MONTE DEI PASCHI DI SIENA GROUP

Consolidated Financial Statements as of 30 June 2004

Siena, 9 September 2004

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CORPORATE OFFICERS, SENIOR MANAGEMENT, AND AUDITORS

Board of Directors	Pier Luigi Fabrizi, *Chairman* *
	Stefano Bellaveglia, *Deputy Chairman* *
	Emilio Gnutti, *Deputy Chairman* *
	Fabio Borghi, *Director*
	Francesco Gaetano Caltagirone, *Director*
	Turiddo Campaini, *Director*
	Massimo Caputi, *Director* *
	Francesco Saverio Carpinelli, *Director* *
	Giuseppe Catturi, *Director* *
	Luca Fiorito, *Director*
	Lorenzo Gorgoni, *Director* *
	Andrea Pisaneschi, *Director* *
	Carlo Querci, *Director*
	Roberto Rossi, *Director*
	Ivano Sacchetti, *Director*
	Girolamo Strozzi, *Director*

** Member of the Executive Committee*

Board of Statutory Auditors	Giuseppe Vittimberga, *Chairman*
	Pietro Fabretti, *Acting Auditor*
	Leonardo Pizzichi, *Acting Auditor*
	Stefano Mendicino, *Substitute Auditor*
	Marco Turillazzi, *Substitute Auditor*

Senior Management:

Chief Executive Officer	Emilio Tonini
Deputy Chief Executive Officer	Pier Luigi Corsi
Assistant Chief Executive Officer	Antonio Vigni
Assistant Chief Executive Officer	Rossano Bagnai

Independent Auditors	KPMG S.p.A.

REPORT ON CONSOLIDATED OPERATING PERFORMANCE

2-A SUMMARY OF THE TRENDS OF THE FIRST HALF OF 2004

During the first half of 2004 the MPS Group carried on the projects included in the list linked with the implementation of the 2003-2006 Business Plan, with a specific reference to the completion of the commercial platforms, the review of loan disbursement and credit monitoring processes, the optimization of the level and structure of operating expenses and the consolidation of capital ratios. However, the operating scenario was complicated and difficult to interpret and required a conservative and selective approach to the implementation of commercial and credit policies which were focused on customer relations (both with retail and corporate customers).

Against this backdrop, the Group achieved considerable results in terms of volumes and profit margins of commercial activities. As a result, the main aggregates were in line with the objectives planned.

In particular:

- **With respect to saving products** the Group's commercial network achieved considerable quality performances with flows amounting to roughly EUR 4 billion driven by insurance policies and guaranteed capital products. The Group kept its market shares virtually steady in the principal segments of activity. Indirect funding grew by 2.5% at EUR 105 billion approximately, fuelled by assets under management (+6.2%). Direct funding was also buoyant (+7.2%).
- **With respect to loans,** the weak economic cycle affected short-term loans adversely. The Group's commercial policy continued to be based on medium-/long-term loans disbursed by the distribution network (+16.5% in terms of new loans to retail and corporate customers) and by the special credit companies with Consum.it totaling consumer credits in the amount of EUR 700 million approximately. As of 30 June 2004, **total loans** stood at EUR 71.9 billion (+1.8% year on year and + 2.1% with respect to the beginning of the year). Due to its traditional conservative stance in loan disbursement and its rigorous criteria for identifying doubtful loans, the Group can confirm a good credit quality with a net NPLs/customer loans ratio in line with the average for the industry (2%).

As a result of an accurate management of capital absorption ratios in compliance with the second Accord of Basle, the Group improved its capital ratios for regulatory purposes considerably. The overall solvency coefficient and the Tier 1 ratio stood at 10.29% (+ 40 bp in comparison with December 2003) and 6.70% (+24 bp in comparison with 31.12.2003) respectively.

The growth of the **operating profit** (+2.3% with respect to the first half of 2003) reflects the lower contribution from trading activities in the financial markets and is driven by the development of the Commercial Area (Retail/Private/Corporate segments) and the hefty reduction of operating expenses which declined by 5.3% year on year. Excluding "profits/losses from financial transactions", the operating profit stood at EUR 693.7 million (+15% year on year).The cost/income ratio improved by 1.7 percent with respect to the beginning of the year reaching 66.6%.

In view of adjustments and provisions inspired by the usual prudential criteria, consolidated net profits amounted to EUR 230.1 million (or + 18.4% in comparison with the first half of 2003). The ROE was at 9.1% excluding adjustments on paid goodwill.

3. THE IMPLEMENTATION OF THE MPS GROUP BUSINESS PLAN

The 2003-2006 MPS Group Business Plan is concentrated on size growth and the improvement of income performance and focuses on retail customers, SMEs and Government Agencies in addition to the consolidation of Private Banking. In order to achieve the objectives planned, the Plan leverages the **growth of commercial productivity**, **efficiency improvement, the optimization of risk management and capital consolidation,** and envisages 40 strategic projects to be completed.

As part of the ongoing implementation of the business plan, several key reorganization transactions were completed and 14 new projects have been started.

Growth of commercial productivity

- **Private Banking Market**
  - The Group defined the new service model and the Private Banking Area started operating within the Group Corporate Center;
  - Banca Steinhauslin merged by incorporation into Banca Monte dei Paschi di Siena on 31 May 2004;
  - The new range of products and the new distribution structure are being implemented.
- **Retail Market**
  - *Affluent clientele*. The "Carattere" service model is now being extended to the Group customers, after introducing about 2,800 managers dedicated to financial advisory services, at the end of specific training programmes, in the Commercial Networks.
  - *Family clientele*. The new service model already tested at BT and BAM, which is based on specific commercial and service approaches for different customer clusters, is being tested at BMPS.
- **Corporate Market**
  - *Middle-market companies*. The new service model is being extended to Small/Medium Enterprises (SME). As of today, there are roughly 75 Service Centers dedicated to these customers and staffed by 400 dedicated relationship managers. In addition, the MPS Group is expanding the range of specialized products and services;
  - *Small Business*. The MPS Group is staffing the commercial networks with specialists. As of today, roughly 1,500 managers have been trained.
  - *Government and Government Agencies*. The service model for this segment of customers has been defined and is being implemented. So far, 50 dedicated managers have been trained;
  - *Large Corporate*. These relationships are being moved into a single unit within the Corporate Center, staffed by highly specialized professionals.
  - *Banca per l'Impresa*: The process for establishing MPS Banca per l'Impresa is under way, by integrating MPS Merchant, MPS Banca Verde and the corporate finance business of MPS Finance. The terms of the transaction were approved in June by the Bank of Italy. The

Business Plan, organization and distribution models for the new company have been finalized.

Efficiency improvement

The actions directed to curtail costs and improve operating efficiency incorporate:

- Actions aimed at **freeing human resources** from low value added transactions, the pursue of Business Process Reengineering projects, the centralization of back office and service operations and the grouping of such operations in group operating centers;

- Actions to **streamline administrative expenses**, through the completion of the centralization of the Purchasing Unit, the re-negotiation of the main contracts covering the supply of goods and services, the optimization of consumption, the streamlining of cost centers and automation and control procedures.

Optimization of risk management and capital consolidation:

During the first half of 2004, the Group concentrated on the optimization of the management of credit risks and the monitoring of market and operating risks, in compliance with Basle II principles.

- **Credit risks**. The new loan disbursement processes specialized by customer segment are being defined and extended to the distribution network. In particular, the loan disbursement procedure to Small Businesses has been extended to the networks. The new processes of management of the trends of loans granted are being extended to the commercial networks.

- **Market and operating risks**. The Group is designing internal models for the computation of the two types of risks and the determination of the Group risk capital.

- OTHER PROJECTS

The Business Plan contemplates other initiatives undertaken during the first half of 2004 including:

- **International activity**. A new Plan has been outlined for the Group international network has been defined by re-positioning the network in the markets showing a greater growth potential and it is being implemented. The Group trained roughly 50 specialized staff for supporting the process of internationalization of the SMEs. The Group's presence in Ireland was streamlined by merging Mantovana Ireland into MP Ireland;

- **Equity investments**. A new system for monitoring and managing equity investments was designed and the Group started to sell non-strategic domestic and foreign equity investments;

- **Branch Plan**. The new Group Branch Plan is being implemented as approved by the Board of Directors in April 2004. The Plan provides for the opening of about 170 bank facilities, including 6 opened during the first half of the year.

MPS GROUP: KEY DATA AND RATIO ANALYSIS

million euro

	6/30/04	6/30/03	Chg.%
Profit and loss aggregates			
Total banking income	2,304.2	2,371.8	-2.9
Net operating income	769.3	751.8	2.3
Net income	230.1	194.4	18.4
Net income adjusted for goodwill	277.8	246.0	12.9

Balance sheet aggregates	**6/30/04**	**6/30/03**	**Chg.%**
Direct funding - including subordinated debt	83,372	77,748	7.2
Indirect funding	104,921	103,850	1.0
including: Funds under management	*43,454*	*40,927*	*6.2*
including: Funds under administration	*61,468*	*62,922*	*-2.3*
Customer loans and advances	**71,912**	**70,616**	**1.8**
Consolidated shareholders' equity	**6,216**	**6,236**	**-0.3**

Credit quality indicators (%)	**6/30/04**	**12/31/03**
Net non-performing loans / Customer loans and advances (%)	2.01	1.84
Watchlist credits / customer loans and advances (%)	1.79	1.68

Profitability ratios (%)	**6/30/04**	**12/31/03**
Non interest income/Total banking income	46.6	46.8
Cost/Income ratio % (excluding depreciations and amortization)	60.4	61.2
Cost/Income ratio % (including depreciations and amortization)	66.6	68.3
Cost/Income ratio % (including depreciations and amortization) (°)	65.1	66.2
R.O.E. (net equity as of end of period)	7.7	8.3
R.O.E.(*)	7.5	7.7
Adjusted ROE (%) (*)	9.1	9.5

(°) excl. Tax Collection area

(*) average net equity

Solvency ratios (%)	**6/30/04**	**12/31/03**
Total capital ratio %	10.3	9.9
Tier 1 Ratio %	6.7	6.5

Share data	**6/30/04**	**12/31/03**
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	2.55	2.42
- low	2.30	1.93
- high	2.74	2.85

Operating structure	**6/30/04**	**6/30/03**	**Abs. Chg.**
Number of banking employees (end of period)	24,292	24,798	-506
Number of total employees (end of period)	26,764	27,381	-617
Number of branches in Italy (*)	1,840	1,834	6
Number of foreign branches and foreign representative offices	38	38	

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

5. CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2004

■ RECLASSIFIED BALANCE SHEET AND RECLASSIFIED PROFIT AND LOSS STATEMENT

As usual, in order to facilitate the analysis of consolidated operations and earnings, certain balance-sheet and profit-and-loss accounts were reclassified in order to provide the same basis for an annual comparison. Following are the major changes introduced in the 2004 profit and loss statement:

a) The values (EUR 46.2 million as of 30/06/04) relating to a few “sophisticated” securities transactions have been eliminated from dividends (Account 30) and reclassified as profits and losses from financial transactions. This aggregate also includes the cost of funding of such transactions (EUR 1.9 million) which was eliminated from “interest expense and similar expenses”. Furthermore, tax credit for dividends from equity investments cashed as of 30/06/03, which is no longer acknowledged by the new tax regulations starting 2004, is reported as ”Income tax”;

b) Commissions earned (Account 40) and commissions expense (Account 50), have been aggregated, and are reported as net commissions.

c) The losses in relation to non-securitized financial plans (EUR 16.4 million as of 30 June 2004) have been eliminated from adjustments to the value of credits and provisions for guarantees and commitments (Account 120) and reclassified under “extraordinary income and charges”.

The financial data for 2003 have been reclassified, and the values concerning “Securities trading with customers” have been kept in the aggregate of “Profits/losses from financial transactions” instead of reclassifying them among “Net commissions”, as in the past. As of 30 June 2003, “Writedowns to non-current assets and other assets” incorporate value adjustments to non-current assets and a part of “adjustments to the value of credits” concerning interest accrued and not cashed on junior securities.

MPS Group

Reclassified Consolidated Balance Sheet (in EUR mn)

ASSETS	**6/30/04**	**6/30/03**	**Changes**		**31/12/2003**
			Abs	**%**	
Cash on hand and deposits with central bank and post office	534	493	41	8.3	671
Loans:					
a) Customer loans and advances	71,912	70,616	1,295	1.8	70,405
b) Amounts due from banks	10,184	11,421	-1,237	-10.8	8,551
Trading Account Securities	13,648	14,787	-1,140	-7.7	14,342
Non-current assets					
a) Investment securities	3,866	4,065	-199	-4.9	3,964
b) Equity investments	2,606	2,575	30	1.2	2,621
c) Fixed assets and intangible assets	2,370	2,562	-191	-7.5	2,512
Positive consolidation differences & positive net equity differences	865	972	-107	-11.0	913
Own shares or quotas	8	5	3	63.9	16
Other assets	16,850	20,747	-3,897	-18.8	18,995
Total Assets	**122,843**	**128,245**	**-5,402**	**-4.2**	**122,989**
LIABILITIES AND SHAREHOLDERS' EQUITY	**6/30/04**	**6/30/03**	**Changes**		**31/12/2003**
			Abs	**%**	
Liabilities					
a) Customer deposits and borrowed funds backed by negotiable instruments	78,614	74,481	4,133	5.5	77,863
b) Due to banks	13,796	21,302	-7,506	-35.2	15,058
Reserves for specific use					
a) Pension funds	443	457	-14	-3.0	427
b) Staff severance indemnity reserve	458	402	57	14.1	430
c) Other reserves for risks and charges	753	679	74	10.9	784
d) Reserve for taxes	344	425	-81	-19.1	647
Other liabilities	17,107	20,610	-3,502	-17.0	16,805
Reserve for loan losses	318	363	-45	-12.3	311
Subordinated debt	4,758	3,267	1,491	45.6	4,475
Minority interests	34	23	11	49.9	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	3,461	3,200	261	8.1	3,186
f) Profit (loss) for the year	230	194	36	18.4	443
Total Liabilities and Shareholders' Equity	**122,843**	**128,245**	**-5,402**	**-4.2**	**122,989**

MPS Group
Reclassified Consolidated Balance Sheet (in EUR mn)

ASSETS	30/06/2004	31/03/2004	31/12/2003	30/09/2003	30/06/2003
Loans:					
a) Customer loans and advances	71,912	69,357	70,405	69,802	70,616
b) Amounts due from banks	10,184	8,180	8,551	9,321	11,421
Trading Account Securities	13,648	14,795	14,342	13,749	14,787
Non-current assets					
a) Investment securities	3,866	3,916	3,964	3,978	4,065
b) Equity investments	2,606	2,618	2,621	2,702	2,575
c) Fixed assets and intangible assets	2,370	2,493	2,512	2,524	2,562
Positive consolidation differences & positive net equity differences	865	888	913	954	972
Other assets	17,393	20,508	19,682	20,294	21,246
Total Assets	**122,843**	**122,756**	**122,989**	**123,323**	**128,245**

LIABILITIES AND SHAREHOLDERS' EQUITY	30/06/2004	31/03/2004	31/12/2003	30/09/2003	30/06/2003
Liabilities					
a) Customer deposits and borrowed funds backed by negotiable instruments	78,614	75,312	77,863	74,282	74,481
b) Due to banks	13,796	15,814	15,058	18,649	21,302
Reserves for specific use	1,998	2,384	2,288	1,986	1,962
Other liabilities	17,107	18,033	16,805	18,012	20,610
Reserve for loan losses	318	314	311	368	363
Subordinated debt	4,758	4,578	4,475	3,676	3,267
Minority interests	34	28	35	25	23
Shareholder's equity:	6,216	6,293	6,154	6,324	6,236
Total Liabilities and Shareholders' Equity	**122,843**	**122,756**	**122,989**	**123,323**	**128,245**

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

	6/30/04	6/30/03 restated	Changes Abs	Changes %	Quarterly Avg 2003	31/12/2003
Net Interest Income	**1,231.1**	**1,253.8**	**-22.7**	**-1.8**	**1,244.8**	**2,489.6**
Net commissions	672.2	645.0	27.2	4.2	657.8	1,315.6
Basic Income	**1,903.4**	**1,898.8**	**4.6**	**0.2**	**1,902.6**	**3,805.1**
Dividends	49.7	95.2	-45.5	-47.8	55.8	111.5
Earnings of companies valued with net equity method	52.7	18.8	33.9	179.7	15.9	31.8
Profit (loss) from financial transactions	75.6	148.8	-73.2	-49.2	115.9	231.7
Other operating income	222.8	210.2	12.6	6.0	250.5	501.0
Non Interest Income	**1,073.1**	**1,118.0**	**-44.9**	**-4.0**	**1,095.8**	**2,191.7**
Total Banking Income	**2,304.2**	**2,371.8**	**-67.6**	**-2.9**	**2,340.6**	**4,681.3**
Administrative expenses						
- personnel expenses	-868.2	-898.2	30.0	-3.3	-897.3	-1,794.7
- other administrative expenses	-523.6	-553.5	29.8	-5.4	-534.0	-1,068.1
o/w indirect taxes	82.1	79.9	2.2	2.7	86.0	171.9
Total administrative expenses	**-1,391.9**	**-1,451.6**	**59.8**	**-4.1**	**-1,431.4**	**-2,862.7**
Gross Operating Profit	**912.4**	**920.2**	**-7.8**	**-0.8**	**909.3**	**1,818.5**
Valuation adjustments to fixed and intangible assets	-143.1	-168.3	25.3	-15.0	-167.4	-334.9
Net Operating Profit	**769.3**	**751.8**	**17.5**	**2.3**	**741.8**	**1,483.6**
Goodwill amortization	-47.6	-51.5	3.9	-7.6	-51.4	-102.9
Provisions for risks and charges	-7.6	-55.5	47.9	ns.	-85.9	-171.8
Valuation adjustments to loans net of recoveries	-279.8	-244.7	-35.1	14.4	-341.2	-682.3
Provision to loan loss reserve	-22.0	-11.1	-10.9	98.4	-24.0	-48.0
Writedowns to non-current financial assets	-6.0	-53.4	47.4	ns.	-48.4	-96.7
Profit (losses) from ordinary operations	**406.2**	**335.5**	**70.6**	**21.0**	**191.0**	**381.9**
Extraordinary income (charges)	-46.1	1.7	-47.8	ns.	7.0	13.9
Change in reserve for general banking risks	-0.1	0.0	-0.1	ns.	150.0	300.0
Income taxes	-123.0	-140.3	17.3	-12.4	-122.6	-245.2
Profit for the period before minority interests	**236.9**	**196.9**	**40.1**	**20.4**	**225.3**	**450.6**
Minority interests	-6.8	-2.4	-4.4	179.5	-4.0	-8.1
Net profit for the period	**230.1**	**194.4**	**35.7**	**18.4**	**221.3**	**442.5**

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

	Year 2004		Year 2003 restated			
	2Q04	1Q04	4Q03	3Q03	2Q03	1Q03
Net Interest Income	**600.3**	**630.8**	**609.8**	**626.0**	**625.1**	**628.7**
Net commissions	326.7	345.6	352.3	318.2	359.2	285.8
Basic Income	**927.0**	**976.4**	**962.1**	**944.3**	**984.4**	**914.4**
Dividends	39.1	10.7	12.5	3.8	94.8	0.5
Earnings of companies valued with net equity method	32.7	20.0	-5.4	18.4	6.3	12.6
Profit (loss) from financial transactions	-0.4	76.0	-13.4	96.4	43.2	105.6
Other operating income	116.4	106.5	186.3	104.6	98.6	111.6
Non Interest Income	**514.4**	**558.7**	**532.3**	**541.4**	**602.0**	**516.0**
Total Banking Income	**1,114.8**	**1,189.5**	**1,142.0**	**1,167.4**	**1,227.1**	**1,144.7**
Administrative expenses						
- personnel expenses	-429.2	-439.1	-458.7	-437.8	-444.1	-454.1
- other administrative expenses	-256.2	-267.4	-235.2	-279.4	-276.7	-276.8
Total administrative expenses	**-685.4**	**-706.5**	**-693.9**	**-717.2**	**-720.7**	**-730.9**
Gross Operating Profit	**429.4**	**483.0**	**448.1**	**450.2**	**506.4**	**413.8**
Valuation adjustments to fixed and intangible assets	-72.2	-70.9	-83.3	-83.3	-91.6	-76.8
Net Operating Profit	**357.2**	**412.1**	**364.8**	**367.0**	**414.8**	**337.0**
Goodwill amortization	-23.8	-23.8	-25.6	-25.8	-29.3	-22.2
Provisions for risks and charges	14.7	-22.4	-95.4	-20.9	-38.9	-16.6
Valuation adjustments to loans net of recoveries	-158.5	-121.3	-330.4	-107.2	-146.4	-98.3
Provision to loan loss reserve	-13.1	-9.0	-26.8	-10.1	-2.8	-8.3
Writedowns to non-current financial assets	-4.7	-1.3	-39.9	-3.4	-52.5	-1.0
Profit (losses) from ordinary operations	**171.9**	**234.3**	**-153.2**	**199.6**	**144.9**	**190.6**
Extraordinary income (charges)	-54.3	8.2	26.3	-14.1	-23.9	25.6
Change in reserve for general banking risks	-0.1	0.0	300.0	0.0	0.0	0.0
Income taxes	-20.1	-102.9	2.4	-107.3	-56.9	-83.4
Profit for the period before minority interests	**97.4**	**139.5**	**175.5**	**78.2**	**64.0**	**132.8**
Minority interests	-5.5	-1.3	-4.8	-0.8	-1.2	-1.3
Net profit for the period	**91.9**	**138.3**	**170.7**	**77.4**	**62.9**	**131.6**

6. OVERVIEW OF ECONOMY AND INDUSTRY TRENDS

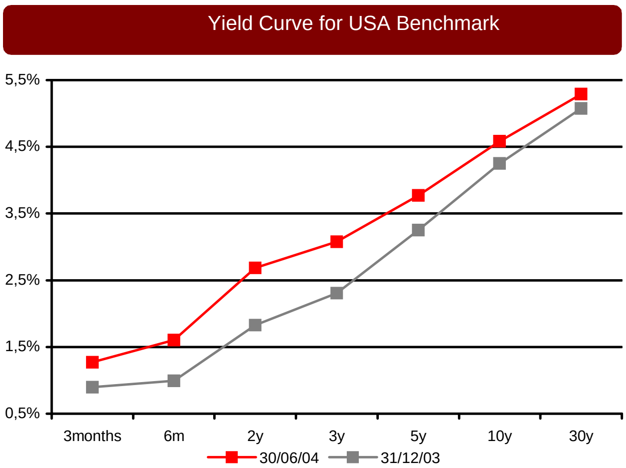
THE MACROECONOMIC SCENARIO

During the first half of 2004 the trend of the world economy showed a high pace of expansion, in particular in the US where domestic demand was driven by tax cuts and an expansionist monetary policy. The contribution from Asian countries was also considerable with China growing by almost 10% and Japan rebounding due to exports and the recovery of domestic consumption.

The economic scenario showed signs of consolidation in Latin America and in the Eurozone where the recovery is subject to foreign demand and the fluctuations of other economies. The European domestic demand is affected by the weak labour market, with the unemployment rate rising to 9%.

GROWTH RATES IN THE WORLD'S LEADING ECONOMIES

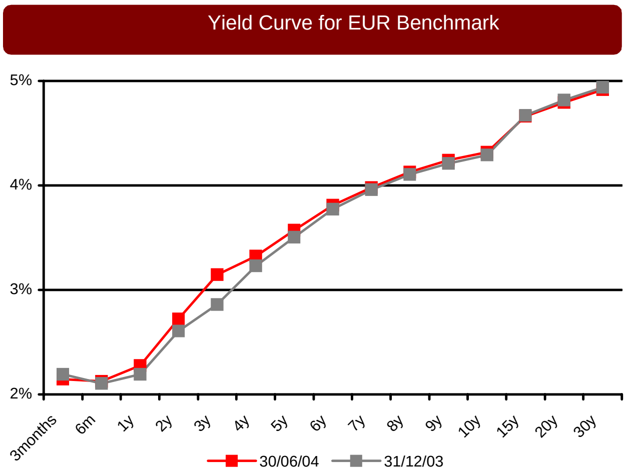
	2002	2003	2004 e
United States	2.4	3.1	4.2
Eurozone	0.8	0.5	1.8
Italy	0.4	0.4	1.2
Germany	0.2	-0.1	1.4
France	1.1	0.5	2.2
Japan	0.1	2.6	4.3



In Italy, economic growth stood at around 1% on a yearly basis during the first half of 2004. Private consumption and investments recovered slightly and exports rebounded, though lagging behind the other countries in the Eurozone, as a result of the buoyant demand from countries outside Europe.

At the end of June, the Federal Reserve increased the Fed funds rate by 25bp to 1.25%, thus proving its will to make gradual and moderate increases. A further increase to 1.5% was decided on 10 August. In Europe the weak recovery obliged the ECB to keep interest rates unchanged, despite inflation which topped 2%, driven by the increase in oil prices. The Bank of Japan repeatedly injected liquidity in the markets in order to stop price deflation. The Bank of England was the only central bank which adopted a restrictive monetary policy in an attempt to “cool” the steadily growing economy. The spread between Italian government bills and German government bills increased during the first half of the year as a consequence of fears for the state of Italian public finance which obliged Standard & Poor’s to downgrade the Italian debt rating from AA to AA-.

After the strong recovery which characterized the year of 2003, the principal Stock Exchanges followed an erratic trend in the first half of 2004, probably before anticipating the trend of economy for the next few months. The MSCI World Index rose by 3% approximately, the Dow Jones Index kept virtually stable whereas emerging markets grew. The Italian Stock Exchange registered a 5% increase, higher than the European average, and a similar increase in market capitalization.



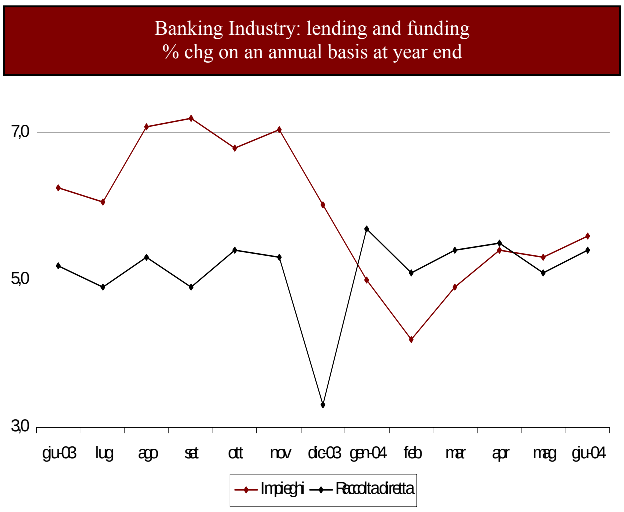
The yield on bonds rose as a result of the improving economic situation and the expected increase in the reference rates of the central banks.

The hefty growth of the US economy enabled the US dollar to discontinue its phase of weakness with respect to the euro (with the USdollar/euro exchange rate standing at 1.20 in June 2004 in comparison with 1.25 as at 31 December 2003) and the Japanese yen.

○ BANKING INDUSTRY TRENDS

In the first half of 2004, the trend of direct funding (deposits, repurchase agreements and bonds) was virtually in line with the values experienced in 2003. The average growth rate in the first half of 2004 stood at 5.4 percent. The deceleration was evident in the growth of current accounts, which was below the average of the Eurozone.

At the same time, the industry witnessed a significant acceleration in the growth of bond placements with volume growth exceeding 10% in line with the EMU evolution.



The trend of asset management reflected the difficulties faced by saving products and the prudential stance of investors, confirmed by the hefty investment flows turning to Government bills.

After the brilliant performance of 2003 (+ EUR 25 bn), net new investments in mutual funds during the first half of the year were negative by roughly 5 billion. The worst performance was recorded by bond funds (-5.1 bn) and liquidity funds (-3.1 bn), which were penalized by poor performances and interest rates trend. New investments in equity funds were virtually cut to nil as a result of the gradual shift of investors toward products with a higher risk profile. Opportunity funds instead succeeded in collecting new investments (+4.5 bn). This is due to the fact that this kind of funds does not oblige the fund manager to adopt rigid investment strategies, thus benefiting from the problems the investors had to face in an uncertain financial market.

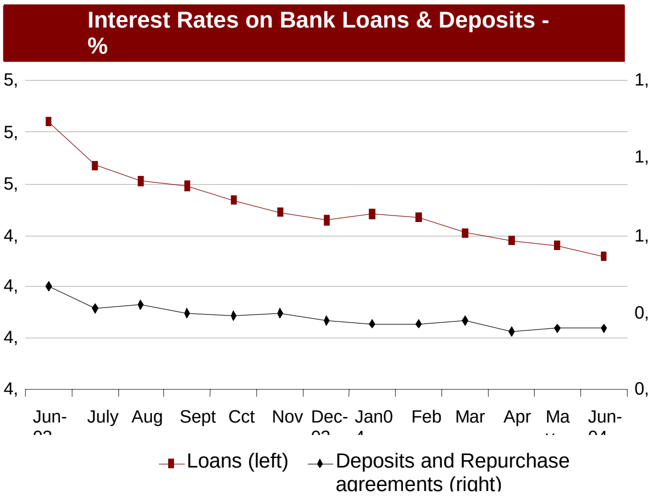
Life insurance premiums tapped through bancassurance activity (including Post Offices) in the first half of 2004 topped EUR 19 billion with a moderate decline year on year; this result is even more impressive considering the strong performance of this business in 2003. The share grows by 2% including the insurance agencies and the promoters. The insurance products placed by the banks incorporate traditional insurance policies (+3%) which account for less than half of the overall turnover, financial unit linked policies (+19%) and index linked policies (+8%). Guaranteed unit linked policies fell sharply.

As of 30 June, the balance of assets in individual portfolios under management by banks declined again (-5.9% in May) after the modest increase registered in 2003.

The annual rate of loan growth in the Italian banking industry decelerated at 5% (+6.4 percent in 2003), below the Eurozone average (+5.6%). The expansion of the aggregate incorporates a strong increase (13.7 percent) in the medium- and long-term component, and a significant contraction in the short-term segment (-4.8%) which accounts for 41.6% of total loans.

The demand for medium-/long-term credit stems from retail customers (families applying for residential mortgage loans) and corporate customers which are restructuring their financial liabilities. The standstill of real economy compromised the demand for short-term loans.

The annual rate of growth of gross non-performing loans, which shot up in December 2003 (+10.7%) as a result of the effects of the Parmalat crack, kept above 10%. The increase was driven almost exclusively by non-financial companies (+16%) and retail customers to a lesser extent (abt.+3%). On a net basis, instead, non-performing loans contracted in May, falling by EUR 3 billion in relation to the end of 2003. This is indicative of a particularly conservative provisioning policy carried out by the banks.



Effective January 2004, interest rates on deposits were virtually unchanged, (in June 0.86%). Bank lending rates continued to contract dropping by 15 bp to 4.82%. As a result, the spread between lending rates and rates applied to deposits (EURO loans to retail and corporate customers-deposits and repurchase agreements from retail and corporate customers) went from 4.11 to 3.96 percent with consequent adverse effects on the banks' interest margin. The markup (as measured with reference to loans with an expiry date up to 1 year and 1-month Euribor) was unchanged with respect to December 2003 (3.34%), whereas the markdown decreased slightly from 1.25 to 1.21 percent.

REGULATORY ISSUES

On 26 June 2004 the regulatory authorities of G-10 countries approved the new regulations on bank capital requirements (Basle 2). These requirements are expected to come into force by the end of 2006, excluding the criteria for risk evaluation which will become effective in 2007.

The directive on investment services and the directive on "*Offerta Pubblica di Acquisto"* were issued last April. The former removes the obligation to concentrate securities trading in one Stock Exchange market, thus making trading transactions between financial intermediaries and customers possible; the latter dictates the conditions for the development of a European market for corporate control. Both directives shall be adopted by the EU member countries no later than the first half of 2006.

The measures taken after the end of the first half of the year incorporate the remedies concerning public accounts and the reform of pensions. This manoeuvre has a direct impact on banking operations since it provides for the expansion of the banks' IRAP-taxable amount. This provision with an estimated cost for the industry amounting to EUR 370 million will become effective on the payment of the 2004 tax advance. The law enacted under delegated powers for the welfare reform is based on two pillars: (i) the increase in pensionable age and (ii) the will to encourage and develop complementary pension funds by transferring the amounts accrued in the severance indemnity fund to the pension funds.

■ THE MPS GROUP'S COMPLIANCE WITH THE IAS ACCOUNTING STANDARDS

The EU Regulation no.1606 of 19 July 2002 provides that, effective 2005, all EU companies with shares listed in a regulated market shall be obliged to prepare consolidated financial statements in compliance with the International Accounting Standards (IAS), nowadays International Financial Reporting Standards (IFRS). The above-mentioned Regulation states that the first consolidated financial statements in compliance with the IAS shall be issued in 2005. In the case of Banca Monte dei Paschi di Siena, which is obliged to draft consolidated quarterly reports, such obligation shall become effective as of 31 March 2005.

With reference to this deep change in accounting standards, the MPS Group embarked on a specific project of conversion to the IAS in November 2003. The new international accounting standards shall be complied with, through three major steps: Diagnosis, Design and Conversion.

As illustrated in the Financial Statements as of 31 December 2003, the phase of Diagnosis was already completed, whereas the phase of Design – which is necessary for completing implementation - continued in the first half of 2004.

The phase of Design involved numerous resources and professional skills belonging to the whole Group and its implementation has progressed rapidly, although the regulations are not very clear yet, especially with regard to the identification and evaluation of financial instruments, the definition of coverage rules and the fair value option.

So far, the steps contemplated in the Master Plan have been complied with, thus enabling the Group to be ahead with the implementation and update of the procedures.

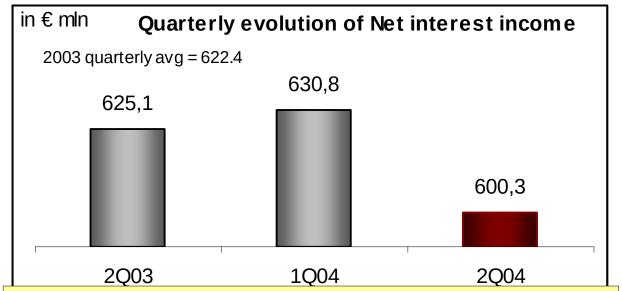
The MPS Group is constantly in touch with the authorities and the Italian Bankers' Association and co-operates with them in order to ensure the development of the project in line with the expectations of the industry, by interpreting/defining the most complicated issues correctly.

7- OVERVIEW OF OPERATIONS

The first half of 2004 was marked by a complicated scenario, difficult to interpret, which required a prudential and selective approach to the implementation of commercial and credit policies. The events which characterized the end of the last financial year (e.g. Parmalat crack, deterioration of the economic scenario) influenced the investment strategies of individuals and corporate demand for credit. Against this backdrop, the MPS Group directed its efforts toward the continuing pursuit of the policies established by the current Business Plan, thus achieving appreciable results in terms of operations and income.

7A – ECONOMIC FIGURES

Net Income improved considerably with respect to the first half of 2003, despite the minor contribution from trading activities in the financial markets. Net income was also boosted by the reduction of operating costs and the growing contribution of the commercial activity.



The contraction of the interest income in the second quarter of 2004 is mainly attributable to the lower contribution of the Banking Book and to the effects of static short-term loans flanked by the modest decline of the spreads (short-term spread: - 12 bp from Dec 03).

THE COMPOSITION OF TOTAL BANKING INCOME

The review of total banking income evidences a moderate progress (+0.2%) of the "basic income" (interest income + commissions from customers).

- **Interest income** stood at EUR 1,231.1 million dropping moderately (EUR 22.7 million or –1.8%) with respect to 30 June 2003. This trend incorporates the lower contribution from the Banking Book (influenced by the higher cost of funding associated with structural capital consolidation). The contribution from the Commercial Areas is stable with flows in line with the first half of 2003.

- **Net fees** advanced by 4.2% with respect to 30 June 2003 as a result of the increasing contribution from traditional banking services, asset management and tax collection.

A breakdown/review of commissions reclassified [1] following management criteria shows as follows:

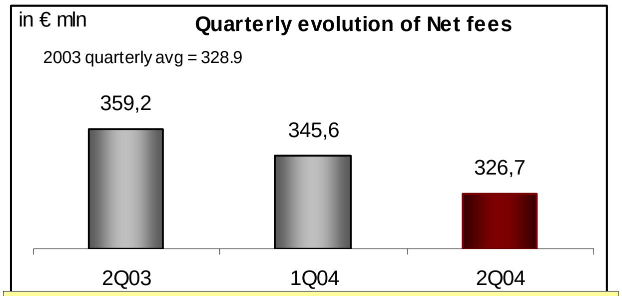
- A moderate improvement of commissions from asset management (at EUR 228 million or + 2.9%), driven in particular by the continuing generated by the growth of stocks;

- A satisfactory performance of traditional banking commissions (at EUR 413 million or +7.4%);

[1] The profits from the tax collection units excluding tax collection and including recoveries of account expenses and taxes, netting all contribution from financial products structuring.

- A considerable reduction (EUR 48 million or –31.8%) of innovative financial products which is indicative of the operating guidelines given during the commercial planning for the year and aimed at achieving a realignment in favour of products with recurring fees; as well as the lower contribution from the placement of hedging products for corporate customers and public entities, due to a slowdown at the industry level;

- Steady profits from order collection at EUR 83 million.



Net fees in the second quarter of 2004 dropped modestly with respect to Q1 2004, but are in line with the 2003 quarterly average.

CUSTOMER COMMISSIONS (in EUR million)

	30/06/2004	30/06/2003	Abs chg	% chg
Asset management	360	377	-17	-4.5
Funds under management	228	222	6	2.9
Innovative finance products	48	71	-23	-31.8
Funds under administration and related services	83	84	-1	-0.8
Banking services	413	385	29	7.4
Total customer commissions	773	761	12	1.5

The other components of non-interest income incorporate:

- The huge decrease in **"profits/losses from financial transactions"** which stood at EUR 75.6 million (with respect to EUR 148.8 million achieved in the first half of 2003) and reflect the effects of the lower equity market volatility and the noticeable drop in bond prices as a consequence of the expected increase in interest rates in the principal international markets; as well as the lower contribution resulting from structured innovative financial products by MPS Finance;

- The reduced contribution from "**Dividends**" which went from EUR 95.2 million as of 30/06/2003 to EUR 49.7 million as of 30/06/2004 due to lower amounts coming from structured products;

- The hefty growth of the **contribution from companies valued with the net equity method** (at EUR 52.7 million or + 179.7%) with the positive performance of the MPV Group (EUR 34.9 million) and the growing contribution of FINSOE;

- The modest progress of **other operating income** (at EUR 222.8 million or +6%) associated with the growth of overall operations.

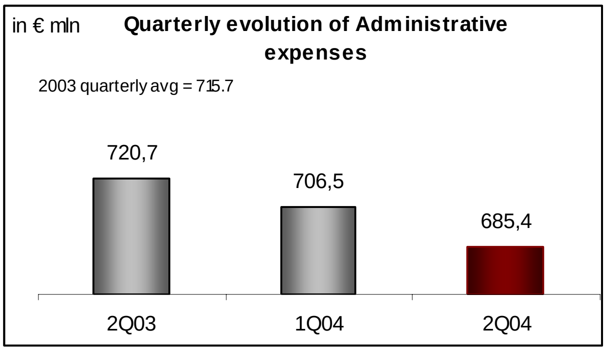
As a whole, **the total banking income** declined slightly year on year (-2.9%) with the weight of non-interest income figures falling from 47.1% to 46.6%. Excluding profits/losses from financial transactions, total banking income advanced by 0.3% year on year. **In this framework, the total income of the Commercial Banking division[2] improved (+1.1%) with respect to 30/06/2003, as a consequence of the results achieved by the Retail banking**.

OPERATING EXPENSES

In line with the Sstrategic Plan mission to focus strongly on costs, during the first half of 2004 the Group pursued cost containment initiatives, and consolidated the cost centralization and governance processes already started in 2003. Such policies enabled the Group to considerably reduce operating costs (-5.3% yoy) and to improve the cost/income ratio by about 1.5 percent year on year. The decrease involved all components of operating costs.

OPERATING EXPENSES (in EUR million)

	30/06/2004	30/06/2003	Absolute change	% change
Personnel expense	868.2	898.2	-30.0	-3.3
Other administrative expenses	523.6	553.5	-29.8	-5.4
Total administrative expenses	1,391.9	1,451.6	-59.8	-4.1
Valuation adjustments to intangible and fixed assets	143.1	168.3	-25.3	-15.0
Total operating expenses	1,534.9	1,620.0	-85.1	-5.3



Administrative costs in the second quarter of 2004 fell further with respect to Q1 2004 and the 2003 quarterly average, thereby proving the structural nature of the cost containment processes implemented.

a) **Personnel expenses** amount to EUR 868.2 million (-3.3% yoy) and reflect the actions started last year in compliance with the Business Plan, characterized by:

- the reduction (-617 staff units with respect to 30/06/2003) and remix of staff through the Early Retirement Plan and the Severance Fund, which encouraged the retirement of the most senior employees, partly replaced by young recruits, with consequent benefits in terms of structure renovation and flexibility;

- actions focused on other cost components.

[2] Including the results of the Retail, Private and Corporate Areas.

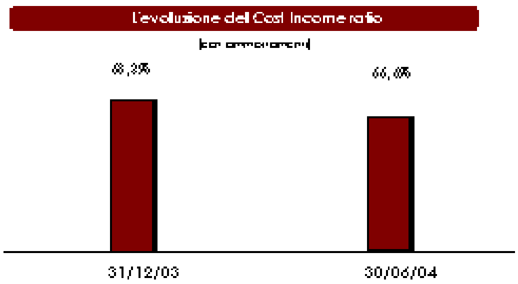
b) **other administrative expenses** (EUR 523.6 million) have been effectively contained as a result of sharp actions of governance, accurate monitoring and structural containment already started (zero-base budget, review of the payables cycle, set-up of a Cost Committee, cost management actions). This cost containment turns out to be even more significant if indirect taxes and production costs for the tax collection units are eliminated from the aggregate. By so doing, the actual reduction of expenses is 7.5%.

OTHER ADMINISTRATIVE EXPENSES (in EUR million)

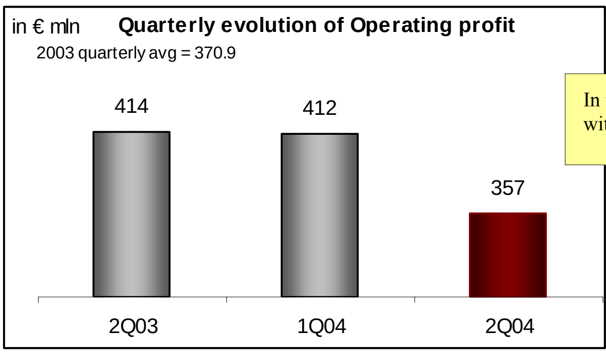
	30/06/2004	30/06/2003	Abs change	% change
Current expenses	421.5	455.5	-34.0	-7.5
Non income taxes and recovery of stamp duties	82.1	79.9	2.2	2.7
Production costs (Tax Collection Units)	20.1	18.1	2.0	11.1
Total other administrative expenses	523.6	553.5	-29.8	-5.4

c) **Valuation adjustments to intangible and fixed assets** stood at EUR 143.1 million with a sharp decline (-15%) in line with last year's trends.

As a result of the above trends, the net operating profit grew by 2.3% at EUR 769.3 million with respect to the first half of 2003. <u>The cost/income ratio including depreciation & amortization</u> at 66.6% down 1.7 point from december 2003. The cost/income ratio <u>excluding amortization and depreciation</u> was equal to 60.4%, dropping by 0.8 percent in comparison with the value reported as of 31/12/03.



The trend of the net operating profit, net of "profits/losses form financial transactions", advanced by 15% on a yearly basis in line with the trend of the Commercial Area. In this case, the reduction of the cost/income ratio with amortization and depreciation would stand at 3 points, thus reflecting the actual and structural improvement of the Group's operating efficiency.



In the second quarter of 2004 net operating profit was virtually in line with the 2003 quarterly average.

ADJUSTMENTS AND PROVISIONS

Following are the major items contributing to the composition of profits for the period. Adjustments are valued in accordance with the traditional prudence.

In particular:

- **Goodwill amortization** (at EUR 47.6 million) dropped by roughly EUR 4 million with respect to the first half of 2003;

- **Provisions for risks and charges** amounting to EUR 7.6 million (EUR 5.5 million in the first half of 2003) incorporate: (i) EUR 27 million (including EUR 12 million posted by the Parent Bank) in relation to the claims concerning financial savings plans and structured products received also after the closing of the first half; (ii) EUR 4 million allocated for the estimated charges in relation with the renewal of the national labour contract; (iii) write-backs on some funds due to their new risk profile;

- **Valutation adjustment to loans net of recoveries** (EUR 250.4 million with respect to EUR 220.8 million as of 30/06/2003) are inspired, as usual, by prudential criteria and enabled the Group to increase the coverage ratio of non-performing loans by over 1 percentage point. They also incorporate: (i) further provisions in the amount of roughly EUR 7.5 million covering Parmalat exposure; (ii) the half-yearly share (EUR 16.7 million for both years) of non-performing securitizations carried out in the previous years (under law 130/99); (iii) the lump-sum writedown of performing loans (EUR 12.7 million in comparison with EUR 7.3 million as of 30/06/03). Therefore, the balance of the relative fund jumped to EUR 270.7 million with respect to EUR 242 million in June 2003;

- The **loan loss provision** increased by EUR 22 million (EUR 11.1 million as of 30/06/03) to EUR 318.3 million;

- **Write downs to non-current financial assets** in the amount of EUR 6 million mainly include further writedowns of a few components of the investment securities portfolio or asset backed securities from securitization transactions. The account stood at EUR – 53.4 million in the first half of 2003.

EXTRAORDINARY ITEMS, TAXES AND NET PROFIT

The situation of income aggregates is rounded out by:

The balance of extraordinary losses (-EUR 46.1 million with respect to + EUR 1.7 million year on year) incorporates the following:

- Net capital gains in the amount of EUR 29.6 million resulting from the sale of minority stakes (E-Biscom, Autostrade Torino-Milano, Sias, IBA);

- Extraordinary charges in the amount of EUR 39.1 million (including EUR 31.5 million posted by the Parent Bank), related to incentives for early retirement and severance funds, entirely charged and not amortized;

- Extraordinary charges in the amount of EUR 22 million (including EUR 19 million posted by the Parent Bank) related to the claims settled and paid until now in relation to financial savings plans and structured products.

Total taxes in the amount of EUR 123 million (EUR 140.3 million in the first half of 2004, net of reclassified tax credits) – though in view of a higher IRAP in the amount of EUR 12.3 million pursuant to Law Decree no.168 of 12 July 2004 – benefited by tax-free income (capital gains) or income with reduced taxation (dividends) and by deferred taxation.

In view of the contribution of the above-mentioned components, net profit stood at EUR 230.1 million progressing remarkably (+18.4%) with respect to 30 June 2003. Net of goodwill adjustments, net profit reached EUR 277.8 million (+12.9% in June 2003). The ROE on the average shareholder's equity was 7.5% including goodwill adjustments and rose to 9.1% excluding them.

7B – THE MPS GROUP'S COMMERCIAL ACTIVITY

Consistent with its marketing plan for the current year, the MPS Group continued to work toward developing and confirming the new Commercial Platforms, which represent real pivotal elements in the process of customer relationships upgrading.

In light of consolidating the customers' confidence, the commercial policies aimed at (i) meeting the investments needs – which were oriented toward highly guaranteed and highly liquid products and (ii) ensuring appropriate advisory services to corporate customers.

1) FUNDS MANAGEMENT

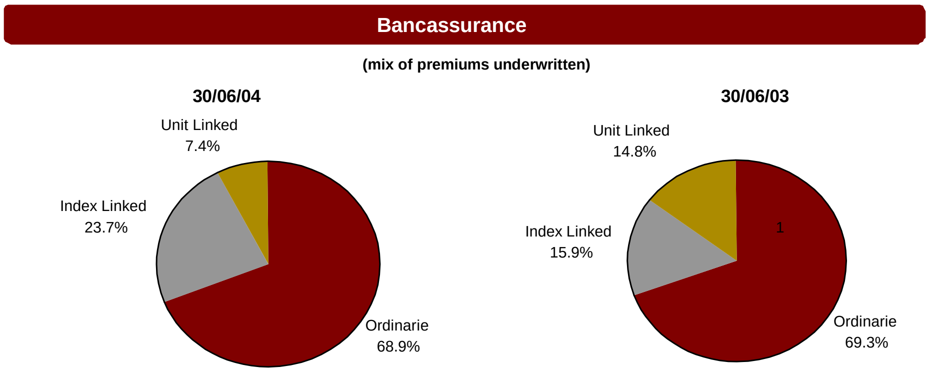
In the activity of **funds management,** the MPS Group realized significant results through the commercial networks, with placement volumes advancing substantially by EUR 4 billion (mostly life insurance policies and capital-guaranteed products). Volumes are lower with respect to the first half of 2003 since the commercial planning promoted stable, highly liquid instruments in line with the customers' risk profiles. This is due to the fact that in the first half of 2003 the momentum of business was particularly strong, with customers putting significant amounts into mutual funds and SICAVs, where the Group achieved market shares higher than 8%. In the first half of 2004, instead, this aggregate experienced the worst performances at the industry level, with redemptions approaching EUR 5 billion. A breakdown of the fund flows is provided in the table below:

Investments Product Flows

	June 2004	June 2003
Mutual Funds	-297	1,536
Individual portfolio under mng	86	320
Life Insurance policies *o/w*	1,992	2,231
Ordinary life insurance policies	*1,372*	*1,546*
Index-linked policies	*473*	*354*
Unit-linked policies	*147*	*331*
Innovative financial products	1,157	1,778
Plain Vanilla	1,098	461

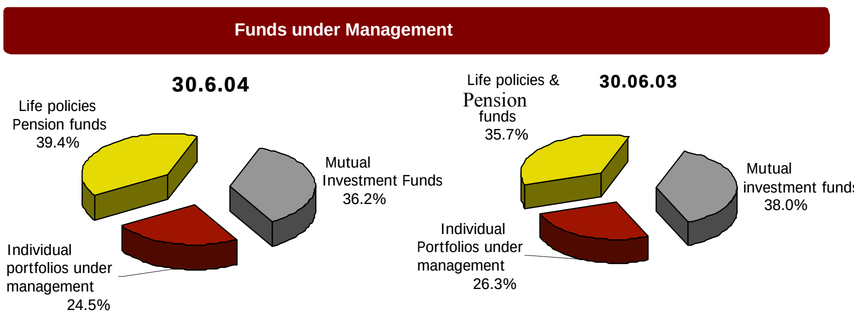
Life insurance policies

- **<u>With EUR 1,992 million of insurance premiums underwritten</u>**, the MPS Group re-affirmed its leading position in the market for insurance products sold through banks and post offices, and ended the first half of 2004 with **a market share of roughly 10 percent**. A breakdown of the business shows further growth of the weight of ordinary policies (roughly 68.9 percent of total premiums underwritten). The weight of index-linked policies increased from 15.9 percent to 23.7 percent. The performance of the MPS Group's bancassurance business also benefited from the growth of Quadrifoglio Vita S.p.A., (which is a 50-percent subsidiary of Banca Agricola Mantovana), infact during the first half of 2004, the premiums underwritten by this company amounted to EUR 445 million. With reference to the new products marketed by MPV Group premiums underwritten stood at EUR 1,460 million while recurrent premiums were steady at EUR 200 million (EUR 133 million as of 30/06/03).



- **<u>The technical reserves</u>** of the Group commercial networks reached EUR 17,106 million with a significant growth (+17% with respect to 30 June 2003; + 7.2% in comparison with the values reported at Dec 03) driven by traditional policies.

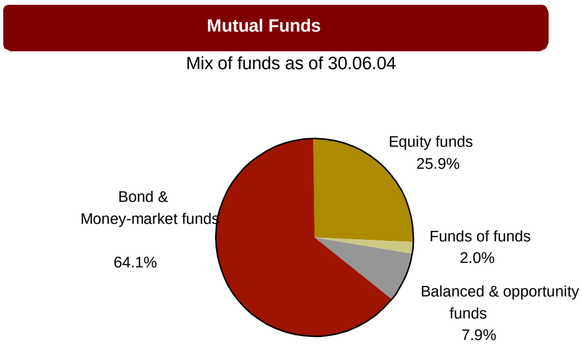
As a consequence of the above dynamics of the various aggregates within AuM management, the weight of "life policies and pension funds" climbed from 35.7% (30/06/2003) to 39.4%.



Mutual Funds

- Net redemptions of mutual funds and SICAVs amounted to EUR 297 million, (with net redemptions of direct customers accounting for EUR 113 million), due to the downturn which characterized the whole banking industry (which in the first half of 2004 experienced redemptions in the amount of EUR 4.7 billion) and the persistent weakness of equity and bond prices. However, the MPS Group experienced more moderate redemptions in comparison with the top ten intermediaries.

- **Mutual Funds stock managed by MPS Group**stood at EUR 15,722 million as of 30 June 2004 reflecting growth of 1.2% yoy, and were virtually steady with respect to 31 December 2003, thus benefiting by a *performance effect* of 1.8% from the beginning of the year. **The market share declined slightly from 4.16% in December 2003 to 4.14%**. The following graph shows the weight of bond and money-market funds rising to 64.1 percent of the total mutual funds from 63.9 percent as of the end of 2003.



Individual portfolios under management

- The volume of new flows of assets of individual portfolios under management totaled EUR 86 million as of mid-2003, mainly concentrated in GPF/GPS accounts.

- The stock of individual portfolios amounted to EUR 10,625 million, reflecting a 1.3% decrease with respect to 30.06.03 and **a market share of roughly 6.7% growing by about 10 bp over the comparable figure at the beginning of the year**.

Assets under administration

The stock of assets under administration totaled EUR 61,468 million (+0.1 percent year on year). The flow of placement of innovative financial products (EUR 1,157 million) reflects the commercial policies set for the year, focused on promoting product with continuing fees.

Given these dynamics, **indirect funding** as of mid-2004 totaled EUR 104,921 million, progressing by 2.5% year on year (on a reclassified basis for facilitating comparisons). The weight of assets under management to total indirect funding rose from 39.8 percent as of 31 December 2003 to 41.4 percent as of 30 June 2004 (39.4% in June 2003).

Direct funding

The flow of plain vanilla more than doubled with respect to the flow achieved in the first half of 2003, thus proving the customers' preference toward secure forms of funding.

Direct funding amounted to EUR 83,372 million as of 30 June 2004, with a domestic market share of **6.55 percent.** The "primary" component (excluding subordinated bonds) progressed by 5.5% year on year driven by an increase in current accounts, saving deposits, cds and bonds (including issues in support of innovative finance products), and the development of funding by foreign branches. In view of the growth of subordinated bonds by roughly 1,500 million due to issues aimed at capital consolidation, the aggregate advanced by 7.2% in comparison with June 2003 (+ EUR 1 billion from the beginning of the year).

DIRECT FUNDING FROM CUSTOMERS (in EUR mn)

	30/06/2004	30/06/2003	% Change	% of	
			30/06/03	30/06/04	30/06/03
Savings deposits	4,316	4,083	5.7	5.2	5.3
Current accounts	37,665	36,219	4.0	45.2	46.6
Certificates of deposit	6,331	5,948	6.4	7.6	7.7
Repurchase agreements	4,388	5,453	-19.5	5.3	7.0
Bonds	24,828	21,808	13.8	29.8	28.1
Other	1,086	969	12.1	1.3	1.2
Sub-total	78,614	74,481	5.5	94.3	95.8
Subordinated liabilities	4,758	3,267	45.6	5.7	4.2
Total	83,372	77,748	7.2	100.0	100.0

The table below is indicative of the strong weight of retail customers (roughly 58% of total) with reference to the aggregate of "deposits" (current accounts+savings deposits+certificates of deposit).

Breakdown of deposits of ordinary resident customers of Italian branches
(in EUR mn)

	30/06/2004	% Change year on year	% of 30/06/2004	% of 30/06/2003
Non-financial companies	8,576	0.7	21.6	21.9
Family-owned businesses	2,527	0.3	6.4	6.5
Retail deposits (°)	22,917	0.8	57.6	58.5
Other (**)	5,759	12.5	14.5	13.2
Total	39,779	2.3	100.0	100.0

(°) Total includes private institutions and deposits which cannot be classified in the other categories
(**) Public entities, financial & insurance companies, no-profit institutions

■ 2) LENDING

☐ A) The MPS Group's commercial activity

During the first half of 2004, the persistent weakness of the economic cycle continued to have repercussions in terms of a lower demand for short-term loans by corporate customers. Against this backdrop, the MPS Group, which had already adopted rigorous policies for containing capital absorption in 2002, focused mainly on building business in the medium- and long-term components (supported by collaterals), mostly through the distribution networks and the product factories. New mortgage loans disbursed to retail and corporate customers by the three main networks of the Group hit a level of EUR 3,226 million, climbing by a considerable 16.5 percent year on year.

Mortgage loan disbursements to retail and corporate customers
(in EUR mn)

	30/06/2004	30/06/2003	Change Y/Y	% Change Y/Y
Monte dei Paschi di Siena (*)	1,642	1,235	407	33.0
Banca Toscana	914	839	75	8.9
Banca Agricola Mantovana	670	694	-24	-3.5

(*) excluding disbursements for public works

Similarly, the specialized lending activity continued to develop at a healthy pace, with a leading role played by Consum.it, which recorded a volume of consumer credits of roughly EUR 700 million with retail customers, and a market share increasing by over 1% to 3.8% in the first half of 2004. Despite a sound product policy, the placement of risk management products decreased considerably due to criticalities which influenced the banking industry.

Specialized lending and financial products for business

		June 2004	June 2003
MPS Finance			
	Risk-management products	1,419	3,168
MPS Merchant			
	Disbursements	844	929
MPS Banca Verde			
	Disbursements	372	386
MPS Leasing & Factoring			
o/w			
	Leases signed	552	779
	Factoring turnover	1,848	1,922
Consum.it			
	Disbursements	694	416

(°) The figures include the products issued directly by the Networks.

Given these trends, loans outstanding as of 30 June 2004 amounted to EUR 71,912 million, with the MPS Group's share of the domestic performing loan market at **6.25-percent**. The balance reflects growth of 1.8 percent year on year (+2.1% with respect to 31 December 2003). In terms of average balances, the growth was dominated by the medium-/long-term component, with an 8% increase in comparison with June 2003 (excluding the performing loan securitization carried out in November 2003in the amount of EUR 1,469 million). As a result, the **MPS Group's share of the domestic medium-/long-term loan market was 6.47 percent, virtually stable with respect to the end of June 2003.** Business in the domestic market in the short-term segment dropped in line with the results of the banking industry (-5.9%). A breakdown of loans by type shows continuing growth in mortgage loans, whose weight in terms of the entire portfolio climbed from 45.5 percent as of the end of 2003 to 47.8 percent at mid-2003 and volumes rose by 7% year on year (+11.6% net of securitized loans at the end of 2003), **driven by the Retail segment (+20% from the beginning of 2004)**.

DISTRIBUTION OF LOAN PORTFOLIO BY TYPES OF LOANS
(in EUR mn)

	30/06/04	30/06/03	% Change	% of 1H 2004 Total	% of 2003 Total
Current accounts	12,115	12,206	-0.7	16.8	17.3
Advances	4,443	5,110	-13.1	6.2	7.2
Advances and subsidies	11,415	11,524	-0.9	15.9	16.3
Personal loans	1,034	1,172	-11.7	1.4	1.7
Mortgages	34,394	32,143	7.0	47.8	45.5
Loan value of financial leases	3,067	2,990	2.6	4.3	4.2
Other	4,001	4,382	-8.7	5.6	6.2
Non-performing loans, net	1,442	1,090	32.4	2.0	1.5
Total	71,912	70,616	1.8	100.0	100.0

The geographical distribution of loans shows that customer loans are concentrated in central Italy, which accounts for 45.4 percent of total exposure, followed by northern Italy (35.3%). Southern Italy developed at a faster pace (+4.8 percent in comparison with 30 June 2003, with the industry average growing by 4.1%).

LOANS TO ORDINARY RESIDENT CUSTOMERS
Italian branches
Distribution by customer residence - in EUR mn

	30/06/2004	% Change Y/Y	% of 1H 2004 Total	% of 2003 Total
Northern Italy	23,388	4.5	35.3	35.2
Central Italy	30,059	3.5	45.4	45.6
Southern Italy and Islands	12,779	4.8	19.3	19.2
Total	66,226	4.1	100.0	100.0

The distribution of the loans of Italian branches by sector highlights the predominant weight of loans to retail customers, whose weight in the aggregate climbed from 18.7 percent in June 2003 to 19.3 percent. The gains were offset by modest reduction in the weight of loans for production purposes.

LOANS BY CUSTOMER SEGMENT
Italian branches
(in EUR mn)

	30/06/2004	% Change Y/Y	% of 1H 2004 Total	% of 2003 Total
Governments	3,777	-11.6	5.7	6.7
Financial institutions & insurance companies	5,801	16.7	8.8	7.8
Loans for production purposes	45,480	3.2	65.7	66.2
- non-financial companies	*37,920*	*2.7*	*57.3*	*58.1*
- family-owned businesses	*5,560*	*7.1*	*8.4*	*8.2*
- cottage industries	*1,135*	*2.0*	*1.7*	*1.8*
- other family-owned businesses	4,425	8.5	6.7	6.4
Retail loans	12,809	7.7	19.3	18.7
Other	360	8.8	0.5	0.5
Total	66,226	4.1	100.0	100.0

A review of the loans for production purposes by sector of economic activity shows the traditional, broad-based diversification of the portfolio.

LOANS FOR PRODUCTION PURPOSES BY SECTOR OF ECONOMIC ACTIVITY
Ordinary resident customers – Italian branches
(in EUR mn)

	30/06/2004	% Change Y/Y	% of 1H 2004 Total	% of 2003 Total
Agriculture	3,465	16.5	8.0	7.1
Industry	15,056	-2.9	34.6	36.8
Building and public works	4,709	2.1	10.8	11.0
Services	20,250	6.3	46.6	45.2
Total	43,480	3.2	100.0	100.0

Risk concentration is limited (58.4% of loans are for individual amounts of less than EUR 2.5 million).

LOANS OUTSTANDING BY AVERAGE AMOUNT
Cash credits, net of non-performing loans

	% of Total as of 30/06/2004	% of Total as of 30/06/2003
0 - EUR 75,000	13.4	14.2
EUR 75,000 - EUR 250,000	17.3	15.9
EUR 250,000 - EUR 500,000	7.7	7.7
EUR 500,000 - EUR 2,500,000	19.9	19.9
EUR 2,500,000 - EUR 50,000,000	24.6	24.2
More than EUR 50,000,000	17.0	18.2
Total	100.0	100.0

B) DOUBTFUL LOANS

During the first half of 2004, the continuing sluggish performance of the economy prompted the MPS Group to tighten up its already rigorous criteria for identifying doubtful loans, and to raise the level of the reserves to cover such positions, in line with the Business Plan.

Total doubtful loans, though increasing year on year, were mainly driven by watchlist positions as shown in the chart below.

TREND OF NON-PERFORMING CUSTOMER LOANS
(including interest in arrears)
(in EUR mn)

	Amount Outstanding	**Doubtful Loans**	**Net Value**
Balance as of 31 December 2003	**2,509**	**1,210**	**1,299**
Increases during the period	**659**	**385**	**274**
Transfers from performing loans	229		
Transfers from other categories of doubtful loans & other increases	389		
Interest in arrears	41		
Decreases during the period	**313**	**183**	**130**
Transfers to performing loans	5		
Amounts written off	105		
Collections	176		
Collections through transfers	4		
Transfers to other categories of doubtful loans and other decreases	23		
Balance as of 30 June 2004	**2,854**	**1,412**	**1,442**

Taken altogether, the aggregate of NPLs+gross watchlist credits stood at EUR 4,434.9 million with a 10.9 percent growth with respect to December 2003. However, the trend is in line with the banking industry and, consequently, **the ratio of gross NPLs to customer loans (3.8%) was better than the industry average (4.8%).**

Net NPLs as of 30 June 2004 amounted to EUR 1,442 million (EUR 1,299 million as of 31 December 2003) and reflect a coverage ratio of 60% (including write-offs). Excluding mortgage loans, which are characterized by a lower degree of doubtful outcomes since they are secured by collaterals, this percentage reached 70%. **The ratio of net NPLs to customer loans** - which incorporates the reduction of about EUR 1.5 billion in the balance concerning the securitization of performing loans carried out at the end of 2003 – **was 2% in line with the banking industry average.**

DISTRIBUTION OF LOAN PORTFOLIO BY RISK CATEGORY
Risk category - Net values (in EUR mn)

	30/06/04	**31/12/03**	**% of**	**% of**
			30/06/04	**31/12/03**
Non-performing loans	1,442	1,299	2.01	1.84
Watchlist credits	1,284	1,185	1.79	1.68
Credits pending restructuring	10	22	0.01	0.03
Restructured loans	47	50	0.07	0.07
Unsecured loans to high-risk nations (*)	103	88	0.14	0.12
Total doubtful loans	**2,886**	**2,642**	**4.01**	**3.75**
Performing loans	69,025	67,763	96.0	96.2
Total customer loans	**71,912**	**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 as of 30 June 2004 includes EUR 5.1 million and EUR 5 million as of 31 December 2003.*

The table below illustrates that **the ratio of doubtful loans to gross NPLs** came at 49.5% with a 1.3 point increase with respect to December 2003 and almost 5 point if compared to the value reported in 2002. The ratio reached almost 60% with reference to ordinary credit.

COVERAGE OF DOUBTFUL LOANS

	30/06/2004	31/12/2003
% coverage "doubtful loans NPLs and watchlist credits"/"gross NPLs+gross wathclist credits"	38.5	37.9
% coverage "doubtful loans watchlist credits"/"gross wathclist credits"	18.7	20.5
% coverage "doubtful loans NPLs"/ "gross NPLs"	49.5	48.2

Considering "generic reserves" (i.e. lump-sum provisions on performing loans and loan loss reserves which incorporate a prudential evaluation of potential risks linked with the negative cycle of the car industry) which account for 0.85% of gross performing loans, <u>the percentage of coverage of gross NPLs was 70.1%</u> (73% at Banca Monte Paschi).

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 30 June 2004
(in EUR mn)

	Group	BMPS	BT	BAM	MPS Merchant	MPS Banca Verde	MPS Leasing & Factoring
Non-performing loans	1,442	659	149	172	272	68	80
% on total customer loans	2.0	1.8	1.3	2.2	4.7	2.6	1.9
doubtful loans / gross non-perf. loans	49.5	50.0	50.8	57.7	20.3	15.7	57.0
Watchlist credits	1,284	555	278	190	85	65	61
% on total customer loans	1.8	1.5	2.4	2.4	1.5	2.5	1.5
doubtful loans / gross watchlist credits	18.7	23.2	17.0	14.6	6.4	2.0	23.2

▪ 3) EVENTS LINKED WITH COMMERCIAL OPERATIONS

Major issues concerning financial plans and structured products

The 2003 annual report outlined the issues concerning financial plans and structured products in detail, illustrated the main criticalities and the initiatives adopted for a positive outcome. The actions aimed at settling this issue continued in the first half of 2004. In particular, a joint press release with the Consumers' Associations (Adiconsum, Adoc, Adusbef, Codacons, Federconsumatori, Lega Consumatori Acli, Unione Nazionale Consumatori) issued on 8 July 2004 stated that the review of all complaints received had been completed on 31 May 2004 through joint management of MyWay-4You financial plans with said Associations. The efforts made by the MPS Group and the Consumers' Associations in order to solve the problem as soon as possible are proved by the meetings which took place between July 7 2003 and 31 May 2004 (138) and involved the participation of skilled resources from both parties. With reference to the 6,599 complaints the Bank had received, the settlement procedure produced the following results:

- In 21% of the cases, provision was made for offering to refund between 80% and 100% of the monies paid in, without any charges related to discounting provided for under the plans (these are the so-called Band A cases).

- In 51% of cases, provision was made to offer savers a restructuring of their plans with the effect of reducing the instalments or the length of the subscription period; alternatively, these savers were offered the possibility of abandoning their plans from the sixth year following the date of subscription, without paying any charges related to discounting and with an immediate reduction in the rate of financing, while in a few cases the savers were offered a refund of up to 80% of the instalments already paid (so-called Band B cases).

- In 28% of cases the complaint was judged to be inadmissible.

Most of the claimers (90%) accepted the proposals made by the Bank. The efforts made, which represent the first example of a joint co-operation between the banking industry and the principal Consumers' Associations, turned out to be successful with reference to this issue.

As of 30 June 2004 the Group had received 18,317 claims including 12,714 concerning savings plans and 5,603 concerning structured products.

In order to assess the impact of the above issues on the balance-sheet, the MPS Group adopted the prudential principles already used for the 2003 Annual Report, which are based on statistics obtained before the preparation of the draft balance-sheet. The half-year report as of 30 June 2004 incorporated an increase in the "Provisions for risk and charges" in the amount of EUR 27 million (including EUR 12 million booked by BMPS) covering the charges in relation to the complaints concerning financial plans and structured products received after the closing of the half-year. With reference to the claims settled and paid during the first half of 2004, the Group posted total charges in the amount of EUR 22 million (including EUR 19 million posted by BMPS).

7C – OPERATIONS BY BUSINESS AREA

The various Business Areas within the Group contributed to achieve the above-mentioned consolidated results. Following is a review of the key aspects of the results by Business Area.

- **RETAIL**

The operating scenario of the Retail Area was adversely affected by the persistent lack of confidence with respect to the actual economic recovery and uncertain future prospects. The customers' preference went to liquid financial products and traditional products, with equity-based investments being postponed indefinitely. The activity carried out by the Area was highly satisfactory and focused on consolidating the customers' confidence on the basis of the principles of clarity, transparency and the utmost emphasis on evident or latent requirements. Despite the operating difficulties, appreciable sales volumes were achieved with respect to funds management (gross flows of saving products topping EUR 4 billion) and lending (retail mortgage loans in the amount of roughly EUR 1,950 million, consumer credit in the amount of roughly EUR 700 million), with an increase in total funding (+3.8%) and medium/long-term loans (+9.8%). From the standpoint of profitability, interest income approached the values reported in June 2003, due to the moderate development of volumes traded, flanked by the markdown decline. Non-interest income, instead, was characterized by a 10% growth which incorporates increasing balances and numerous initiatives concentrated on streamlining the offer of basic services and increasing the customers' use of remote distance channels.

Additional information concerning the activity of the sub-segments is provided in the section covering "*The implementation of the Business Plan*".

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

- **Banca 121 Promozione Finanziaria**. Despite the operating difficulties, the institution started to effectively streamline its network of financial advisors and to motivate the best ones. In July 2004 the institution approved a plan of relaunch with the objective of achieving break-even in 2006. With reference to half-year results, the Operating Profit was virtually steady year on year; the provisions for the claims concerning the financial plans and structured products had a considerable weight.

- The life insurance companies (**Monte Paschi Vita** which incorporated **Ticino Vita** in 2003, **Grow Life** which started operating as **Monte Paschi Life** in February 2004) realized significant net income. The embedded value of new production at june 04 totalled EUR 54 million (only product companies) with respect to EUR 90.5 million at december 03. Rounding out the interests in bancassurance is **Monte Paschi Assicurazione Danni** (former Ticino Assicurazioni) which earned a net income of EUR 3.5 million.

Bancassurance (EUR million)				
	Monte Paschi Vita		**Monte Paschi Life**	
	30/06/04	% chgY/Y	30/06/04	% chgY/Y
Net profit	18	65.5	12	32.3
	www.mpv.it		www.montepaschilife.ie	

- **MP Asset Management SGR** kept its market share in terms of assets managed steady. From the standpoint of profitability, the company generated a gross operating profit of EUR 45 million and a net income of EUR 27.8 million (advancing by 23% with respect to June 2003).

- **Consum.it.** Disbursements for the year came to EUR 481 million compared with EUR 376 million as of June 2003, in addition to disbursements of the new PRS line (centralized personal loans on behalf of all the Group commercial networks) in the amount of EUR 143 million. Disbursements in relation to revolving credit cards were also considerable (with EUR 73.5 million in the first half of 2004 or + 79% with respect to June 2003). Significant progress was also made on the earnings front with the operating profit standing at EUR 26.2 million (+76.3%) and net incomet amounting to EUR 8.3 million (EUR 3.6 million as of 30.06.03).

- **CORPORATE**

The Corporate Area (additional information about the Area is provided in the section covering "*The implementation of the Business Plan*") totalled disbursements topping EUR 3 billion in the segment of medium/long-term loans. This determined an increase in the volume of medium/long-term loans of around 7% in terms of average volumes. The volume of funding declined moderately. Net interest income, even if steady spreads, is penalized by unfavorable demand for short term loans. Non-interest income dropped by over 6% and was affected by the lower contribution resulting from the placement of financial products of coverage to companies and Public entities. This slowdown involved the whole banking industry. The above-mentioned dynamics determined a decrease of about 2% in total banking income.

The specialized lending companies supporting the Coporate Area also logged significant improvements.

Specialized lending companies (EUR million)

	MPS Merchant		**MPS Banca Verde**		**MPS Leasing & Factoring**	
	30/06/04	% chg yoy	30/06/04	% chgyoy	30/06/04	% chg yoy
Customer loans (°)	5,499	16.9	2,418	28.2	4,209	7.9
Loans disbursed for the year (*)	844	-9.2	372	-3.5	552	-29.2
Turnover factoring					1,848	-3.9
	www.mpsmerchant.it		www.bancaverde.it		www.mpslf.it	

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

- **Mps Merchant – Banca per le P.M.I** continued to develop important projects in the area of Project and Acquisition Financing. On the front of traditional business, loan disbursements stood at more than EUR 800 million (-9.2% yoy). Profitability improved, with the gross operating profit rising by 5.4% and net income amounting to EUR 16 million.
- **Mps Banca Verde** consolidated its presence in the territory and developed business. New disbursements which rose by 13.5% were concentrated in serving the agricultural, agro-industry and environmental sectors. On the

earnings front, the bank reported a gross operating profit rising by 44.2% and a net income growing by 83.7%.

- **Mps Leasing & Factoring** consolidated its operations as a captive leasing/factoring product factory against a critical operating backdrop. The Leasing Unit results fell by 29% with EUR 552 million in terms of contracts executed and the turnover factoring also dropped. Due to the modest reduction in the operating profit (-5%), the Bank's net income was negative as a result of the considerable value adjustments to the outstanding loan portfolio.

€mln

Corporate product companies	MPS Merchant		MPS Banca Verde		MPS Leasing & Factoring	
	30/06/04 Amount	Var% yoy	30/06/04 Amount	Var% yoy	30/06/04 Amount	Var% yoy
Total banking income	53,1	2,7	24,5	23,0	39,3	-1,8
Gross operating profit	38,8	5,4	16,6	43,8	27,1	-5,0
Net profit	16,0	-18,8	9,3	83,7	-9,9	n.s.
	www.mpsmerchant.it		www.bancaverde.it		www.mpslf.it	

- **MPS Finance** operates servicing retail and corporate customers and providing them with a wide array of financial products. With reference to production volumes, the units dedicated to retail customers met the forecasts topping EUR 1.2 billion (bond and insurance products). Corporate business flows (abt. EUR 1.5 billion) declined sharply with respect to prior year. The decline was attributable to the decrease in hedging operations (interest and exchange rates) for SMEs and Public entities (-58%). Gross operating profit stood at EUR 32.5 million (-44% with respect to 30 June 2003). The decrease was mainly due to lower placement volumes and was sharpened by more limited unit revenues from the "product factory" activity (i.e. shorter maturities, declining interest spreads). Net income fell from EUR 36.9 million in the first half of 2003 to EUR 28.8 million.

- **INTERNATIONAL ACTIVITY**

The total banking income for the International Affairs Area showed a modest decrease with respect to June 2003 (EUR 55 million or – 7.4%). The net results for the Area, instead, benefitted by extraordinary events (e.g. recoveries of value on prior years' provisions). Direct operations through the foreign branches generated a total banking income of roughly EUR 20 million, with a 15.6% decrease year on year attributable to the planned containment of capital absorption. The aggregate of Foreign Banks reported positive results, with losses limited to Monte Paschi Suisse.

€mln

	Monte Paschi Banque		Banca Monte Paschi Belgio		Banca Monte Paschi (Suisse)	
	30/06/04 Amount	Var% yoy	30/06/04 Amount	Var% yoy	30/06/04 Amount	Var% yoy
Total banking income	25,3	-3,9	7,4	9,5	2,3	-13,7
Gross operating profit	6,6	15,0	1,8	50,0	-0,6	93,1
Net profit	0,3	n.s.	3,2	n.s.	-1,2	n.s.
	www.montepaschi-banque.fr		www.montepaschi.be		www.montepaschi.ch	

- **TAX COLLECTION**

The performance of the Tax Collection Area improved clearly in the first half of 2004 with gross operating profit growing by EUR 26 million compared with the first half of 2003, at EUR 15.5 million. The performance of Mps SERIT was particularly satisfactory with a income of EUR 4 million in comparison with the EUR 11.7 million loss incurred in June 2003. This result was due to:

- The activity of forced collection carried out by Mps SERIT, which more than offset the lower-than-expected results of the Direct Tax Collection companies;
- The improvement in the financial margin in relation to the favourable trend of interest rates;
- The lower contribution from "lump-sum tax remuneration".

The tax collection system operates on the basis of ten-year Government licenses expiring on 31 December 2004. The Group is committed to undertaking appropriate initiatives in the matter.

The profit and loss statement of the BMPS direct tax collection companies (net profit of EUR 1.2 million) is illustrated in the table below.

RECLASSIFIED PROFIT AND LOSS STATEMENT – TAX COLLECTION BUSINESS (Direct Management)

In EUR million	30/06/04	30/06/03	Change	
			Absolute	%
Interest income	-4,9	-6,9	2	-29.1
Non interest income	59,6	55,6	4	7.02
Total banking income	**54,6**	**48,6**	**6**	**12.04**
Administrative expenses	-50,5	-50,4	-0,1	0.01
Including:				
Personnel expenses	-35,2	-34,9	-0,3	0.08
Other expense	-15,2	-15,5	0.02	-1.4
Gross operating profit	**4,2**	**-1,8**	**6**	**n.s.**
Valuation adjustments to fixed & intangible assets	-2,4	-2,6	0,3	-10.7
Operating profit	**1,8**	**-4,4**	**6,2**	**n.s.**
Extraordinary profit/charge	-0,6	6,9	-7,5	n.s.
Profit before income tax	**1,2**	**2,4**	**-1,2**	**n,s**

- **FINANCE & INVESTMENT BANKING**

The performance of the **Finance & Investment Banking Area**[3], which consists of several Units and reflects their results, deteriorated year on year. After a positive start of the year, the second quarter of 2004 experienced a deterioration of the financial markets (both equity and bond markets). In particular, the bond markets were adversely affected by the expectations of an increase in interest rates by the central banks, with losses of value which topped 5% with respect to longer-term maturities. This was flanked by the lower contribution from structured products.

- **PROPRIETARY FINANCE AND TREASURY ACTIVITY**

A) PROPRIETARY FINANCE AND SECURITIES PORTFOLIO

Operating against this backdrop, the Parent Company's Proprietary Finance Desk adopted a strategy characterized by the gradual reduction of risk exposure. With reference to the equity market, the Desk's policy was oriented to adopt a policy of moderate exposure in line with the market, thus reducing its position in the high-

[3] Including the results of the Proprietary Finance activity of BMPS and – for the purpose of a better description – the results of the *Investment Banking* activity of MPS Finance and MPS Ireland, in addition to the *Brokerage* business of Intermonte Securities Sim.

tech sector in favour of equities in the car and chemical industry or cyclical securities.

With reference to *trading on "credit spread*", the upward trend of the prices of oil, commodities and basic prices was flanked by an increase in interest rates which determined the repricing of credit risk and mainly influenced *sub-investment grade* securities. Therefore, the Group adopted a "positive carry" strategy aiming at high yields and the stability of default rates.

The quantitative desk continued to concentrate on short-term trading, because of uncertain market.

Dealing was influenced by lower equity market volatility (narrow range between 2650 and 2900 for the Eurostoxx50 Index), involving the reduction of historical volatility to the lowest levels reported in the last few years.

These activities determined a limited evolution of market risks (see the section covering "Integrated Risk Management").

As a result of the above-mentioned transactions, the **balance of the Group's own securities as of 30 June 2004 amounted to EUR 17,514 million**, decreasing by EUR 1,338 million with respect to June 2003. The aggregate consists of two components which are illustrated in the table below:

OWNED SECURITIES (in EUR million at end of period)

	BANCA MPS 30.06.2004	Change vs. 30.06.03	MPS GROUP 30.06.2004	Change vs. 30.06.03
Total securities	12,366	134	17,514	-1,338
including				
Investment portfolio	3,327	-132	3.866	-199
Trading portfolio	9,039	-3	13,648	-1,14

The Group investment portfolio decreased by roughly EUR 200 million with respect to 30 June 2003. The decrease in the **trading portfolio** by roughly EUR 1,140 million was concentrated on equities which went from EUR 2,753 million to EUR 1,590 million.

The table below provides a summary of securities portfolios by the type of securities held.

Owned securities

(in EUR mn)	**BMPS 30/06/2004**	BMPS 30/06/2003	**MPS Group 30/06/2004**	MPS Group 30/06/2003
Government securities	2,994	245	5,916	-68
Bonds and other fixed-income securities	8,499	384	10,008	-108
Shares, quotas and other equity securities	873	-763	1,590	-1,163
Total	**12,366**	**-134**	**17,514**	**-1,338**

B) TREASURY ACTIVITY

During the first half of 2004, the growing development of operations of the MPS Group implied the increase in the volumes traded by the Parent Company, as a result of the gradual and final centralization at Banca Monte dei Paschi of the management of Group's financial and liquidity flows. As a consequence, the overall management of the Group liquidity improved gradually, with subsequent benefits in terms of optimization of the expected level of liquidity, containment of daily average requirements and extension of the average life of funding. Therefore, as shown in the table below, the Group's interbank balances reduced in compliance with the policy of optimization of Risk Weighted Assets. The net borrowing position in the interbank market decreased from EUR 9,881 million to EUR 3,612 million.

INTERBANK BALANCES

	BMPS		MPS Group	
	30/06/04	Change vs.30/06/03	**30/06/04**	Change vs 30/06/03
Amounts due from banks	20,387	1,858	10,184	-1,237
Amounts due to banks	14,509	-3,737	13,796	-7,506
Net lending (borrowing)	5,879	5,595	-3,612	6,269

C) ASSET-LIABILITY MANAGEMENT

With respect to the activity in the international markets and in order to achieve capital ratio strengthening as provided for by the Business Plan, in the first half of 2004 the Bank launched a new issue of Tier III subordinated debt in the amount of EUR 600 million with 2-year and 6-month maturities. A Lower Tier II ten-year subordinated issue in the amount of EUR 250 million was inaugurated, with a call option to be exercised on the fifth year.

- **EQUITY INVESTMENTS AREA**

In the first half of 2004, dividends from equity investments accounted for EUR 19.3 million (EUR 22.3 million as of 30 June 2003). The Group's portfolio of equity investments totalled EUR 2,605.6 million, including EUR 458 million in relation to Group companies valued with the net equity method. The Parent Company's portfolio of equity investments stood at the levels reported at the end of 2003 (EUR 7,215 million) with a EUR 124 million decline in comparison with 30 June 2003.

EQUITY INVESTMENTS

	30/06/04	30/06/03	Abs.change
Investments in Group companies	5,189	5,187	2
Other investments	2,026	2,152	-127
Total	**7,215**	**7,339**	**-124**

- **INVESTMENTS IN MPS GROUP COMPANIES**

The aggregate reflects the major reorganization and streamlining which took place in the first half of 2004 pursuant to the guidelines of the Group's Business Plan.

BANCA C.STEINHAUSLIN & C. SPA: merger by incorporation on 30 May 2004 with accounting and fiscal effects starting from 1 January 2004 ;

MPS MERCHANT: subscription in March 2004 of 145,442 shares with a right of option resulting from the capital increase from EUR 68.9 million to EUR 83.2 million, approved by the Extraordinary Shareholders' Meeting of 17 December 2003;

BANCA MONTE PASCHI SUISSE: finalization of the negotiations for the sale of the Bank's capital, wholly owned by BMPS, to Pkb Privat Bank Ag (Lugano). The transaction was executed in July 2004 at the price of EUR 24.7 million with respect to a book value of EUR 12.2 million;

BANCA MONTE PASCHI (CHANNEL ISLANDS) Ltd: finalization of the negotiations for the sale of 100% of the capital to BSI Banca della Svizzera Italiana (Channel Islands), belonging to the Generali Group. The transaction was finalized on 21 July 2004 with an income of EUR 10.3 million with respect to a book value of EUR 8.3 million.

<u>Acquisitions, incorporations and sales</u>

- BA.SA Servizi: in a logic of streamlining equity investments in real estate companies, BA.SA merged by incorporation into MPS Immobiliare SpA after the necessary extraordinary corporate transactions.

<u>Other transactions</u>

- Banca 121 Promozione Finanziaria: reduction of the share capital for losses of EUR 62.7 million and subsequent capital increase up to EUR 125 million;

- Monte Paschi Belgio: the Parent Company partecipated in a capital increase of EUR 10 million (including an additional paid-in capital of EUR 2.4 million), thus bringing its share from 72.48% to 77.53%;

- Monte Paschi Serit Spa: the losses incurred in 2003 (EUR 24.4 million) were covered by reducing the share capital, subsequently restoring it to the original amount (EUR 10.4 million) and paying EUR 7.7 million;

- MPS.Net: as a result of the losses of EUR 31.2 million incurred as of 31 December 2003, the company reduced its share capital from EUR 53 million to EUR 21.8 million;

- MPS Professional Spa: the extraordinary shareholders' meeting resolved to write off the share capital due to the operating loss of EUR 1.1 million, and to restore it up to EUR 2.4 million;

- E-Idea, Monte Paschi Nederland, MPS US Commercial Paper: in a logic of streamlining equity investments, these companies were wound up;

- Monte Paschi Ireland Ltd.: in a logic of streamlining the Irish-law companies, Monte Paschi Ireland Ltd. acquired all assets and liabilities of Mantovana Ireland Ltd. which was wound up;

- Marinella Spa: in order to promote the development of the project of urban rehabilitation of owned properties, the company called for the second tranche of capital increase in the original amount of EUR 5 million (subscribed at the beginning in the amount of EUR 2 million) and made another capital increase of EUR 7.2 million.

OTHER EQUITY INVESTMENTS

Acquisitions, incorporations and sales

- Charme Investments Spa: during the first half of 2004, the company resolved two calls for capital totalling EUR 6.2 million. After these initiatives, the payments made by BMPS amounted to EUR 7.1 million out of an expected maximum commitment of EUR 25 million. After the acquisition of an interest in "Poltrona Frau", Charme Investments purchased an investment in Ballantyne, an English company producing high-quality knitwear;

- Autostrada Torino-Milano Spa and Sias Spa: the equity investment (1.41%) in the share capital of Autostrada Torino-Milano Spa and the interest (0.97%) in the share capital of Sias Spa were totally sold in blocks in April 2004. The Group realized profits from the sale of the investment in Autostrada Torino-Milano in the amount of EUR 14.3 million with respect to a book value of roughly EUR 3.3 million, and a countervalue of roughly EUR 9 million from the sale of the interest in Sias with respect to a book value of EUR 2 million;

- Compagnia Assicuratrice LINEAR Spa: the equity investment belonging to Banca Agricola Mantovana was sold at the price of EUR 10.7 million with a capital gain of about EUR 5.2 million;

- Unisalute Spa: the equity investment held by Banca Agricola Mantovana was sold at the price of EUR 3.9 million with a capital gain of about EUR 2.2 million;

- IBA Ag: the stake held in this bank (35.01%) was sold to Bank Winter Ag, former shareholder of IBA Ag, which became the controlling shareholder;

- CBI Factor Spa: the equity investment was sold at the price of EUR 0.57 million with respect to a book value of EUR 0.35 million.

Other transactions

- Energia Italiana Spa: the second tranche of a capital increase resolved in September 2003 was placed in March 2004. BMPS exercised the right of option for a total investment of EUR 0.88 million (including an additional paid-in capital of EUR 0.79 million).

- Firenze Parcheggi: in view of the importance of this initiative for the area of Florence and the balanced trend of corporate management, BMPS participated in the capital increase by underwriting shares in the amount of EUR 1.1 million.

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Following are the considerations with reference to the accounting items subject to valuation adjustments posted in the BMPS balance-sheet as of 31 December 2003 in enforcement of tax regulations. The figures reported are net of the fiscal effect.

- the writedown (EUR 52 million) concerning the investment in BNL posted on 31 December 2003 is not deemed to be permanent, also in relation to the repayment terms of the convertible bond issued on 10 June 2004 (maturity 2009) in the amount of EUR 450 million through an offer addressed to non-Italian institutional investors. This loan is convertible into about 178 million BNL ordinary shares corresponding to the investment held by Banca Monte Paschi and Banca Popolare di Vicenza. In its turn, BPV issued a bonded loan convertible into BNL shares which was fully underwritten by BMPS. This transaction enabled BMPS to raise funds in the market at favourable economic terms;

- the writedown of EUR 111 million in relation to a derivative contract - classified among repurchase agreements (put option on former BAM shares, now BMPS shares) and placed in the investment portfolio of BMPS - keeps its characteriscs of fiscal devaluation, since the loss of value in relation to the underlying assets is not deemed to be permanent;

- the loss incurred by the subsidiary Santorini Investment Limited Partnership, posted in compliance with several accounting principles and provisioned for EUR 77 million in enforcement of tax regulations in the annual report as of 31 December 2003, is not deemed to be permanent in view of the quality and volatility of the assets underlying the financial contracts executed by the subsidiary.

With reference to the accounting treatment of the effects of the reform pursuant to Legislative Decree no.6 of 17 January 2003, and in particular the repeal of art.2426, second paragraph of the Civil Code, which provided for writedowns and provisions to be made in enforcement of tax regulations, additional information is provided in section B1 “evaluation criteria” of the Notes to the half-year report of the parent company as of 30 June 2004. These items are reversed in the consolidated half-year report as of 30 June 2004, due to their fiscal nature.

7D - PROFITABILITY BY BUSINESS AREA

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

New variables such as the measurement of expected losses (i.e. net average loss estimated by the MPS Group in the 12 months following the reference date on the amount of performing loans outstanding as of the measurement date) and economic capital (i.e. capital required for balancing any losses generated by unexpected changes of internal or external conditions, as a result of credit, market, operating, business or insurance risks) were introduced in replacement of (i) adjustments and provisions on loan losses and (ii) the measurement for regulatory purposes.

Following is a breakdown of the results by Business Area and the major ratios[4]:

In EUR million

Main Business Area	Retail Banking		Corporate Banking		Investment Banking		International Banking		Tax Collection		Group total	
	Con 30/06/04	% Change vs. 03	Con 30/06/04	% Change vs. 03	Con 30/06/04	% Change vs. 03	Con 30/06/04	% Change vs. 03	Con 30/06/04	% Change vs. 03	Con 30/06/04	% Change vs. 03
Interest income	452	0.3	711	-0.7	48	24.3	33	-16.2	-12	-19.5	1,231	-1.8
Non-interest income	538	9.5	233	-7.2	89	-47.2	22	10.4	144	21.5	1,073	-4.0
Total banking income	990	5.1	944	-2.4	136	-34.0	55	-7.4	132	27.5	2,304	-2.9
Operating profit	265	57.0	386	2.2	92	-43.4	11	-1.8	13	192.0	769	2.3
% Cost/income	73.2		59.1		32.9		79.3		90.4		66.6	
% Rorac(annualized basis)	27.3		5.5		31.2		4.1		n.s.		7.2	
% on capital absorption	11.8		50.4		6.0		2.4		0.2		100.0	

The high return on risk-adjusted capital (Rorac) of Retail Banking benefits from the positive performance of all profitability figures and limited absorption of economic capital with respect to credit risk. International Banking and the Tax Collection Area (which showed a negative Rorac at the end of 2003) improved.

[4] From the viewpoint of methodology, the Rorac for each Area is calculated as the ratio of Nopat to the higher of "risk-adjusted economic capital" and "allocated economic capital". The NOPAT is calculated on the basis of the profit and loss statement of each Area, excluding several accounting items such as extraordinary items and goodwill amortization.

The cost/income ratio for each Area is inclusive of allocated Corporate Center costs. The Corporate Center incorporates risk-adjusted capital for the Equity Investments Area (roughly 20% of total); Business Risk capital and eliminations/integrations.

8 – INTEGRATED RISK MANAGEMENT

BASLE 2 STANDARDS

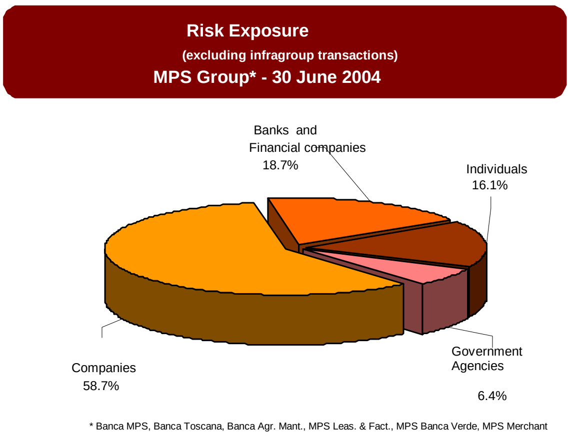
During the first half of 2004, work continued on improving compliance with the new guidelines on capital adequacy (Basle 2) issued by the Basle Committee in the form of final draft on 26 June 2004.

Both on the front of credit risks and operating risks in addition to market risks, the MPS Group is finalizing projects to adopt the most appropriate methods, as illustrated by the Basel II's first pillar for the determination of capital requirements.

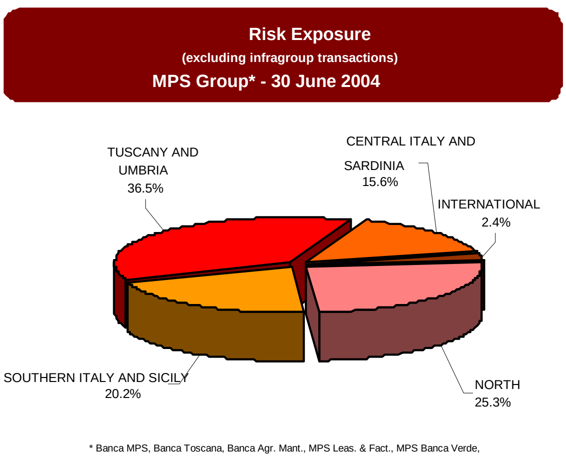
- **CREDIT RISKS**

o DEVELOPMENTS IN THE MEASUREMENT OF CREDIT RISK

As of the end of June 2004, the MPS Group exposure to credit risk remained virtually steady with respect to the end of 2003. In particular, loans to Governments and Public entities accounted for 6.4% of total with Banks and Financial Institutions reaching 18.7%. Individuals accounted for 16.1% on the total of the aggregate for the MPS Group with the remaining 58.7% consisting of loan disbursements to Large Corporates, SMEs, Small Businesses and Retail.



As of 30 June 2004 BMPS, Banca Toscana and Banca Agricola Mantovana accounted for roughly 61%, 14% and 10%, respectively, of the MPS Group risk exposure. The Group loan portfolio mostly consisted of loans to resident customers. A breakdown of risk loans by geographical area shows that risk loans were concentrated in Tuscany and Umbria (36.5%) with northern Italy accounting for 25.3%, central Italy and Sardinia for 15.6%, southern Italy and Sicily for 20.2%, foreign borrowers for 2.4%.

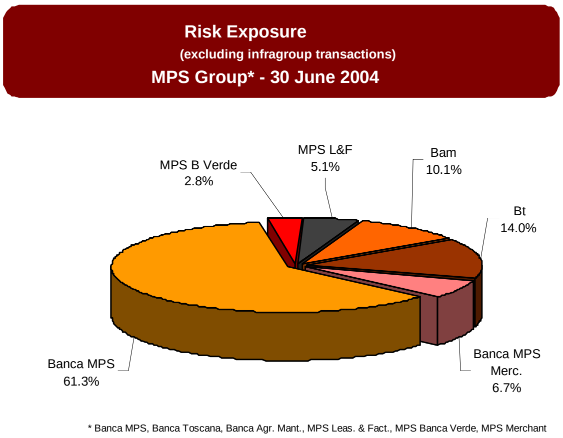


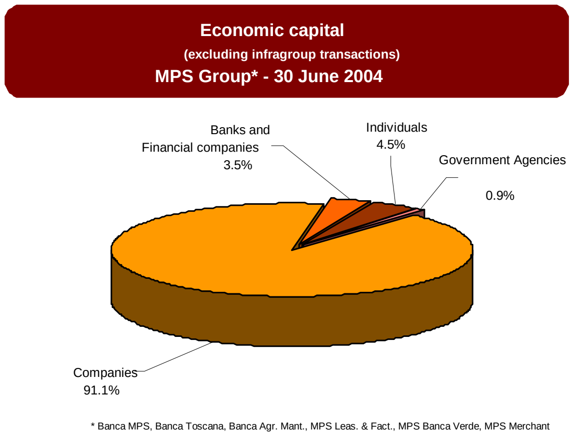
A breakdown by international geographical area indicates that exposures were concentrated in the Eurozone (about 91%) with the rest of Europe (in particular the United Kingdom) accounting for roughly 6% and America for 1.11%.

Risk measurement as represented by the Expected Loss and Economic Capital with respect to risk exposures remained on the levels reported in December 2003, with a moderate improvement in the "retail customers" segment.

With reference to the consumption of Economic Capital as measured through the Loan Portfolio Model, BMPS experienced capital absorption of 50.4% of the Group total, followed by Banca Toscana and BAM. The corporate segment absorbed over

91% of the MPS Group economic capital with the remaining 9% being attributable to Retail customers, Banks and Financial Institutions and Government agencies.





- **COUNTRY RISK**

The developments in the macroeconomic scenario reflected in the country risk results of the Bank of Italy with a few important changes in the grid of survey [the improvement of Algeria (nil provision) or the deterioration of the Dominican Republic (provision of 40%) and Syria (provision of 30%)].

Due to the persistently uncertain international markets, the perception of country risk has to be reviewed continuously. The MPS Group also reviews the credit strategies supporting the emerging markets with a better political and economic-financial stability from the standpoint of profitability, in accordance with the above-mentioned provisions of the Bank of Italy. The Latin-American area, Russia, Turkey and the Philippines were monitored with the utmost care.The update of internal analysis instruments and risk monitoring tools enabled the Group to diversify the range of commissions and to evaluate the counterparty risk by duly taking sovereign risk into account. A few reports and evaluations are available in the corporate section of the Bank's web site (www.mps.it).

That being said, the MPS Group unsecured exposure to risk countries grew with respect to 31 December 2003. In particular, at BMPS (which accounts for more than 90% of the Group total) unsecured loans (customer loans, loans to banks and securities) climbed from EUR 427 million in December 2003 to EUR 558 million. The tables below provide a summary of unsecured exposure to high-risk nations by geographical area and type of counterparty (customers/banks):

Unsecured credit (cash and securities) vs. high-risk nations
(in EUR mn)

Geographic Area	Gross Exposure				Doubtful	Net
	Customers	Banks	Securities (*)	Total	Credits	Exposure
Africa	4.8	32.7	0.0	37.5	0.0	38
Latin America	9.1	12.4	10.8	32.3	9.3	23
including: Argentina	0.0	1.2	10.7	12.0	8.8	3.1
including: Brazil	0.0	0.4	0.0	0.5	0.0	0.4
North America	18.1	0.0	11.0	29.1	4.4	25
Australasia	72.4	328.7	7.9	409.0	0.6	408
Western Europe	0.1	0.0	0.0	0.1	0.0	0
Eastern Europe and the Balkans	0.4	9.2	6.8	16.3	1.3	15
Near East	2.4	30.9	0.0	33.3	0.0	33
Total	107.3	414.0	36.4	557.7	15.6	542.1

(°) Securities held in the investment portfolio of the foreign branches

The classification of country risk by nature of the transaction (commercial/financial/securities) is indicated in the table below:

Unsecured credit vs. high-risk nations
(in EUR mn)

Geographic Area	Gross Exposure (°)				Doubtful Credits	Net Exposure
	Commercial	Financial	Securities	Total		
Africa	2.7	34.9	0.0	37.5	0.0	38
Latin America	0.5	21.0	10.8	32.3	9.3	23
including: Argentina	0.0	1.2	10.7	12.0	8.8	3.1
including: Brazil	0.4	0.0	0.0	0.5	0.0	0.4
North America	0.0	18.1	11.0	29.1	4.4	25
Australasia	4.7	396.4	7.9	409.0	0.6	408
Western Europe	0.0	0.1	0.0	0.1	0.0	0
Eastern Europe and the Balkans	0.1	9.4	6.8	16.3	1.3	15
Near East	2.4	30.9	0.0	33.3	0.0	33
Total	10.4	510.9	36.4	557.7	15.6	542.1

(°) Securities held in the investment portfolio of the foreign branches

As of 30 June 2004, the MPS Group had a modest amount of exposure to Argentina and Brazil, all of which has been written down and is decreasing with respect to December 2003. The tables below show the exposure of BMPS with respect to the two countries.

Unsecured exposure to Argentina
(in EUR mn)

	Gross Exposure (°)				Doubtful Credits	Net Exposure
	Customers	Banks	Securities	Total		
Cash credits	0.0	1.2	10.7	12.0	8.8	3.1
Endorsement credits	0.0	3.3		3.3	1.7	1.7
Total	0.0	4.6	10.7	15.3	10.5	4.8

Unsecured exposure to Brazil
(in EUR mn)

	Gross Exposure (°)				Doubtful Credits	Net Exposure
	Customers	Banks	Securities	Total		
Cash credits	0.0	0.4	0.0	0.5	0.0	0.4
Endorsement credits	0.0	0.0		0.0	0.0	0.0
Total	0.0	0.4	0.0	0.5	0.0	0.5

- **COUNTERPARTY RISK (NON-RESIDENT COUNTERPARTIES)**

The evaluation of the earnings and financial position of foreign borrowers and the subsequent assumption, if any, of credit risk by the parent company or other companies of the MPS Group are based on group objectives, though considering the individual operational situations of the foreign and domestic units. From this perspective, priority was given to the activities aimed at supporting both Italian exports and the international expansion of Italian companies.

Organizational initiatives have been developed to make credit management more efficient in terms of profitability and coverage of risk. The initiatives undertaken embrace the following:

- The centralization of the treasury operations of the foreign network in Milan, New York, Hong Kong and London, and the consequent optimization of financial activity with respect to international borrowers.

- The implementation of group operating lines (addressed to the commercial banks) for the assumption of country risk and bank risk as part of the trade-related activity, which has resulted in the more efficient participation of the domestic network in supporting Italian exporters.

- The online distribution to all companies of the MPS Group of financial analyses of counterparties completed by the parent company's head office.

- The start-up of projects focused on centralizing the management of loans to foreign bank within the Coporate Center.

- A weekly meeting for the purpose of monitoring foreign countries, industries and banks which require a close monitoring of the economic-financial trend as a result of specific events.

▪ **GROUP MARKET RISKS**

o **PRINCIPAL DEVELOPMENTS IN OPERATIONS**

The principal corporate transactions carried out during the first half of 2004 which had repercussions on market risks include the establishment of MPS Ireland and the merger by incorporation of Banca Steinhauslin. As a result, the ALM mismatch and the residual trading positions were incorporated in the BMPS portfolios.

o **INTEREST-RATE RISK ON THE CONSOLIDATED BANKING BOOK**

In compliance with the international best practice, the meaning of "Banking Book" refers to all of the Bank's non-trading operations in relation to the transformation of maturities with respect to balance-sheet assets and liabilities, Treasury, foreign branches, investment portfolio and derivative instruments providing for risk hedging. Based on total return, the management of the banking book is aimed at (i) minimizing the volatility of the interest margin expected over the current year (12 months), or (ii) minimizing the volatility of the overall economic value in relation to a change in the structure of interest rates.

The change of the economic value of the banking-book assets and liabilities is analyzed by considering shocks that differ by amount and structure (deterministic and statistic). Deterministic shifts of 25 and 200 basis points are computed for operational purposes in accordance with the recommendations of the "second pillar" of Basle II with reference to both Tier I capital and consolidated capital computed for regulatory purpose.

The position of the Parent Company which is subject to interest-rate risk in case of reduction of market rates (liability-sensitive position) influenced the trend of the Group interest-rate risk measurement as of 30 June 2004 , in compliance with the strategy adopted for benefitting from the current expectations of an increase in market rates.

MPS Group
Risk indicators for shift of 200 basis points

	30/06/2004	31/12/2003
Net interest income at risk / Net interest income	0.5%	1.3%
Economic value at risk / Tier 1 capital	1.6%	2.6%
Economic value at risk / Capital computed for regulatory purposes	1.1%	1.8%

As indicated, the economic value at risk on the MPS Group's banking book as of the end of June 2004 had declined with respect to the end of 2003 (the ratio of value at risk as measured with a 200 bp shock to Tier 1 declined from 2.6% as of the end of June 2003 to 1.6% in June 2004).

The downward variation of risk profile is mainly attributable to ordinary management and to the gradual process of centralization of the interest-rate risk with the Parent Company which involved, over the period, a neutral risk profile for the other commercial banks of the Group. This process which is still under way will result in the centralized operating management of the Group ALM.

The ratio of economic value at risk to Tier 1 of BMPS as of 30 June 2004, as calculated on the basis of a 200 bp shift, is indicative of a risk decline from 4.1% at the end of 2003 to 2.2% as of 30 June 2004. This figure, which is in line with the value reported by the Group (1.6%), proves the reduction of the interest-rate risk at the Group commercial banks and the gradual matching of the Parent Company's Banking Book with the Group's Banking Book.

BMPS
Risk indicators for shift of 200 basis points

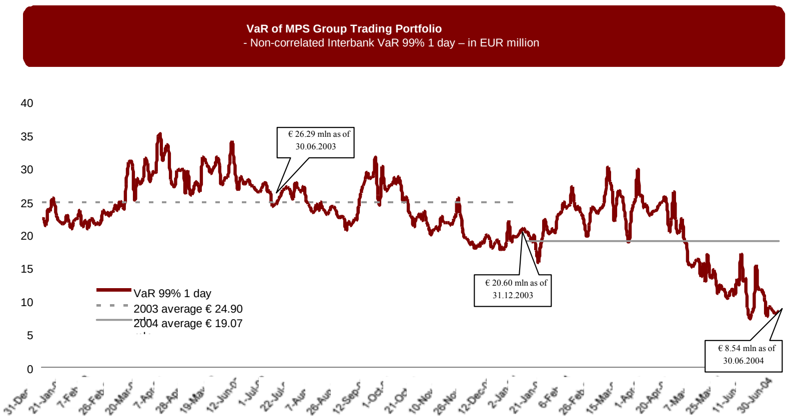
	30/06/2004	31/12/2003
Net interest income at risk / Net interest income	2.0%	0.9%
Economic value at risk / Tier 1 capital	2.2%	4.1%
Economic value at risk / Capital computed for regulatory purposes	1.6%	3.0%

- **LIQUIDITY RISK**

The structural liquidity profile is monitored by quantifying the imbalances, by settlement date, of the cash flows expiring in the first months of the time horizon over which the analysis is made. A special emphasis is placed on the planning of the MPS Group's funding policies in terms of funding through bonds and through subordinated debt issues, in accordance with capital management needs.

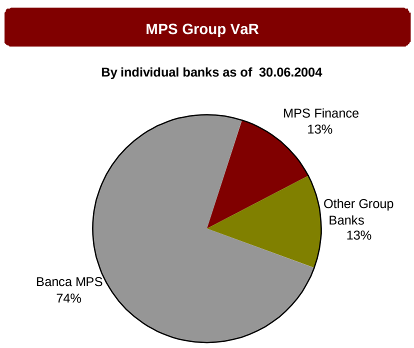
MARKET RISKS ON MPS GROUP TRADING PORTFOLIO

Market risks for BMPS and the other Group companies which represent independent *risk taking centers* are expressed in terms of *Value at Risk* (VaR). Operating limits for trading activities are established by the Board of Directors of BMPS and each level of authority is expressed in terms of VaR. Limits of Maximum Acceptable Loss (MAL) are also set on a monthly and yearly basis. Such limits consider actual or potential earnings (P&L) and the measure of risk on open positions (VaR).



VaR is calculated autonomously by the Risk Management Unit through the Group Integrated Risk Management System developed by the Unit itself, on the basis of a confidence interval set at 99% with a holding period of 1 business day. The historical simulation method includes 500 historical reports and a daily scrolling.

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



During the first half of 2004, the Group market risks measured in terms of VaR dropped sharply to EUR 8.54 million as of 30 June 2004 (EUR 26.29 million as of 30 June 2003 and EUR 20.60 million as of 31 December 2003).

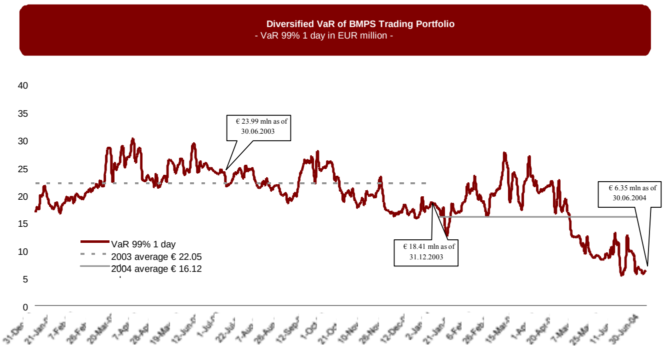
This dynamics implies a reduction of the Group average VaR of almost EUR 6 million (2003 average of EUR 24.90 million vs. average for the first half of 2004 of EUR 19.07 million).

Starting from the end of April, risks were little by little downsized and stood below the average for the period. The VaR was at a high during the first 4 months of 2004 with a peak of EUR 30.11 million on 3 March 2004., while was at a low for the period on 10 June 2004 (EUR 7.36 million).

MPS Banking Group Trading Portfolio
VaR 99% 1 day

	VaR (EUR million)	Date
Low 1st half 2004	7,36	10/06/04
High 1st half 2004	30,11	03/03/04
Average 1st half 2004	19,07	

At the level of the Business Units, the VaR is mostly concentrated on the Parent Company (74%) with the remaining 26% equally shared by MPS Finance BM and the other Group Banks (MPS Ireland and the stock portfolios of the commercial banks).



BMPS overall risks measured in terms of VaR diversified among risk factors fluctuated during the first half of 2004 in a range between EUR 5.5 million and EUR 28 million with a low on 10 June 2004 (EUR 5.45 million) and a high on 3 March 2004 (EUR 27.76 million). The average VaR for the period stood at EUR 16.12 million falling sharply with respect to the average for 2003 (EUR 22.05 million).

The exposure on equity was reduced from the end of April. The exposure on interest rates decreased in view of the expected possible increases in the US and Eurozone interest rates.

BMPS Trading Portfolio
VaR 99% 1 day

	VaR (EUR million)	Date
Low 1st half 2004	5,45	10/06/04
High 1st half 2004	27,76	03/03/04
Average 1st half 2004	16,12	

A breakdown of the portfolio by risk factors as of 30 June 2004 showed that 44% of the portfolio was determined by equity risk factors, 43% by interest-rate risk factors and 13% by exchange rate factors.
This reallocation of the portfolio entails higher diversification benefits, as of 30 June 2004.

- **OPERATING RISKS**

In the first half of 2004 the MPS Group continued with the implementation of a project aimed at identifying, evaluating and measuring operating risks. The project adopts a complementary approach based on:

- Qualitative analysis concentrated on risk and self-assessment techniques for detecting potential risks and overcontrols/insufficient controls;
- Quantitative analysis based on the systematic collection of data on actual losses incurred and the measurement of capital at risk through advanced calculation models.

During the first half of 2004, the Board of Directors of the Parent Company approved the internal regulations concerning the identification of Operational Risks. These guidelines illustrate the Group organizational models, define the levels of responsibility, the roles and activities, and the involvement of the Group Units.

A web-based application dedicated to data collection has been rolled out to all Group companies and specific extractors have been implemented for the purpose of automatizing the flow of losses from accounting to the database of operating losses.
The historical series of data dates back to four years ago with over 100,000 events filed as of the first half of 2004. Any amounts exceeding EUR 5,000 have been reported to the Italian Database of Operating Losses. The estimates of "capital at risk" on losses are indicative of a benefit in terms of capital absorption with respect to standard methods.

The MPS Group participated since the very beginning in an Observation Project on Operating Risks promoted by the Italian Bankers' Association and started taking part in a working team of the Italian Bankers' Association and the Association of Italian Insurance Companies for defining and developing policies for mitigating operating risks.

9- CAPITAL REQUIRED FOR REGULATORY PURPOSES

As of 30 June 2004, the MPS Group's capital computed for regulatory purposes amounted roughly to EUR 8,227 million; the aggregate was thus EUR 413 million or 5.29% higher than the comparable figure at the end of 2003.

CAPITAL REQUIRED FOR REGULATORY PURPOSES
(in EUR million)

	MPS GROUP		BMPS	
	30/06/04	31/12/03	30/06/04	31/12/03
Tier I capital	5,811.8	5,498.8	5,848.9	5,726.1
Tier II capital	3,224.7	3,136.3	2,938.1	2,847.9
	9,036.5	8,635.1	8,787.0	8,574.0
Deductions	809,2	821,3	855,5	860,1
Total capital required For regulatory purposes	8,227.3	7,813.8	7,931.5	7,713.9

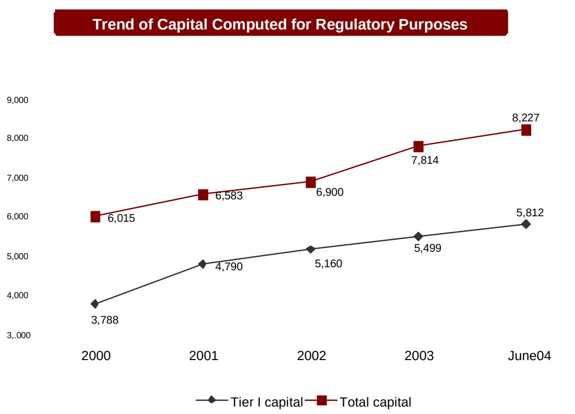
Tier I capital grew by about EUR 313 million (+ 5.69%) with Tier II capital rising by roughly EUR 88 million (+2.82%).

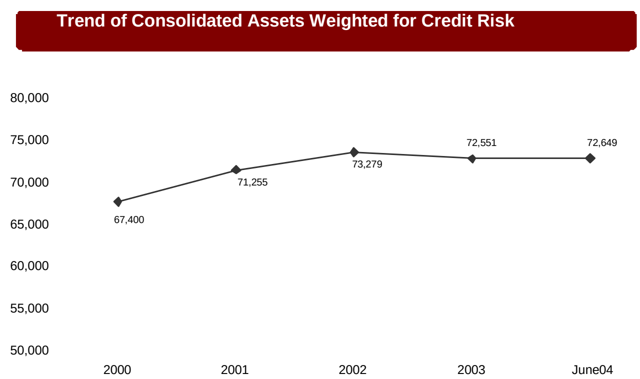
Tier I capital and its components were influenced by (i) the capitalization of a portion of unretained earnings for the period, (ii) the higher share of preferred securities to be computed in Tier I capital and (iii) half-year amortization of intangible assets, positive consolidation differences and positive net equity differences.

Tier II capital, instead, increased by EUR 88 million approximately, mainly due to the new subordinated issues for the period.

The BMPS capital computed for regulatory purposes stood at EUR 7,932 million with a 218 million growth with respect to the end of 2003, an increase in Tier I capital of EUR 123 million and an expansion of Tier II capital of EUR 90 million.

The Group's assets weighted for credit risk as computed for regulatory purposes totalled EUR 72.6 billion, virtually stable in comparison with the end of 2003. In view of the placement of notes in relation to the securitization of residential mortgage loans at the end of 2003 in the nominal amount of EUR 1,469 million, the percentage change of weigthed assets would be 1.15%.





RISK ASSETS
(in EUR million)

	MPS GROUP		BMPS	
	Weighted value as of		Weighted value as of	
	30/06/04	31/12/03	30/06/04	31/12/03
Balance sheet assets				
Cash assets backed by real property Guarantees	0,0	0,0		
Loans to governments, central banks and multilateral banks	676.6	687.2	555.0	551.8
Due from banks	1,400.8	1,271.2	3,772.3	3,129.2
Due from investment companies	36.2	20.6	33.9	0.0
Loans to the private sector:				
Residential mortgages	5,043.0	4,987.8	2,658.3	2,679.9
Non-residential mortgages	2,713.2	2,447.0	6.3	6.8
Other loans to the private sector	52,929.2	53,120.4	29,098.1	28,187.7
Equity investments weighted at 200%	22.3	23.0	23.0	21.0
Equities, equity investments and subordinated assets	1,785.2	1,788.5	6,357.2	6,368.1
Fixed assets	1,607.8	1,657.3	93.2	100.8
Negotiable instruments for collection, accrued income and other assets	1,353.5	1,253.6	686.2	580.7
	67,567.9	**67,256.7**	**43,233.6**	**41,626.1**
Off balance-sheet assets:				
Guarantees released, commitments & derivatives	**6,984.0**	**6,866.1**	**4,374.0**	**4,379.6**
Loan amounts classified as "doubtful outcomes" and capital losses	**-1,867.4**	**-1,571.4**	**-1,082.9**	**-976.3**
Total risk weighted assets	**72,648.5**	**72,551.4**	**46,524.7**	**45,029.4**

At BMPS, risk weighted assets progressed by 3.32% at EUR 46.5 billion. Considering the effects of the securitization of residential mortgage loans (Siena Mortgages 03-4), the percentage change of risk weighted assets would be 4.40%.

The Group total capital absorption inclusive of market risks, other capital requirements and Tier III subordinated loan covering market risks came to EUR 6,243 million (+ EUR 33 million). Therefore, the surplus capital expanded by EUR 380 million if compared with 31 December 2003 (+23.7%) to about EUR 1,985 million.

CAPITAL POSITION
(in EUR million)

	MPS GROUP		BMPS	
	30/6/04	31/12/03	30/6/04	31/12/03
Credit risks				
On balance-sheet assets	5,405.4	5,380.5	3,026.4	2,913.8
On off balance-sheet assets	555.8	549.3	306.2	306.6
Less doubtful loans	-149.4	-125.7	-75.8	-68.3
Total credit risks	**5,811.9**	**5,804.1**	**3,256.7**	**3,152.1**
Market risks				
On trading securities portfolio	756.0	690.6	324.3	302.0
Including				
- *generic risk on debt securities*	*339.4*	*334.9*	*64.8*	*68.4*
- *specific risk on debt securities*	*190.4*	*155.5*	*112.3*	*97.6*
- *generic risk on equities*	*59.0*	*61.6*	*33.0*	*25.7*
- *specific risk on equities*	*52.6*	*41.7*	*31.0*	*27.9*
- *delta-plus options: gamma factor*	*0.4*	*0.2*	*0.0*	*0.0*
- *delta-plus options : vega factor*	*0.5*	*0.4*	*0.0*	*0.0*
- *risk on quotas in mutual funds*	*56.5*	*50.3*	*41.6*	*35.3*
- *settlement risk*				
- *counterparty risk*	*57.2*	*46.0*	*41.6*	*47.1*
on concentration				
on foreign exchange	17.1	5.7		
Total market risks	**773.1**	**696.3**	**324.3**	**302.0**
Subordinated loans available to cover market risks	700.0	600.0	324.3	302.0
Net market risks	**73.1**	**96.3**	**-**	**-**
Other requirements	**357.8**	**308.8**	**299.7**	**266.0**
Total capital required	**6,242.7**	**6,209.2**	**3,556.5**	**3,418.0**
Capital for regulatory purposes	**8,272.2**	**7,813.8**	**7,931.5**	**7,713.9**
SURPLUS CAPITAL	**1,948.5**	**1,604.6**	**4,375.0**	**4,295.8**

Total capital required for BMPS (net of market risks covered by specific Tier III subordinated loans) advanced by about EUR 138 million with respect to the comparable figure at the end of 2003; the surplus capital thus progressed by EUR 80 million with respect to 31 December 2003.

CAPITAL ADEQUACY RATIOS

	MPS GROUP		BMPS	
	30/06/04	31/12/03	30/06/04	31/12/03
Tier I ratio	6.70%	6.46%	10.55%	10.77%
Total risk ratio	10.29%	9.89%	14.89%	15.08%

The improvement of the Group capital position is also reflected in the trend of capital adequacy ratios, with the total risk ratio higher than 10% (10.29% vs. 9.89% as of 31 December 2003) and Tier I ratio standing at 6.70% (6.46% at the end of 2003). Excluding the amount of preferred securities which is included in Tier I capital, this percentage comes to 6.50% (6.31% as of 31 December 2003).

The Tier I ratio and the Total Risk Ratio of BMPS stood at 10.55% (versus 10.77% at the end of 2003) and 14.89% (versus 15.08% at the end of the prior year), respectively.

10-INNOVATION, RESEARCH AND DEVELOPMENT

During the first half of 2004, the MPS Group participated in the initiatives promoted by the Italian Bankers' Association focused on enhancing quality and transparency of banking services rendered to the customers (see box), and continued to pursue the programme of implementation of service models specialized by customer segments through the development of specific platforms.

THE MPS GROUP COMMITMENT TO THE ITALIAN BANKERS' ASSOCIATION PROJECT, "CLEAR PACTS"

The following initiatives have been activated during the first half of 2004:

- "Compared Current Accounts": the project embraces the mapping of the statements of account, the design of a current account portal and a basic A/C scheme;
- "Basic Banking Service": this account was expressly designed for simplifying the access of non-bank users to banking services and provides a simple, essential, low-cost service. The MPS Group was authorized to use the "Clear Pacts" brand and prepared a competitive current account package in comparison with the main competitors.

The Group commitment to the current account project also ensures full compliance with the new regulations on transparency of banking transactions, issued by the Bank of Italy in the fourth quarter of 2003.

This action was flanked by the development of supply based on the simplification and completion of the range of products, with the objective of consolidating the role played by the Group with respect to advisory and general services.

In order to support the new business models illustrated in the Business Plan (*additional information is provided in the section covering "The implementation of the Business Plan*"), the MPS Group continued to develop the same IT structures and applications, with appreciable benefits in terms of competitiveness and efficiency. In particular, the Group has defined the plan for the centralization of the IT systems of the product companies at the MPS Group Operating Consortium.

- **RETAIL MARKET**

SERVICE MODELS

With reference to the retail market which consists of the family and affluent segments, the Carattere platform was extended to Lower Affluent customers, thereby confirming that the new customer relationship management methods were highly popular. As a whole, the Group had almost 250,000 affluent customers who were followed up through an advisory approach to asset management.

As regards the Family segment, the Group continued to implement the new commercial platform with the dual objective of (i) meeting the customers' needs and (ii) obtaining economies of scale stemming from the industrialization of processes and instruments. The platform was inaugurated in April 2004 by Banca Agricola Mantovana and early in June by Banca Toscana. At BMPS, the test run started in June and is supposed to come to an end late in July. The platform is expected to be implemented in the Group network no later than the end of the first half of 2005.

Banca Toscana and Banca Agricola Mantovana - where the project was started - confirmed the positive results given by the platform during the test run and showed excellent performances in terms of business contacts, turnover, customers' and internal resources' satisfaction.

o THE MPS GROUP SALES AND MARKETING POLICIES AND PRODUCT INNOVATION

In a market scenario characterized by the customers' conservative posture, the MPS Group focused on the development of instruments which ensure capital protection and give the customers the opportunity of benefitting from the positive variations of the markets.

In this framework, the Group issued innovative capital-guaranteed unit-linked policies and marketed 11 new index-linked policies with highly innovative indexation structures and more flexible characteristics with respect to the coverage in case of death and the terms for payment in advance. 59 new issues of structured bonds enabled the customers to choose, on a monthly basis, among several solutions in compliance with their requirements and characteristics.

Preliminary work specifically targeted at lower affluent customers was completed before the joint inauguration by the three banks of the account package. The new product, Carattere Light, entails low fees and some of the services provided in the account package for higher standing customers.

The initiatives planned for the second half of 2004 involve the simplification of the range of Ducato Funds and the launch of the new Sistema Ducato Etico with a broad array of funds targeted at customers sensitive to ethical values and considerations.

With reference to bancassurance, a new unit-linked policy operating in a multimanager logic, in compliance with pre-established criteria, is expected to be marketed.

o PAYMENT SYSTEMS

As far as remote channels are concerned, particular emphasis was placed on the monitoring and upgrading of the services rendered which represent a crucial factor for customers' satisfaction.

Following are the main developments occurred during the first half of 2004:

- ATM facilities: the MPS Group participated in the FARO project (which is part of the "Clear Pacts" project promoted by the Italian Bankers' Association) which provides the customers with clear information concerning the closest ATM facilities. This channel was enriched with further functions including the possibility of renewing and checking the balance of the renewable prepaid card, "Europrima".
- Mobile Banking facilities: the projects concerning this facility were mainly focused on opening access to this facility to the new wireless phones. The project of upgrading and consolidation of the WAP connection platforms and incoming/outgoing SMS is being finalized.
- Call Center: the developments in the three commercial banks were concentrated on updating and consolidating the technological infrastructure in order to ensure growing operating efficiency to the working stations for inbound and outbound activities.
- Home Banking: during the first half of 2004, the efforts to develop the system were mainly aimed at increasing:
- online services available to the customers on this channel for the purpose of buying the new insurance policies online, paying Freccia bills and

managing the prepaid card Europrima with the functions of balance inquiry and recharge;
- the frequency and simplicity of use.

THE MPS GROUP PARTICIPATION IN E-BANKING PROJECTS PROMOTED BY THE ITALIAN BANKERS' ASSOCIATION
• "Microcircuito – carte di pagamento": the MPS Group participated in the public testing of the various project components (cards, POS and ATM terminals and systems). Through the tests, additional information was incorporated in the memory which all outstanding cards should have by 2007. The MPS Group requested validation for all instruments (cards, POS and ATM terminals) and operating-management processes from the Italian Bankers' Association. • Bankpass Bills: the MPS Group made efforts to develop the launch of this new facility consisting of electronic advices for bills issued by participating utility companies. Retail customers will receive payment advices in electronic format and make the payment through home banking facilities. Corporate creditors will be able (i) to route the correspondence in relation to billing at a low cost and (ii) to monitor the payments online. The new platform is expected to be launched by September 2004.

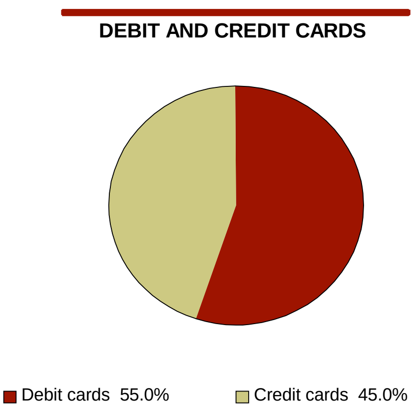
With reference to the project of "Migration of customers' transactions", the MPS Group continued successfully to extend the educational project for the use of remote channels targeted at retail customers. During the first half of 2004, the weight of the transactions carried out by the branch network declined from 53.9% to 44.7% year on year.

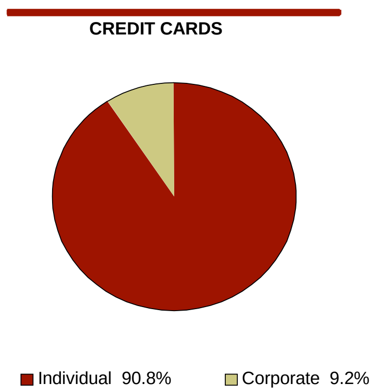
Credit and debit cards

The number of payment cards issued to the MPS Group customers was equal to 1,800,000 as of 30 June 2004, including 45% of credit cards.

In the first half of 2004, BMPS, Banca Toscana and Banca Agricola Mantovana issued 54,600 new bank credit cards with a 31% increase year on year. The increase is mainly attributable to the boom of corporate (with their weight growing with respect to 31 December 2003) and revolving cards issued.

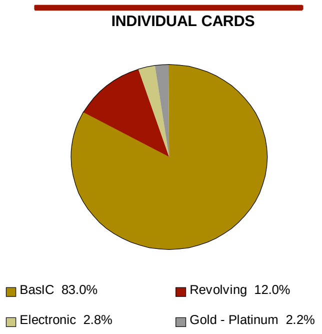
The trend of volumes traded in the first half of 2004 was good. If compared with the results achieved as of 30 June 2003, volumes traded grew by 5.3% with respect to volumes paid and by 3.3%with respect to the number of transactions executed.

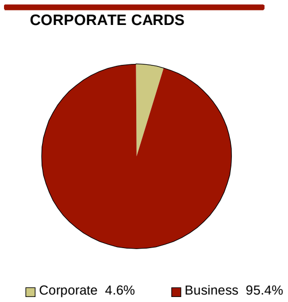




On the individual credit card front, revolving credit cards increased to 86,940 cards as of 30 June 2004 and, in particular, the "M'honey" cards issued by Consum.it account for 78% of total revolving cards.

The weight of the "business" component grew further in the corporate credit card segment.





As of 30 June 2004, the number of MPS Group debit cards progressed by 3.3% with respect to the comparable figure as of 30 June 2003 and topped 978,000 cards issued.

In the first half of 2004, the MPS Group expanded its range of payment cards by marketing "Europrima". Europrima is a registered, pre-paid and renewable card operating in the Bancomat and Pagobancomat domestic circuits. Besides, the second stage of the "prepaid card" project was completed and a new product operating in the international Visa circuit was designed for the purpose of making payments and withdrawals in Italy and abroad, in addition to Internet payments.

This new line of "prepaid and renewable" products is targeted at non-current account holders (including the under age) or companies which intend to eliminate cheque or cash management, credit the cards with their employees' salaries and wages and make money available to the employees (non-current account holders) through such products.

o CONSUMER CREDIT

The MPS Group marketing policy placed further emphasis on the Group's capacity to encourage the customers' propensity to borrow, and to make investments in the human resources dedicated to marketing and sales activities, in information technology and specific training sessions.

The initiatives carried out during the first half of 2004 include the activation of the "mortgage loan" portal at the major branches of BMPS. This new application can prepare customized budgets through a guided path, in order to help the customers choosing a mortgage loan in compliance with their requirements and earning power.

The commercial agreement with Gabetti became effective in the framework of the project of "Exploring new channels for the retail lending business", the commercial agreement with Gabetti became effective.

On the front of consumer loans, the programme of centralization of operations at Consum.it had the dual objective of (i) improving customer service and (ii) consolidating the Group's presence in this field. The centralization programme already involved BMPS and Banca Agricola Mantovana and will start at Banca Toscana in the second half of 2004.

- **THE PRIVATE-BANKING MAREKT**

In compliance with the 2003-2006 MPS Group Business Plan, the private-banking market was fully reorganized with the objective of achieving a leading position in the domestic market. The activities carried out in the first half of 2004 in the private-banking market incorporate:

- The planning and implementation of the merger by incorporation of Banca Steinhauslin, as approved by the Board of Directors of BMPS during the meeting held on 5 February 2004, executed on 30 May 2004**;**
- The new organizational model was extended to the commercial bank networks in June 2004 together with new marketing and governance processes**.**

The system of supply is being reviewed and updated (*see box*) through the development of "core" products, characterized by strong distinctiveness and high value added (flexible individual portfolios under management, SICAV management etc.), and "support" products which meet the specific requirements of the customers' sub-segments.

THE PROGRAMME OF OPTIMIZATION OF SUPPLY

The various initiatives activated within the Private Banking Area are focused on four major pillars:

- Activities oriented to consolidating the product unit (Private product factory), expanding supply (not only captive supply), engineering new products, and identifying and selecting a network of skilled financial partners;
- The development of projects within the marketing unit for the purpose of monitoring and co-ordinating marketing processes, enhancing governance rules within the networks and implementing functions and instruments of analysis, support and instruction;
- The planning of professional advisory services in relation to non-financial services (e.g. tax planning, real estate, art & legal advisory);
- The development of the Private Wealth Management project which centralizes the management of relationships with a few very important individual customers in the domestic market.

Priority in the new range of private-banking products will be given to multibrand supply (in terms of funds under management and funds under administration). This is viewed as a pre-requisite to be in line with the better qualitative standards in the market and to seize possible synergies/opportunities outside the Group. On the typical marketing front, great emphasis is placed on the development of the marketing processes focused on "extended households".

- **THE CORPORATE MARKET**

o **SERVICE MODELS**

With reference to the corporate market (consisting of the small business, SME, large corporate and government agencies segments), the MPS Group continued with the implementation of the new platforms in the three commercial banks, which aim at developing steady relationships by identifying customized solutions for the companies. Following are the developments of the first half of 2004:

- At BMPS, the project was completed in May and extended to the 21 major branches; 59 SME Centers were set up**;**

- At Banca Agricola Mantovana, all major branches have already been involved in the project and 16 SME Centers have been established;
- At Banca Toscana, the new SME Centers are expected to be set up and the implementation programme to be completed in the second half of 2004.

The three commercial banks trained over 500 SME dedicated relationships managers and roughly 1,800 Small Business account managers in June 2004.

The Large Corporate and Financial Institutions customer relationships have been centralized in a new Group unit, in the framework of the programme of development of services focused on this specific segment.

The implementation of the Government Agencies project at the BMPS network has been almost completed. The model will then be extended to Banca Agricola Mantovana and Banca Toscana. Against this backdrop, the launch of the Third Sector project – with the objective of managing commercial relationships with non-profit entities - is extremely innovative in the domestic market.

In addition, the MPS Group has upgraded the innovative CRM instruments already designed in support of the service models in order to consolidate their efficacy and functionality.

♦ *The re-engineering of the lending processes*

The MPS Group embarked on several important initiatives aimed at increasing the capacity to service the customers, with particular emphasis placed on the optimization of the lending processes through two principal actions: (i) first loan disbursement and (ii) credit risk monitoring.

The “first loan disbursement” incorporate the following projects:

- First Retail disbursement (pending finalization);
- First Small Business disbursement (already extended to the Group commercial banks);
- First SME disbursement (design & planning completed; pending implementation);
- First Large Corporate disbursement (design & planning completed; pending advanced implementation);

All projects under way will be operating and extended to the networks in compliance with a plan as of December 2004. With reference to credit risk monitoring, the state of the art of the Trend Management project which was tested in 2003 is advanced. As soon as the missing functions are added, the project will be extended to the Group commercial banks by the end of February 2005. The Crash Events/Contingencies (Customers’ Queue) procedure was released to BMPS and Banca Toscana, with the objective of orienting the network towards the borrowers with high risk ratios.

The MPS Group continued to enhance its range of Corporate products grouped by customer segment and specific needs to be met, with the objective of actively supporting corporate growth through loan disbursements, advisory services and many other traditional and innovative services.

SUBSIDIZED LOANS

The MPS Group has contributed to the enhancement of human resources and monitoring of major public incentives within this segment, through the following initiatives:

- the inauguration of the bridging finance package "Agevolo" consisting of several loan options. Agevolo is a commitment given by the Bank to a company (prior assessment of the company's application and business plan) focused on integrating and supporting corporate investment projects with public funds;
- the pursuit of the start-up stage of "Crossing Europe – European Group of Economic Interest (CE – EGEI) between the MPS Group and the Chambers of Commerce located in the regions where the Group is mostly present. This initiative is centred on the development of qualified and multi-specialist assistance and advisory services dedicated to SMEs and Government agencies, in view of the forthcoming enlargement of the European Union;
- the launch of the decentralized interregional special unit dedicated to southern Italy for the purpose of supporting the SME and Small Business Centers with respect to the various opportunities arising in relation to subsidized loans;
- the development of the Smeurint Project focused on subsidized loans: this project develops the subsidized loan data bank already used by the Group and consists of customized information packages on incentives to corporates and public entities.

On the front of bancassurance and, in particular, of funded insurance policies, Monte Paschi Vita became a leader in the corporate policies market. The broad range of products supplied will be expanded in the second half of 2004 with the new policies (Diga and Diga Reddito) mainly targeted at Government Agencies, Trusteeships, Treasuries, Non-profit institutions ("Third Sector"). The company also inaugurated the new multirisk modular policies with peculiar features which are specifically targeted at craftsmen, small businesses, shopkeepers and farmers.

In view of consolidating the MPS Group's contribution to economic growth in each geographical area, the Group co-operated with other local public and private agencies. Following are the major initiatives implemented:

- Memorandum of Understanding with the Region of Tuscany and the Region of Umbria: the measures focused on facilitating loan disbursements to the SMEs located in these areas are being implemented. The MPS Group participated in the inception of a specific programme for the purpose of drafting a paper ("Pact for Tuscany") through the support of fourteen open table.
- Industry bond: the Group has finalized a plan of financial assistance with Fidi Toscana and the Region of Tuscany for the development of Tuscan SMEs, to be designed as a "district bond";
- Confidi project: the Group continued to outline the Confidi project in order to maintain better relationships with the Regulatory Authorities. The project focused on creating a portal for gathering data concerning the operations with the Confidi agencies participating in the major trade/industrial associations.

As of 30 June 2004, the Group had placed more than 38,000 impres@più accounts with a 77% increase with respect to 31 December 2003. This current account package is an integrated system incorporating corporate banking and non-banking services, mainly targeted at small businesses.

- Structured finance and merchant banking

MPS Merchant developed its traditional areas of operations:

- Project financing in the field of utilities (water, energy, gas supply and production of energy from renewable sources) and infrastructure;
- Private equity, advisory services and M&A in favour of MPS Venture SGR for the management of investments made and the assessment of new opportunities;
- Acquisition financing through several financial transactions supporting corporate acquisitions.

In the segment of project financing, MPS Merchant acted as the loan arranger, in co-operation with Crédit Agricole Indosuez, for the project of implementation and management of the Tramway system of Florence, which is expected to be finalized by the end of 2004. It is also worth mentioning the role of MPS Merchant as the financial advisor in the project for the Prato-Signa motorway. The transaction for the implementation/management of the Tramway system of L'Aquila is being designed.

With reference to private equity, MPS Venture SGR continued to manage four closed-end investment funds (MPS Venture I, Siena Venture, MPS Venture Sud and Ducato Venture). The Group has executed the first transaction with Siena Venture, in addition to several transactions already approved in 2003 concerning Ducato Venture and MPS Venture I.

MPS Banca Verde continued to concentrate marketing efforts on its areas of franchise, in particular in the agro-industrial districts or in the regions showing a high potential for environmental initiatives, due to their production structure. The bank secured the social and ethical certification in accordance with the international standard SA 8000 *(additional information is provided in the section covering "The MPS Group commitment to the protection of the environment and corporate responsibility").*

o PAYMENT SYSTEMS

With respect to the payment systems in the corporate market, the MPS Group has continued to sell Internet Corporate Banking services with appreciable trends of growth in terms of number of online connections and transactions executed (*additional information is provided in the section covering "The distribution channels").*

THE DIGITAL SIGNATURE PROGRAMME
- Early in 2004, the MPS Group completed the activities already started in 2003 for the purpose of enabling BMPS to provide its corporate customers with digital certification services. On 29 January 2004 the Bank was awarded Identrus Certification Authority (C.A.) status and promptly took the necessary steps for enrolment in the public list of Certification Authorities pursuant to AIPA Circular no.22 of 26 July 1999. In addition, the Group intensified efforts to develop the first application based on digital signature dedicated to corporate customers, in co-operation with some of the major Italian banking groups. The application will give the opportunity of making online treasury transfers and urgent money transfers in huge amounts on a daily basis.

The technical applications for new functions (e.g. foreign money transfers and forex trading, factoring inquiries, multicorporate terms, semplification of the CBI password management) have been finalized. As a result of the new foreign operations, the MPS Group Internet banking services represent the state of the art in the domestic market and will be marketed effective August 2004.

During the first half of 2004, the Group gave further momentum to the sale of PaschiInTesoreria with 770 contracts executed as of 30 June 2004, thus consolidating its first-mover position with respect to the product.

With reference to e-commerce, the Group reached an agreement in May with Vodafone. By implementing a pre-existing e-commerce product (PaschiinCommerce), BMPS will be able to manage the payments due by the dealers to Vodafone with respect to the purchase orders placed on the Internet, through the web-site designed by the company.

- **INTERNATIONAL BANKING ACTIVITY**

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

COMMERCIAL ACTIVITY

On the front of commercial flows, the volumes of transactions traded by the MPS Group totalled EUR 26 billion with an increase of more than 12% with respect to the first half of 2003. This figure is higher than the increase in Italian foreign trade which stood around 6% in the first half of 2004.

The Group intensified efforts with regard to financing export transactions to emerging countries and co-operated with SACE (the Italian export-import insurance entity) for the insurance coverage of risks for the purpose of keeping risks within the limits set by the Group’s lending policies, partly through risk-sharing agreements with other players in the industry. The MPS Group and SACE promoted the execution of agreements, with volumes topping EUR 14.50 million and other instruments such as online confirmations and Exportkey with volumes over EUR 45 million. The applications received for insurance of export financing came to EUR 35 million as of 30 June 2004.

PROMOTING THE INTERNATIONAL EXPANSION OF THE SMEs

With reference to services targeted at the SMEs , the Group has embarked on the project “Promoting the International Expansion of the SMEs”. In so doing, the Group signed master agreeements with Federexport (federation of export consortiums), Confservizi International (confederation of Italian utilities), Anie, in addition to a co-operation agreement with Toscana Promozioni for providing specific corporate foreign services. The Group has the objective of supporting the Italian companies in their foreign investment projects since the very beginning by providing advisory services on a professional basis in selected countries.

Exportkey, which enables Italian exporters to negotiate business transactions with counterparties established in high-risk nations with BMPS taking on the risk, has been flanked by other services in support of domestic customers (i.e. credit unblocking without recourse with respect to foreign corporates secured by the coverage of SACE insurance policies and VAT recovery on foreign transactions). In addition, BMPS was appointed to act as the Agent Bank for a new line of “Aid Packages” to Tunisia in the amount of EUR 36.50 million. This line is to be added to the three aid packages already operating with Tunisia (2) and Algeria (1), which amount to EUR 123.50 million as a whole.

- DIRECT FOREIGN NETWORK

The MPS Group's direct foreign network consists of several operating units: e.g. branches, representative offices, customer desks and Italian desks located at the premises of correspondent banks in accordance with specific commercial agreements.

COMMERCIAL AGREEMENTS WITH CORRESPONDENT BANKS EXECUTED DURING THE FIRST HALF OF 2004

The major events occurred during the first half of 2004 involved:

- CITIGROUP with respect to initiatives undertaken in eastern Europe (Poland, Romania, Hungary, Czech Republic, Slovakia, Bulgaria, Ukraine and Kazakistan). The project entails the execution of a letter of intention flanked by several specific customized agreements with Citigroup subsidiaries in various countries;

- Branch Banking and Trust Co. (North Carolina). In addition to supporting the domestic network, the agreement gives further momentum to our New York Branch business;

FINTEC – a consulting firm located in Santiago for the purpose of providing Italian corporate customers operating in the Chilean market with professional advisory services.

The foreign network is currently structured so as to focus on specific geographical areas which have been selected on a marketing basis and in a logic of support to the customers. Against this backdrop, the Group decided to confirm the importance of its presence in the principal financial markets of London, New York and Hong Kong. These branches ensured operations in the main money centers, international visibility to the MPS Group and diversification of the loan portfolio. The Group network of foreign branches consists of the branches located in London, New York and Hong Kong in addition to the branches of Frankfurt, Madrid and Singapore. A Customer Desk operates in each foreign branch for the purpose of meeting the needs of Italian customers, identifying and developing business opportunities, promoting the international expansion of the SMEs and achieving maximum operating integration with the Group's domestic network. The foreign representative offices located in south eastern Europe (Istanbul and Moscow, the Mediterranean area of northern Africa: Algiers, Tunis and Cairo, and in China: Beijing and Shanghai) have similar operating objectives.

The existing commercial agreements will be flanked by the following important co-operation agreements signed during the first half of 2004 with foreign banks and consulting firms (*see box*):

- Eastern Europe: Alpha Bank in Romania (where BMPS holds a minority stake and has seconded BMPS staff);
- Iberian peninsula: Bancaja banking group with BMPS personnel seconded in Valencia;
- Central Asia: Capital Trust Limited in New Delhi, India; Industrial and Commercial Bank of China (ICBC) and China Merchants Bank (CMB) in China, in addition to BMPS Representative Offices in Beijing and Shanghai;
- Maghreb area and Egypt: Crédit du Maroc with BMPS staff seconded in Casablanca and C.I.B. (Commercial International Bank) in Egypt for the purpose of integrating the activity of the Representative Office in Cairo.

▪ THE MPS GROUP COMMITMENT TO ENVIRONMENTAL PROTECTION AND SOCIAL RESPONSIBILITY

In 2004, the Group continued to pursue its commitment to environmental protection, social welfare, certification of quality for services and processes, thereby proving that corporate social responsibility is becoming an increasingly strong value for the MPS Group.

The major events occurred during the first half of 2004 include:

- SGA – Environmental Management System – ISO 14001 and SA 8000 Certifications. The Environmental Management System of BMPS was implemented with a few innovations suggested by the certifying entity RINA S.p.A. MPS Banca Verde also secured social and ethical certification in compliance with the SA 8000 international standards. Therefore, the bank ranks among the leading credit institutions by environmental and social awareness (first Italian bank which secured ISO 14001 certification, first EMAS-registered Italian bank and now first bank which secured SA 8000).
- Sustainability Indices: the Group developed a programme for updating the sustainability ratings assigned to BMPS by SAM and EIRIS. These entities collect information on behalf of the Dow Jones Sustainability Index (a global index which certifies the performance and commitment of the companies promoting sustainable development) and Ftse4good which is produced by the Financial Times Stock Exchange, the world leader for the supply of global investors' indices.

Socio-environmental projects in partnership with other parties have a peculiar scope of action. In particular, in co-operation with ADICONSUM (Consumers' Association), the Group carried on the ETHMA project "Ethics and Market", including the organization of a meeting held in the auditorium of the Rome Branch of BMPS, the issue of a brochure describing the project and the publication of a volume concerning sustainable finance. The ETHMA Project is promoted by the European Union and is focused on promoting social dialogue and corporate social responsibility.

The development of new products in favour of non-profit institutions, which is becoming increasingly important in the domestic and international economic scenario, incorporates the launch of the "Third Sector Project" illustrated in the section covering "The corporate market".

The 2003 Socio-Environmental Report of BMPS is in the making. The Reports of Banca Agricola Mantovana and MPS Banca Verde have already been published.

The activity of organizing community events continued in the first half of 2004, with a special focus on art exhibitions, concerts and sponsorships of several cultural, scientific and sport initiatives.

The principal sponsorships included: Accademia Musicale Chigiana, Santa Maria della Scala with respect to the cultural events planned for 2004, Teatro del Maggio Musicale Fiorentino on the Opening of the 67th Maggio Musicale, City of Colle Val d'Elsa for the 2004-2005 theatre season, Teatro Povero di Monticchiello for the 2004 programme, Fondazione Festival Pucciniano with respect to the 2004 Puccini Festival, Associazione Palatina Onlus (non-profit) for Todi Arte Festival 2004. These sponsorships were flanked by the initiative in favour of the Hotel Association of Chianciano Terme for building a Convention Center and the continuing sponsorship granted to the University of Macerata in support of the archaelogical excavation campaign of Orvieto.

A major commitment went to publishing activity, with the publication of the 2004 coffee-table book “The landscape with the passing of time: the territory of Tuscany and its portrayal” by Professor Giuseppe Cantelli, Lucia Conenna and Attilio Brilli. The Group also prepared the catalogue of the volumes published by Banca Monte dei Paschi from the end of the 19th century. The volumes were exhibited in Siena, in the church of Santa Maria delle Nevi, from 14 July 2004 to 16 August 2004. With reference to economic publications, BMPS and Banca Toscana continued to work together on the production of “Economic Studies and Notes”. Another English-language publication “Economic Notes-Review of Banking, Finance and Monetary Economics” is printed and distributed under an agreement with the publishing company, Blackwell of Oxford, England.

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

11. DISTRIBUTION CHANNELS, HUMAN RESOURCES AND CUSTOMER PORTFOLIO

- **DISTRIBUTION CHANNELS**

In the first half of 2004, the Group continued its project geared toward optimizing and streamlining the distribution channels.

In April 2004, in compliance with the strategy of growth illustrated in the 2003/2006 Business Plan, the Group approved the "Programme of geographical expansion and network streamlining". The Programme contemplates the consolidation of the existing network according to a strategy of expansion and streamlining of the present geographical distribution, with the objective of reducing any overlapping and optimizing the presence over the territory. The Programme of expansion provides for the opening of 119 new banking facilities and 39 relocations by 2006.

The programme of compliance of the branch organization (being extended to the three commercial banks) which aims at boosting efficiency is flanked by the integration of electronic banking channels. The project of migration of low-value added transactions (e.g. money transfers, A/C balances, queries) to remote channels is a fundamental step in the right direction, in accordance with the multi-channel logic which has been characterizing the Group banks for years.

o THE TRADITIONAL NETWORK, ATM AND POS TERMINALS

As of 30 June 2004, the MPS Group (commercial banks) was operating a total of 1,805 branches and another 171 financial boutiques run by Banca 121 Promozione Finanziaria (being streamlined).

MPS GROUP DISTRIBUTION NETWORK

Channel	**30/06/04**	**31.12.03**
Domestic branches	1,805	1,800
Financial boutiques	171	209
Total domestic sale Outlets	1,976	2,009
Foreign branches	38	38
Financial advisors	1,274	1,352
ATMs	2,211	2,253
POS terminals	70,944	65,355

THE MPS GROUP DOMESTIC NETWORK

DISTRIBUTION OF BRANCHES BY GEOGRAPHICAL AREA

		30.06.04
Northern regions	514	28.5% of total
Central regions	912	50.5% of total
Southern regions and islands	379	21.0% of total
TOTAL	1,805	

MPS GROUP BRANCH FACILITIES AS OF 30 JUNE 2004

	30.06.04
BMPS	1,099
Banca Toscana	416
Banca Agricola Mantovana	290
TOTAL	1,805

o ELECTRONIC BANKING CHANNELS

During the first half of 2004, the MPS Group continued to introduce new query and information functions which involved the ATMs, telephone and e-banking channels, as shown in the section covering “Payment systems”.

The table below indicates the types of contracts outstanding as of 30 June 2004 and their percentage weight, with an increase of roughly 2% in the weight of corporate contracts with respect to 31 December 2003:

ELECTRONIC BANKING CHANNELS (*)
Contracts in effect

Channel	30.06.04	% as of 30.06.04
Internet & Mobile Banking	558,702	84.9
Opifici Digitali and other B2B	7,678	1.2
Corporate banking via the Internet	91,031	13.8
Internet banking – public entities	770	0.1
TOTAL	658,181	100.0

(*) The aggregate does not include telephone banking contracts (abt. 532,000 as of 30 June 2004)

As of 30 June 2004, the number of corporate banking (Internet and remote) contracts in effect with the Group stood at approximately 91,000 contracts, with a roughly 10.5% increase with respect to 31 December 2003. The marketing efforts deployed for the sale of the Internet Corporate Banking service – certified UNI EN ISO 9001/2000 – complied with the strategy of development of the supply of products and services, according to an integrated multi-channel logic.

In addition to the increase in the number of contracts, the growth of the number of transactions executed and the average number of users connecting daily with the Bank’s web facilities is appreciable.

During the first half of 2004, the Bank gave further momentum to the sale of PaschiInTesoreria (Internet banking-public entities) with about 770 contracts in effect as of 30 June 2004 and a 21% increase with respect to 31 December 2003, thereby consolidating its first-mover position for the product.

- **HUMAN RESOURCES**

o STAFFING

As of 30 June 2004, the MPS Group[5] had a total of 26,764 employees with a decrease in staffing of 617 on an annual basis (-117 with respect to January 2004):

MPS GROUP STAFFING				
	31.12.02	30.06.03	31.12.03	30.06.04
Total	27,517	27,381	26,881	26,764

In line with the Business Plan, these dynamics reflect the reduction and new distribution of staffing, with the objective of improving flexibility and cost structure, and take advantage of exit provisions (e.g. natural turnover, early retirement programs and Solidarity Fund) for senior employees, who are partly replaced by highly-qualified young recruits. The tables below show the distribution of the MPS Group workforce by job category (actual staffing[6] of 26,886 units) and by company:

BREAKDOWN OF STAFF BY JOB CATEGORY		
Category	Actual number	% of total workforce
Executives	620	2.3%
Managers (junior + senior)	6,734	25.0%
Other professional categories	19.532	72.6%
TOTAL	26,886	100.0%

MPS GROUP WORKFORCE AS OF 30 JUNE 2004		
	Number of employees	%
Banca Monte dei Paschi di Siena	12,382	46.1%
Corporate Center	1,076	4.0%
BMPS Division	11,125	41.4%
International (*)	181	0.7%
Banca Toscana	3,816	14.2%
Banca Agricola Mantovana	2,988	11.1%
Banca 121 P.F.	220	0.8%
TOTAL ITALIAN BANKS	**19,406**	**72.2%**
Foreign banks	455	1.7%
Product companies	1,620	6.0%
Service companies	2,616	9.7%
Operating Consortium	2,311	8.6%
Tax collection	2,483	9.2%
Insurance	164	0.6%
Other companies	142	0.5%
TOTAL FOR THE GROUP	**26,886**	**100.0%**

(*) Foreign branches and representative offices

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

As of 30 June 2004 Banca Monte dei Paschi di Siena had a workforce of 12,382 employees with a decrease of 318 units year on year (on the basis of proforma data including the staff of Banca Steinhauslin which merged by incorporation into BMPS). The following table shows the distribution of BMPS personnel on the basis of operating units and job category:

CORPORATE CENTER		
Category	Actual number	% of total workforce
Executives	142	11.9%
Managers (senior, middle, junion)	444	41.3%
Other professional categories	490	45.5%
TOTAL	1,076	100.0%

BMPS DIVISION		
Category	Actual number	% of total workforce
Executives	151	1.4%
Managers (senior, middle, junior)	2,607	23.4%
Other professional categories	8,367	75.2%
TOTAL	11,125	100.0%

INTERNATIONAL BANKING (*)		
Category	Actual number	% of total workforce
Executives	7	3.9%
Managers (senior, middle, junior)	63	34.8%
Other professional categories	111	61.3%
TOTAL	181	100.0%

(*) Foreign branches and representative offices

TOTAL BANCA MPS S.P.A.		
Category	Actual number	% of total workforce
Executives	300	2.4%
Managers (senior, middle, junior)	3,114	25.1%
Other professional categories	8,968	72.4%
TOTAL	12,382	100.0%

The following observations can be made based on an analysis of the mix of resources:

- In terms of academic credentials, the percentage of personnel with degrees is significant, particularly in the case of Managerial staff:

BMPS PERSONNEL: MIX BY ACADEMIC CREDENTIALS		
Job grade	% of University graduates	% of other diplomas
Executives	45.2%	54.8%
Managers 4/3	34.7%	65.3%
Managers 2/1	21.2%	78.8%
Other professional areas	24.0%	76.0%
TOTAL	25.6%	74.4%

- Bank employees are young (approximately 42% are under 40) and have relatively limited seniority. Women account for a significant percentage of total staffing (abt. 39%):

BMPS PERSONNEL: BREAKDOWN BY AGE			
Age	%Female employees	%Male employees	% of total
Up to 30 years	5.3%	4.6%	9.9%
31 to 40 years old	17.2%	45.4%	32.6%
41 to 50 years old	12.4%	21.3%	33.7%
Over 50 years old	3.9%	19.9%	23.8%
TOTAL	38.8%	61.2%	100.0%

BMPS PERSONNEL: BREAKDOWN OF STAFF BY SENIORITY			
Age	% Female employees	% Male employees	% of total
Up to 10 years	14.1%	18.6%	32.7%
From 11 to 20 years	15.2%	16.6%	31.8%
From 21 to 30 years	7.5%	15.1%	22.6%
Over 30 years	2.0%	10.9%	13.0%
TOTAL	38.8%	61.2%	100.0%

A significant portion of total staffing (83.5%) is dedicated to the commercial network.

OPERATIONAL STRATEGIES

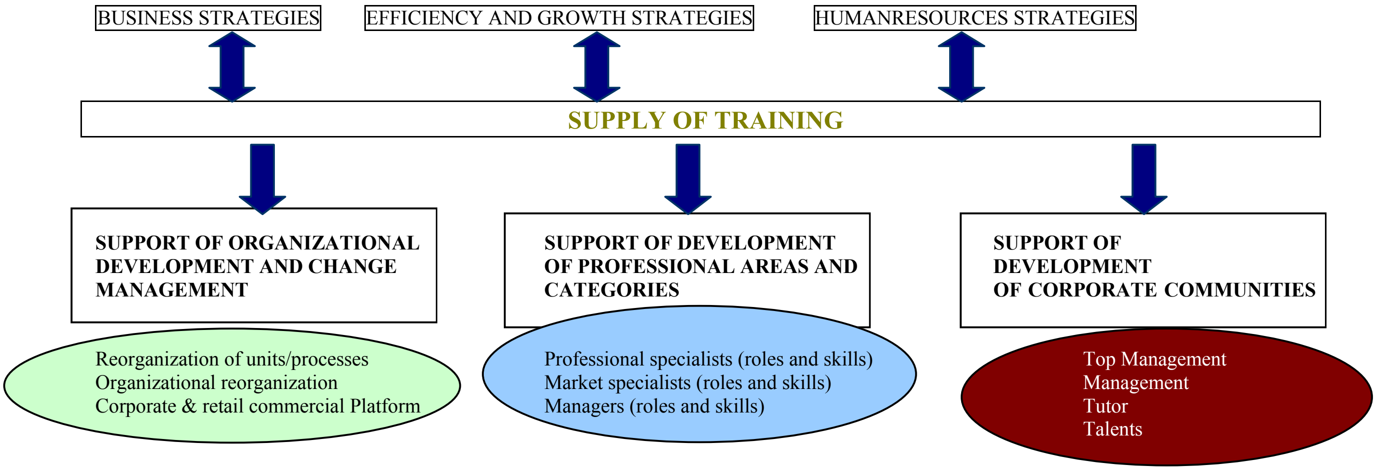
Against a backdrop characterized by the expansion of the projects of organizational change which modified the Branch structure and introduced innovations in the terms and instruments of customers relationship management (service models) and internal processes, the management of human resources is focused on the following priority objectives:

- The *enhancement of professional skills* with particular reference to sales and marketing in a logic of pronounced specialization by market segment, and the *retraining of resources* freed as a result of the initiatives undertaken for boosting productivity, partly through a process of redistribution from the Central Units to the Network in relation to the implementation of specific actions of organizational review;
- The achievement of *cost containment* through direct efforts oriented to reduce the size and mix of staffing and other most significant expenses. With reference to the "technical mechanisms" focused on encouraging early retirement of senior employees, 275 units left the Bank on the basis of Solidarity Fund provisions and 65 employees departed under early retirement incentive programs. On the basis of the applications received, further departures of employees are expected to take place during the second half of 2004 (150 units under Solidarity Fund provisions and 70 units under early retirement plans, respectively).

The Group's evolution programme is supported by:

- The *consolidation of training activities* with an appreciable increase in the hours of training, and content innovations (in particular, with respect to professional and managerial development and the expansion of the channels, e.g. E-learning Platform, Tutor Network):

BUSINESS PLAN



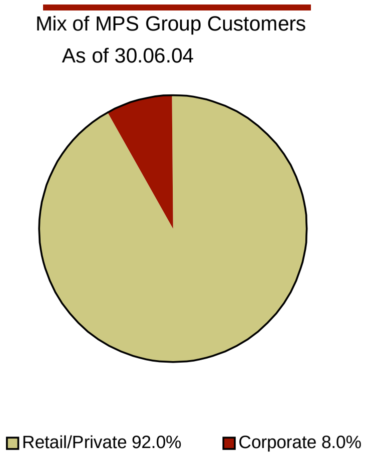
Priority was given to the human resources who play new roles in the commercial business of the Network (Account Managers) - through training courses in relation to the Corporate and Retail Platforms incorporating a section in relation to loan trend management -, and to Branch Managers, in light of the changes in their role. Other training sessions in the area of risk management include Basle 2 and "Major procedures of creditworthiness" courses. The Group also operates in order to emphasize the importance of training as an instrument of internal communications. Basic training (involving all employees) is concentrated on current issues covering the quality of customer relationships (Transparency, Clear Pacts, New Corporate Law). On the "managerial" front, a specific course dealing with human resources management was targeted at the Bank's Executives.

- The development of a *management model* based on skills, for the purpose of encouraging the enhancement of professional skills (know-how, skills and responsibilities required for each role) and individual potential, through the activation of targeted consolidation initiatives and the implementation of *professional paths* with growing levels of diversification/customization, in compliance with the dynamics of organizational structures;
- An *incentive system* closely associated with the Business Plan and the Budget, with performance indicators focused on income, operating and project components, which become important in the medium/long term. *Qualitative objectives* in relation to the enhancement of customer relationships (e.g. customer retention), the effective monitoring of risks and the reduction of operating expenses become crucial.

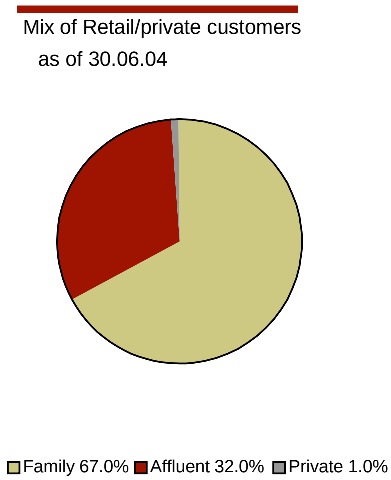
The above-mentioned processes are illustrated in the Human Resources Management Plan which is integral part of the Business Plan. The Human Resources Management Plan indicates the initiatives oriented to developing the human resources from the qualitative and quantitative viewpoints in compliance with the guidelines set, and in a logic of planning and finetuning strategical projects, in terms of human resources freed and required by unit and business area.

- **CUSTOMER PORTFOLIO**

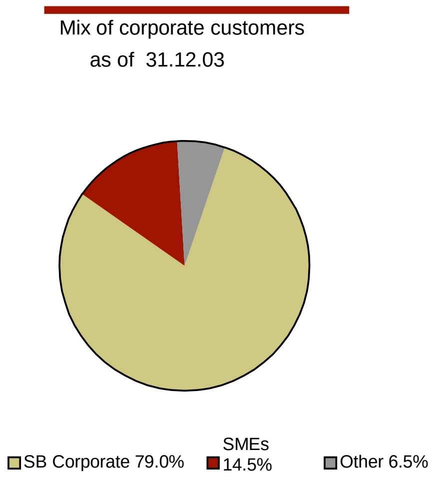
As of 30 June 2004, the customers of the Group commercial networks numbered about 4,200,000, with retail and private customers accounting for 92% of this total.



A review of the retail business shows that the Family segment (assets of less than EUR 25,000) is still the most important with a weight of 67%, slightly decreasing with respect to the increasing percentage of private customers (from 0.7% as of 31 December 2003 to 1%).



The corporate clientele is estimated to include mostly small businesses and SMEs (around 325,000 customers), with Large Corporates and Government Agencies being incorporated under “Other”.



The Group customer portfolio including the customers directly managed by Consum.it numbered roughly 4,800,000.

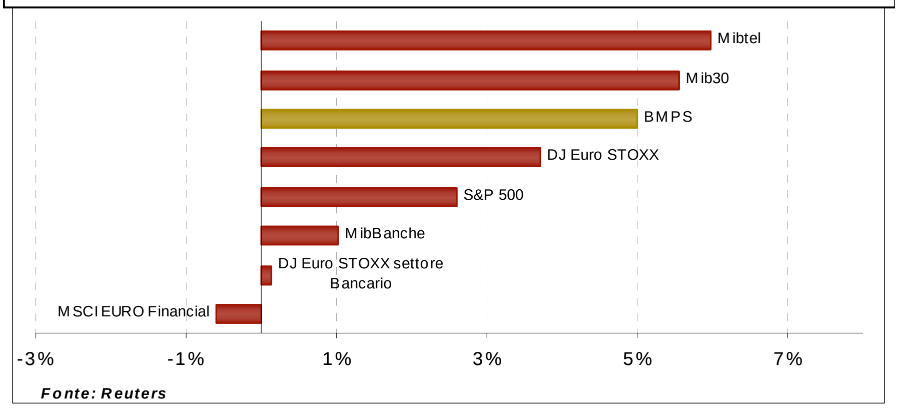
12. OTHER INFORMATION

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

■ PRICES

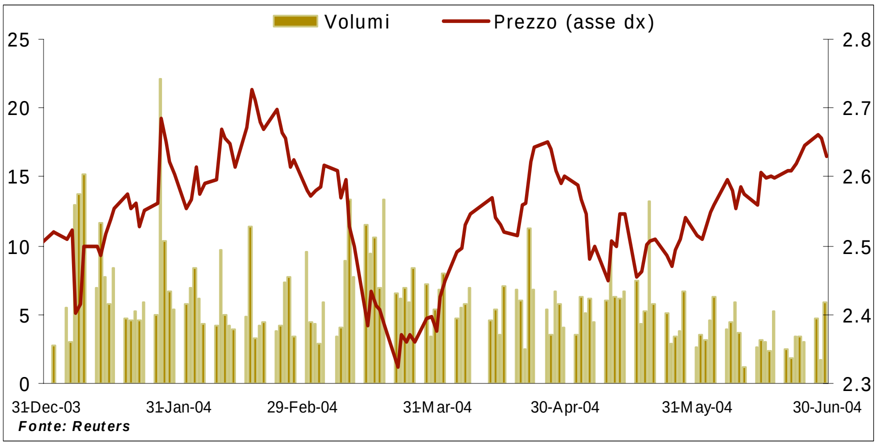
The major stock indices recovered in June 2004 with respect to the low they had reached in May and closed the first half of 2004 positively (DJ Euro Stoxx + 3.7%, S&P 500 +2.6%, Mibtel +6.0%, Mib30 +5.6%). The performance of the banking industry indices was less buoyant: DJ Euro Stoxx Banks + 0.1% and MIB Banks + 1.0%.

% chg in the first half of 2004 (Dec03-June04)



With a positive gap with respect to the principal banking indices, the price of the BMPS shares advanced by 5.0 percent in comparison with the value reported at the beginning of the year, reaching EUR 2.63 as of 30 June 2004, after having registered a low of EUR 2.30 on 22 March and a high of EUR 2.74 on 18 February.

TREND OF SHARE PRICE (from 31/12/03 to 30/06/04)



BMPS SHARE PRICE: STATISTICAL SUMMARY	
Average price	2.55
Low	2.30
High	2.74

CAPITALIZATION AND SHAREHOLDER BASE

As of the end of June, the market value of BMPS on the basis of 3,014,431,630 shares outstanding (ordinary and preferred) was roughly EUR 7.9 billion, and this represented roughly 1.51 percent of the total capitalization of the Italian stock market (EUR 7.5 billion or 1.51% of the total capitalization as of December 2003).

SUMMARY OF REFERENCE PRICES AND CAPITALIZATION

	31/12/03	30/06/04
Price (EUR)	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.)(in EUR mn)	7,551	7,928

Based on reports submitted to BMPS and to CONSOB pursuant to Article 120 of Legislative Decree n. 58/98, the MPS Foundation, the Bank's principal shareholder, held a 49-percent interest in the ordinary capital as of 30 June 2004. The second largest shareholder as of the same date was Francesco Gaetano Caltagirone, with a 4.72-percent interest. The holding of Hopa SpA and Premafin Finanziaria amounted to 3.00 percent and 2.58 percent, respectively, as of the same date.

PRINCIPAL SHAREHOLDERS PURSUANT TO ARTICLE 120 OF LEGISLATIVE DECREE N. 58/98

MPS Foundation	49.00%
Caltagirone, Francesco Gaetano	4.72%
Hopa S.p.A.	3.00%
Premafin Finanziaria	2.58%

VOLUMES

The number of BMPS shares traded on a daily basis during the first half of 2004 averaged around 6 million for the period. The volume hit a peak of over 22 million in January and a low of 1.1 million in June. A total of about 31 percent of the Bank's ordinary capital, or about 60 percent of the float, changed hands in the first half of 2004.

MONTHLY VOLUMES OF SHARES TRADED
SUMMARY FOR THE FIRST HALF OF 2004
In EUR million

January	168
February	113
March	166
April	117
May	121
June	80

MAIN MARKET MULTIPLES

In terms of market multiples, the shares were trading at the end of the first half at a price reflecting around 11.5 times' forecast earnings for 2005 (source: IBES estimates), and around 1.2 times' net book value per share forecast as of the end of 2004.

MARKET MULTIPLES (in EUR) (calculated on the basis of data as of 30.06.2004)

P/E (with respect to forecast earnings for 2004)	17.2
P/BV	1.3

The historical Beta (June 1999-June 2004) as of 30 June 2004 kept steady at 0.86 around the levels recorded at the end of 2003; 30-day historical volatility declined to 12.03% (from 25.2% in December 2003 to 31.51% in June 2003).

DEBT RATINGS

Debt ratings did not change in the first half of 2004. After the usual yearly review by Fitch IBCA, Fitch ratings stressed the Group's recovery of profitability associated with the implementation of the 2003-2006 Business Plan, the improved risk management system, the Banks' strong franchise in central Italy and its good distribution network.

Agency	**Short-Term Rating** as of 30/06/2004	**Long-Term Rating** as of 30/06/2004
Moody's Investors Service	P-1	A-1
Standard & Poor's	A-1	A
Fitch IBCA Ltd.	F-1	A+

INVESTOR RELATIONS

The activity of Investor Relations continued in the first half of 2004 by presenting the 2003-2006 Business Plan to investors in Switzerland (Zurich and Geneva), Spain (Madrid), Scotland and the Netherlands. The Road Show for presenting the results of the first quarter of 2004 started in May in Milan, London, Frankfurt and Paris.

The Bank's Executives took part in several international conferences such as the Italian Financial Services Conference 2004 organized by UBS in Rome, the Southern European Banking Conference organized in Florence by Morgan Stanley, the Goldman Sachs Financial Conference organized by Goldman Sachs in Montecarlo and the Banca Akros Convention organized by Banca Akros in Taormina.

The Investor Relations Unit orchestrated two conference calls with investors for the publication of the operating results for the periods ending in December 2003 and March 2004.

Through these initiatives, the MPS Group's Executives had the opportunity of meeting 18 financial analysts and 200 investors.

TRANSACTIONS WITH RELATED PARTIES

In compliance with the self-discipline code for listed companies and in light of the regulations issued by CONSOB in relation with market information to be disclosed by the issuers of listed shares and concerning the transactions with related parties, BMPS adopted a specific Conduct Code for the transactions with "related parties". The principle/concept of "Related Parties" implies the following steps/points:

a) *Group Relation*: refers to control relations, connections and strong influence directly involving BMPS and its Group;
b) *Direct relation*: includes the members of the Board of Directors and the Board of Auditors, the CEO, the Executives empowered by the Board of Directors (i.e. the Deputy CEO and Assistant CEO, the General Manager of the BMPS Commercial Division, the Responsibles for the Corporate Center Units and the senior managers of BMPS Division with discretionary powers in terms of loan disbursements);
c) *Indirect relation*: means the close relatives of the Related Parties – individuals.

None of the transactions outstanding with related parties implied the obligation of disclosure to the market pursuant to art.71 bis of Consob Regulation no.11971.

The obligations resulting from art.136 of Legislative Decree no.385 of 1 September 1993 (Banking and Credit Act) in terms of obligations of the banking representatives are unchanged.

13. – MATERIAL EVENTS SUBSEQUENT TO THE END OF THE FIRST HALF OF 2004

Following is a summary of the more significant events which occurred after the end of the first half of 2004.

- On 8 July 2004 BMPS reached an agreement with PKB Privatbank AG for the sale to PKB of the whole share capital of Banca Monte Paschi (Suisse) SA of Lugano; the sale agreement was executed on 29 July 2004.
- On 21 July 2004 BMPS and BSI Banca della Svizzera Italiana executed the sale agreement of Banca Monte Paschi (Channel Islands) Ltd.
- The shareholders' meetings of MPS Merchant Spa and MPS Finance Spa (28 July 2004) and the shareholders' meeting of MPS Banca Verde (29 July 2004) approved the plan of merger by incorporation of MPS Banca Verde into MPS Merchant and the split-off of a business unit of MPS Finance to MPS Merchant, as indicated in the 2003-2006 Group Business Plan.

14 – OUTLOOK FOR THE SECOND HALF OF 2004

Against a backdrop showing conflicting signs, but in compliance with the strategy of growth illustrated in the 2003-2006 Business Plan, the Group's guidelines for the second half of 2004 are oriented to giving priority to a sales and marketing policy based on the extension of the service models by customer segment, cost containment, careful monitoring of risk profiles and optimization of capital.

If the current economic scenario and financial markets do not deteriorate further, on the basis of the results as of 30 June 2004, the current trends and initiatives undertaken, the major balance-sheet aggregates are expected to be in line with the comparable figures for the first half of 2004.

Siena, 9 September 2004