

The fixed-income markets: MOT and EuroMOT

Continuing the trend already seen in 2003, during the course of 2004 the MOT and EuroMOT recorded positive performances in terms of trades carried out on the market. For the MOT, the growth was driven by Government securities, while the EuroMOT reached the record of transactions during a single session on January 22nd, 2004, with 2,261 trades and 59.2 million euro in terms of turnover.

For the EuroMOT, 2004 was an important year also from a listing standpoint. In fact, from November 30th it completed the range of instruments offered to the market with the listing of three Asset Backed Securities (ABSs).

MOT: COMPOSITION OF LISTING

During 2004 no significant changes were recorded in the composition of the MOT listing. There was a 3.6% increase in nominal capital, despite a drop of 13.7% in the number of instruments listed.

- At the end of 2004, following 48 admissions and 52 delistings, there were 96 Government securities listed, 4 less than in 2003. New admissions involved 33 BOT, 10 BTP, 3 CCT and 2 CTZ. Bonds recorded 32 admissions and 89 delistings, taking the market to close the year with 289 securities, 57 less than in 2003. As with previous years, again in 2004 all the new corporate bonds admitted to listing originated from the banking sector.
- The decline in the number of listed financial instruments was offset by a 6.1% increase in nominal capital for corporate bonds (from 54,808 million euro in 2003 to 58,156 in 2004). A similar trend was also seen in Government securities, with a 3.5% increase in nominal capital (from 1,062,886 million euro in 2003 to 1,099,802 million euro in 2004).
- The average size of securities was up for both corporate bonds and Government securities. The average size of corporate bonds increased from 158 million euro in 2003 to 201 in 2004, while, the average size of Government securities rose from 10,629 million euro in 2003 to 11,456 in 2004.
- The composition ratio between private and public sector securities showed basically no change with respect to the previous years: 5% of nominal capital listed on the MOT is represented by private bonds, while 95% is represented by Government securities.
- Regarding the currency of denomination, the nominal value of the majority of fixed-income instruments listed on the MOT is expressed in euro. While the Government securities have all been denominated in euro since the beginning of 1999, corporate bonds

may be denominated in other currencies, including lira (intended as a conventional currency) for bonds not re-denominated during the 1999-2001 euro changeover period. At the end of 2004, there were 232 bonds expressed in euro (80.3% of the bond listing), for a nominal capital corresponding to 94.4% of the total. There are still 55 bonds in lire (19.0% of the listing), corresponding to 5.5% of listed nominal capital. The remaining securities are in British pounds (one) and US dollars (one), representing 0.05% of listed nominal capital.

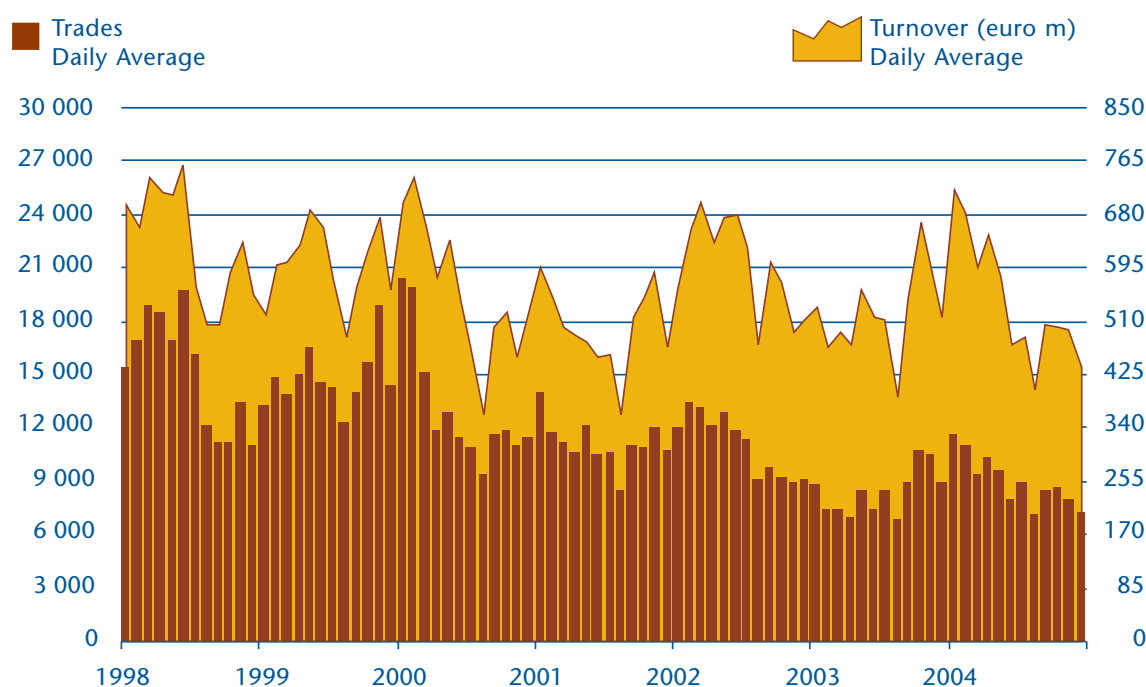
- In terms of size of face value, the distribution of corporate bonds is similar to 2003. At the end of the year, the top three securities in order of face value represented 7.1% of the listing (7.3% in 2003 and 6.8% in 2002), the top five 11.2% (11.6% in 2003 and 10.3% in 2002) and the top ten 20.2% (19.8% in 2003 and 16.8% in 2002). To reach half of the listed nominal capital takes just 37 bonds (44 in 2003 and 51 in 2002), which in numerical terms represent 12.8% of the listing (12.7% in 2003 and 13.8% in 2002). As regards Government securities, the distribution is similar to that of previous years; it takes 30 Government securities (31% of those listed) to reach 50% of listed nominal capital.
- Regarding the issuers of bonds other than Government securities, 2004 confirms the predominance of bank issuers: with 251 bonds, representing 86.9% of the official list. The remainder is made up of 19 bonds issued by international bodies, 13 by private companies, 4 by foreign government issuers and 2 by local authorities.

MOT: THE TREND OF TRADES

In 2004 trading on the MOT showed a growth compared to 2003 in terms of both number of trades and turnover (charts 15 and 16).

- Total trading was up from 2,740,782 trades in 2003 to 2,816,068 in 2004 (+2.7%), with a rise in overall turnover from 142.7 billion euro to 146.7 in 2004 (+2.8%). The trend was

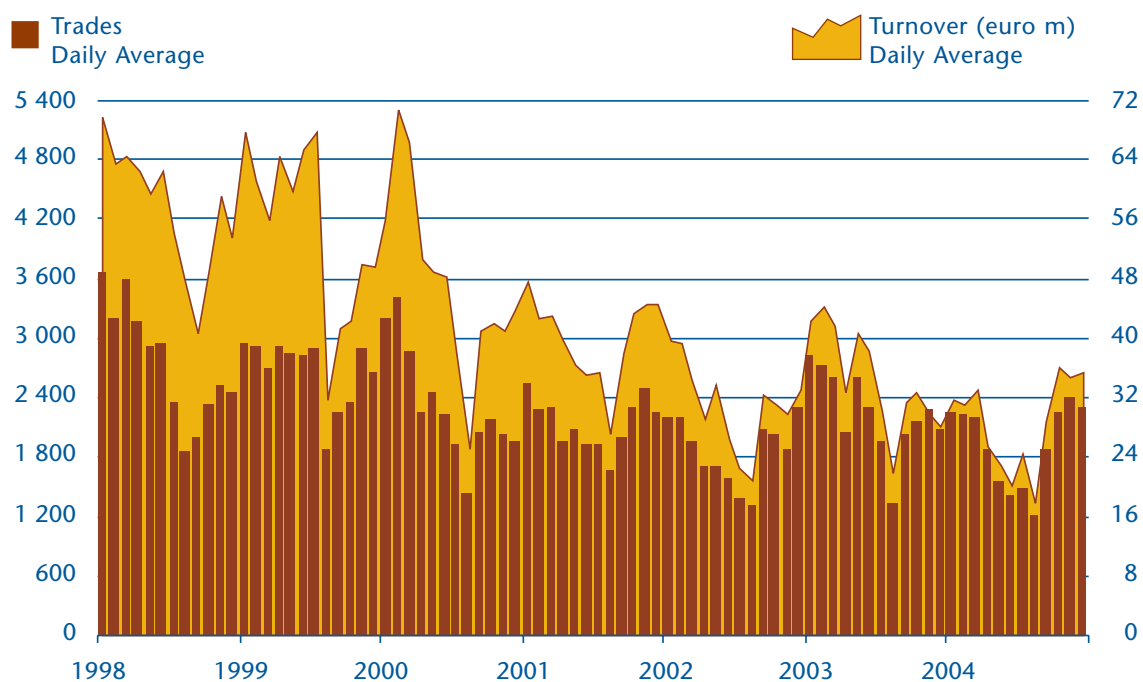
CHART 15 - MOT: MONTHLY TURNOVER OF TREASURY BONDS



not uniform between the two categories of financial instruments listed: against a growth in trading of Government securities in terms of both turnover, up from 133.8 billion to 139.3 (+4.1%), and trades, up from 2,164,179 to 2,322,125 (+7.3%), there was a fall-off in trading of corporate bonds, with 7.3 billion euro in turnover (-17.3% compared to 2003) and 493,943 trades (-14.3% compared to a year earlier).

- The daily average turnover went up from 566.2 million euro in 2003 to 570.6 million euro in 2004, while the daily average trades rose from 10,876 to 10,957. There was an increase in Government securities in terms of both turnover (from 531.1 million euro per day in 2003 to 542.2 in 2004) and trades (from 8,588 trades per day to 9,036 in 2004). Corporate bonds were down from 35.1 million euro per day in 2003 to 28.5 in 2004 and from 2,288 daily average trades in 2003 to 1,922 in 2004.
- The most liquid month was January, with 13,965 trades and 750.4 million euro negotiated each day. For the bonds, the highest number of trades were recorded during the month of November, with a daily average of 2,392 trades, while October was the best month in terms of turnover, with 36.1 million euro per day. For Government securities, the month with most trading was January, with 11,701 trades and 718.6 million euro per day.
- Due to the different trend in the trading of corporate bonds compared to Government securities, the percentage of turnover on Government securities with respect to total MOT went up from 93.8% in 2003 to 95.0% in 2004.
- The concentration of corporate bonds trading on more liquid securities was similar to previous years. The most traded bond was Capitalia 1999/2009 fixed rate 5.80%, which realised a turnover equal to 4.1% of the total (in 2003 the turnover of the most liquid security accounted for 3.9% of the total). The top three securities represented 10.9% of the total (9.7% in 2003 and 12.3% in 2002), the top five 16.8% (15.1% in 2003 and 16.5% in

CHART 16 - MOT: MONTHLY TURNOVER OF PRIVATE BONDS



2002) and the top ten 25.7% (24.1% in 2003 and 23.6% in 2002). With reference to Government securities, liquidity was more concentrated compared to previous years: the top three securities represented 17.7% of overall turnover (14.3% in 2003 and 12.9% in 2002), the top five 25.7% (20.1% in 2003 and 18.4% in 2002) and the top ten 40.0% (31.6% in 2003 and 29.4% in 2002).

- As confirmation of the typically banking nature of the market, trading on the MOT fell sharply on days when the market was open for trading during national holidays (when the banks were therefore closed): compared to the average for the respective months of trading, turnover was down by 90.7% on January 6th, 69.8% on June 2nd, 90.4% on November 1st and 86.9% on December 8th.

EUROMOT

2004 was an important year for the composition of the EuroMOT listing in terms of both quantities and type of instruments listed. With 12 admissions and 3 delistings, the overall number of instruments listed rose by 18.4% (from 49 in December 2003 to 58 at the end of 2004). Moreover, from September 30th three Asset Backed Securities (ABSs) are traded, enhancing the set of instruments available to the market.

Looking more in detail at the composition of nominal capital by currency of denomination, the listing showed a predominance of euro securities with respect to those in dollars: 74.1% of the financial instruments listed at the end of 2004 was denominated in euro, representing 94.3% of the listed nominal capital.

Trading remained at substantially stable levels compared to the previous year (chart 17), with a turnover of 3.6 billion euro during the course of 2004 and daily average turnover of 13.9 million euro (3.7 billion in 2003, with a daily average of 14.7 million euro). Total trades were up from 149,870 in 2003 to 142,389 in 2004, with a daily average of 554 trades (595 in 2003).

The month of January had the highest transactions, with a daily average of 30.4 million euro and 1,314 trades, exceeding the previous year's all-time high (815 trades during the month of May 2003). As regards individual sessions, in 2004 new all-time highs were achieved, on January 22nd, with 2,261 trades executed and a turnover of 59.2 million euro.

Achieved on January 22nd, 2004, a new record turnover during a single trading session, with 2,261 trades and 59.2 million euro

During 2004 the EuroMOT showed a heavy concentration of turnover on the most liquid securities. The most traded eurobond was issued by Fiat Finance & Trade 2001/2006: the total value traded amounted to 660.5 million euro, equal to 18.5% of turnover. The top four eurobonds account for 53.0% of turnover.

CHART 17 - EUROMOT: MONTHLY TRADES AND TURNOVER

