other than the EUR

Type / Residual Maturity	Sight	Up to 3 months	Unspecified Maturity
1. Cash assets			
1.1 Due from banks	91,515	1,126,704	-
1.2 Due from customers:	-	43	302
- Other financing:	-	-	-
- Other	-	43	302
2. Cash liabilities			
2.1 Due to customers	-	26,629	-
- Other payables:	-	-	-
- Other	-	26,629	-
2.2 Due to banks	51,233	74,066	-
- Current accounts	51,233	-	-
- Other payables	-	74,066	-
2.3 Other liabilities	40	384	-
- Other	40	384	-

The amounts in the table above are mostly denominated in U.S. dollars.

Section 2.3 - PRICING RISK - REGULATORY TRADING PORTFOLIO

Qualitative information

A. General information

The exposure to pricing risk arises from the Equity Derivatives Business Unit's activity, which encompasses (i) plain vanilla products such as futures and options on indices and individual stocks which are traded in regulated markets (market marking on the Italian derivatives market ("IDEM")) and over the counter, and (ii) exotic products linked to structured finance issues for captive customers and third-party networks.

The business unit's operations also extend to market making in the structured securities listed on the Deal Done Trading platform.

Securities, equity indices, options (plain and exotic) and futures are the main financial instruments used by this business unit for the structuring and hedging of risks in relation to the Bank's core business.

B. Processes and methods for managing and measuring pricing risk

The processes and methods for managing and measuring interest-rate risk set out above (see Section 2.1) also apply to pricing risk.

Section 2.3 - PRICING RISK - REGULATORY TRADING PORTFOLIO

Quantitative information

2.3.1 Regulatory trading portfolio: cash exposure to equity securities and mutual fund shares

Type of Exposure / Amounts	Carrying Value - Long Positions	
	Listed	Unlisted
A. Equity securities		
A.1 Shares	334,939	
B. Mutual fund shares	6,890	10,443
B.1 Italian law mutual funds	6,890	10,443
- Harmonized open funds	27	
- Speculative funds	6,863	10,443
Total	341,829	10,443

Type of Exposure / Amounts	Carrying Value - Short Positions	
	Listed	Listed
A. Equity securities	47,297	
A.1 Shares	47,297	
Total	47,297	0

2.3.1 Regulatory trading portfolio: distribution of exposure to equity securities and equity indices by main trading markets

Transaction / Market Traded	Quoted						Unlisted
	Italy	U.S.	Japan	Germany	UK	Other	
A. Equity securities							
- Long positions	74,093	143,191	33,193	6,235	12,114	66,113	-
- Short positions	31,026	6,281	285	5,710	1,160	2,835	-
B. Purchases and sales of equity securities not yet settled							
- Long positions	1,378	1,007	-	-	994	377	-
- Short positions	1,298	9,919	2,341	456	413	1,391	-
C. Other derivatives on equity securities							
- Long positions	33,049	6,524	494	3,409	69	9,739	-
- Short positions	91,647	141,033	26,187	2,585	13,689	47,865	-
D. Derivatives on equity indices							
- Long positions	50,629	10,796	23,930	-	113	535	18,992
- Short positions	52,213	48,070	445	25,482	-	-	7,935

Changes in the prices of equity securities and equity indices had the effect of changing banking income, net profit and shareholders' equity by + / - € 2,491,000.

Section 2.4 - FOREIGN-EXCHANGE RISK

Qualitative information

A. General information, and processes and methods for managing and measuring foreign-exchange risk

The Bank's exposure to foreign-exchange risk is substantially limited in nature, and arises as a result of the Bank's trading of structured products and the execution of the related hedging transactions. Most of the Bank's foreign-exchange risk is related to the U.S. dollar.

B. Hedging foreign-exchange risk

Spots forwards, options, and futures are the main financial instruments used for hedging foreign-exchange risk. Like the other types of risks, foreign-exchange risk is mainly measured and monitored through sensitivities and VaR (see information disclosed above for additional details).

Section 2.4 - FOREIGN-EXCHANGE RISK

Quantitative information

2.4.1 Distribution of assets, liabilities and derivatives by foreign currency

Account	Currencies 31/12/2005					
	USD	GBP	Yen	Canadian Dollar	CHF	Other
A. Financial assets	1,353,527	11,017	33,355	24	23,122	16,615
A.1 Debt securities	7,397	285	-	-	14,513	110
A.2 Equity securities	134,401	10,732	31,047	-	-	12,927
A.3 Financing to banks	1,207,267	-	2,308	24	8,609	3,578
A.4 Financing to customers	4,462	-	-	-	-	-
B. Other assets	853	4	1			38
C. Financial liabilities	100,696	8,841	45,446	-	-	33,195
C.1 Due to banks	75,104	8,841	22,943	-	-	13,322
C.2 Due to customers	25,592	-	22,227	-	-	19,873
C.3 Debt securities	-	-	276	-	-	-
D. Other liabilities	31	19	1,984	-	30	161
E. Financial derivatives						
- Options						
+ Long positions	443,570	13,223	26,316	1,363	19,015	3,811
+ Short positions	497,254	14,511	34,196	1,363	27,693	5,888
- Other derivatives						
+ Long positions	172,078	99,227				
+ Short positions	1,329,660	99,227				
Total assets	1,354,380	11,021	33,356	24	23,122	16,653
Total liabilities	100,727	8,860	47,430	0	30	33,356
Difference (+/-)	1,253,653	2,161	(14,074)	24	23,092	(16,703)

The tables above have been compiled with the data used for regulatory reporting purposes (capital requirements).

If interest rates were to increase (decrease) by 100 basis points, the impact on total banking income, net profit and shareholders equity would be equal to an increase (decrease) of € 913,000.

Section 2.4 - FINANCIAL DERIVATIVES INSTRUMENTS

A. FINANCIAL DERIVATIVES

2.5-A.1 Regulatory trading portfolio: year-end and average notional values

Type of Transaction / Underlying Instrument	Debt Securities and Interest Rates		Equity Securities and Equity Indices		Exchange Rates and Gold		Total 31/12/2005	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
1. Forward rate agreements	-	3,303,000	-	-	-	-	-	3,303,000
2. Interest rate swaps	-	190,696,993	-	-	-	-	-	190,696,993
3. Currency interest rate swaps	-	-	-	-	-	1,700,191	-	1,700,191
4. Basis swaps	-	14,575,088	-	86,949	-	-	-	14,662,037
5. Futures	13,880,250	-	49,169	-	-	-	13,929,419	-
6. Cap options								
- Acquired	-	47,185,325	-	-	-	-	-	47,185,325
- Issued	-	28,103,893	-	-	-	-	-	28,103,893
7. Floor options								
- Acquired	-	4,526,252	-	-	-	-	-	4,526,252
- Issued	-	28,996,296	-	-	-	-	-	28,996,296
8. Other options								
- Acquired								
- Plain vanilla	14,058,269	4,592,755	1,538,035	4,538,092	-	714,497	15,596,304	9,845,344
- Exotic	-	-	-	3,342,005	-	-	-	3,342,005
- Issued								
- Plain vanilla	12,514,112	3,767,246	2,987,386	6,102,651	-	802,453	15,501,498	10,672,350
- Exotic	-	-	-	5,757,693	-	-	-	5,757,693
Total	40,452,631	326,019,848	4,574,590	19,827,390	0	3,217,141	45,027,221	349,064,379
Average values	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.

2.5.A.2 Financial derivatives: purchase and sale of underlying instruments

Type of Transaction / Underlying Instrument	Debt Securities and Interest Rates		Equity Securities and Equity Indices		Exchange Rates and Gold		31/12/2005		31/12/2004	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
A. Trading portfolio:										
1. Transactions with exchange of principal										
- Purchases	19,100	50,000	179,165	739,702	-	1,942,819	198,265	2,732,521	308,570	2,071,606
- Sales	83,722	-	271,915	914,335	-	820,295	355,637	1,734,630	266,203	1,602,813
2. Transactions without exchange of principal										
- Purchases	22,234,464	151,030,785	1,358,976	7,140,395	-	200,565	23,593,440	158,371,745	3,581,213	160,217,197
- Sales	18,115,344	160,363,974	2,764,534	10,946,009	-	253,462	20,879,878	171,563,445	3,639,457	173,978,691

2.5.A.3 Over-the-counter financial derivatives: positive fair value - counterparty risk

Counterparties / Underlying Instrument	All Derivatives		
	Gross, without Netting	Gross, with Netting	Future Exposure
A. Regulatory trading portfolio			
A.1 Banks	5,690,805	1,572,461	973,249
A.2 Financial companies	603,531	164,776	196,575
A.3 Insurance companies	4,924	4,924	11,104
Total as of 31/12/2005	6,299,260	1,742,161	1,180,928
Total as of 31/12/2004	6,869,880	1,698,919	1,065,500
B. Banking portfolio	-	-	-
Total as of 31/12/2005	6,299,260	1,742,161	1,180,928
Total as of 31/12/2004	6,869,880	1,698,919	1,065,500

It was not possible to sub-divide the financial derivatives with exposure to counterparty risk by underlying instrument. Accordingly, the indication of exposure to counterparty risk was made on a lump-sum basis.

2.5.A.4 Over-the-counter financial derivatives: negative fair value - financial risk

Counterparties / Underlying Instrument	Debt Securities and Interest Rates			Equity Securities and Equity Indices			Exchange Rates and Gold			Other		
	Gross, without Netting	Gross, with Netting	Future Exposure	Gross, without Netting	Gross, with Netting	Future Exposure	Gross, without Netting	Gross, with Netting	Future Exposure	Gross, without Netting	Gross, with Netting	Future Exposure
A. Regulatory trading portfolio												
A.1 Banks	6.139.256	695.235	-	780.570	775.247	-	26.333	26.333	-	124	124	-
A.2 Financial Companies	533.725	75.951	-	76.786	76.730	-	2.280	2.280	-	-	-	-
A.3 Insurance Companies	-	-	-	1.405	1.405	-	-	-	-	-	-	-
Total as of 31/12/2005	6.672.981	771.186	-	856.761	853.382	-	28.613	28.613	-	124	124	-
Total as of 31/12/2004	6.248.194	835.120	-	629.507	606.184	-	26.011	26.011	-	208	208	-
B. Banking portfolio												
Total as of 31/12/2005	6.672.981	771.186	-	856.761	853.382	-	28.613	28.613	-	124	124	-
Total as of 31/12/2004	6.248.194	835.120	-	629.507	606.184	-	26.011	26.011	-	208	208	-

2.5.A.5 Residual life of over-the-counter financial derivatives: notional values

Underlying Instrument / Residual Life	< 1 year	> 1 year and < 5 years	> 5 years	Total
A. Regulatory trading portfolio				
A.1 Financial derivatives on debt securities & interest rates	53,589,059	177,475,023	94,955,766	326,019,848
A.2 Financial derivatives on equity securities & equity indices	6,496,344	10,665,906	2,665,139	19,827,389
A.3 Financial derivatives on exchange rates and gold	2,189,050	677,057	351,034	3,217,141
Total as of 31/12/2005	62,274,453	188,817,986	97,971,939	349,064,378
Total as of 31/12/2004	64,355,290	193,183,725	80,331,291	337,870,306

Section 2.5 - FINANCIAL DERIVATIVES

B. CREDIT DERIVATIVES

2.5.B.1 Credit derivatives: year-end and average notional values

Transaction Categories	Regulatory Trading Portfolio	
	Single	Basket
1. Purchases of protection	1,142,803	112,700
1.1 With exchange of principal	1,106,803	112,700
Credit default swaps	1,106,803	10,000
Credit indices	-	102,700
1.2 Without exchange of principal	36,000	-
Credit default swaps	36,000	-
Total as of 31/12/2005	1,142,803	112,700
Total as of 31/12/2004	1,190,742	17,202
Average value	n.s.	n.s.
2. Sales of protection	961,988	279,798
2.1 With exchange of principal	957,953	268,500
Credit default swaps	957,953	10,000
Credit indices	-	58,500
Synthetic CDO tranche	-	200,000
2.2 Without exchange of principal	4,035	11,298
Credit linked notes	4,035	11,298
Total as of 31/12/2005	961,988	279,798
Total as of 31/12/2004	920,706	22,163
Average values	n.s.	n.s.

2.5.B.2 Credit derivatives: positive fair value - counterparty risk

Type of Transaction / Amount	Notional Value	Positive Fair Value	Future Exposure
A. Regulatory trading portfolio	1,466,401	4,866	39,960
A.1 Purchases of protection with counterparties:	224,615	4,866	39,960
3 Banks	136,600	3,124	34,415
4 Financial companies	88,015	1,742	5,545
A.2 Sales of protection with counterparties:	1,241,786	-	-
3 Banks	755,123	-	-
4 Financial companies	486,663	-	-
B. Banking portfolio	-	-	-
Total as of 31/12/2005	1,466,401	4,866	39,960
Total as of 31/12/2004	nr	301	14,706

2.5.B.3 Credit derivatives: negative fair value - financial risk

Type of Transaction / Amount	Notional Value	Negative Fair Value
Regulatory trading portfolio		
1. Purchases of protection with counterparties	1,030,888	25,974
- Banks	920,445	22,620
- Financial companies	110,443	3,354
Total as of 31/12/2005	1,030,888	25,974
Total as of 31/12/2004	n.s.	30,484

2.5.B.4 Residual life of credit derivatives: notional values

Underlying Instrument / Residual Life	< 1 year	> 1 year and < 5 years	> 5 years	Total
A. Regulatory trading portfolio				
A.1 Credit derivatives with qualified reference obligation	36,000	1,320,290	276,171	1,632,461
A.2 Credit derivatives with non-qualified reference obligation	27,800	788,167	33,529	849,495
Total as of 31/12/2005	63,800	2,108,457	309,700	2,481,956

Section 3

LIQUIDITY RISK

Qualitative information

General information, processes and methods for managing and measuring liquidity risk

Considering a liquid market exists for the financial assets held by the Bank and the presence of effective debt instruments to cover liquidity needs, liquidity risk is not currently monitored on a systematic basis. The exposure to liquidity risk is substantially limited.

Section 3

LIQUIDITY RISK

Quantitative information

Distribution of financial assets and liabilities by residual contract term

Account / Residual Contract Term	Sight	1-7 Days	7-15 Days	15 Days - 1 Month	1-3 Months	3-6 Months	6 Months - 1 Year	1-5 Years	> 5 Years
Cash assets	352,146	3,980,354	255,735	3,612,126	2,227,207	1,284,365	132,653	619,246	480,148
A.1 Government securities	-	896	-	2,898	906,627	924,174	73,925	57,207	26,988
A.2 Listed debt securities	-	3,821	31	6,564	7,075	27,762	20,514	118,459	177,059
A.3 Other debt securities	-	329	-	22,772	75,027	57,452	38,214	419,527	254,810
A.4 Shares in mutual funds	-	-	-	-	-	-	-	-	-
A.5 Financing	352,146	3,75,308	255,704	3,579,892	1,238,478	274,977	-	24,053	21,191
- Banks	352,146	1,950,696	243,318	3,424,875	1,180,701	274,977	-	24,054	-
- Customers	-	2,024,612	12,386	155,017	57,777	-	-	29	21,191
Cash liabilities									
B.1 Deposits	2,093,051	1,000,000	-	-	-	-	-	-	-
- Banks	2,093,051	1,000,000	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	2,243	-	41,742	68,647	87,167	508,125	106,907	74,360
B.3 Other liabilities	40	3,558,227	367,104	2,782,462	1,720,185	276,740	1,995	26	-
Off-balance-sheet transactions									
C.1 Financial derivatives with exchange of principal									
- Long positions	-	2,543	2,162	151,322	270,052	257,778	1,371,070	624,052	251,808
- Short positions	-	41,173	2,162	136,455	387,913	257,347	505,328	660,664	99,227
C.2 Irrevocable commitments to disburse funds									
- Long positions	-	19,574	-	-	1,751,790	872,530	69,882	271,539	385,457
- Short positions	-	19,574	-	-	1,968,141	652,671	50,229	154,060	343,369

Considering there is no database by currency, the table presents aggregate data.

3.2 Distribution of financial liabilities by sector

Exposure / Counterparties	Governments and Central Banks	Other Public-Sector Entities	Financial Companies	Insurance Companies	Non-Financial Companies	Other Entities
1. Due to customers	-	-	36,889	-	-	-
2. Securities issued	-	-	155,022	-	-	-
3. Financial liabilities for trading	856,435	16,863	3,808,903	28,858	18,898	12,428,174
Total as of 31/12/2005	856,435	16,863	4,000,814	28,858	18,898	12,428,174
Total as of 31/12/2004	557,457	305	4,849,584	9,508	12,348	8,672,048

The amounts reported in the column "Other entities" include exposure to banks

3.3 Geographic distribution of financial liabilities

Exposure / Counterparties	ITALY	OTHER EU	AMERICA	ASIA	REST OF WORLD
1. Due to customers	-	33,859	3,030	-	-
2. Due to banks	3,226,986	142,126	-	-	-
3. Securities issued	-	155,022	-	-	-
4. Financial liabilities for trading	12,487,440	4,214,303	446,506	8,447	1,435
Total as of 31/12/2005	15,714,426	4,545,310	449,536	8,447	1,435
Total as of 31/12/2004	13,469,214	3,913,977	373,843	3,769	-

Section 4

OPERATIONAL RISKS

Qualitative information

The capital requirement for operational risks is the newest development in international banking regulations (Basle II).

The MPS Group has implemented an integrated system for the management of operational risk; the system uses a governance model involving all companies of the MPS Group as specified in the area of application. The approach defines standards, methods, and instruments which allow for putting a value on the exposure to the risk and the effects to mitigate the risks for each area of business.

The Bank has participated in the Operational Risk Management Project headed by the parent company, which has opted to develop the "advanced measurement approach" in the management of operational risks. Although more demanding in terms of the commitment of resources, and the training and the systems involved, a system based on the advanced measurement approach guarantees the maximum awareness of operational risk events, and consistent actions at a Group level in order to manage such events and lessen the probability of their occurrence.

The advanced approach is designed so as to provide for the standardized combination of all principal sources of information, whether qualitative or quantitative.

The quantitative control of operational risks is based on the compilation, analysis and statistical modelling of historical loss data. In this regard, the Bank compiles and validates data, creates internal reports useful for controlling operational risks, and receives and reviews the risk-capital results produced by the parent company. The Bank's senior management works with the employees to develop and promote a culture oriented to the proper management of operational risks.

The qualitative control of operational risks is instead focused on an evaluation of the risk profile of each business area, and the identification of scenarios that are significant for the purpose of pinpointing and controlling operational risks. In this regard, the Bank's involvement includes identifying the processes and risks to be evaluated, actually evaluating the risks and coming up with possible risk-mitigation plans, and reviewing and assessing the priorities and technical/business feasibility of the mitigation plans with specific areas of the parent company.

During 2005, the parent company and the companies of the MPS Group included in the implementation of the advanced model for measuring operational risks moved forward with their commitment, with the changeover from the project to the process being coordinated by the operational risks project committee of the parent company, which is one part of the overall Basel II project.

The organizational model for the management and governance of the Bank's operational risks was developed and then approved by the parent company. The model is structured so that all areas of the Bank are involved in the various phases of identifying, measuring, monitoring, and managing/controlling the risk.

With the implementation of the organizational model, a new manager will be named to head up the operational risk process, while each business area will have personnel appointed for the purpose of tracking and controlling such risk. The internal audit staff will be used for validating the activity, while middle and top management will be involved in the qualitative evaluation of the risk profile and in the definition of risk-mitigation strategies.

PART F
INFORMATION ON SHAREHOLDERS' EQUITY

Section 1

SHAREHOLDERS' EQUITY Qualitative information

The Bank is not planning any extraordinary transactions (capital increases, bond issues, etc.).

SHAREHOLDERS' EQUITY

Quantitative information

Shareholders' equity: account balances computed on the basis of international accounting principles

Accounts / Amounts	31/12/2005	31/12/2004
1. Share capital	130,000	130,000
2. Paid-in capital	1,291	1,291
3. Reserves	56,198	44,357
4. Profit (loss) for the period	34,278	29,851
Total shareholders' equity	221,767	205,499
Total subordinated securities issued (for the purpose of hedging market risks)	155,000	105,000
Total	376,767	310,499

Shareholders' equity: account balances computed according to national accounting principles (IT GAAP)

Accounts / Amounts	31/12/2005	31/12/2004
1. Share capital	130,000	130,000
2. Paid-in capital	1,291	1,291
3. Reserves	65,597	52,526
4. Profit (loss) for the period	39,475	34,399
Total shareholders' equity	236,363	218,216
Total subordinated securities issued (for the purpose of hedging market risks)	155,000	105,000
Total	391,363	323,216

Section 2 - REGULATORY CAPITAL AND CAPITAL ADEQUACY RATIOS

2.1 REGULATORY CAPITAL Qualitative information

Regulatory capital as of 31 December 2005 has been computed with the application of prevailing regulations, on the basis of the account balances calculated in accordance with national accounting principles (IT GAAP) as provided by Law Decree n. 87 of 1992.

As a result, regulatory capital includes the 2005 net profit computed in accordance with the provisions of Law Decree n. 87 of 1992.

2.1.1 Tier I Capital

Accounts / Amounts	31/12/2005
1. Share capital	130,000
2. Paid-in capital	1,291
3. Reserves	65,597
4. Profit (loss) for the period	23,225
Total positive elements	220,113
1. Other intangible assets	1,319
Total negative elements	1,319
Total Tier I capital	218,794

2.1.3 Tier III capital

Accounts / Amounts	31/12/2005
Subordinated securities issued	155,000
Total positive elements	155,000

As indicated in Section 3.2 of the comments on liabilities, the entire amount of the bonds referenced above is included in the computation of the Bank's funding to cover market risks.

2.1 REGULATORY CAPITAL

Quantitative information

	Total as of 31/12/2005	Total as of 31/12/2004
A. Tier I capital	218,794	194,212
B. Tier II capital	-	-
C. Elements to be deducted from Tier I and Tier II capital	-	-
D. Regulatory capital	218,794	194,212

2.2 ADEQUACY OF REGULATORY CAPITAL

Qualitative information

The regulatory capital is sufficient for the Bank's current and prospective needs, including in view of the growth planned as a result of the implementation of the 2005-2007 business plan.

2.2 ADEQUACY OF REGULATORY CAPITAL

Quantitative Information

The capital requirements for the periods indicated have been computed by applying prevailing regulations.

Categories / Amounts	Non-Weighted Amounts		Weighted Amounts / Requisites	
	31/12/2005	31/12/2004	31/12/2005	31/12/2004
A. RISK ASSETS				
A.1 CREDIT RISK				
STANDARD METHODOLOGY				
CASH ASSETS	3,235,772	2,271,404	192,531	113,656
1. Exposure (other than equity securities and other subordinated assets) to (or guaranteed by):	3,112,494	2,133,054	146,872	61,259
1.1 Banks	1,997,548	1,785,564	109,135	60,811
1.2 Other (other than residential and non-residential mortgages)	1,114,946	347,490	37,737	448
2. Shares, equity investments, and subordinated assets	20,448	20,870	20,448	20,870
3. Other assets	102,830	117,480	25,211	31,527
OFF-BALANCE-SHEET ASSETS	-	-	-	-
B . CAPITAL REQUIREMENTS				
B.1 CREDIT RISK			13,477	8,277
B .2 MARKET RISKS			251,397	276,136
1 . STANDARD METHODOLOGY	X	X	251,397	276,136
including:				
Position risk on debt securities	X	X	170,622	188,571
Position risk on equity securities	X	X	31,939	39,303
Foreign-exchange risk	X	X	3,459	3,011
Other risks	X	X	45,377	45,251
B.3 OTHER REQUIREMENTS	X	X	-	-
B.4 TOTAL CAPITAL REQUIREMENTS (B1+B2+B3)	X	X	264,874	284,413
C . RISK ASSETS AND CAPITAL-ADEQUACY RATIOS	X	X		
C.1 Risk weighted assets *	X	X	3,783,914	4,058,457
C.2 Tier I capital / Risk weighted assets (Tier 1 capital ratio)	X	X	5.78%	4.79%
C.3 Regulatory capital / Risk weighted assets (Total capital ratio)	X	X	9.88%	7.37%

* Total capital required multiplied by the reciprocal of the minimum mandatory coefficient for credit risk. As indicated by the regulatory guidelines, total capital requirements (B.5) are shown prior to the deduction of the Tier III subordinated liabilities indicated in Section 2.1 - Regulatory capital - qualitative information.

The numerator for the computation in C.3 is regulatory capital plus Tier III subordinated liabilities.
It is furthermore noted that certain activities were undertaken during the year in order to reduce exposure to credit risk; this activity includes: 52 collateralization contracts, 137 ISDA master netting agreements, 21 PSA/ISMA agreements, and 48 OSLA agreements.

PART G
BUSINESS COMBINATIONS REGARDING COMPANIES OR BUSINESS
UNITS

Section 1 - Transactions completed during the year

The Bank was not involved in the execution of any business combinations in 2005.

Section 2 - Transactions completed after year end

See Section 10 "Events Subsequent to Year End".

PART H
TRANSACTIONS WITH RELATED PARTIES

1. Information on compensation to directors and statutory auditors

	31/12/2005	31/12/2004
a) Directors and statutory auditors		
1. Directors	355	348
2. Statutory auditors	138	137

The amounts reported in the table above refer to short-term benefits.

2. Information on transactions with related parties

	31/12/2005	31/12/2004
a) Assets		
1. Financial assets held for trading	3,714,181	1,055,976
including: subordinated assets	9,972	6,082
2. Due from banks	1,472,591	1,445,984
3. Due from customers	-	-
4. Equity investments	20,448	20,448
5. Fixed assets	180	-
including: assets held under financial leases	180	-
6. Other assets	25,828	33,124
b) Liabilities		
1. Due to banks	3,168,293	3,458,489
2. Due to customers	40,835	2,700
3. Financial liabilities for trading	2,930,942	250,400
4. Subordinated liabilities	155,022	-
5. Other liabilities	2,433	7,270
c) Profit and loss statement		
1. Interest and similar income	82,784	75,225
2. Interest and similar expense	80,826	69,986
3. Commissions earned	642	1536
4. Commissions expense	8,829	53,394
5. Other expenses	3,597	4,491
6. Other revenues	2,884	3,887

3. Other information

3.1 Parent company or EU-based controlling entity

MPS Finance is 100-percent controlled by:

Banca Monte dei Paschi di Siena S.p.A. (parent company)
Registered office: Piazza Salimbeni 3, Siena, Italy

3.2 Parent company or EU-based controlling entity

The table below provides summary data from the most recently approved non-consolidated financial statements of the parent company, Banca Monte dei Paschi di Siena (year ending 31 December 2004). The data are expressed in thousands of euros.

Total assets	91,161,841
Total liabilities	84,574,026
Total shareholders' equity	6,587,816
Earnings from ordinary and non-recurring activity	592,587
Income taxes	17,891
Net profit for the year	610,478

PART I
SHARE-BASED PAYMENTS

Qualitative information

The Bank did not enter into any transactions to acquire or receive goods or services in 2005 or in prior years that required payment based on instruments representative of the Bank's own capital or the capital of another entity belonging to the MPS Group. In addition, there were no such instruments assigned to the Bank's employees in 2005 or in prior year.

Reconciliation between the balance sheet prepared pursuant to Law Decree 87/92 and IAS-compliant balance sheet as of 1 January 2004, 31 December 2004 and 1 January 2005, and reconciliation between the net profit computed pursuant to Law Decree 87/92 and the net profit computed pursuant to IAS as of 31 December 2004

With the Board resolution approved on 25 May 2005, MPS Finance Banca Mobiliare elected to adopt IAS with its non-consolidated semi-annual financial statements for 2005, exercising an option available under the law. On 30 June 2005, the Board of Directors approved the reconciliation statements attached hereto as exhibits, and the choices to be made upon the first-time application of the international accounting principles. The reconciliation schedules, which are an integral part of the notes to the financial statements, were prepared on the basis of instructions issued by the parent company in relation to the provisions of IFRS 1, which were referenced by CONSOB in its Resolution n. 14990 of 14 April 2005 and in Article 81 bis of the Issuers Regulations n. 11971 of 1999. The reconciliation schedules have been prepared in order to provide evidence of the effects of the changeover to IAS on the Bank's capital and financial position; the reconciliation schedules are provided without any comparative data and the notes required to provide a reliable representation of the Bank's capital, financial position and earnings in conformity with IAS. The schedules have also been prepared for use by the parent company, Banca Monte dei Paschi di Siena S.p.A., and specifically, for the preparation of the parent company's consolidated financial statements. The reconciliations between balance sheets prepared in accordance with Law Decree n. 87 of 1992 and the balance sheets prepared in accordance with IAS as of 1 January 2004, 31 December 2004 and 1 January 2005, and the reconciliation of the net profit as of 31 December 2004 computed pursuant to the provisions of Law Decree n. 87 of 1992 and that computed pursuant to IAS (excluding the application of IAS 39) have been audited by the Bank's independent auditors.

1. Optional exemptions

The Bank elected to the following options upon the changeover to IAS:

- **Employee benefits:** With the first-time application of IAS, the Bank elected to report all actuarial gains (losses) resulting from the recalculation of the staff severance indemnity reserve (which is deemed a defined benefit plan). For future reporting periods, the Bank will use the corridor method, and thus, will not report any actuarial gains and losses on the staff severance indemnity reserve if those gains or losses are less than the greater of 10 percent of the present value of the benefits generated by the plan and 10 percent of the fair value of the assets to service the plan.
- **IAS 32 and 39:** The Bank elected the option provided by IFRS 1 to apply IAS 32 and 39 in the valuation of financial instruments as from 1 January 2005. As a result, the 2004 data are not comparable with reference to the valuation of financial instruments. In any event, in order to facilitate the comparison of the data for 2004 and 2005, the Bank has classified the financial instruments as either "held for trading" or "available for sale" in accordance with IAS 39. The Bank has thus used the classifications upon its transition to IAS, as an exception to the general rule of initiating the use of such accounts only at the time when financial instruments are acquired.

2. Reconciliation schedules

See:

Exhibit A: Reconciliation of balance sheet asset

Exhibit B: Reconciliation of balance sheet liabilities

Exhibit C: Reconciliation of the profit and loss statement

3. Valuation criteria and notes

The changeover to IAS has influenced the representation of capital, financial position and earnings, as shown in reconciliation schedules, Exhibits A and B, with reference to 31 December 2004 and 1 January 2005.

The aggregate negative impact on the balance sheet reserves is reported in the balance sheet reserves (Account 160 of liabilities) and is equal to €9,399,555.

Considering IAS 32 and 39 were applied as of 1 January 2005 (as permitted by IFRS 1), the identification and reclassification of the financial assets and liabilities occurred as follows:

- The amounts referring to the previous trading account securities portfolio were reclassified as assets held for trading and liabilities for trading. With reference to the financial statements prepared as of 31 December 2004 on the basis of national accounting principles (IT GAAP), the carrying value of the assets was €4,165,079,000 and the carrying value of the liabilities was €609,963,000. With reference to the financial statements as of 1 January 2005 prepared on the basis of IAS (with the application of IAS 32 and 39), the carrying value of the assets was €4,170,378,000, and the carrying value of the liabilities was €609,963,000. The aggregate positive difference of €5,299,000 was booked to reserves (Account 160 of the liabilities), net of €1,982,000 of deferred taxes.
- Given the specific nature of the transactions, repurchase agreements and securities-lending transactions similar to repurchase agreements were reclassified as assets held for trading and liabilities for trading. Considering these transactions are executed at market prices and with very short-term maturities, the carrying value is deemed representative of fair value.
- Subordinated debt issues have been reported in the IAS statements as securities issued (Account 30 of the liabilities) and are stated at amortized cost, as required by IAS 39.
- Amounts accrued in relation to the financial assets and liabilities referenced above were reported in the IT-GAAP statements as accrued income and accrued liabilities and any changes in the valuation of positions not settled were booked to other assets and other liabilities. In the IAS statements, such amounts and such changes in valuation have been booked directly to the accounts to which the financial instruments are booked.
- Equity investments were reported in the IT-GAAP statements as equity investments (Account 70) and equity investments in group companies (Account 80); in the IAS statements, the investments are respectively classified as financial assets available for sale (Account 40) and equity investments (Account 100).
- In the IAS statements, the amounts due from banks (Account 60) and customers (Account 70) and the amounts due to banks (Account 10) and customers (Account 20) include all short-term receivables and payables with respect to banks and customers.

The Bank did not book any impairment losses with respect to the balance-sheet assets.

The fixed and intangible assets have been maintained at their original book values. Accumulated depreciation and amortization were recalculated with the adoption of IFRS in order to reflect changes to the estimated residual lives of the assets; this had a positive impact on shareholders' equity equal to €76,000.

In the IAS statements, assets under financial lease are booked in accordance with the financial method (IAS 17) and reported as fixed assets (Account 110). The changeover from the capital method applied pursuant to national accounting principles had a negative impact of €17,000 on shareholders' equity.

The balance of the staff severance indemnity reserve was adjusted as a result of the introduction of the actuarial valuation method (projected unit credit method) as provided by IAS 19, which is based on the expected average residual term of employment for the full-time employees. The adjustment, which is supported by a special actuarial estimate, entailed an increase of shareholders' equity in the amount of €106,000.

The changeover to IAS also involved the "reversal" of the dividend received from the Bank's subsidiary, Intermonte, in application of the cash principle required by IAS. As result, shareholders' equity was reduced by €12,883,000. In the 2004 financial statements prepared in accordance with national accounting principles, the dividend (IT GAAP) was accrued as earned.

Deferred taxes were calculated with regard to each individual change in the book values of assets and liabilities vis-à-vis the book values previously reported under IT GAAP.

FTA – Effect of transition: 1 January 2004, 31 December 2004, 1 January 2005

See:

Exhibit D: Reconciliation between shareholders' equity computed in accordance with Law Decree 87 of 1992 and shareholders' equity computed pursuant to IAS

Exhibit E: Reconciliation between net profit computed in accordance with Law Decree 87 of 1992 and net profit computed pursuant to IAS

Exhibit A: Reconciliation between the balance sheet assets

Assets	38352 Law Decree 87/92	Transition to IAS/IFRS 31/12/2004	31/12/2004 IAS/IFRS (excluding IAS 39)	Transition to IAS/IFRS (IAS 39)	01/01/2005 IAS/IFRS (including IAS 39)
10 Cash and cash equivalents	401		401		401
20 Financial assets held for trading	16.374.204.878		16.374.204.878	5.299.319	16.379.504.197
40 Financial assets available for sale	421.651		421.651		421.651
60 Due from banks	1.553.242.392		1.553.242.392		1.553.242.392
70 Due from customers	15.301.232	(13.098.750,75)	2.202.482		2.202.482
100 Equity investments	20.448.098		20.448.098		20.448.098
110 Fixed assets	318.681	756.450	1.075.131		1.075.131
120 Intangible assets <i>Including: - Goodwill</i>	2.676.598	4.679	2.681.277		2.681.277
140 Tax assets	4.219.923	10.470	4.230.393		4.230.393
a) Current	0				
b) Deferred	4.219.923	10.470	4.230.393		
160 Other assets	41.668.320	(69.757,11)	41.598.563		41.598.563
Total Assets	18.012.502.174	(12.396.909,37)	18.000.105.265	5.299.319	18.005.404.584

Exhibit B: Reconciliation between the balance sheet liabilities

Liabilities and Shareholders' Equity	31/12/2004 Law Decree 87/92	Transition to IAS/IFRS 31/12/2004	31/12/2004 IAS/IFRS (excluding IAS 39)	Transition to IAS/IFRS IAS/IFRS (IAS 39)	01/01/2005 IAS/IFRS (including IAS 39)
10 Due to banks	3.658.940.463	611.590	3.659.552.053		3.659.552.053
20 Due to customers	5.416.394		5.416.394		5.416.394
30 Securities issued	105.016.800		105.016.800	(40)	105.016.760
40 Financial liabilities for trading	13.990.817.850		13.990.817.850	(51)	13.990.817.799
80 Tax liabilities	14.847.449	(113.944)	14.733.505	1.981.964	16.715.469
a) Current tax liabilities	0		0		0
b) Deferred tax liabilities	14.847.449	(113.944)	14.733.505	1.981.964	16.715.469
100 Other liabilities	17.824.573	(18.927)	17.805.646		17.805.646
110 Staff severance indemnity reserve	1.197.638	(158.627)	1.039.011		1.039.011
120 Reserve for risks and charges	224.827		224.827		224.827
a) Pension funds and similar obligations	0				
b) Other	224.827		224.827		224.827
160 Reserves	52.525.617	(8.168.903)	44.356.714	3.317.446	47.674.160
170 Paid-in capital	1.291.142		1.291.142		1.291.142
180 Capital	130.000.000		130.000.000		130.000.000
200 Profit (loss) for the period	34.399.421	(4.548.098)	29.851.323		29.851.323
Total Liabilities and Shareholders' Equity	18.012.502.174	(12.396.909)	18.000.105.265	5.299.319	18.005.404.584

Exhibit C: Reconciliation of the profit and loss statement

Profit and loss statement	31/12/2004 Law Decree 87/92 IAS Reclassified	Transition to IAS/IFRS 31/812/2004	31/12/2004 IAS/IFRS (excluding IAS 39)
10 Interest and similar income	229.123.753		229.123.753
20 Interest and similar expense	(209.768.047)	(49.700)	(209.817.747)
30 Interest margin	19.355.706	(49.700)	19.306.006
40 Commissions earned	9.304.248		9.304.248
50 Commissions expense	(59.416.450)		(59.416.450)
60 Net commissions	(50.112.202)	0	(50.112.202)
70 Dividends and similar income	43.767.604	(4.657.334)	39.110.270
80 Net profit (loss) from trading activity	61.167.151		61.167.151
130 Total banking income	74.178.259	(4.707.034)	69.471.225
150 Net profit (loss) from financial transactions	74.178.259	(4.707.034)	69.471.225
160 Administrative expenses:	(41.396.713)	527.046	(40.869.667)
a) Personnel expenses	(18.856.428)	(64.919)	(18.921.347)
b) Other administrative expenses	(22.540.285)	591.965	(21.948.320)
170 Net provisions to reserve for risks and charges	(224.827)		(224.827)
180 Net valuation adjustments to fixed assets	(979.916)	(427.574)	(1.407.490)
190 Net valuation adjustments to intangible assets	(1.675.664)	4.679	(1.670.985)
Goodwill	0		
200 Other operating income (expense)	4.439.764		4.439.764
210 Operating expenses	(39.837.356)	104.151	(39.733.205)
260 Pre-tax profit (loss) from continuing operations	34.340.903	(4.602.883)	29.738.020
270 Taxes on the income of continuing operations	58.518	54.785	113.303
280 Net profit (loss) from continuing operations	34.399.421	(4.548.098)	29.851.323
300 Profit (loss) for the period	34.399.421	(4.548.098)	29.851.323

Exhibit D: Reconciliation between shareholders' equity computed in accordance with Law Decree 87 of 1992 and shareholders' equity computed pursuant to IAS

	01-gen-04 Excluding IAS 32/39 and IFRS 4	31-dic-04	01-01-05 Complete
Shareholders' equity computed in accordance with Italian regulations (Law Decree n. 87 of 1992)	228.757.759	218.216.180	218.216.180
VALUATION RESERVES			
RESERVES	(8.231.714)	(4.602.883)	5.299.410
Financial assets held for trading			
- Valuation of trading securities and related derivatives at fair value			5.299.319
Fixed and intangible assets			
- Depreciation, amortization and financial leases	(13.843)	119.370	
Liabilities and Shareholders' Equity			
- Actuarial valuation of staff severance indemnity reserve	223.546	(64.919)	
Other			
- Dividends from MPS Group companies	(8.441.417)	(4.657.334)	
- Financial liabilities for trading			51
- Subordinated liabilities			40
CAPITAL INSTRUMENTS			
- Equity component of bonds convertible into shares			
OWN SHARES			
- Own shares in portfolio			
- Puts issued on own shares			
Fiscal effect	62.811	54.785	(1.981.964)
Total effects of first-time application of IAS/IFRS	(8.168.903)	(4.548.098)	3.317.446
Total effects of IAS/IFRS application to prior periods	-	(8.168.903)	(12.717.001)
Shareholders' equity computed in accordance with IAS/IFRS	220.588.856	205.499.179	208.816.625

Exhibit E: Reconciliation between net profit computed in accordance with Law Decree 87 of 1992 and net profit computed pursuant to IAS

	31/12/2004 Excluding IAS 32/39 and IFRS 4
Net profit computed in accordance with Italian regulations (Law Decree n. 87 of 1992)	34.399.422
Fixed and intangible assets	
- Ammortamenti e leasing finanziari	119.370
Liability reserves	
- Reserves for risks and charges not recognized and discounting of provisions	
- Actuarial valuation of staff severance indemnity reserve	(64.919)
Other effects	
- Dividends from MPS Group companies	(4.657.334)
Fiscal effect	54.785
Total effects of first-time application of IAS/IFRS	(4.548.098)
Net profit computed in accordance with IAS/IFRS	29.851.324

REPORT OF THE BOARD OF STATUTORY AUDITORS OF MPS FINANCE BANCA MOBILIARE S.p.A. RELATIVE TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2005, PURSUANT TO ARTICLE 153 OF LAW DECREE 58 OF 1998 AND TO ARTICLE 2429, PARAGRAPH 3 OF THE ITALIAN CIVIL CODE

To the Shareholder:

The financial statements as of 31 December 2005 submitted for your review and approval were duly transmitted to the Board of Statutory Auditors within the term required by the law.

The financial statements cover a full year of operations for the Bank, and were prepared for the first time on the basis of the international accounting principles issued by the International Accounting Standards Board (IASB), taking into account the interpretations thereof provided by the International Financial Reporting Interpretations Committee (IFRIC).

Although not required to prepare the financial statements as of 31 December 2005 on the basis of the international accounting principles, the Bank formally elected, by means of a resolution of the Board of Directors approved on 25 May 2005, to adopt such principles (IAS/IFRS) in 2005, as provided by Article 4 of Law Decree n. 38 of 28 February 2005.

In preparing its financial statements, the Bank followed the guidelines provided by the Bank of Italy Circular n. 262 of 22 December 2005 regarding the formats and the rules for the preparation of bank financial statements.

The financial statements as of 31 December 2005 consist of the following: 1) balance sheet; 2) profit and loss statement; 3) statement of changes in shareholders' equity; 4) statement of changes in financial position; and 5) the notes to the financial statements. The Bank has also presented a report on operations prepared by the Board of Directors which the Board of Statutory Auditors deems adequate and complete.

It is possible to compare each balance-sheet and profit-and-loss account with the data for the preceding year. Any non-comparability of the accounts is indicated and commented upon in detail in the notes to the financial statement. More specifically, with the first-time application (FTA) of the international accounting principles, the Bank did not restate the 2004 data with reference to financial instruments and insurance contracts (IAS 32, IAS 39, and IFRS 4). In order to provide adequate disclosure of the effects of the changeover from the national accounting principles to the international accounting principles in relation to the data as of 31 December 2004, the reconciliation schedules required by IFRS have been supplied as exhibits to the financial statements, along with the explanatory notes in relation thereto. It is also noted that the reconciliation schedules were audited by the independent auditors in order to ensure the proper FTA - effect of the transition (1 January 2004, 31 December 2004, and 1 January 2005).

As provided by IAS 1, the notes to the financial statements contain a statement of conformity with the international accounting principles.

The financial statements have been prepared with the prospect of the Bank remaining a going concern, and in accordance with the matching principle.

The impact of current and deferred taxation on the financial statements has been adequately disclosed in the notes to the financial statements.

The notes to the financial statements also reference the Bank's participation in a consolidated income tax return as provided by Article 117 and the articles thereafter of the Decree of the President of the Republic of Italy n. 917 of 22 December 1986, with the accounting implications thereof also disclosed.

As indicated by the summary hereunder, the financial statements reflect a net profit of €34,278,118, following the provisions required by law.

BALANCE SHEET

- Assets		€ 20,982,397,871
- Liabilities	€ 20,605,608,430	
- Subordinated liabilities	€ 155,022,498	
- Shareholders' equity	<u>€ 187,488,825</u>	€ 20,948,119,753
Net profit for the period		€ 34,278,118
Total to balance		€ 20,982,397,871

PROFIT AND LOSS STATEMENT

Net profit (loss) from financial operations	€ 54,068,900
Operating expenses	€ (37,766,335)
Pre-tax profit from continuing operations	€ 16,302,565
Taxes on income from continuing operations	€ 17,975,553
Profit for the period	€ 34,278,118

The profit for the period has been reported in the profit and loss statement which has been drawn up in conformity with the Bank of Italy's Circular n. 262 of 22 December 2005 mentioned above, and with the application of the international accounting principles.

The Board of Statutory Auditors has prepared this report in accordance with prevailing regulations, specifically taking into account the provisions of CONSOB's Communication n. 1025564 of 6 April 2001.

The audits performed by this Board of Statutory Auditors were directed toward ascertaining (i) the proper application of the provisions of law, taking into account the principles of conduct recommended by the Italian accounting profession ("Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri"), and (ii) compliance with directives issued by CONSOB and by the Bank of Italy.

The valuation criteria adopted are in compliance with the IFRS principles in effect as of the date of the financial statements.

In the notes to the financial statements, the Directors have provided sufficient detail on the valuation criteria adopted.

In particular, it is noted:

- As described in the notes to the financial statements, securities issued refer to two subordinated bond issues in an aggregate nominal amount equal to €155 million. The bonds are classified as Tier III Subordinated Debt and are included in the computation of the Bank's funding to cover market risks, in accordance with the regulatory guidelines set out by the Bank of Italy.
- The share capital of €130 million has been fully subscribed and paid, and is held in its entirety by the single shareholder, Banca Monte dei Paschi di Siena S.p.A.
- The notes to the financial statements include other information evidencing the amounts of guarantees issued and commitments undertaken by the Bank, with disclosure of the assets pledged to guarantee the Bank's own liabilities and commitments.
- The notes to the financial statements contain the information required by IAS 17 in relation to operating lease transactions in effect.
- The negotiation of financial assets held for trading was significantly intensified with respect to the prior year.
- The application of the international accounting principles had a limited impact on capital, which is mainly attributable to the different accounting treatment of dividends from the companies in which long-term equity investments are held (Intermonte S.p.A.). Under international accounting principles, the dividend income is recognized when the right to receive the dividend payment is established. Another difference is introduced with IAS 39, which requires unlisted securities to be valued at market value. The implications of the foregoing have been set out in the various reconciliation schedules which are attached as exhibits to the notes to the financial statements.
- As of the end of the year, the securities portfolio consisted exclusively of trading securities, with no securities held as long-term investments.
- Equity investments reported in the balance sheet have a carrying value of €20,448,000, including €20,409,000 in relation to Intermonte Securities SIM, a MPS Group

company that is consolidated by the Bank's parent company, Banca Monte dei Paschi di Siena S.p.A.

The report on operations accompanying the financial statements illustrates the Bank's relationships with Banca Monte dei Paschi di Siena S.p.A. and its subsidiaries or affiliates. Such relationships are numerous and considered significant to the Bank's business.

Summary data from the most recently approved financial statements of the parent company, Banca Monte dei Paschi di Siena S.p.A., have been disclosed in the notes to the financial statements as required by prevailing regulations on the subject of controlling interests.

No atypical or unusual transactions were effected by the Bank in 2005.

In the report on operations, the Board of Directors has summarized the pending dispute with Parmalat S.p.A. and the assessment of the risk in relation thereto.

The Board of Statutory Auditors can reasonably assure you that the actions approved and effected are in conformity with the law and with the Bank's by-laws, and were not openly imprudent or risky, in potential conflict of interest or in contrast with the resolutions passed by the shareholders meetings, nor were they such as to compromise the integrity of the shareholders' equity.

The report accompanying the financial statements is sufficiently informative and clear, supplying an overview of the Bank's operations for the year ending 31 December 2005 and information on events subsequent to year end.

The financial statements were audited by KPMG S.p.A. in execution of a mandate conferred to the same. The report of the independent auditors has not yet been released. To date, the independent auditors have not reported the existence of irregularities or anomalies to the Board of Statutory Auditors.

In a single information reference provided in advance to the Board of Statutory Auditors, the aforementioned KPMG has evidenced:

l) that the relationships with the parent company, Banca Monte dei Paschi di Siena S.p.A., and with other companies of the MPS Group, were numerous and significant during the year and as of the date of the close of the year;

With regard to the information reference, it should be noted that MPS Finance Banca Mobiliare S.p.A. was set up for the purpose of creating financial products for the MPS Group. The report of the Board of Directors illustrates at length the relationships with the companies of the MPS Group, including the parent company's transactions in securities.

Upon the express declaration of the senior management, it is noted that during the year of 2005, the Bank did not provide any mandate to KPMG S.p.A., other than the mandates to perform the audit and to complete the review recommended by CONSOB (Communication

DEM/5025723 of 15 April 2005) to ensure the proper reconciliation between national accounting principles and international accounting principles.

With reference to the aforementioned mandates, the Board of Statutory Auditors issued the opinions required by the law, and specifically, an opinion issued on 6 April 2005 in relation to the mandate covering the audit for the 2005-2007 three-year period, and an opinion issued on 24 May 2005 in relation to the mandate covering the audit of the reconciliation of the accounts on the basis of the principles provided by FTA and IAS. The Board of Statutory Auditors did not issue any other opinions.

It furthermore noted that a sum of €54,887.04 was paid in 2005 to KLEGAL - Studio Associato Consulenza Legale Societaria, a firm related to the aforementioned firm responsible for the independent audit, with reference to billings for the year.

The Board of Statutory Auditors was present at all 15 meetings of the Board of Directors and was able to track carefully the most important business events, ascertaining their compliance with the provisions of the law, the by-laws, and the directives of the regulatory authorities.

The Board of Statutory Auditors met formally on a periodic basis during 2005, convening 10 meetings and drawing up minutes for each of the meetings.

The Board of Statutory Auditors furthermore effected the audits required by law, ascertaining the correct functioning of operational processes and internal controls, including those inherent to the application of Law 197 of 1991 (the Italian law on money laundering).

During the year, the Board of Statutory Auditors conducted tests to verify the existence over time of netting agreements as far as the legal status of the counterparties is concerned; such tests yielded positive results and were effected for the purpose of properly computing capital requirements.

The Board of Statutory Auditors examined and ascertained, with respect to its specific responsibility, the adequacy of the Bank's organizational structure and the respect of the principles of correct administration. This was done through direct observation, the procurement of information from the managers of the organizational area, and meetings with the independent auditors held for the purpose of a reciprocal exchange of material data and information.

The Board of Statutory Auditors tested the adequacy of the internal controls system and the administrative and accounting system, and the reliability of the latter system to represent business events properly.

During the course of its audit activity and on the basis of the information obtained from the managers of the various areas of the Bank and from the independent auditors, the Board of Statutory Auditors did not detect any omissions or negligence and/or any irregularities or significant events that needed to be reported to the regulatory authorities or mentioned in this report.

Following is a summary of significant events occurring in 2005:

- a) Transfer of the ICT unit and the Murex system to the MPS Group Operating Consortium. Following a resolution passed by the parent company, on 15 June 2005, the Bank's Board of Directors approved the decision to concentrate MPS Finance's ICT system within the MPS Group Operating Consortium. As a result of the project, the finance and risk-management applications will be managed by a single entity, thereby favouring the exchange and the consistency of the data, as well as the achievement of economies of scale.
- b) Ratification of the parent company's resolution on the guidelines for the MPS Banca Mobiliare S.p.A. repositioning. With its resolution of 15 June 2005, the Bank's Board of Directors fully ratified the parent company's resolution calling for the adoption of a repositioning plan for MPS Finance that contemplates further development of services for the corporate clientele, improvement of the Bank's operations in the capital markets, and the more rational organization of the retail product factory. Thereafter, the Bank adopted a new organizational model.
- c) The Governance Committee referenced in Law Decree n. 231 of 2001 was established on 17 November 2005 following the adoption of the organizational model at a Group level. Article 6 of the aforementioned law decree sets out regulations in relation to the governance of administrative responsibility of legal persons, companies, and associations, including those without an official legal status.
- d) Pursuant to a shareholder resolution of 28 April 2006, the Bank purchased shares of the parent company, in accordance with the limits established by the law. The share purchases are described in the notes to the financial statements.

The Bank received no claims or complaints as provided by Article 2408 of the Italian Civil Code, partly in consideration of the fact that the Bank's share capital is held in its entirety by the parent company, Banca Monte dei Paschi di Siena.

In consideration of the foregoing, the Board of Statutory Auditors has not detected any factors to impede the approval of the financial statements for the year ending 31 December 2005, nor has it formulated, after having ascertained the full payment of the share capital, any objections in relation to the proposed resolution presented by the Board of Directors for the allocation of earnings.

It is finally noted that the term of office of the current Board of Statutory Auditors expires with this year's annual meeting of the shareholders. It is thus recommended that the shareholder arrange for the appointment of the Board of Statutory Auditors for the next three years, in accordance with prevailing regulations.

THE BOARD OF STATUTORY AUDITORS

Siena, 12 April 2006

Report of the independent auditors pursuant to Article 156 of Legislative Decree n. 58 of 24 February 1998

To the Shareholders of
MPS Finance Banca Mobiliare S.p.A.

1. We have audited the financial statements of MPS Finance Banca Mobiliare S.p.A. as of 31 December 2005, which consist of the balance sheet, the profit and loss statement, the statement of changes in shareholders' equity, the statement of changes in the financial position, and the notes to the financial statements. The directors of MPS Finance Banca Mobiliare S.p.A. are responsible for the preparation of the financial statements. Our responsibility is to express a professional opinion on the financial statements based on our audit. The aforementioned financial statements were prepared for the first time in conformity with the International Financial Reporting Standards adopted by the European Union.

2. We conducted our audit in accordance with the auditing principles and standards recommended by CONSOB. Such principles and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, and if the financial statements are reliable taken as a whole. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and accuracy of the accounting principles used, as well as the integrity of the estimates made by management. We believe that our audit provides a reasonable basis for our professional opinion.

The financial statements as of 31 December 2005 include, for the purpose of comparison, the corresponding data for the preceding year prepared in accordance with the same accounting principles, with the exception of the effects of the application of the international accounting principles IAS 32 and IAS 39 which, in accordance with the option allowed by the accounting principle IFRS 1, have been applied as from 1 January 2005. Furthermore, an exhibit to the notes to the financial statements illustrates the effects of the transition to the International Financial Reporting Standards adopted by the European Union. We have reviewed the disclosures provided in the aforementioned exhibit for the purpose of expressing an opinion on the financial statements as of 31 December 2005.

3. In our opinion, the financial statements of MPS Finance Banca Mobiliare S.p.A. as of 31 December 2005 are in compliance with the International Financial Reporting Standards adopted by the European Union. The financial statements have thus been prepared in a clear manner, and provide an accurate and fair representation of the MPS Finance Banca Mobiliare S.p.A.'s capital, financial position, earnings, changes in shareholders' equity, and cash flows for the year ended as of such date.

4. We note the following two items for the purpose of information disclosure:

4.1 In the report on operations and in the notes to the financial statements, the Board of Directors has illustrated the effects on the Bank's financial statements of the Bank's numerous and significant relationships with the parent company, Banca Monte dei Paschi di Siena S.p.A., and with the other companies of the MPS Group.

4.2 As required by the law, the Bank has included in the notes to the financial statements the key data from the most recent financial statements of the company which is responsible for the management and the coordination of the Bank. The opinion rendered on the MPS Finance Banca Mobiliare S.p.A. financial statements does not extend to such data.

Florence, 13 April 2006

KPMG S.p.A.

Roberto Todeschini
Partner