Quarterly Report as of 31 March 2004

- in compliance with Consob Regulation no. 11971 of 14.5.1999 as subsequently amended and supplemented -

Siena, 13 May 2004

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NOTES TO THE QUARTERLY REPORT AS OF 31 MARCH 2004

The Quarterly Report of the Monte dei Paschi di Siena Banking Group as of 31 March 2004 has been prepared pursuant to Consob Regulation no. 11971 of 14 May 1999.

The reclassified financial statements as of 31 March 2004 have been drawn up on the basis of the principles adopted in the preparation of the annual report.

The following criteria have been adopted:

- The quarterly report has been drawn up on the basis of the principle of "independent financial periods" which means that the period under review is considered on a stand-alone basis. Therefore, the interim profit and loss statement includes the ordinary and extraordinary items for the period on an accrual basis.
- The financial statements included in the consolidation have been prepared by the subsidiaries as of 31 March 2004 and adjusted, when necessary, to conform to the Group accounting principles;
- Adjustments and provisions made by the Parent Company exclusively in compliance with tax regulations have been reversed;
- Infragroup balance-sheet and profit and loss accounts have been eliminated.

With respect to 31 December 2003 the changes in the consolidation area are mostly attributable to the liquidation of M.P. Commercial Paper and the transfer of Mantovana Ireland Ltd. to Monte Paschi Ireland Ltd. by the Parent Company.

The quarterly report as of 31 March 2004 is not subject to be certified by the independent auditors.

In compliance with art. 82, par.2 of Consob regulation no. 11971 of 14 May 1999, Banca Monte dei Paschi di Siena will publish its financial statements as of 30 June 2004 no later than 15 September 2004 and, therefore, will not draw up the quarterly report for the second quarter of 2004.

THE FIRST QUARTER OF 2004: SUMMARY OF OPERATIONS

The operating scenario for the first quarter of 2004 is difficult to interpret and requires a conservative and selective approach to the implementation of the commercial and lending policies. The events which marked the end of 2003 (e.g. Parmalat crisis, notorious events which occurred in the banking industry, the deterioration of the economic situation) have deeply affected the families' investment decisions, and corporate demand for credit, thereby determining a difficult operating backdrop. **In this framework, the MPS Group achieved growing operating results and increasing profitability in line with the expectations, and started the numerous projects anticipated by the current Business Plan.**

In particular:

- With respect to **funds management**, in the first quarter of 2004 the Group commercial networks realized appreciable performances with EUR 1.6 billion of funds under management mainly oriented toward insurance policies and capital-guaranteed products. The Group has confirmed its market shares in the main segments, with **indirect funding rising by 5.1% (at EUR 107 billion approx.) and the weight of funds under management progressing by 12.5%**. The growth of **direct funding** is more modest **(+3.6%)**;

- With reference to **lending**, in view of the critical operating scenario, loans were concentrated on medium- and long-term maturities, while short-term loans were increasingly selected. The Group continued to support maximum integration between the distribution networks and the product factories. As of 31 March 2004, **total loans** stood at EUR 69.4 billion advancing by 2.6% year on year. The ratio of **net doubtful loans** to total loans (1.98%) was lower than the industry average estimated at 2.2%.

As a result of these dynamics, the Group **traditional banking activity** achieved appreciable results with the primary component (**interest margin+commissions from customers**) increasing by 6.8% on an annual basis with respect to March 2003, driven by commissions (+20.9%).

Administrative expenses **declined by 3.8%**on an annual basis (March 2003), due to the sharp actions of cost containment, with homogeneous cuts to personnel costs and other administrative expenses flanked by more considerable reductions of depreciation and amortization.

The gross operating profit thus stood at 22.3% and the cost/income ratio improved by 2.9 percent in comparison with the end of 2003 (5.2% with respect to March 2003).

Considering adjustments and provisions (inspired by the usual rigorous criteria of selectivity)**, the Group's net profit amounted to EUR 138.3 million (+5.1%) and the ROE** net of adjustments on goodwill reached **10.6% (9.5% as of December 2003).**

Rounding out the picture is the moderate progress of capital ratios with the total capital ratio estimated[1] at **10% and the Tier1 ratio at 6.5% (Core ratio: 6.3%).**

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[1] As is known, consolidated capital ratios are subject to reporting only on a half-year basis.

MPS GROUP: KEY DATA AND RATIO ANALYSIS

million euro

	31/03/2004	31/03/2003	Chg.%
Profit and loss aggregates			
Total banking income	1.189,5	1.144,7	3,9
Net operating income	412,1	337,0	22,3
Net income	138,3	131,6	5,1
Net income adjusted for goodwill	162,1	153,8	5,4

Balance sheet aggregates	**31/03/2004**	**31/03/2003**	**Chg.%**
Direct funding - including subordinated debt	79.889	77.090	3,6
Indirect funding	106.887	101.700	5,1
including: Funds under management	*43.260*	*38.448*	*12,5*
including: Funds under administration	*63.627*	*63.252*	*0,6*
Customer loans and advances	**69.357**	**67.606**	**2,6**
Consolidated shareholders' equity	**6.293**	**6.422**	**-2,0**

Credit quality indicators (%)	**31/03/2004**	**31/12/2003**
Net non-performing loans / Customer loans and advances (%)	1,98	1,84
Watchlist credits / customer loans and advances (%)	1,77	1,68

Profitability ratios (%)	**31/03/2004**	**31/12/2003**
Non interest income/Total banking income	47,0	46,8
Cost/Income ratio % (excluding depreciations and amortization)	59,4	61,2
Cost/Income ratio % (including depreciations and amortization)	65,4	68,3
Cost/Income ratio % (including depreciations and amortization) (°)	64,0	66,2
R.O.E. (net equity as of end of period)	9,2	8,3
R.O.E.(*)	9,0	7,7
Adjusted ROE (%) (*)	10,6	9,5

(°) excl. Tax Collection area

(*) average net equity

Solvency ratios (%)	**31/03/2004**	**31/12/2003**
Total capital ratio %	10,0	9,9
Tier 1 Ratio %	6,5	6,5

Share data	**31/03/2004**	**31/12/2003**
Number of shares outstanding	2.448.491.901	2.448.491.901
Number of preferred shares outstanding	565.939.729	565.939.729
Number of savings shares outstanding	9.432.170	9.432.170
Ordinary share price during the year:		
- average	2,54	2,42
- low	2,30	1,93
- high	2,74	2,85

Operating structure	**31/03/2004**	**31/12/2003**	**Abs. Chg.**
Number of banking employees (end of period)	24.374	24.343	31
Number of total employees (end of period)	26.858	26.881	-23
Number of branches in Italy (*)	1.837	1.835	2
Number of foreign branches and foreign representative offices	38	38	

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

MPS Group
Reclassified Consolidated Balance Sheet (in EUR mn)

ASSETS	31/03/2004	31/03/2003	Changes Abs	Changes %	31/12/2003
Cash on hand and deposits with central bank and post office	382	433	-52	-11,9	671
Loans:					
a) Customer loans and advances	69.357	67.606	1.751	2,6	70.405
b) Amounts due from banks	8.180	12.999	-4.819	-37,1	8.551
Trading Account Securities	14.795	15.103	-308	-2,0	14.342
Non-current assets					
a) Investment securities	3.916	4.259	-342	-8,0	3.964
b) Equity investments	2.618	2.730	-112	-4,1	2.621
c) Fixed assets and intangible assets	2.493	2.666	-173	-6,5	2.512
Positive consolidation differences & positive net equity differences	888	849	40	4,7	913
Own shares or quotas	8	45	-37	-83,2	16
Other assets	20.119	23.804	-3.685	-15,5	18.995
Total Assets	**122.756**	**130.493**	**-7.737**	**-5,9**	**122.989**

LIABILITIES AND SHAREHOLDERS' EQUITY	31/03/2004	31/03/2003	Changes Abs	Changes %	31/12/2003
Liabilities					
a) Customer deposits and borrowed funds backed by negotiable instruments	75.312	73.759	1.552	2,1	77.863
b) Due to banks	15.814	23.576	-7.762	-32,9	15.058
Reserves for specific use					
a) Pension funds	438	448	-10	-2,2	427
b) Staff severance indemnity reserve	435	392	42	10,7	430
c) Other reserves for risks and charges	751	619	132	21,4	784
d) Reserve for taxes	761	851	-90	-10,6	647
Other liabilities	18.033	20.699	-2.666	-12,9	16.805
Reserve for loan losses	314	361	-47	-12,9	311
Subordinated debt	4.578	3.330	1.247	37,5	4.475
Minority interests	28	36	-8	-21,8	35
Shareholder's equity:					
a) Share capital	1.935	1.935	0	0,0	1.935
b) Paid-in capital	523	523	0	0,0	523
c)Reserve for general banking risks	61	361	-300	-83,1	61
d) Negative consolidation and net equity differences	6	23	-16	-71,9	6
e) Reserves	3.629	3.449	181	5,2	3.186
f) Profit (loss) for the year	138	132	7	5,1	443
Total Liabilities and Shareholders' Equity	**122.756**	**130.493**	**-7.737**	**-5,9**	**122.989**

MPS Group
Reclassified Consolidated Balance Sheet (in EUR mn)

ASSETS	31/03/2004	31/12/2003	30/09/2003	30/06/2003	31/03/2003
Loans:					
a) Customer loans and advances	69.357	70.405	69.802	70.616	67.606
b) Amounts due from banks	8.180	8.551	9.321	11.421	12.999
Trading Account Securities	14.795	14.342	13.749	14.787	15.103
Non-current assets					
a) Investment securities	3.916	3.964	3.978	4.065	4.259
b) Equity investments	2.618	2.621	2.702	2.575	2.730
c) Fixed assets and intangible assets	2.493	2.512	2.524	2.562	2.666
Positive consolidation differences & positive net equity differences	888	913	954	972	849
Other assets	20.508	19.682	20.294	21.246	24.282
Total Assets	**122.756**	**122.989**	**123.323**	**128.245**	**130.493**

LIABILITIES AND SHAREHOLDERS' EQUITY	31/03/2004	31/12/2003	30/09/2003	30/06/2003	31/03/2003
Liabilities					
a) Customer deposits and borrowed funds backed by negotiable instruments	75.312	77.863	74.282	74.481	73.759
b) Due to banks	15.814	15.058	18.649	21.302	23.576
Reserves for specific use	2.384	2.288	1.986	1.962	2.310
Other liabilities	18.033	16.805	18.012	20.610	20.699
Reserve for loan losses	314	311	368	363	361
Subordinated debt	4.578	4.475	3.676	3.267	3.330
Minority interests	28	35	25	23	36
Shareholder's equity:	6.293	6.154	6.324	6.236	6.422
Total Liabilities and Shareholders' Equity	**122.756**	**122.989**	**123.323**	**128.245**	**130.493**

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

	31/03/2004	31/03/2003	Changes Abs	Changes %	Quarterly Avg 2003	31/12/2003
Net Interest Income	**630,8**	**628,7**	**2,1**	**0,3**	**622,4**	**2.489,6**
Net commissions	345,6	285,8	59,8	20,9	333,3	1.333,2
Basic Income	**976,4**	**914,4**	**61,9**	**6,8**	**955,7**	**3.822,7**
Dividends	10,7	0,5	10,2	2233,1	27,9	111,5
Earnings of companies valued with net equity method	20,0	12,6	7,4	58,7	8,0	31,8
Profit (loss) from financial transactions	76,0	105,6	-29,6	-28,1	53,5	214,1
Other operating income	106,5	111,6	-5,1	-4,6	125,3	501,0
Non Interest Income	**558,7**	**516,0**	**42,6**	**8,3**	**547,9**	**2.191,7**
Total Banking Income	**1.189,5**	**1.144,7**	**44,8**	**3,9**	**1.170,3**	**4.681,3**
Administrative expenses						
- personnel expenses	-439,1	-454,1	15,1	-3,3	-448,7	-1.794,7
- other administrative expenses	-267,4	-276,8	9,4	-3,4	-267,0	-1.068,1
o/w indirect taxes	41,1	39,6	1,4	3,6	43,0	171,9
Total administrative expenses	**-706,5**	**-730,9**	**24,5**	**-3,3**	**-715,7**	**-2.862,7**
Gross Operating Profit	**483,0**	**413,8**	**69,2**	**16,7**	**454,6**	**1.818,5**
Valuation adjustments to fixed and intangible assets	-70,9	-76,8	5,9	-7,7	-83,7	-334,9
Net Operating Profit	**412,1**	**337,0**	**75,1**	**22,3**	**370,9**	**1.483,6**
Goodwill amortization	-23,8	-22,2	-1,6	7,1	-25,7	-102,9
Provisions for risks and charges	-22,4	-16,6	-5,8	ns.	-43,0	-171,8
Valuation adjustments to loans net of recoveries	-121,3	-98,3	-23,1	23,5	-170,6	-682,3
Provision to loan loss reserve	-9,0	-8,3	-0,7	8,2	-12,0	-48,0
Writedowns to non-current financial assets	-1,3	-1,0	-0,4	ns.	-24,2	-96,7
Profit (losses) from ordinary operations	**234,3**	**190,6**	**43,7**	**22,9**	**95,5**	**381,9**
Extraordinary income (charges)	8,2	25,6	-17,4	ns.	3,5	13,9
Change in reserve for general banking risks	0,0	0,0	0,0	ns.	75,0	300,0
Income taxes	-102,9	-83,4	-19,5	23,4	-61,3	-245,2
Profit for the period before minority interests	**139,5**	**132,8**	**6,7**	**5,1**	**112,6**	**450,6**
Minority interests	-1,3	-1,3	0,0	-0,2	-2,0	-8,1
Net profit for the period	**138,3**	**131,6**	**6,7**	**5,1**	**110,6**	**442,5**

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

	Year 2004	Year 2003			
	1Q04	**4Q03**	**3Q03**	**2Q03**	**1Q03**
Net Interest Income	**630,8**	**609,8**	**626,0**	**625,1**	**628,7**
Net commissions	345,6	358,0	321,0	368,4	285,8
Basic Income	**976,4**	**967,8**	**947,0**	**993,5**	**914,4**
Dividends	10,7	12,5	3,8	94,8	0,5
Earnings of companies valued with net equity method	20,0	-5,4	18,4	6,3	12,6
Profit (loss) from financial transactions	76,0	-19,1	93,6	34,0	105,6
Other operating income	106,5	186,3	104,6	98,6	111,6
Non Interest Income	**558,7**	**532,3**	**541,4**	**602,0**	**516,0**
Total Banking Income	**1.189,5**	**1.142,0**	**1.167,4**	**1.227,1**	**1.144,7**
Administrative expenses					
- personnel expenses	-439,1	-458,7	-437,8	-444,1	-454,1
- other administrative expenses	-267,4	-235,2	-279,4	-276,7	-276,8
Total administrative expenses	**-706,5**	**-693,9**	**-717,2**	**-720,7**	**-730,9**
Gross Operating Profit	**483,0**	**448,1**	**450,2**	**506,4**	**413,8**
Valuation adjustments to fixed and intangible assets	-70,9	-83,3	-83,3	-91,6	-76,8
Net Operating Profit	**412,1**	**364,8**	**367,0**	**414,8**	**337,0**
Goodwill amortization	-23,8	-25,6	-25,8	-29,3	-22,2
Provisions for risks and charges	-22,4	-95,4	-20,9	-38,9	-16,6
Valuation adjustments to loans net of recoveries	-121,3	-330,4	-107,2	-146,4	-98,3
Provision to loan loss reserve	-9,0	-26,8	-10,1	-2,8	-8,3
Writedowns to non-current financial assets	-1,3	-39,9	-3,4	-52,5	-1,0
Profit (losses) from ordinary operations	**234,3**	**-153,2**	**199,6**	**144,9**	**190,6**
Extraordinary income (charges)	8,2	26,3	-14,1	-23,9	25,6
Change in reserve for general banking risks	0,0	300,0	0,0	0,0	0,0
Income taxes	-102,9	2,4	-107,3	-56,9	-83,4
Profit for the period before minority interests	**139,5**	**175,5**	**78,2**	**64,0**	**132,8**
Minority interests	-1,3	-4,8	-0,8	-1,2	-1,3
Net profit for the period	**138,3**	**170,7**	**77,4**	**62,9**	**131,6**

MPS GROUP STRUCTURE

		COMPANY	H.O.	SHAREHOLDING Investing Company	% held	BOOK VALUE
		A.1 Companies included in the consolidation (fully consolidated)				
A.0		BANCA MONTE DEI PASCHI DI SIENA S.P.A.	Siena			xxx
A.1		BANCA TOSCANA S.P.A.	Florence	A.0	100,000	xxx
A.2		MPS BANCA VERDE S.P.A.	Florence	A.0	70,770	xxx
				A.1	29,230	
A.3		MPS MERCHANT BANCA PER LE PICCOLE E MEDIE IMPRESE S.P.A.	Florence	A.0	88,053	xxx
				A.1	11,680	
	3.1	MPS VENTURE SGR S.P.A.	Florence	A.3	70,000	
				A.12	30,000	
A.4		BANCA 121 PROMOZIONE FINANZIARIA S.p.A.	Lecce	A.0	100,000	xxx
A.5		BANCA C. STEINHAUSLIN & C. S.P.A.	Florence	A.0	100,000	xxx
A.6		MPS GESTIONE CREDITI S.p.A.	Siena	A.0	99,500	xxx
				A.1	0,500	
A.7		MPS LEASING E FACTORING S.p.A.	Siena	A.0	86,916	xxx
				A.1	6,647	
				A.9	6,437	
A.8		MPS FINANCE BANCA MOBILIARE S.P.A.	Siena	A.0	100,000	xxx
A.9		GRUPPO BANCA AGRICOLA MANTOVANA	Mantua	A.0	100,000	xxx
	9.1	BANCA AGRICOLA MANTOVANA S.p.A.	Mantua	A.0	100,000	xxx
	9.2	BANCA AGRICOLA MANTOVANA RISCOSSIONI S.p.A.	Mantua	A.9	100,000	
	9.3	PADANA RISCOSSIONI S.p.A.	Mantua	A.9	54,538	
	9.4	PADANA IMMOBILIARE S.p.A.	Mantua	A.9	100,000	
	9.5	AGRISVILUPPO S.p.A.	Mantua	A.9	97,802	
				A.2	1,267	
	9.6	AIDA S.P.A.	Villafranca (VR)	A.9.4	70,000	
A.10		MPS ASSET MANAGEMENT SGR S.P.A.	Milan	A.0	79,430	xxx
				A.1	6,192	
				A.9	10,550	
				A.4	3,828	
	10.1	MPS ALTERNATIVE INVESTMENTS SGR S.P.A.	Milan	A.10	100,000	
	10.2	MPS ASSET MANAGEMENT IRELAND LTD	Dublin	A.10	100,000	
A.11		MONTE PASCHI IRELAND LTD.	Dublin	A.0	100,000	xxx
A.12		INTERMONTE SECURITIES SIM S.p.A.	Milan	A.8	34,336	xxx
				A.9	34,336	
A.13		MONTE PASCHI FIDUCIARIA S.P.A.	Siena	A.0	86,000	xxx
				A.1	14,000	
A.14		ULISSE S.p.A.	Milan	A.0	60,000	xxx
A.15		ULISSE 2 S.p.A.	Milan	A.0	60,000	xxx
A.16		ULISSE 3 S.p.A.	Milan	A.0	60,000	xxx

A.17		CONSUM.IT S.P.A.	Florence	A.0	70,000	xxx
				A.1	30,000	
A.18		AMMINISTRAZIONI IMMOBILIARI S.P.A.	Siena	A.0	100,000	xxx
A.19		MPS IMMOBILIARE S.p.A.	Siena	A.0	100,000	xxx
A.20		MARINELLA S.p.A.	La Spezia	A.0	100,000	xxx
A.21		BA. SA. SERVIZI S.p.A.	Lecce	A.0	99,979	xxx
A.22		G.IMM.ASTOR Srl	Lecce	A.0	52,000	xxx
A.23		PASCHI GESTIONI IMMOBILIARI S.p.A.	Siena	A.0	100,000	xxx
A.24		G.I. PROFIDI SIM S.p.A.	Rome	A.0	100,000	xxx
A.25		CONSORZIO OPERATIVO GRUPPO MPS	Siena	A.0	99,748	xxx
				A.1	0,028	
				A.2	0,028	
				A.3	0,028	
				A.4	0,028	
				A.5	0,028	
				A.6	0,028	
				A.7	0,028	
				A.8	0,028	
				A.9	0,028	
A.26		ITALRISCOSSIONI S.p.A.	Rome	A.0	100,000	xxx
A.27		G.E.R.I.T. S.P.A.	L'Aquila	A.0	99,978	xxx
A.28		MONTE PASCHI SERIT S.p.A.	Palermo	A.0	100,000	xxx
A.29		SO.RI.T. S.p.A.	Foligno	A.0	54,593	xxx
A.30		BANCA MONTE PASCHI BELGIO S.A.	Brussels	A.0	72,481	xxx
				A.1	27,519	
A.31		BANCA MONTE PASCHI SUISSE S.A.	Geneva	A.0	99,996	xxx
A.32		MPS PREFERRED CAPITAL I LLC	Delaware	A.0	100,000	xxx
A.33		MPS PREFERRED CAPITAL II LLC	Delaware	A.0	100,000	xxx
A.34		MONTE PASCHI BANQUE S.A.	Paris	A.0	70,175	xxx
				A.1	29,825	
	34.1	MONTE PASCHI CONSEIL FRANCE	Paris	A.34	99,840	
	34.2	MONTE PASCHI INVEST FRANCE S.A.	Paris	A.34	99,973	
	34.3	M.P. ASSURANCE S.A.	Paris	A.34	99,600	
	34.4	S.N.C. IMMOBILIARE POINCARE	Paris	A.34	100,000	
	34.5	IMMOBILIARE VICTOR HUGO	Paris	A.34	100,000	
A.35		MONTEPASCHI LUXEMBOURG S.P.A.	Brussels	A.0	99,200	xxx
				A.34	0,800	
A.36		MANTOVANA IRELAND LTD	Dublin	A.11	100,000	xxx
A.37		BANCA MONTE PASCHI (CHANNEL ISLANDS) LTD	Guernsey C.	A.0	100,000	xxx
	37.1	CITY NOMINEES LTD	Guernsey C.	A.37	100,000	
	37.2	BMPS CORPORATE SERVICES LTD	Guernsey C.	A.37	100,000	
	37.3	BMPS NOMINEES (CI) LTD	Guernsey C.	A.37	100,000	
	37.4	BMPS TRUSTEES (CI) LTD	Guernsey C.	A.37	100,000	
	37.5	SAINTS TRUSTEES LTD	Guernsey C.	A.37	100,000	
		A.2 Companies included in the consolidation				

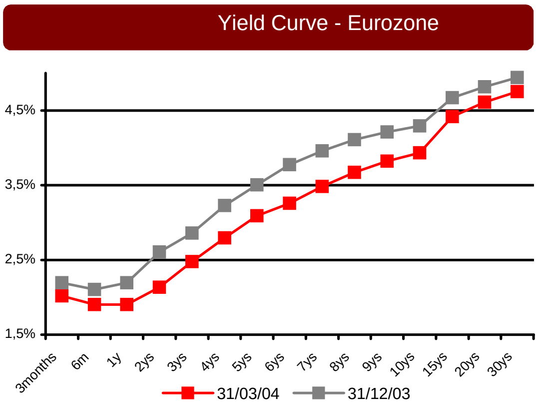
		(consolidated with proportional method)				
A.38		BANCA POPOLARE DI SPOLETO S.P.A. *(book value: 20% of nominal value)*	Spoleto	A.0	20,000	xxx
A.39		BANCA MONTE PARMA S.p.A. *(book value: 41% of nominal value)*	Parme	A.0	41,000	xxx
A.40		S.E.I.T S.p.A. *(book value: 40.205% of nominal value)*	Parme	A.39	40,205	xxx
		B. Group companies valued with net equity method (detail of Account 80 a)				
B.1		MONTE PASCHI VITA S.P.A.	Rome	A.0 A.1	91,523 8,477	354.208
B.2		MONTEPASCHI ASSICURAZIONI DANNI S.p.A.	Rome	A.0	100,000	39.494
B.3		DIPRAS S.P.A.	Rome	A.0	100,000	1.422
B.4		MONTE PASCHI LIFE LTD.	Dublin	A.0 B.1	40,000 60,000	49.563
B.5		MPS PROFESSIONAL S.p.A.	Siena	A.0	100,000	1.505
B.6		MPS NET S.P.A.	Siena	A.0 A.3	99,000 1,000	19.512
B.7		SAN PAOLO ACQUE S.r.l.	Lecce	A.0	100,000	221
B.8		MAGAZZINI GENERALI FIDUCIARI MANTOVA S.p.A.	Mantua	A.9	100,000	8.253
		Total				474.178
		C. Other companies valued with net equity method (detail of Account 70 a)				
C.1	(**)	BANQUE DU SUD	Tunis	A.0	14,961	15.419
C.2		AEROPORTO SIENA S.p.A.	Siena	A.0 A.1	20,000 20,000	728
C.3	(**)	FIDI TOSCANA S.p.A.	Florence	A.0 A.1 A.3 A.2	13,390 10,359 4,127 0,999	18.515
C.4	(**)	FINSOE S.p.A.	Florence	A.0	39,000	356.891
C.5		LE ROBINIE S.r.l.	Reggio Emilia	A.9	20,000	821
C.6		QUADRIFOGLIO VITA S.p.A.	Bologna	A.9	50,000	33.559
		Total				425.933

REPORT ON CONSOLIDATED OPERATIONS

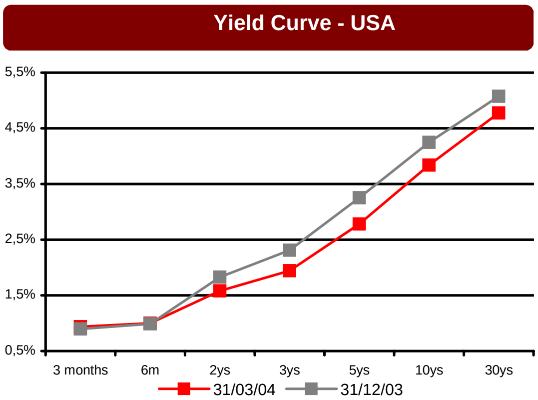
OVERVIEW OF ECONOMY AND INDUSTRY TRENDS

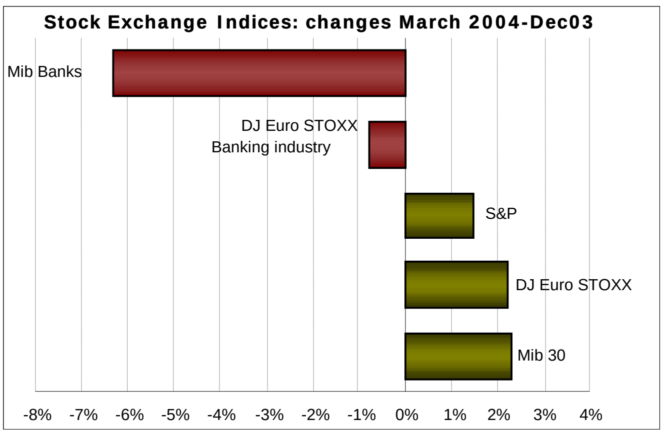
1) MACROECONOMIC SCENARIO

In the first quarter of 2004 the consolidation of the world economy was mainly attributable to the high growth rates of the USA and Asian countries (above 4% on an annual basis in the US and Japan and roughly 10% in China). However, there are persistent risks linked with the rise in the prices of raw materials in addition to stressed imbalances (growing public deficit, trade tensions). Growth in the Eurozone is moderate despite the strong momentum given by the positive trend of international trade. Production is at a standstill and family expenses indicators show only weak signs of acceleration. In Italy the economic indicators prove that the economy is not very dynamic though it is somewhat improving. Growth estimates for 2004 published by the principal research institutes have been revised downwards and are in the range of 1%.

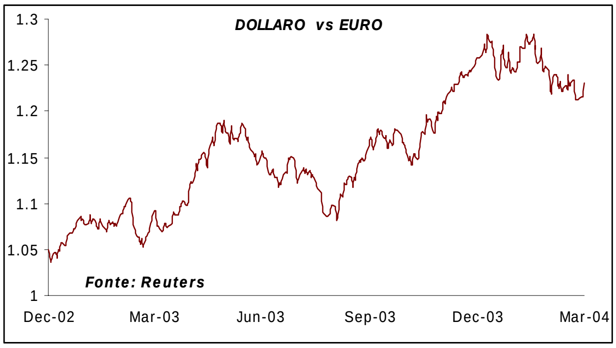


Interest rates continued to decrease in the Eurozone and in the USA at short-, medium- and long-term maturities (see charts) and recorded a slight increase in Japan. The FED postponed the adoption of restrictive measures pending confirmation of a sustainable growth. The European Central Bank feared risks on the front of prices but emphasized that the Bank is ready to mitigate its monetary policy, should the expectations of recovery of domestic demand be disappointed.





After one year of the development, the European and US equity markets registered a considerable contraction in March, with indices falling back to the levels reported at the beginning of the year, while market indices rose in Asia and in particular in Japan (by about 10%). The trend of the Milan Stock Exchange (Mib 30: + 2.3%) was slightly better than the European average,



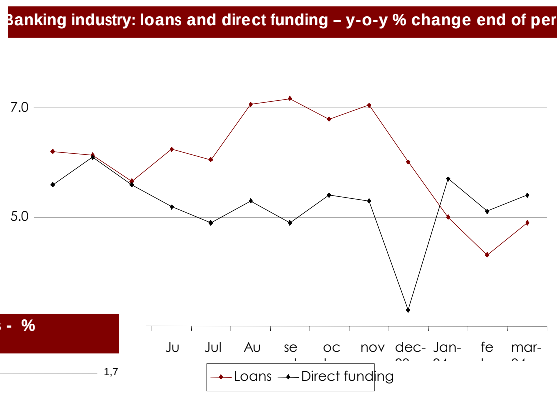
thereby reflecting the good performance of service and real estate companies, flanked by the decline of financial companies (MibBanks Index: -6.3%). International issues of ***corporate bonds*** dropped by 2.5% with Treasury Bills and ***high-yield bond*** issues growing.

With respect to the foreign exchange market, the Euro stopped appreciating in February; as of 31 March 2004 the Usdollar/Euro exchange rate stood at 1.232 (-4.7% in comparison with peak values), with the Japanese yen appreciating by roughly 5% compared with December 2003.

2) BANKING INDUSTRY TRENDS

The weakness of real economy reflects on corporate bank loans, with short-term maturities decreasing, and on the investors' conservative stance. The increase in doubtful loans continued while the spreads kept steady in comparison with the last months of 2003.

In the first quarter of 2004 direct funding was in line with the trend of the last months of 2003 (above +5%), with bonds accelerating considerably and current accounts decelerating, also due to the search for more satisfactory yields.



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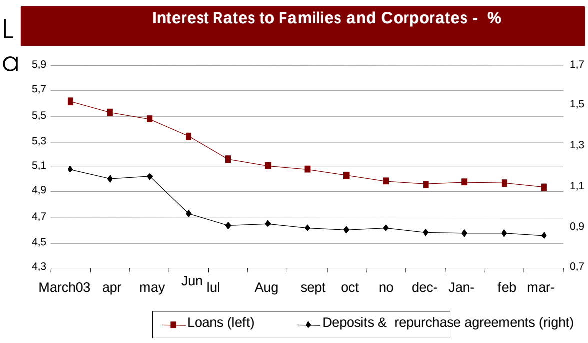


Bank loans fell below 5% (+6.4% on average in 2003). The development of medium-/long-term maturities which was fostered by the demand for residential mortgage loans was above 13% whereas short-term loans declined by approx. 5%. Gross doubtful loans suffered the two-year virtual standstill of economy and several serious corporate crises, and their growth topped 10% early in 2004.

The spread between lending and borrowing rates (according to the new standardized ECB reporting) stood at around 4.1% (4.08 in December 2003). The borrowing rate (deposits and repurchase agreements) and the lending rate were further revised downwards, thus reflecting the reductions of other market rates (Euribor and Treasury Bills) only partly.

The performance of funds under management was not very comforting with net redemptions totaling EUR 1,579 million as a result of redemptions of bond, balanced and liquidity funds which was not offset by the limited demand for equity funds and the good results of opportunities funds, in particular *hedge funds*. In light of positive average performances, the balance of funds under management increased by 1.5%. Among the distribution channels, the contribution of financial promoters is positive, with funds raised amounting to roughly EUR 2 billion. Bancassurance hardly confirms the huge levels of production achieved in 2003, despite the revival of financial *unit-linked* policies.

OVERVIEW OF OPERATIONS

AS highlighted in the foregoing section, the operating scenario in the first quarter of 2004 is difficult to interpret and requires a conservative and selective approach to the implementation of commercial and lending policies. The events which marked the end of 2003 (e.g. Parmalat crisis, notorious events which occurred in the banking industry, the deterioration of the economic situation) have deeply affected the families' investment strategies, and corporate demand for credit, thereby determining a difficult operating backdrop. **In this framework, the MPS Group achieved operating results and increasing profitability in line with the expectations, and started the numerous projects anticipated by the current Business Plan.**

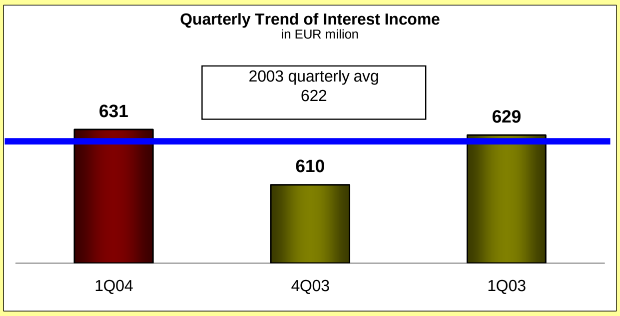
■ PROFITABILITY AGGREGATES

In particular, with reference to profitability aggregates, **<u>all the principal components of traditional banking income advanced considerably with respect to 2003 with the growth of income being flanked by further reduction of administrative expenses.</u>**

■ THE COMPOSITION OF TOTAL BANKING INCOME

A review of total banking income shows a hefty growth (+6.8% with respect to the first quarter of 2003) of the <u>basic income</u> consisting of interest income + commissions from customers. In particular:

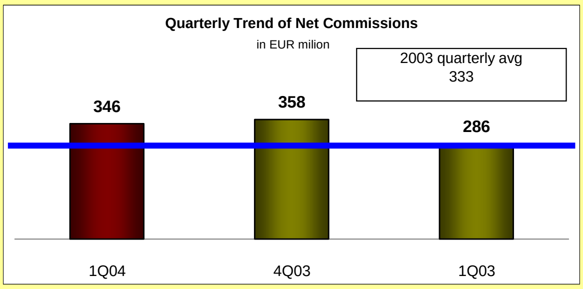
- **<u>Interest income</u>** confirms the results recorded in the first quarter of 2003 (+0.3%), with an increasing contribution from the development of traded volumes which offsets the slight erosion of the spreads (however, the short-term spread in the first quarter of 2004 kept steady with a 5 bp expansion if compared with the values of December 2003).



Interest income in the first quarter of 2004 is above the quarterly average for 2003 and is 3.4% higher than in the fourth quarter of 2003. This result appears even more considerable in view of an operating backdrop characterized by the contraction of short-term spreads and the development of volumes which compromised more profitable investments.

A breakdown by **Business Areas** indicates that the Retail and Corporate Areas expanded by approximately 1% with the Finance Area and International Affairs recording a moderate decline. The contribution of the specialized credit companies is also important with high annual growth rates exceeding 10% on average.

- **<u>net fees</u>** progressed by 20.9%, as a result of the contributions from asset management, services and, above all, the tax collection activity which advanced by more than 60% with respect to the preceding year (but roughly 15% with respect to the quarterly average for 2003), which had been compromised by the delayed start of operations due to tax amnesty.



Net commissions in the first quarter of 2004 declined slightly with respect to the fourth quarter of 2003 but recorded a progress if compared with the quarterly average for 2003.

A review of the trend of fees[2] indicates that :

- <u>fees from funds under management kept steady at EUR 191 million (-0.1%).</u> The higher income from *continuing commissions* associated with the growth of funds under management mitigates the lower contribution from the placement of innovative financial products (e.g. capital- and yield-guaranteed investments with fewer options, in line with the customers' preference);

- <u>fees from traditional banking services increased by 8% at EUR 203 million,</u> driven by the double-digit growth of "payment systems" and the optimization under way of the income structure in the area of "expense recoveries". This dynamics was only partially offset by the decreasing income from "loans" and "foreign transactions".

<u>Interest income also consists of the following components:</u>

- the positive contribution of **"<u>profits/losses from financial transactions</u>"** (EUR 76 million versus EUR 106 million as of 31 March 2003) incorporates the minor contribution resulting from structured innovative financial products designed by MPS Finance, for the reasons already outlined;

- **"Dividends"** amounting to EUR 10 million from equity investments in real estate companies (Auriga) and foreign investment funds (international OICVM);

- the **contribution from companies valued with the net equity method** (EUR 20 million) with the satisfactory performance of the MPV Group (EUR 18.4 million or +81.3% with respect to 2003) attributable to the hefty commercial flows and a more favourable financial management;

- **<u>other operating income</u>** (-4.6%) is virtually steady.

The Group's total banking income advanced by 3.9% in comparison with the first quarter of 2003 with the weight of non interest income increasing to 47% (46.8% in December 2003).

- ADMINISTRATIVE EXPENSES

[2] Income from the Tax collection area is eliminated from the aggregate, since it is not part of core business, and is supplemented with expense recoveries and the dividends and financial income booked by the subsidiary MPS Finance with respect to structured innovative financial products.

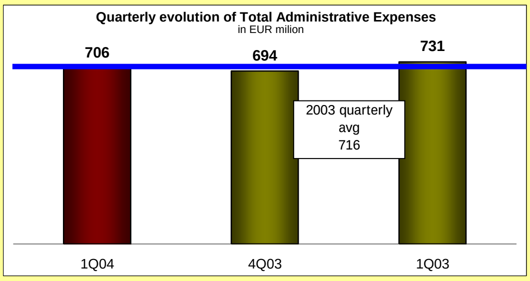
In view of the process of optimization and containment of costs started in 2002 and consolidated in 2003, the Group adopted cost governance measures which determined a considerable reduction in administrative expenses (-3.8%) and a 5.2% improvement of the *cost/income ratio* with respect to March 2003.

ADMINISTRATIVE EXPENSES (in EUR million)

	31/03/04	31/03/03	Changes	
			absolute	%
Personnel expenses	439,1	454,1	-15,1	-3,3
Other administrative expenses	267,4	276,8	-9,4	-3,4
Total administrative expenses	**706,5**	**730,9**	**-24,5**	**-3,3**
Gross operating profit	**483,0**	**413,8**	**69,2**	**16,7**
Valuation adjustments to fixed and intangible assets	-70,9	-76,8	-5,9	-7,7
Net operating profit	**412,1**	**337,0**	**75,1**	**22,3**

In particular:

a) on the front of personnel, the MPS Group adopted measures concerning the overall workforce with a reduction in the size of staffing through early retirement plans, and changes in the staff mix, with senior employees being replaced by young highly-qualified professionals with lower unit costs. Further actions were aimed at limiting other expense variables. These measures determined a 3.3% decline in **personnel expenses** (or EUR 439 million) year on year;



Administrative expenses in the first quarter of 2004 declined considerably with respect to the first quarter of 2003 but increased moderately in comparison with the fourth quarter of 2003 which had benefited more directly by material cost governance actions.

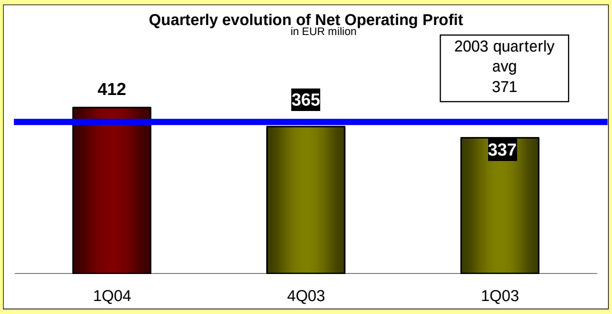
b) **other administrative expenses** - which stood at EUR 267 million – were effectively reduced by 3.4% with the aggregate of "Operating costs" (which does not include indirect taxes and production costs of the Tax Collection Area) decreasing by 5.9%;

OTHER ADMINISTRATIVE EXPENSES (in EUR million)

	31/03/04	31/03/03	Change	
	restated	restated	absolute	%
Operating costs	216,9	230,4	-13,5	-5,9
Non income taxes and recovery of tax duties	41,1	39,6	1,4	3,6
Production costs (Tax Collection Area)	9,5	6,7	2,7	40,6
Total other administrative expenses	**267,4**	**276,8**	**-9,3**	**-3,4**

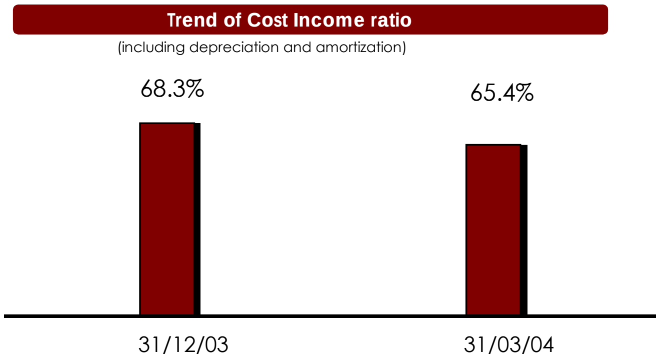
c) **valuation adjustments on fixed and intangible assets** fell to EUR 71 million and were downsized by 7.7% with respect to the first quarter of 2003.

As a result, the gross operating profit stood at EUR 483 million with a 16.7% increase on an annual basis (March 2003). Operating profit, net of depreciation and amortization, amounted to EUR 412 million progressing by 22.3% with respect to March 2003.



The operating profit of the first quarter of 2004 progressed by 22.3% and 12.9% with respect to 31 March 2003 and the fourth quarter of 2003, respectively.

<u>The *cost/income* ratio (including depreciation and amortization)</u> was 65.4% (64% excluding the Tax Collection area), dropping by roughly 3 percent in comparison with December 2003; <u>excluding depreciation and amortization, the ratio</u> was 59.4% (61.2% as of 31 December 2003).



ADJUSTMENTS AND PROVISIONS

The principal items contributing to the composition of net profit for the period prove the Group's traditional conservative attitude in the assessment of adjustments and provisions.

<u>In particular:</u>

- **Goodwill amortization** in the amount of EUR 23.8 million (versus EUR 22.2 million as of 31 March 2003);

- **Provisions for risks and charges** in the amount of EUR 22.4 million (EUR 16.6 million in 2003);

- **Loan loss provisions** (EUR 112.9 million) increased with respect to the first quarter of 2003 (EUR 90 million), but declined in comparison with the quarterly average of the preceding year. This is in addition to the quarterly amount of EUR 8.4 million in relation to the non-performing securitization of prior years, in enforcement of Law 130/99;

- **Provisions to loan loss reserve in** the amount of EUR 9 million (EUR 8.3 million as of 31 March 2003), in a logic of further consolidation of credit risk monitoring, thus bringing the provision to a total of EUR 314 million;

- **Net valuation adjustments to fixed and intangible assets** in the amount of EUR 1.3 million (EUR 1 million in 2003) in relation to the writedowns of several components of the investment portfolio.

EXTRAORDINARY ITEMS, TAXES AND NET PROFIT

Rounding out the picture are the following components:

- **The balance of extraordinary gains** came to EUR 8.2 million, (EUR 25.6 million as of 31 March 2003) incorporating net capital gains realized on the equity investments sold in the period (E-Biscom – Linear -IBA), totalling EUR 12 million, and extraordinary charges linked with the Plan of staff reduction and mix (mainly through the Solidarity Fund) in the amount of EUR 9 million;

- **taxes** amounting to EUR 102.9, with a "*tax rate*" of 42.4% (actual percentage: 41.2%).

In view of the contribution of the above-mentioned components, the Group's net profit stood at EUR 138.3 million (EUR 131.6 million as of March 2003). Excluding goodwill amortization, net profit reached EUR 162.1 million (EUR 153.8 million as of 31 March 2003). The ROE on average shareholders' equity was 9% including goodwill amortization (ROE on end-of-period shareholders' equity: 9.2%) and climbed to 10.6%, excluding goodwill amortization.

THE MPS GROUP COMMERCIAL OPERATIONS

In line with the operating guidelines defined for 2004, the MPS Group continued to develop new Service Models, which represent pivotal elements in the process of enhancement of customers' relations.

In this framework, in a logic of consolidation of customers' relations, the Group's marketing strategies were oriented toward highly-liquid, short-term products, thus meeting the customers' investment needs, and toward ensuring appropriate advisory services to the companies.

- 1) FUNDS MANAGEMENT

With reference to **asset management**, the Group's commercial networks in the first quarter of 2004 achieved appreciable performances with new investment flows totalling EUR 1.6 billion, mostly concentrated on insurance policies and capital-guaranteed products. Volumes are lower in comparison with the first quarter of 2003 since in the first part of the preceding year hefty investments were oriented toward investment funds & SICAV, with market shares topping 8%. However, the figures for 2004 are in line with the average of last year's quarters. Following is a breakdown of the Group's investment flows:

■ Placement of Group Products

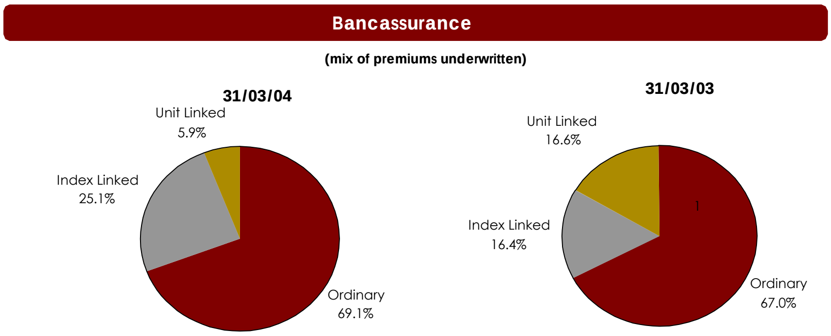
in EUR million

		31/03/04	31/03/03
Mutual investment funds /Sicav		-181	715
Individual portfolios under management		119	-4
Life policies	*including:*	1.06	1.17
	Ordinary policies	735	789
	Index Linked	269	193
	Unit Linked	61	195
Innovative financial products		595	930
Total		1.59	2.81

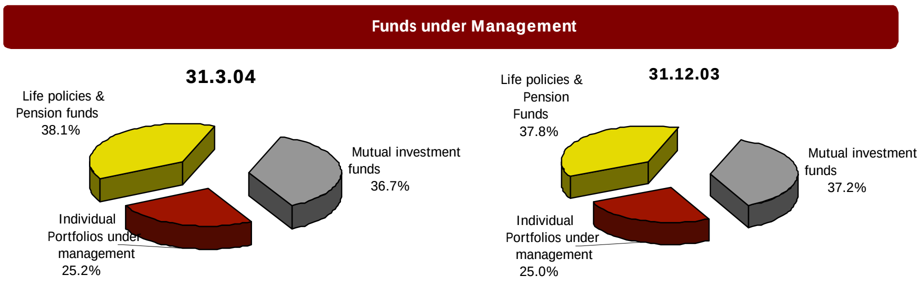
- **Life insurance policies**

➢ **Due to insurance premiums underwritten in the amount of EUR 1,065 million,** the MPS Group ranked among the best players in the bancassurance/postal system **with a market share increasing from 10% (end of 2003) to 11% in the first quarter of 2004**. A review of premiums underwritten shows that the weight of ordinary policies was prevailing (69% of overall premiums, versus 67% as of 31 March 2003). The impact of *index linked* policies went from 16.4% in March 2003 to 25.1%. The premiums underwritten with the MPV Group as of 31 March 2004 amounted to EUR 820 million, including EUR 43 million of recurring premiums. The aggregate also includes the positive contribution from Quadrifoglio Vita (50% owned by Banca Agricola Mantovana), with premiums underwritten in the first quarter of 2004 in the amount of EUR 249 million.

➢ **<u>The balance of the technical reserves</u>** of the MPS Group commercial networks stood at EUR 16,494 million with an impressive 19.5 percent growth year on year (or 3.4% from the beginning of 2004) where the contribution of traditional policies is prevailing.



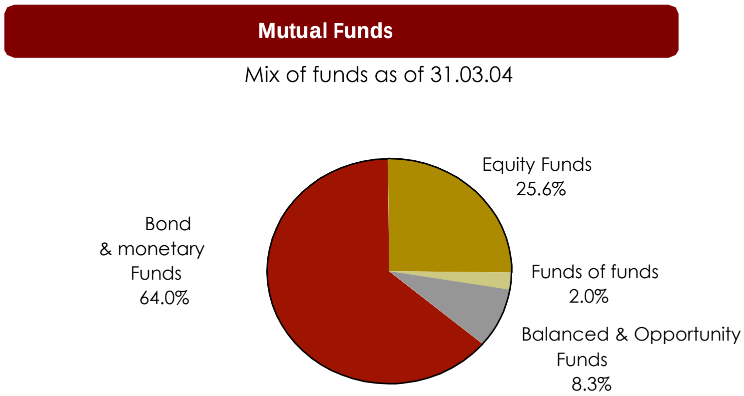
Accordingly, the weight of life insurance policies and pension funds within the aggregate of funds management rose to 38.1% (37.8% as of December 2003).



- **<u>Mutual funds/Sicav</u>**

➢ **<u>Net redemptions in the amount of EUR</u> 181 million** (including moderate net redemptions concerning direct customers of roughly EUR 29 million) resulted from a trend which involved the whole Banking Industry and determined net redemptions totaling EUR 1.6 billion. In this framework, the MPS Group recorded the most limited redemptions among the top 10 *competitors*;

➢ **<u>Mutual funds stock of the Group</u>** came to EUR 15,876 as of 31 March 2004, expanding by 11.8% with respect to 31 March 2003 and about 1% in comparison with the beginning of the year (*performance effect: 1.8%*). **The market share of 4.14% was virtually steady with respect to 4.16% as of 31 December 2003**. The composition of funds under management is detailed in the following table which is indicative of the huge weight of bond and monetary funds (64% versus 63.9% as of 31 December 2003).



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

  - **<u>Volumes</u>** were satisfactory and averaged EUR 119 million with the weight of funds and Sicav prevailing in the portfolios managed;

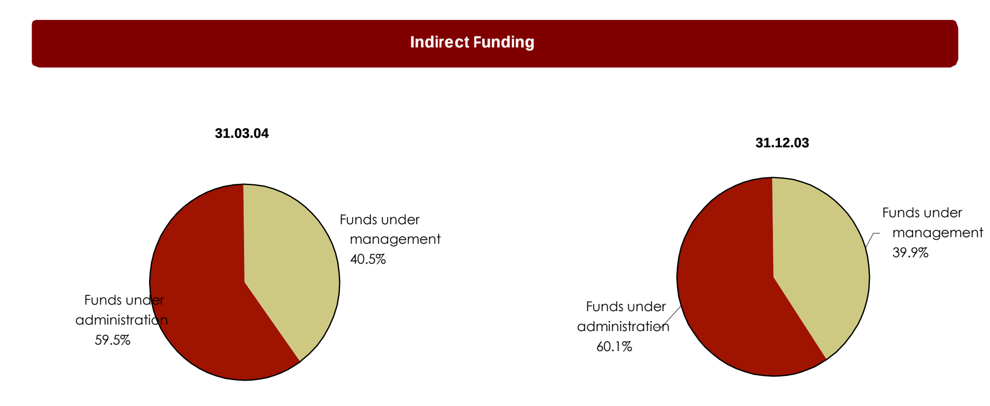
  - **<u>The balance of the aggregate</u>** came to EUR 10,890 million with a 4.3 per cent increase with respect to 31 March 2003.

As a result of this dynamics and the recovery of the financial markets, the balance of <u>funds under management</u> stood at EUR 43,260 million as of 31 March 2004, rising by 12.5% in comparison with March 2003 (+EUR 1 billion in comparison with the figures as of December 2003).

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

<u>Stock of funds under administration,</u> which amounted to EUR 63,627 million (+0.6% with respect to March 2003), is virtually stable in comparison with 31 December 2003, thus confirming the customers' preference going toward funds under management. In this framework, the flow of placement of innovative financial products (EUR 595 million) which incorporated the minor volumes of the Corporate segment - is comforting with the weight of capital-guaranteed, short-term products prevailing.

At EUR 106,887 million as of 31 March 2004, **<u>indirect funding</u> advanced considerably year on year topping EUR 5 billion (+5.1% or EUR 950 million with respect to 31 December 2003). Within the aggregate, the weight of funds under management rose to 40.5% from 39.8% in December 2003 (37.8% as of 31 March 2003).**



- **<u>Direct Funding</u>**

At EUR 79,889 million as of 31 March 2004, **<u>direct funding achieved a market share of 6.56%</u>** with a 3.6 per cent increase year on year, driven by an increase in cash on hand and in particular by subordinated debt (EUR 1.9 billion issued) in addition to bank-issued bonds and bond issues supporting innovative financial products.

Briefly, <u>overall funding</u> of the commercial networks progressed by 5.9% at Banca Agricola Mantovana (+5,9%) and achieved appreciable results at Banca Toscana (+3.9%) and the Commercial Bank Division of BMPS (+2.5%).

- 2) LOAN POLICY

A) LENDING

As already highlighted, the macroeconomic cycle continued to show signs of weakness in the first quarter of 2004 with repercussions in terms of a decreasing demand for corporate loans, especially short-term loans. The MPS Group loan policy continued to focus on medium-/long-term loans secured by collateral, thereby promoting integration between the distribution networks and product factories, and consolidating the criteria of selection. In particular, with reference to disbursements:

- *retail* and *corporate* loans of the three major Group networks amounted to EUR 1,441 million, thus exceeding the high levels registered in March 2003 by 7.4%:

■ MORTGAGE LOANS DISBURSEMENTS TO RETAIL AND CORPORATE CUSTOMERS

in EUR million	Cumulative 31/03/04	Cumulative 31/03/03	Abs.chg yoy	% chg yoy
Monte dei Paschi di Siena (*)	708	575	133	23,1
Banca Toscana	406	420	-13	-3,1
Banca Agricola Mantovana	327	347	-20	-5,9

(*) excluding disbursements in relation to public works

- the special credit companies continued to achieve satisfactory results, with Consum.It playing a leading role in the segment of consumer credit (+66% with respect to 31 March 2003);

- the marketing of ***corporate*** products for the management of financial risks (engineered by "Corporate Finance Solutions" - MPS Finance) decelerated due to the low volatility of market rates which reduced the corporate hedging requirements considerably.

■ Specialized lending and investment products to corporates

in EUR million		31/03/04	31/03/03
MPS Finance			
	Risk management (1)	791	1.784
MPS Merchant			
	disbursements	397	437
MPS Banca Verde			
	disbursements	189	162
MPS Leasing & Factoring			
Incl.:	new leases executed	194	366
	Factoring turnover	902	935
Consumit			
	disbursements	341	205

(1) the balances include the products placed directly by the commercial

Outstanding loans stood at EUR 69,357 million (**domestic market share of outstanding loans at 6.14%)**, rising by 2.6% year on year but declining in absolute terms (roughly EUR 1.1 billion) with respect to 31.12.03 as a result of the final sale of loans in relation to the performing loan securitization ended in November 2003. Within the aggregate, the weight of medium-/long-term loans increased by 9.1% in terms of average balances. **The Group market share of medium-/long-term maturities was stable at 6.52% as of 31.3.04**. However, the decline of short-term maturities in terms of average balances topped 6%.

With reference to the Business Areas, the above dynamics are attributable in the short-term to the Corporate segment as a result of more rigorous loan selection criteria. With regard to medium-/long-term maturities, residential mortgage loans and consumer credit - which are typical of the Retail segment – progressed remarkably. The breakdown of the commercial networks shows that average balances of Banca Agricola Mantovana are declining (-3.1%), the balance of BMPS is steady while Banca Toscana is slightly growing (+2.6). The increases registered by the product companies averaged more than 10%.

B) DOUBTFUL LOANS

The stagnation of economy had adverse repercussions on the Banking Industry in terms of growth of volumes of doubtful loans. Although doubtful loans registered by the MPS Group in the first quarter of 2004 increased year on year, they were largely lower than doubtful loans recorded in the fourth quarter of 2003 (also excluding doubtful loans in relation to the Parmalat Group) and mostly fostered by non-performing loans. The MPS Group *trend* is in line with the Banking Industry. Accordingly, **the ratio of gross doubtful loans to customer loans (3.8%) is better than the average of other banking groups (estimated 4.9% as of March).**

The aggregate of "**doubtful loans + net non-performing loans**" rose by 4.7% in comparison with the beginning of 2004, accounting for 3.75% of customer loans. The **ratio of net doubtful loans to customer loans, which** incorporates the reduction (about EUR 1.5 billion) of the balances relative to the performing loan securitization started at the end of 2003, **fell to 1.98% with respect to the Industry average estimated at 2.2%:**

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

Risk category – Net book value *In EUR million*	**31/03/04**	**31/12/03**	**% of 31/03/04**	**% of 31/12/03**
Non-performing loans	1.374	1.299	1,98	1,84
Watchlist credits	1.225	1.185	1,77	1,68
Credits in the process of restructuring	22	22	0,03	0,03
Restructured loans	43	50	0,06	0,07
Unsecured loans to high-risk nations (*)	88	88	0,13	0,12
Total doubtful loans	**2.752**	**2.642**	**3,97**	**3,75**
Performing loans	66.605	67.763	96,0	96,2
Total customer loans & advances	**69.357**	**70.405**	**100,0**	**100,0**

(*) Pursuant to the directives of the Bank of Italy and in accordance with a more conservative assessment of realizable value, the balance includes exposure to countries for which no provisions have been planned. The total amount of doubtful loans for the aggregate includes EUR 5.0 million as of 31.03.2004 and 31.12.2003

The table below provides a summary of credit quality indicators for the main units of the MPS Group:

■ **DOUBTFUL LOANS BY BUSINESS UNIT**

Risk category – Net values as of 31/03/04 *In EUR mn*	**Group**	**BMPS**	**BT**	**BAM**	**MPS Merchant**	**MPS Banca Verde**
Non-performing loans	1.374	618	147	203	257	68
NPLs/total customer loans (%)	2,0%	1,7%	1,3%	2,7%	4,5%	2,7%
"doubtful loans"/"gross NPLs"	**48,5%**	**49,0%**	**48,7%**	**51,0%**	**19,3%**	**15,5%**
Watchlist credits	1.225	577	271	170	74	61
Watchlist credits/total customer loans (%)	1,8%	1,6%	2,4%	2,3%	1,3%	2,4%
"doubtful loans"/"gross watchlist credits"	**19,9%**	**23,6%**	**17,6%**	**14,9%**	**8,1%**	**1,8%**

During the first quarter of 2004 the level of doubtful loans further increased, accounting for 48.5% of gross NPLs (more than 55% for ordinary loans only):

■ **DOUBTFUL LOANS (%)**

	31/03/0	**31/12/0**
"doubtful loans NPLs and watchlist credits" / "gross NPLs + gross watchlist credits"	**38,0%**	**37,9%**
"doubtful loans watchlist credits"/"gross watchlist credits"	**19,9%**	**20,5%**
"doubtful loans NPLs"/"gross NPLs"	**48,5%**	**48,2%**

As a result of the Group's traditional rigorous provisioning policy (with a 75 bp *provisioning* rate with respect to the "ordinary" 77 bp in 2003), the percentage of writedown of NPLs (including the losses for the preceding years) reached roughly 60%. Excluding mortgage loans which are characterized by a lower percentage of doubtful loans due to the collateral securing them, the percentage of coverage exceeded 70%. As a whole, including the general reserves (lump-sum writedowns on performing loans and loan loss provision equalling 0.87% of gross performing loans), the percentage of coverage of gross NPLs stood at 71%.

FINANCE AND TREASURY ACTIVITY

- SECURITIES PORTFOLIO

During the first quarter of 2004, the Group's securities portfolio advanced by roughly EUR 400 million in comparison with 31 December 2003 due to higher investments in Treasury Bills made by BMPS:

■ **OWNED SECURITIES** (EUR million)

	31/03/04	31/12/03	31/03/03
Total securities	**18.712**	**18.306**	**19.362**
including			
Investment portfolio	3.916	3.964	4.259
Trading portfolio	14.795	14.342	15.103

- TREASURY

The process of centralization of the Group's Treasury activity at the Corporate Center was completed when the Accounts opened by BT, BAM and Banca 121 with the Bank of Italy were closed in March 2004. The Group will capitalize on: (i) the centralization of risks at BMPS, (ii) effective liquidity management and streamlining of operating flows, (iii) the simplification of controls, (iv) the concentration of specialist and operating skills.

Following is the quarterly trend of the Group's interbank balances:

■ **INTERBANK BALANCES** (in EUR mn)

	31/03/04	31/12/03	31/03/03 -
Amounts due from banks	8.180	8.551	12.999
Amounts due to banks	15.814	15.058	23.576
Net borrowing position	**-7.634**	**-6.507**	**-10.577**

The table shows a decrease in the amounts due to banks and the net borrowing position (approx. EUR 1 billion with respect to December 2003).

INTEGRATED RISK MANAGEMENT

The situation for the first quarter of 2004 confirms the expectations of further stability of short-term rates in the Eurozone, with possible restrictive measures to be adopted by the European Central Bank in the last months of the year.

In line with these expectations, the Risk Committee carefully monitored the trend of the *fundamentals* and the main indicators of the international financial markets, and defined accordingly the Group's Banking Book management policies (i.e., in compliance with the international *best practice*, the Banking Book consists of all commercial operations in relation to the transformation of the maturities of balance-sheet assets and liabilities, Treasury, foreign branches, investment portfolio and hedging derivatives). As of 31 March 2004, **the overall profile of interest-rate risk of the MPS Group Banking Book** shows that liabilities with medium-/long-term maturities were prevailing over assets: this entails a positive impact in terms of economic value in case of increase in interest rates, but implies a risk in case of decrease in interest rates.

During this quarter, the Group started a project aiming at reducing the risk profile of the Group banks so as to concentrate ALM operating management in the Parent Company and protect the risk profile of the other Group companies. As a result, the Group risk values at the end of the quarter were slightly increasing with respect to the figures reported in December, though keeping moderate levels. **The ratio of the VaR (as measured in terms of sensitivity on the basis of a + 200 bp shift in the rate curve) to the Group total capital required for regulatory purposes was 2.46% (versus 1.80% as of December 2003), well below the threshold set by the Basle Committee for the "outlier" banks (interest-rate risk over 20% of total capital computed for regulatory purposes).**

In the first quarter of the year, the *risk profile* of the **Group trading portfolio** progressed moderately in terms of VaR, in compliance with the operating limits assigned and the risk/return targets set for each *risk taking center* of the Group. **As of 31 March 2004 non-related VaR** – which does not incorporate the diversification among the various Group companies – as computed on the basis of the historical simulation method, a confidence level of 99% and a holding period of 1 day, **stood at about EUR 23.4 million, slightly growing in comparison with the balances at the end of 2003 (EUR 20.6 million as of 31.12.03). The changes are attributable to ordinary trading activity in the financial markets and do not reflect peculiar medium-term strategic positions.** Market risks at the end of the quarter were concentrated in Banca MPS (88%) and MPS Finance BM (9%). The commercial companies have only residual portfolios supporting retail operations. Immediately after the closing of the first quarter of 2004, the overall Group VaR fell again to the levels recorded at the end of 2003.

The Group uses a loan portfolio model which highlighted the virtually steady trend of loan quality and the relative risk ratios. Particular attention was given to qualitative and quantitative compliance with the requirements for internal rating models as indicated in the draft of the New Accord on Capital (Basle 2), pending the forthcoming publication of the final paper which indicates capital adequacy requirements.

Rounding out the picture is the moderate progress of capital ratios **with the total capital ratio[3] and Tier 1 ratio estimated at 10% and 6.5%, respectively (Core ratio: 6.3%).**

[3] As is known, consolidated capital ratios are subject only to half-yearly reporting.

MAJOR OPERATING INITIATIVES

- THE IMPLEMENTATION OF THE 2003-2006 BUSINESS PLAN

During the first quarter of 2004, the Group continued to implement the projects incorporated in the new 2003-2006 Business Plan, as approved by the Board of Directors of Banca Monte dei Paschi di Siena on 13 November 2003. In particular:

- **With respect to the growth of sales and marketing,** key objectives are represented by : a) the pursuit of projects in relation to Private Banking, with the creation of a dedicated Area within the Corporate Center of BMPS and the start-up of the process of merger by incorporation of Banca Steinhauslin into Banca Monte dei Paschi di Siena; b) the pursuit of the project aimed at establishing a Corporate Finance Bank through integration of the activity of MPS Finance, MPS Merchant and MPS Banca Verde, by defining the process for implementation of corporate transactions; c) the approval of the **Opening Plan of New Facilities for 2004-2006** which provides for the consolidation of the commercial network by opening 158 banking facilities, including 39 relocations. In addition to the new openings, the MPS Group is expected to streamline the existing geographical distribution of its network with the objective of reducing overlapping and optimizing the Group's presence in the territory;

- **With reference to boosting operating efficiency,** key objectives are the following : a) the pursuit of actions focused on freeing up human resources from low-value added transactions, through organizational review; b) the optimization of operating processes and centralization of the network back-office activity in the processing centers of the Operations Consortium; c) the streamlining of operating expenses by renegotiating and centralizing supply contracts, optimizing consumption and strenghtening controls;

- **With reference to the optimization of risk management and capital consolidation,** key objectives are the following: a) the definition and extension of the loan approval process (disbursement, trend monitoring, collection) in a logic of specialization by customer segment; b) the progress made in building internal models for the calculation of capital absorption in compliance with the principles of Basle II.

With reference to the **streamlining of equity investments**, the following should be added to the events described in the section covering "The development of operations":

- The approval of the merger of Monte Paschi Ireland Ltd. and Mantovana Ireland Ltd., for the purpose of streamlining the Group's presence in Ireland;

- The liquidation of MPS Commercial Paper Co. (Delaware);

- The liquidation of E-Idea, a company operating in electronic ticketing.

- MARKETING INITIATIVES

During the first quarter of 2004, the MPS Group continued to implement the programme aiming at improving its capacity to service the customers **through the development of commercial platforms focused on an approach based on quality and transparency**. The range of instruments available to the networks and the customers was widened with the objective of increasing awareness of all elements supporting the loan approval process and the subsequent monitoring of trends. For instance, in addition to the "low risk/return bonds" initiative promoted by the Italian Bankers' Association, the *retail risk management* working team created a synthetic risk indicator of bonds being placed. Following are the main initiatives undertaken with reference to the Business Areas.

- ***Retail Area***

The programme of implementation of service models specialized by customer segments incorporates the following developments:

- *Family segment* - The Family Project was launched at the pilot branches of Banca Toscana and Banca Agricola Mantovana, with positive results both in terms of net funding and disbursement of small loans. The principal activities carried out during the first quarter and concerning *family customers* include – with reference to the Clear Pacts Project : (i) the creation of a new Group current account also known as "Basic Banking Facility" and (ii) the implementation of the project of "**migration" of** low-value added transactions to remote channels, with the objective of reducing the percentage of low-value added transactions performed by the branches to 50-60%;

- *Affluent segment* – the Carattere platform was extended to *lower affluent* customers. The lower affluent segment is characterized by the hefty increase in the weight of funds under management to total funding. With regard to **insurance products**, the Group released new *unit linked* policies including Unit MPLife1, with 100%- and 90%-protection of capital at maturity. During the first quarter of 2004, the existing *unit linked* policy Personalità was redesigned so as to extend the range of internal mutual funds by including two *multimanager* options. On the front of liquidity products, the Group will soon inaugurate the new **Conto Carattere Light**, a *package* account targeted at *lower affluent* customers, incorporating lower fees with respect to the existing account dedicated to *upper affluent* customers, and providing for the integrated supply of banking (current account, credit cards, etc.) and non-banking facilities (travel and health facilities etc.).

One of the highlights of this quarter is the satisfactory outcome of the testing of the mortgage loan portal. The application enables the user to prepare personalized budgets through guided instructions, thereby optimizing the customer/product matching and – in the area of consumer credit – gradually shifting the activity of disbursement of small loans to the product factory Consum.it.

Private Area

During the first quarter of 2004, the **Private Area** pursued the projects focused on the development and the implementation of the

2003-2006 Business Plan. The initiatives undertaken were based on the reorganization of the production and commercial structures of the segment, and the definition of the terms for the merger by incorporation of Banca Steinhauslin, as approved by the Board of Directors of Banca MPS during the meeting held on 5 February 2004.

The streamlining of the MPS Group will be finalized in the second quarter of 2004 with the incorporation of Banca Steinhauslin, which will be merged from the operating viewpoint no later than 31 May. This will be flanked by the extension of the new organizational model, with the set-up of the Private Banking Area units and the implementation of new commercial and governance processes in the commercial networks of the banks from June onwards.

From the standpoint of marketing policy and product innovation, following are the key elements:

- The re-design and update of the supply system which will be based on highly distinguishing, high value-added products;

- The development, within the range of Private products, of a *multibrand* supply (both individual funds under management and quotas of mutual funds placed as funds under administration), as a prerequisite in order to conform to the better qualitative market standards and to seize any possible synergies/opportunities outside the MPS Group.

- ***Corporate Area***

The initiatives carried out during the first quarter of 2004 involving **Corporate** customers include:

- *With respect to the SME-Small Business segment*, the implementation of the Corporate Commercial Platform in the three commercial banks. The platform is expected to materialize at the Commercial Bank Division of Banca MPS in May 2004 and no later than year-end at Banca Agricola Mantovana. Preliminary activity for the application of the new service model has been carried out in 9 major branches of Banca Toscana.

From the viewpoint of product innovation, the range of **long-term insurance policies** of **Montepaschivita** has been expanded. Polizza Propensione and Polizza Raccolta (with the purpose of cumulating staff severance indemnity reserve) are now flanked by Polizza Propensione Top targeted at the companies with higher investment power. MPS Leasing & Factoring has designed, in support of the SMEs, **"Leasing Fedeltà"**, a new product incorporating a leasing ceiling for investments, a corporate innovative finance interest-bearing investment and the opportunity of underwriting MPV insurance policies at favorable terms. **Conto impres@più**, the package account which integrates banking and non-banking facilities for corporate customers, in particular Small Businesses, continued to be marketed. As of 31 March 2003, the Group had placed roughly 31,000 package accounts with a 44% increase in comparison with the figure reported as of 31 December 2003.
In the framework of the programme of consolidation of the relations with the SMEs, the MPS Group was particularly committed to **granting subsidized loans**. Following are the developments which occurred in the first quarter of 2004:

The implementation of a decentralized, interregional permanent unit dedicated to southern Italy. The unit is expected to instruct and co-ordinate the SME Centers, and be of assistance from the operating viewpoint to the companies during the origination of subsidized loans;
As a result of the first notice of Law 488/92 targeted at the handicraft industry, the drafting of a proposal of total support to craftsmen, thanks to the skills developed by the MPS Group in the area of subsidized loans. MPS Merchant was entrusted with this project;
The marketing of "agevolo-artigianato", a loan which supports and integrates investment projects with public funds.
With respect to Large Corporates and Financial Institutions, the project of centralization of relations in a Group unit, as approved by the Board of Directors of BMPS in March. The objectives of the project include (i) an increase in the segment profitability attributable to better integration with the Product Companies, and (ii) a better follow-up of risks in relation to the complicated structure of economic groups and capital absorption;
With respect to Government Entities, the implementation of a new service model to be extended to the network of Banca MPS. Priority is given to assign portfolios to the account managers and issue marketing instructions for the segment, so that the Government Entities and their Departments are entitled to fully operate with the Bank's major branches. In addition, the sale of **PaschiInTesoreria** gained further momentum**.** As of 31.03.2004, the MPS Group had 590 contracts in effect (+22% with respect to 31 December 2003), thereby consolidating the *first-mover* position on this product.
In line with the strategy of development of the supply of products and services on the basis of integrated channels, the MPS Group continued to market and sell **Internet Corporate Banking facilities** provided with UNI EN ISO 9001/2000 certification. As of 31.03.2004 the Group had about 85,500 *corporate banking* contracts in effect, including *client-server remote banking* contracts (+6% in comparison with 2003). Other actions entailed the activities started in 2003 for enabling Banca MPS to become a Certifying Entity in compliance with the EU 1999/93/CE directive and the corresponding Italian regulations of implementation. Banca MPS will be able to provide its corporate customers with **digital certification services**. Pursuant to Legislative Decree no.10 of 23 January 2002, this "certification shall match the data used for checking electronic signatures with the actual signatories and confirm their identity". On 29 January 2004 Banca MPS secured the qualification of **Identrus Certification Authority (C.A.)**, together with another Italian bank, and became one of the first domestic credit institutions which are able to provide services within the Identrus international circuit. At the same time, the Group continued to **develop the first application based on "digital signature"**. The application, **which is targeted at corporate customers**, will enable the users to make Treasury transfers of funds and urgent bank transfers for huge amounts. On-line transfers will be executed during the day through the Internet Corporate Banking service and the use of Identrus digital signature.

HUMAN RESOURCES

In line with the strategies outlined in the 2003-2006 Business Plan, **the management of Human Resources was primarily oriented toward achieving cost containment objectives and ensuring the development of professional skills,** in a logic of specialization by market segment. Therefore, the process of training of human resources freed up by the initiatives implemented in order to boost productivity is monitored effectively. The programmes of enhancement of human resources were supported by training on a large scale, thereby anticipating and flanking the assimilation of changes in relation to the implementation of strategic projects through integrated use of traditional and innovative methods and instruments, including the *e-learning Platform*, Remote Classes and the Group's Tutor Network. The dynamics of the workforce (which decreased by roughly 600 units year on year as of 31/3/2004) reflects the guidelines outlined in the Business Plan, with the most senior employees retiring and being partly replaced by young recruits. During the first quarter of 2004, approximately 300 employees joined the Solidarity Fund (including 250 units at BMPS), with terminations of employment staggered over the year.

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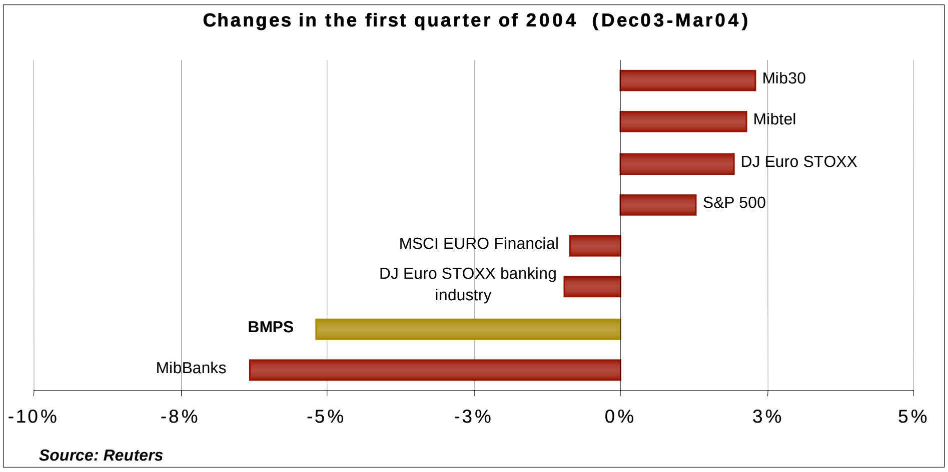
Other major initiatives include:
The expression of interest submitted by BMPS for participation in an international tender to be called by the Government of Tunisia for the **privatization of Banque du Sud – Tunis** through the sale of 33. 54% of shares directly or indirectly held by the Govenment. This expression of interest is part of the plan of optimization of the Group's international presence, in a logic of effective support to promoting the internationalization of Italian SMEs, with peculiar focus on some selected areas including the Mediterranean area;
A project for establishing a **company operating locally in the sector of solidarity microcredit** through an innovative organizational model. The company will be set up by Banca MPS and local entities which represent a point of reference in the world of *non-profit* and ethical finance.

TREND OF BMPS SHARES, REVIEW OF SHAREHOLDERS' BASE AND DEBT RATINGS

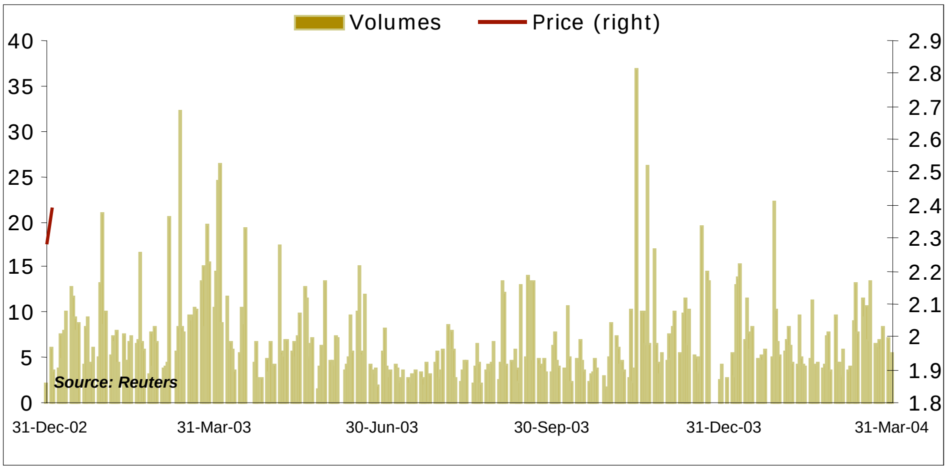
PRICES

After reaching quotations well above the values registered at the end of 2003, the major market indices bounced back in March and closed the first quarter of 2004 with performances approaching the levels of December 2003 (DJ Euro Stoxx +1.9%, S&P 500 +1.3%, Mibtel +2.2% e Mib30 +2.3%). The performance of sector indices for the banking industry was negative: MSCI Euro Financial –0.9%, DJ Euro Stoxx Banks –1.0%e Mib Banks –6.3%.



In line with the trend of the Italian sector index for the banking industry, as of 31 March 2004 BMPS shares closed the quarter at EUR 2.38, declining by 5.2% with respect to the beginning of the year, after reaching a high of EUR 2.74 on 18 February and a low of EUR 2.30 on 22 March.

- **TREND OF SHARE PRICE** (from 31/12/02 to 31/03/04)



- CAPITALIZATION AND SHAREHOLDERS' BASE

At the end of the month, the market value of BMPS computed on the basis of 3,014,431,630 (ordinary and preferred) outstanding shares was close to EUR 7.2 billion accounting for 1.46% of the total capitalization of the Italian Stock Exchange (1.62% in December 2003).

SUMMARY OF REFERENCE PRICES AND CAPITALIZATION

	31.12.03	31.03.04
Price (euro)	2,51	2.38
No. Ordinary shares	2.448.491.901	2.448.491.901
No. Preferred shares	565.939.729	565.939.729
No. Savings shares	9.432.170	9.432.170
Capitalization (ord + pref) (eur mln)	7.551	7.159

As of 31 March 2004, on the basis of the reporting to BMPS and CONSOB pursuant to art.120 of Legislative Decree no. 58/98, the MPS Foundation, the Bank's principal shareholder, held a 49% interest in the ordinary capital. The holding of Caltagirone Francesco Gaetano amounted to 4.00% followed by Premafin Finanziaria (2.58%).

PRINCIPAL SHAREHOLDERS pursuant to. art. 120 Legis.Decree no. 58/98

MPS Foundation	49%
Caltagirone Francesco Gaetano	4.00%
Premafin Finanziaria	2.58%

- VOLUMES

The number of BMPS shares traded on a daily basis averaged around 7.0 million in the first quarter of 2004, with a peak of 22 million in January and a low of 2.8 million in March. A total of about 18% of the Bank's ordinary capital changed hands during the quarter, with the turnover of market float amounting to approximately 0.4 times.

MONTHLY VOLUMES OF SHARES TRADED

BREAKDOWN OF VOLUMES – 1ST QUARTER OF 2004

	(in EUR mn)
January	168
February	113
March	166

- MAIN MARKET MULTIPLES

Turning to market multiples, the shares were trading at the end of March at a multiple of 12.9 times projected earnings for 2004 (source of earnings estimate: *IBES)*. The ratio of price to book value was around 1.1

MARKET MULTIPLES (in EUR)

	Q1 2004
Price/earnings per share	12.94

P/BV	1.14

As of 31 March 2004, the historical Beta of BMPS shares kept steady at 0.86, the level reached at the end of 2003. 30-day historical volatility fell from 25.2% to 23.4%.

- DEBT RATINGS

Agency	Short-term rating as of 31.03.2003	Medium and Long-term Rating as of 31.03.2004
Moody's Investors Service	P-1	A-1
Standard & Poor's	A-1	A
Fitch Ratings	F-1	A+

OUTLOOK FOR THE SECOND QUARTER OF 2004

Operating against a critical backdrop for the banks which is showing clashing signs, the Group's guidelines for the next three quarters of the year are focused on promoting operating planning which is hinged, in compliance with the 2003-2006 Business Plan, on:

- A sales and marketing policy matching the follow-up of customers' relations, operating development and profitability, through the extension of service models;
- A tight control on administrative expenses in order to contain costs and boost efficiency;
- Careful management of the overall risk profile and optimization of capital absorption.

On the basis of the results of the first quarter of 2004, the present trend and the programmes outlined, the MPS Group is expected to develop in line with planned objectives, against a backdrop of evolution of the financial markets and economic growth reflecting non-adverse indications.

Siena, 13 May 2004

The Board of Directors