



2004 Third Quarter Results and Business Plan Checkpoint

Siena, 12 November 2004

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Group Results

Business Plan Checkpoint

Highlights : third quarter 2004

Recovery of Commercial Core Business

- Total income: +0.4% 3Q04 vs 2Q04
- Operating Profit after provisions: +9.7%
- New inflows of retail products: 1,595 €mln (1,222 at 2Q04)
- Commercial loans: 64,325 €mln (avg balances) +0.6% 3Q04 vs 2Q04

Improvement of asset quality and reduction of credit cost

- NPL inflows: -14% 3Q04 vs 2Q04
- Substandard loans inflows: -19% 3Q04 vs 2Q04
- Loan loss provisions: -36% 3Q04 vs 2Q04 (credit cost ann. 61 pb)

Strengthening of capital ratios

- Core Tier1: 6.6% vs 6.5% of 2Q04
- Total Capital Ratio: 10.5% vs 10.3% of 2Q04

Stable operating costs

- +0.2% 3Q04 vs 2Q04 of which:
Operating costs: +0.6%
Valuation adjustments: -4.1%

Highlights : first nine months 2004

Profit and loss aggregates				
	Group	9M04 vs 9M 03 chg %	Commercial Banking	9M04 vs 9M03 chg %
Basic income	2,820	-0.8%	2,896	+0.4%
Total income	3,353	-5.3%	2,896	+0.4%
Operating costs	2,294	-5.2%	1,920	-5.5%
Operating income	1,059	-5.3%	976	+14.7%
Total provisions and Extraordinary items	474	-8.6%	444	+2.6%
Net income	325	+19.6%	313	+29.4%

Balance sheet aggregates		
	9M04 €mln	Yoy chg. %
AuM	43,485	+3.7%
Funds under administration (1)	60,194	-5.5%
Direct funding	81,919	+5.1%
Loans (2)	71,276	+2.1%

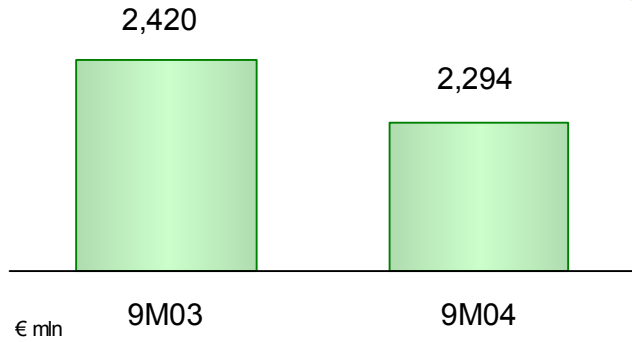
Key indicators (%)		
	30 sept 04	31 dec 03
Cost / Income ratio	68.4	68.3
Provisioning	72 pb	81 pb (ex. Parmalat)
ROE (ex. goodwill amortization)	8.6	9.5
Core Tier 1	6.6	6.3

(1) This aggregate is influenced by the outflows of some important institutional accounts with a marginal profitability

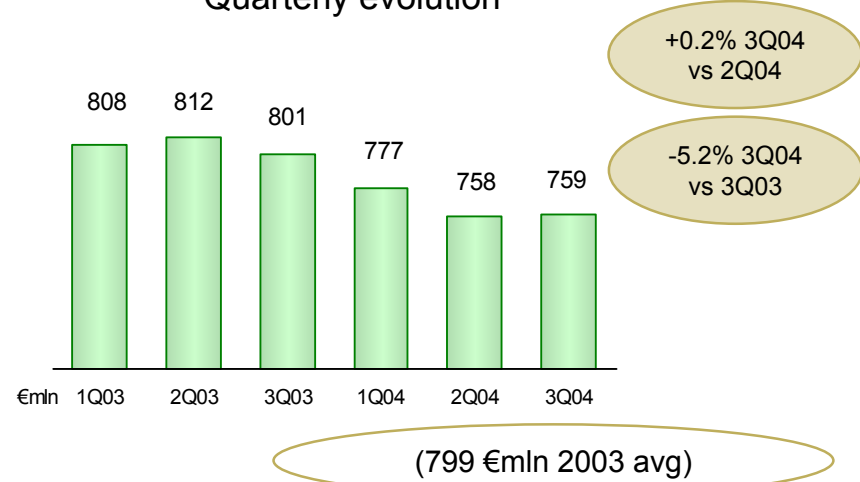
(2) +4.2% yoy including 2003 securitized loans

Operating costs: behaving below Business Plan targets

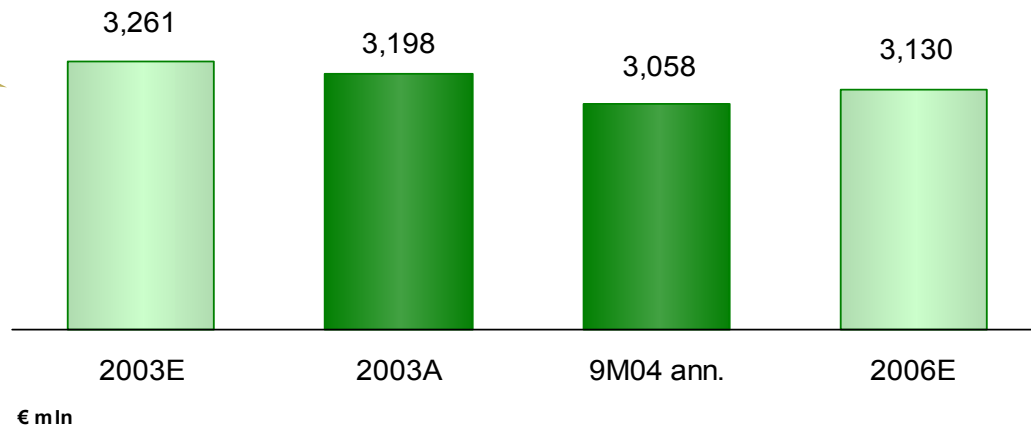
9 months evolution



Quarterly evolution

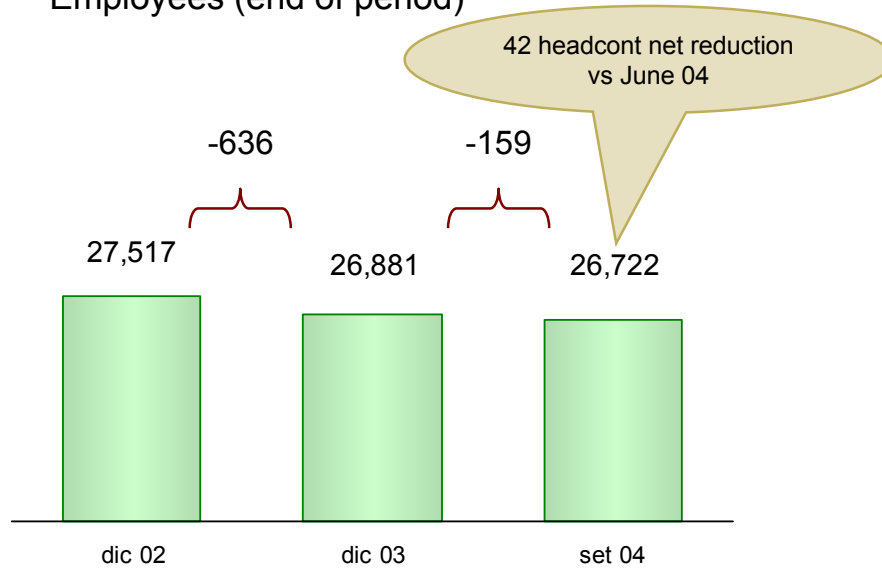


9M04 annualized is again below targeted levels trough 2006

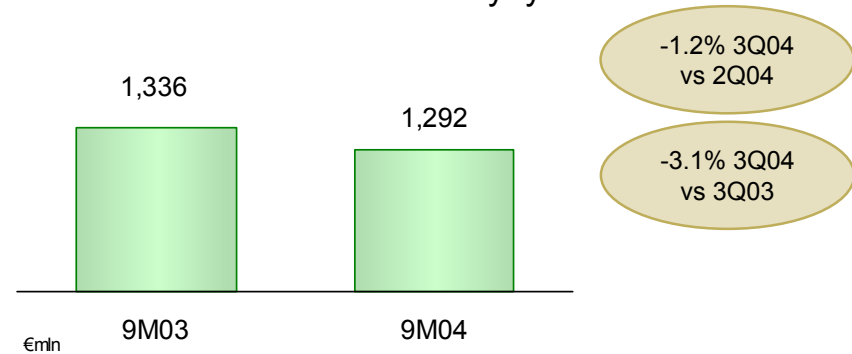


Operating costs: behaving below Business Plan targets

Employees (end of period)



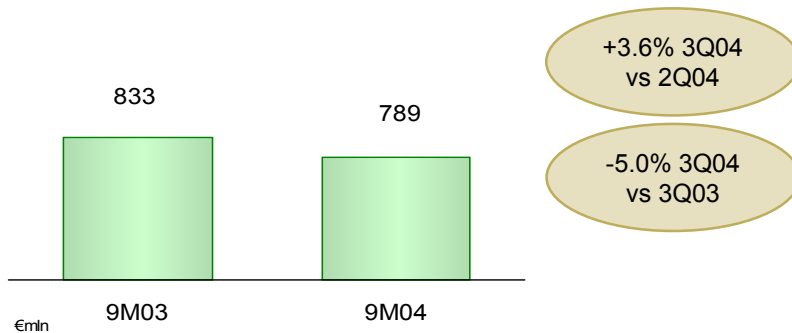
Staff costs: -3.3% yoy



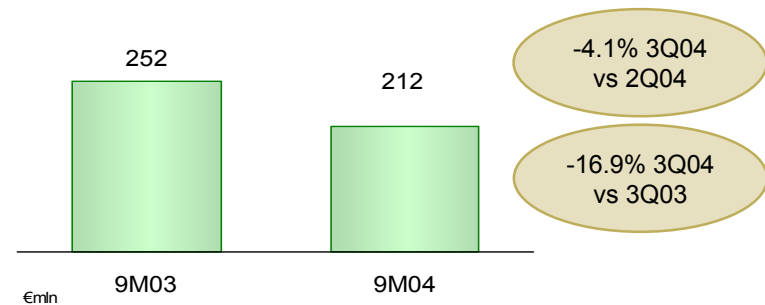
Extraordinary charges

107 €m already charged to P&L until September 2004, of which 46 €m in 2004

Other administrative costs: -5.3% yoy

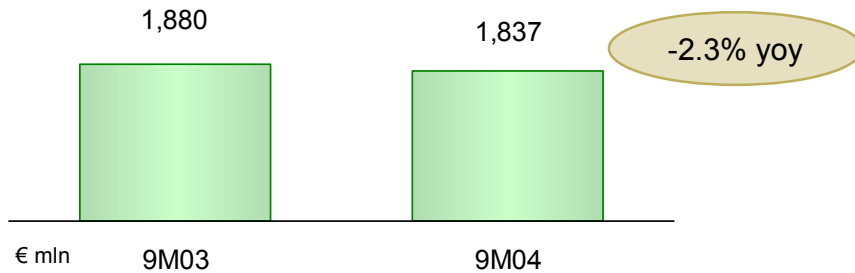


Valuation adjustments: -15.6% yoy

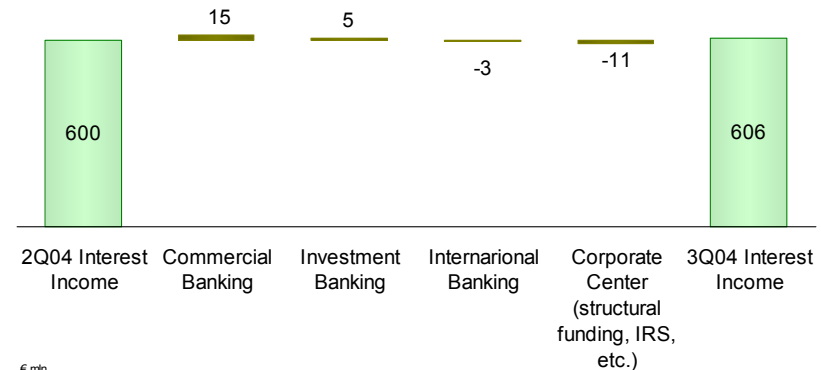
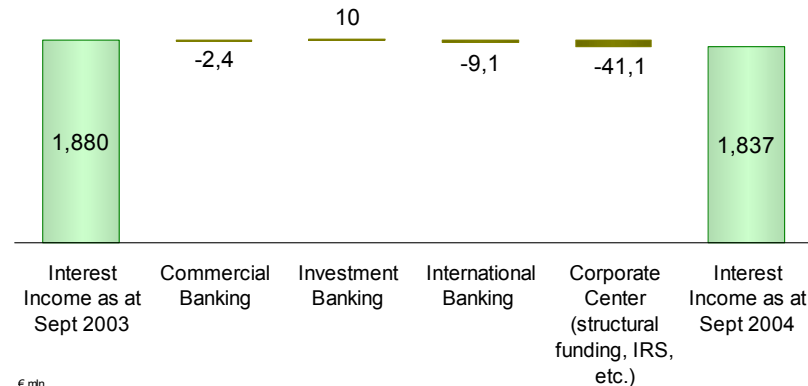
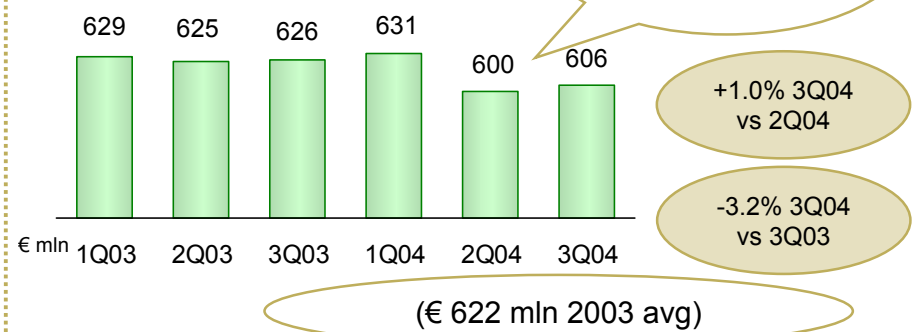


Business Growth: Net Interest Income

9 months evolution



Quarterly evolution



Commercial banking: +33 € mln from volume effect; -35.4 € mln from spread effect

Investment banking: lower interbank funding and higher return on corporate bond portfolio

International Banking: reduction of capital absorption (-28% from year end)

Corporate center: increase of structural funding related to strengthening of capital ratios and to interest rate expectations; lower Banking Book contribution, elision

Commercial banking: +5 € mln from volume effect; +10 € mln from spread effect

Investment banking: benefits from stability of overnight rates and higher return on corporate bond portfolio

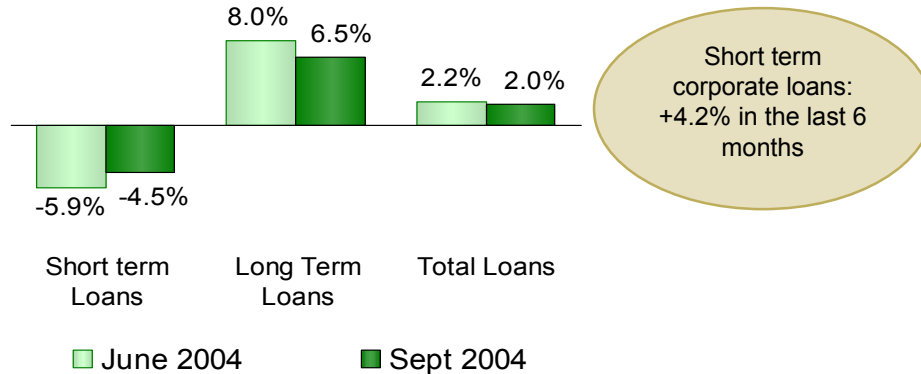
International banking: divestment of minority stakes (MPS Suisse, MPS Channel Islands)

Corporate center: lower income from minority companies, hedge costs and elision

Business Growth

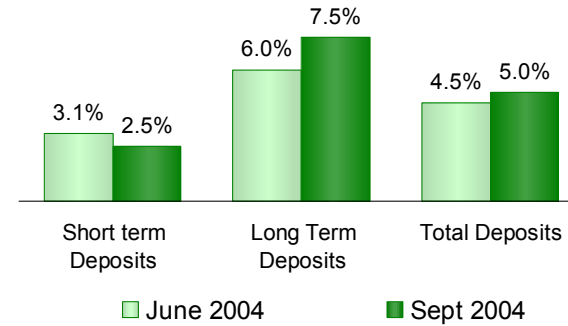
The Group is positively affected in case of interest rate increase: expected increase on net interest income for +50 bp is about 2.5% (12 months horizon)

Customer Loans: % chg 9M04 vs 9M03 (avg balances)



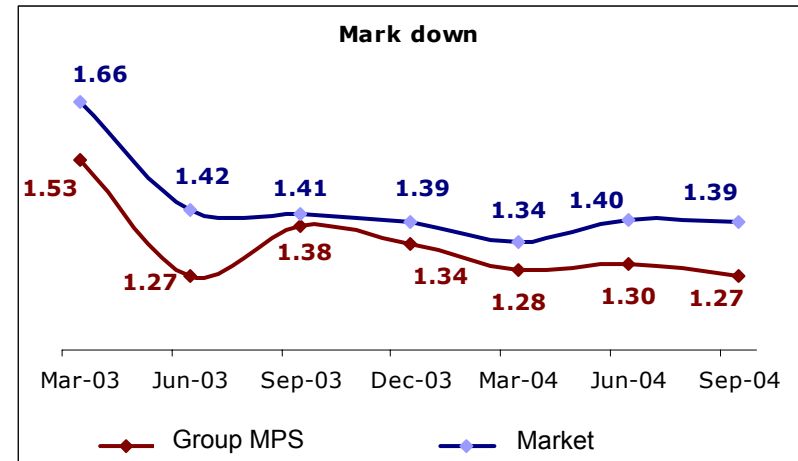
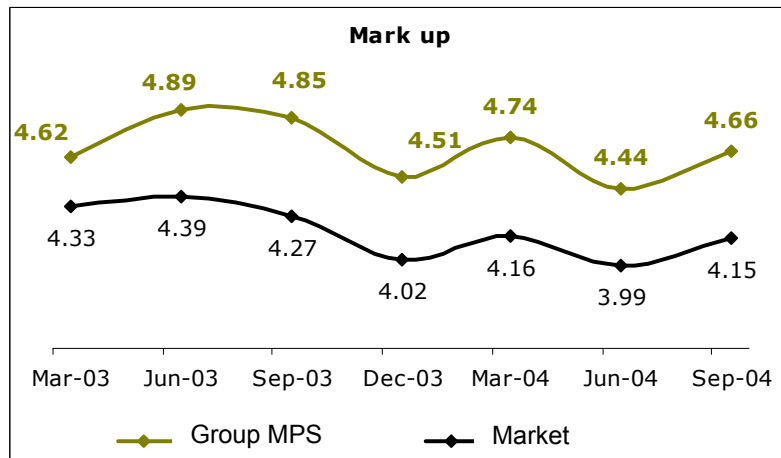
Customer loans market share: 6.17% from 6.25% at June04

Customer Funds: % chg 9M04 vs 9M03 (avg balances)



Customer funds market share: 6.62% from 6.55% at June04

Trend in short customer spread*

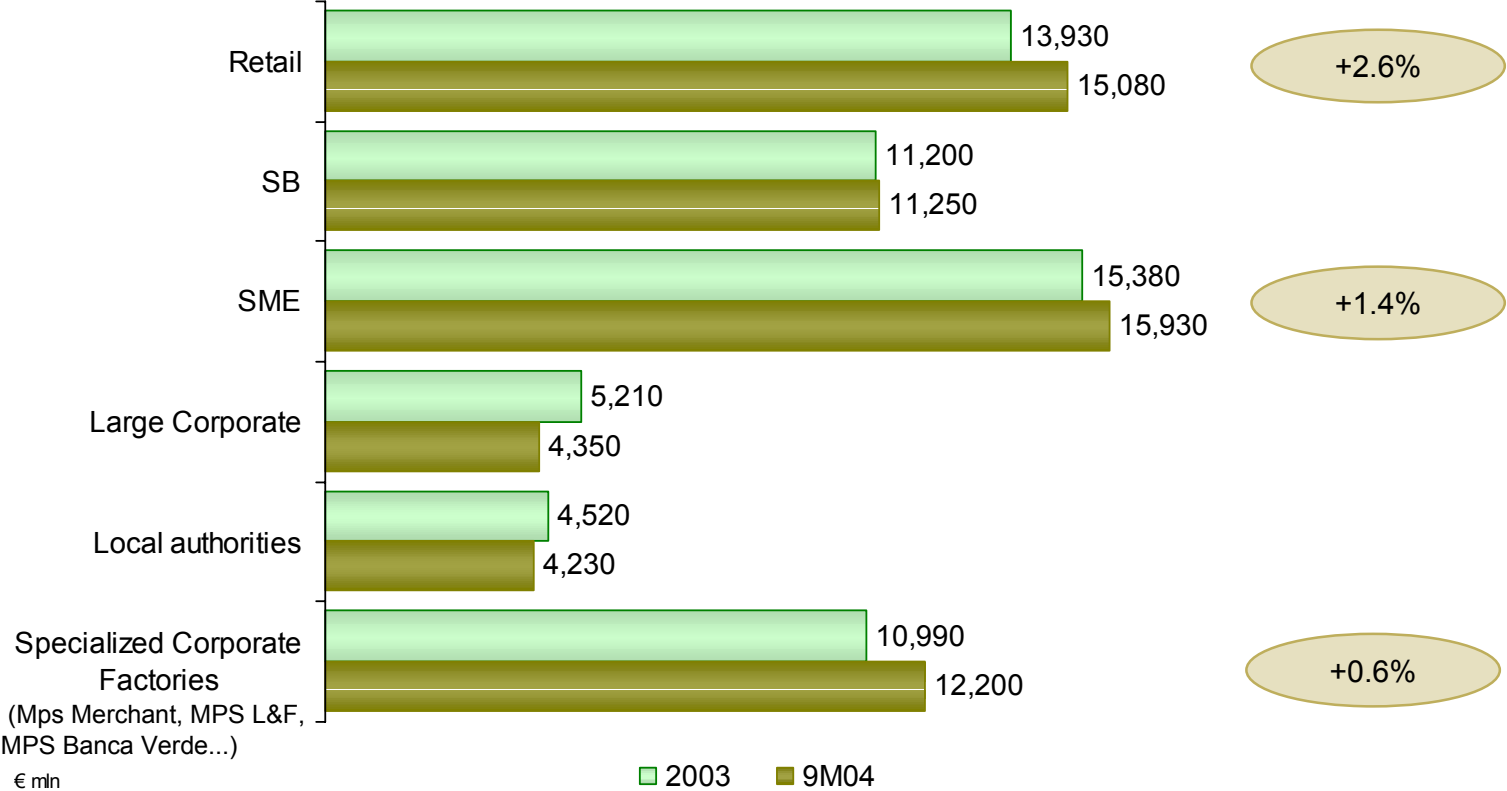


*Mark-up and mark-down are calculated considering interest rate on current accounts

Business Growth

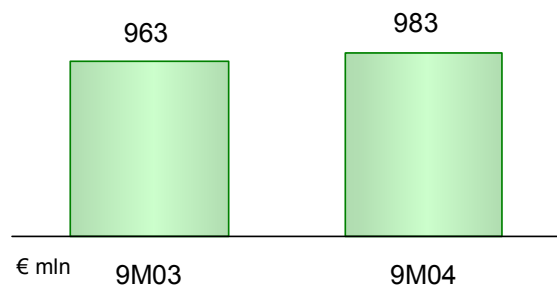
Breakdown of domestic loans (average balances)

Trend 3Q04 vs 2Q04

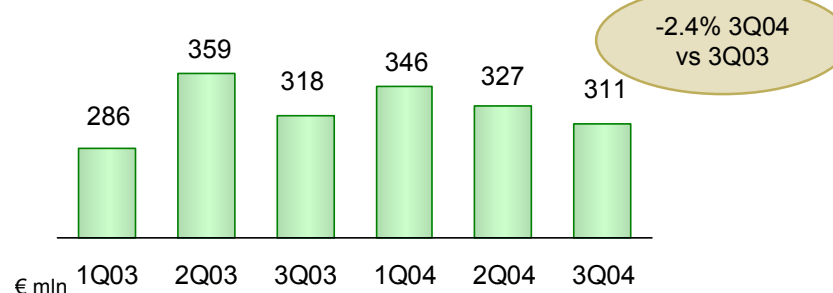


Business Growth: Net Fees

9 months evolution



Quarterly evolution



- > +7.1% yoy from **traditional banking fees*** (collection and payments +9.5% yoy)
- > +16.6% yoy from tax collection
- > -3.1% yoy from **AuM commissions**
- > -38.7% yoy from sale of **innovative financial product***, (up front fees weight on total fees from 8% to 4%) due to : -19.2 €mln yoy from retail products (in line with budget) and - 16.3 €mln yoy from corporate products

- > +1.5% qoq from **traditional banking fees***
- > -10% qoq from tax collection
- > -10.4% qoq from **AuM commissions** due to lower performance fees (-4 €mln vs 2Q04)
- > -28.1% qoq from sale of **innovative financial product*** due mainly to lower up-front margin on retail product (-4.5 €mln) and lower sale of corporate derivatives (-1.7 €mln)

* Reclassified following management criteria: excluding tax collection and including recoveries of account expenses and taxes, netting all contribution from financial products structuring

Business Growth: saving products and lending flows

€ mln

<i>Investment products flows</i>	Sept 2004	Sept 2003
Mutual funds	-486	1,806
Life insurance policies*	3,270	3,040
<i>o/w</i>		
<i>Ordinary life insurance policies</i>	2,274	2,082
<i>Index-linked policies</i>	790	559
<i>Unit-linked policies</i>	206	399
Innovative financial products	1,676	2,487
Plain vanilla	1,847	1,031
<i>Lending products flows</i>	Sept 2004	Sept 2003
Mortgages	4,772	4,115
Consumer finance	1,011	622

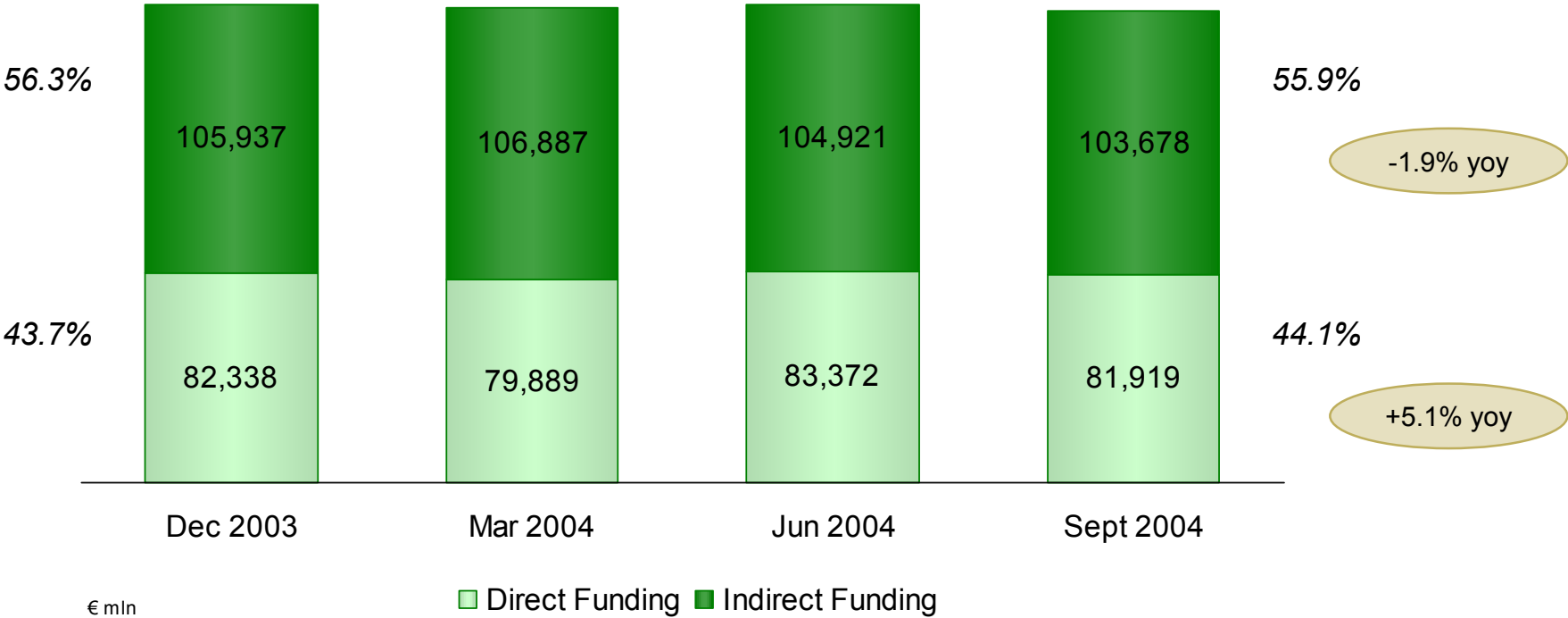
Banking system
-7,766 €mln

*Recurring premium at 268 €mln (142 € mln at 30.09.2003)

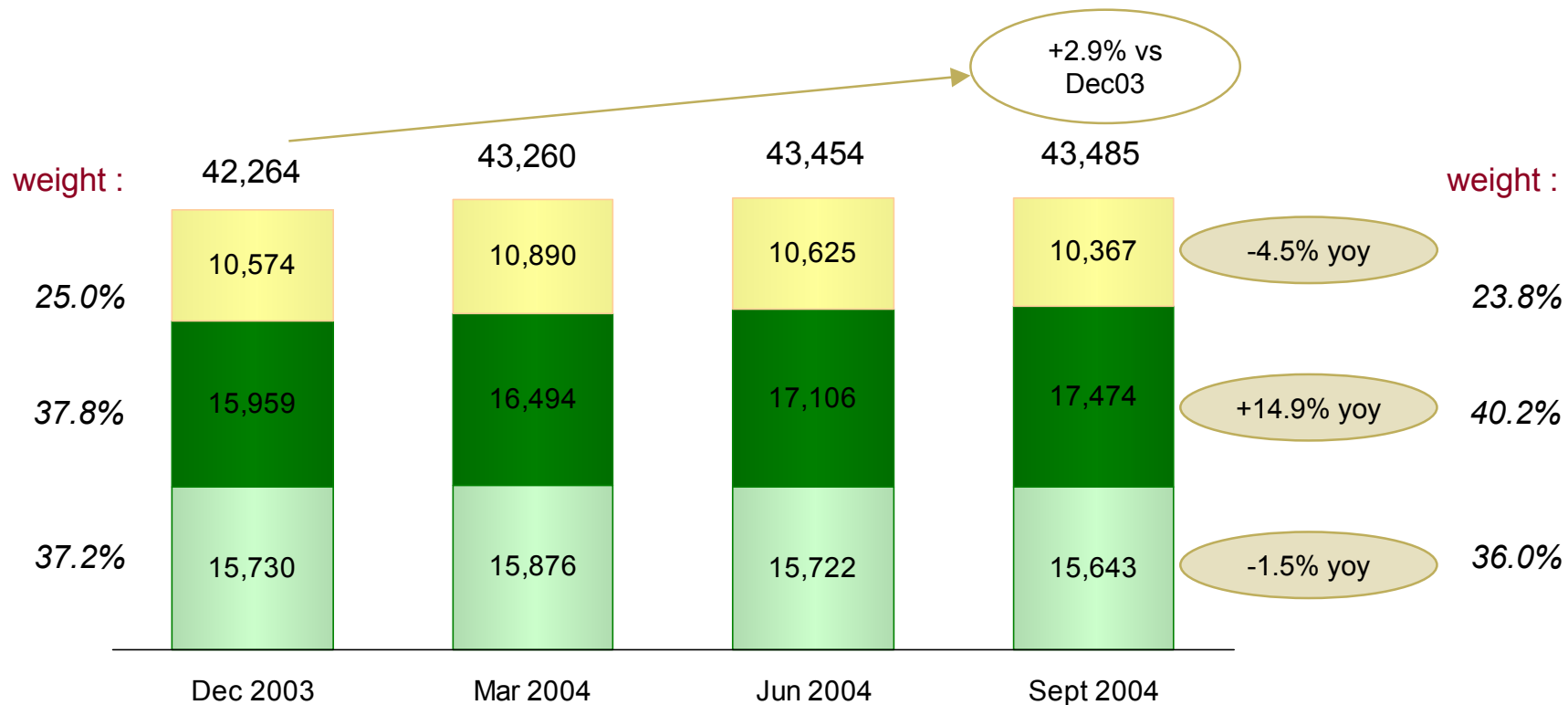
Business growth: direct and indirect funding

weight :

weight :



Business growth: AuM breakdown



€ mln

■ Mutual funds ■ Life insurance ■ PM

Market share: 4.13% at September 2004 (4.14% at June 04)
 Funds performance : 1.68% at September

Market share of stock: 6.8% at September (6.7% at June 04)

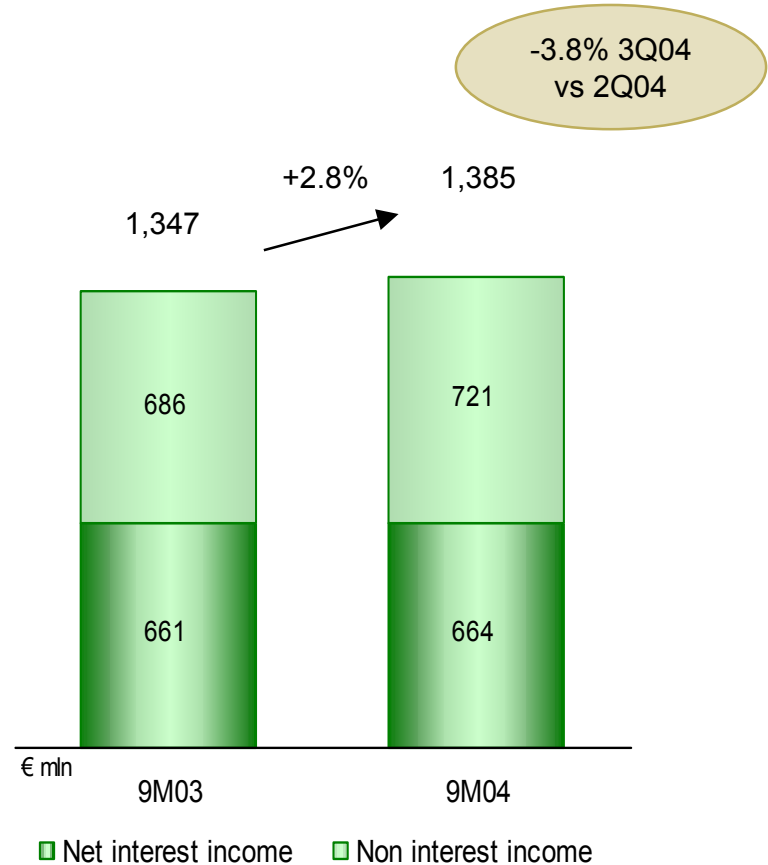
Market share of new flows: 10.2% at September (9.7% at June 04)
 Embedded Value of new production: 54 €mln at June 04

Breakdown by business area: Retail

Highlights

- New inflows of saving products at 4,338 €mln
- New mortgages at 2,867 €mln (32.5% yoy); Consumer finance at 1,011 €mln (62.5% yoy) with a market share at 3.8% (+1% vs Dec 2003)
- Retention Rate: 95,3%; Cross Selling: 3,2
- Cost/income (incl. amortization and Corporate Center costs): 73.5%

Revenues (€m)

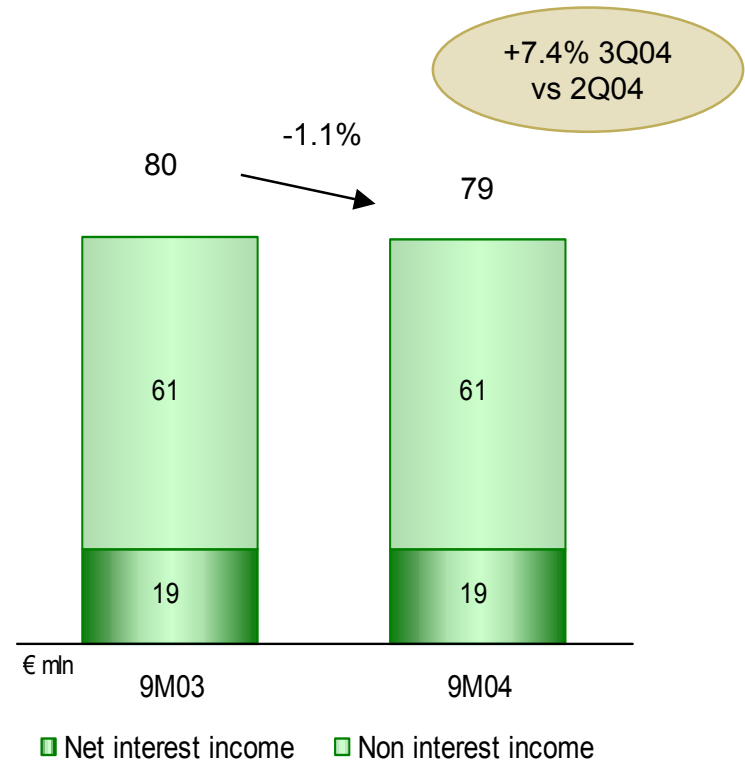


Breakdown by business area: Private

Highlights

- New inflows of saving products at 722 €mln
Cost/income (incl. amortization and Corporate Center costs):
74.9%

Revenues (€m)

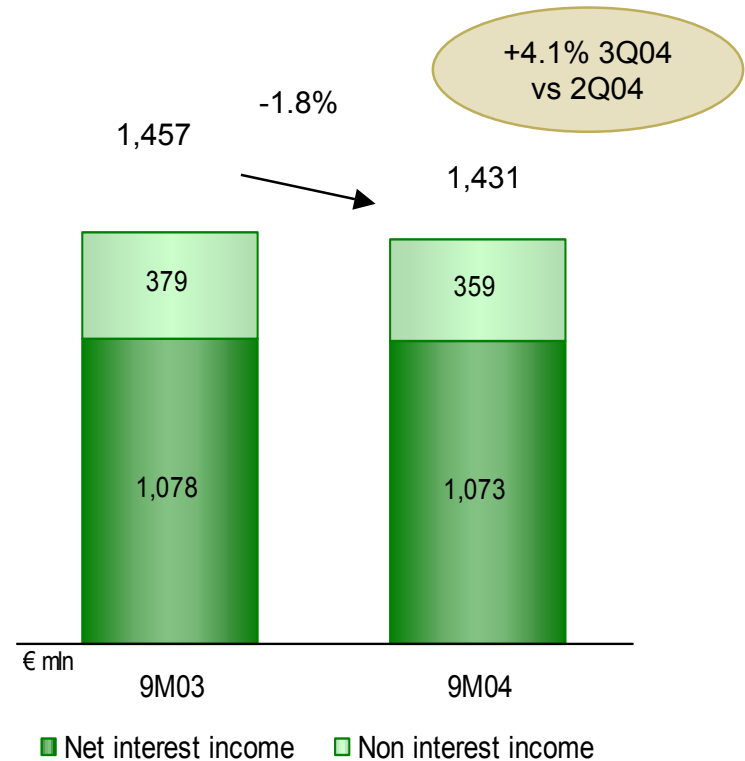


Breakdown by business area: Corporate

Highlights

- Specialized lending: MPS Merchant loans +15% yoy; Banca Verde +26% yoy (avg balances)
- Corporate Derivatives flows at 1,856 € mln (-53.5% yoy)
- Cost/Income (including amortisation and Corporate Center costs): 58.8%

Revenues (€m)

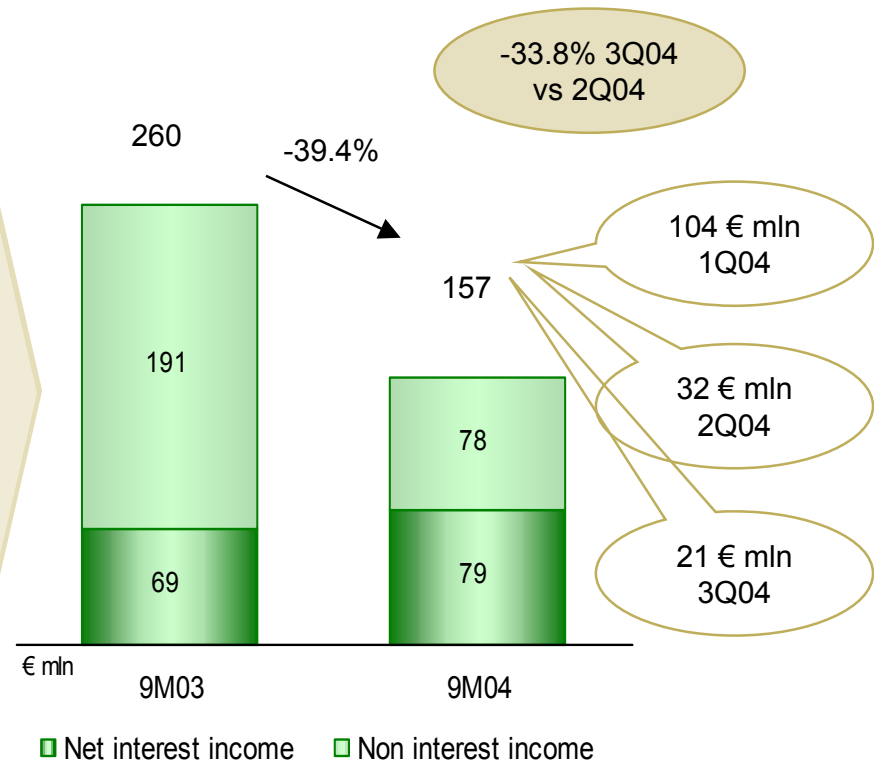


Breakdown by business area: Finance

Highlights

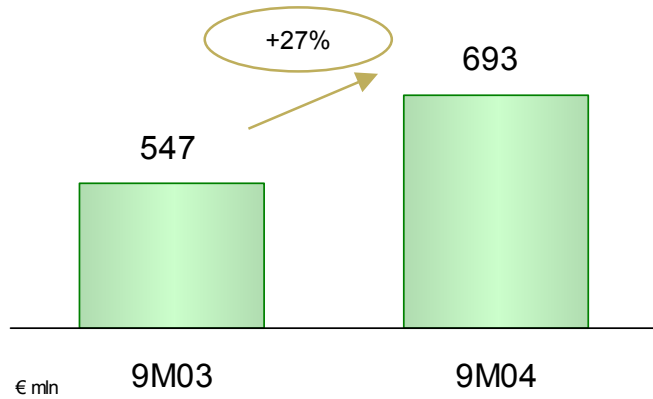
- Lowest equity market volatility since the last 40 years; limited market opportunities
- Lower total revenues due also to the new dividend taxation (now the contribution is net and not gross)
- Return on economic capital still sound: Raroc around 20%
- Cost/income (incl. amortization and Corporate Center costs): 41,7%

Revenues (€m)

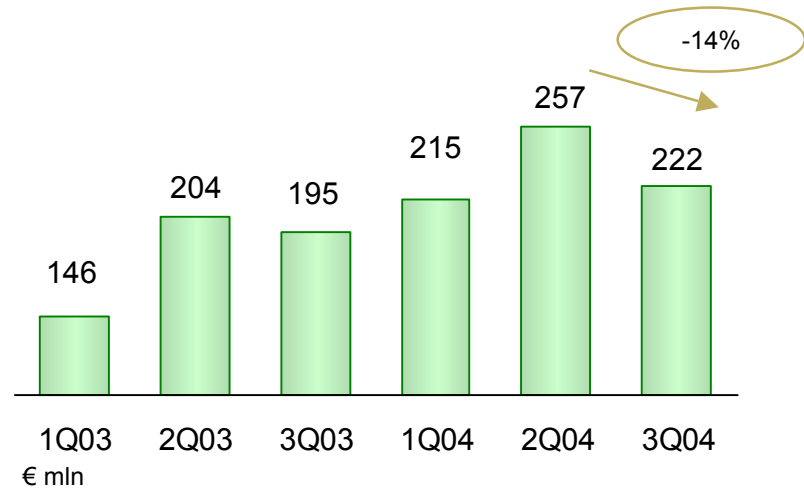


Credit Risk

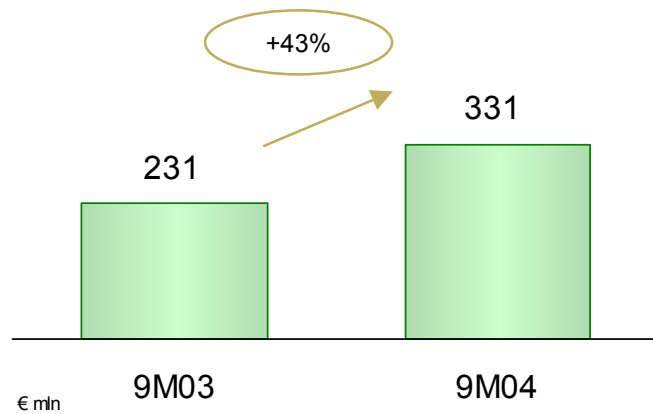
NPL inflows 9 month evolution



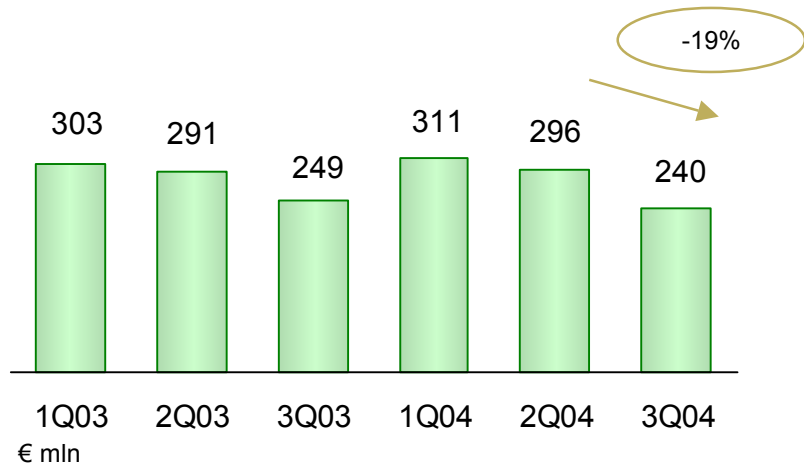
NPL inflows quarterly evolution



Recoveries

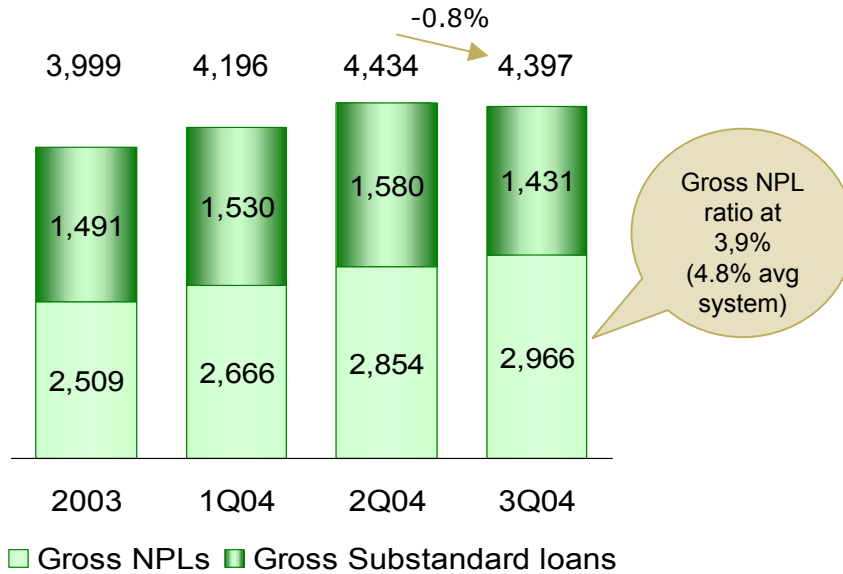


Substandard loans inflows quarterly evolution

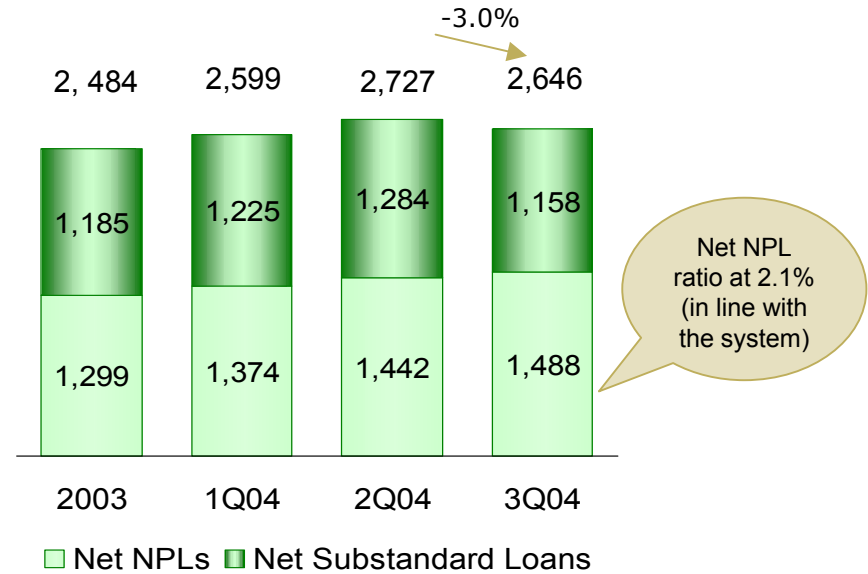


Credit Risk

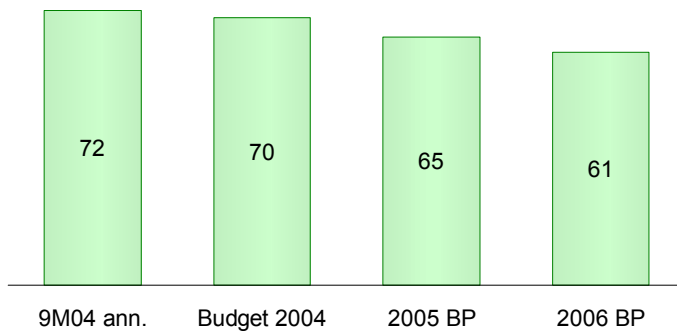
Gross NPL and Substandard loans (€m)



Net NPL and Substandard loans (€m)

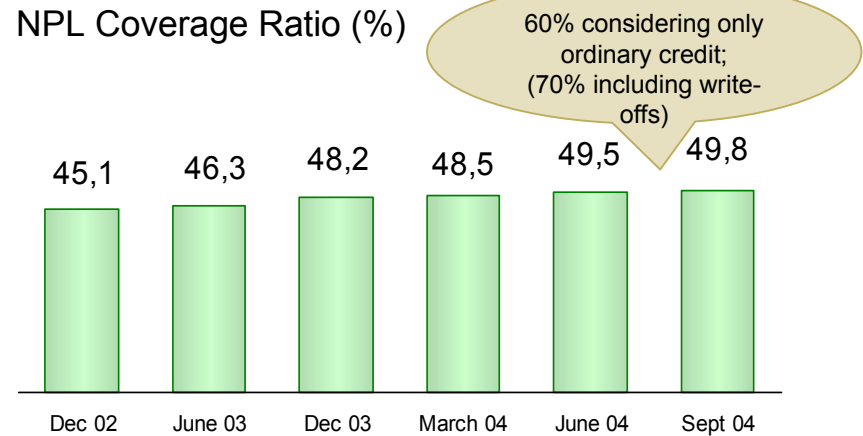


Credit cost (b.p.)*



* Excluding 5 bp due to the NPL's securitization loss amortised in 5 years (2001-2005).

NPL Coverage Ratio (%)

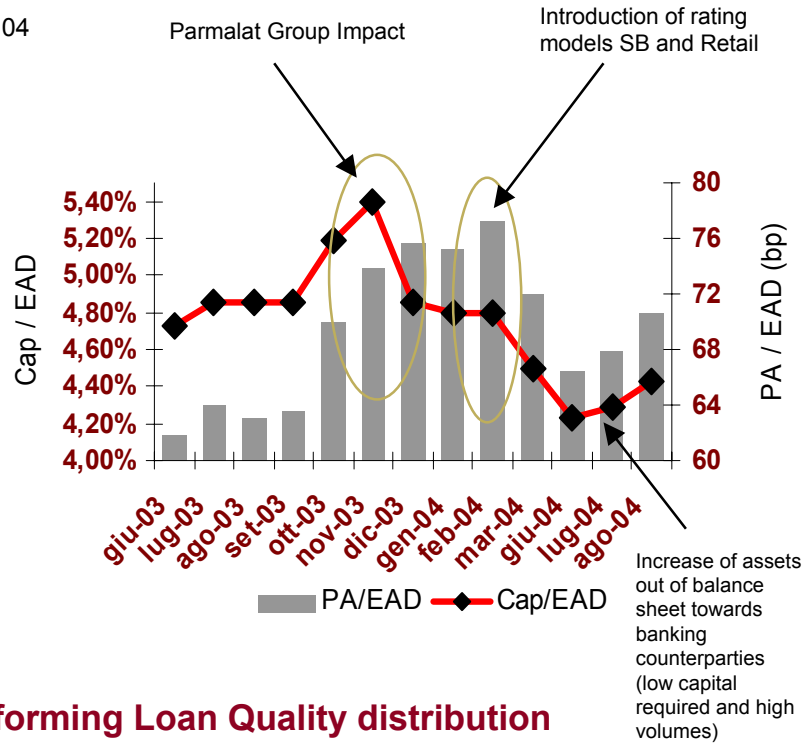


Coverage of performing loans at 0,84%

Credit risk management

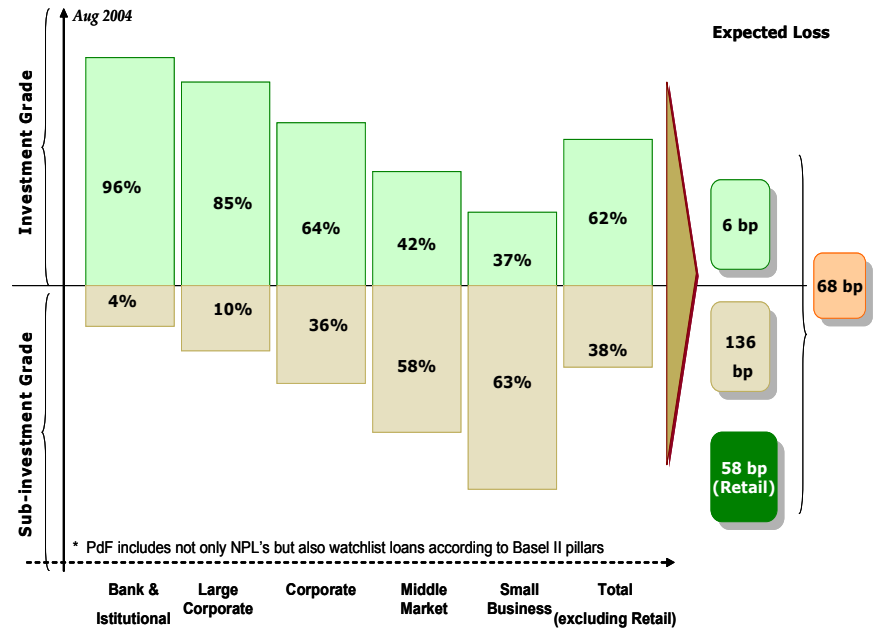
Expected Loss & Capital Dynamic

Aug 04



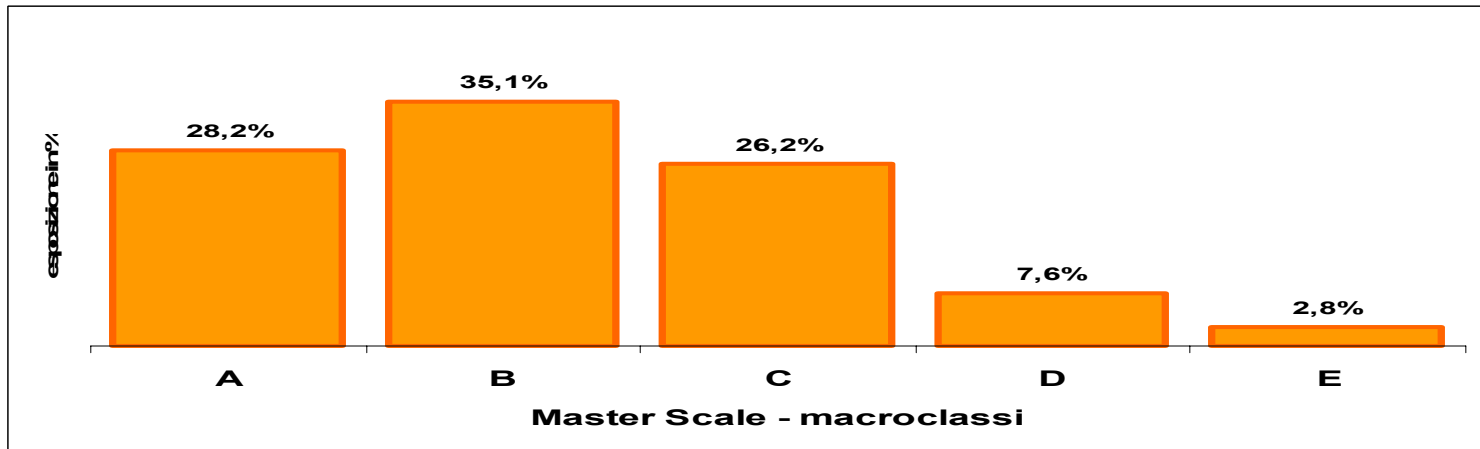
Expected Loss of commercial networks

Performing Loan Portfolio: Credit Risk Estimates*



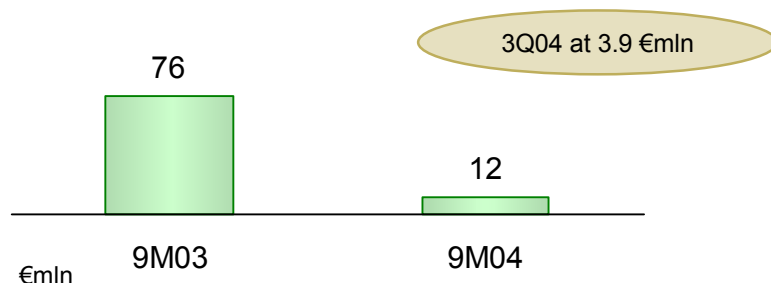
Performing Loan Quality distribution

Aug 2004



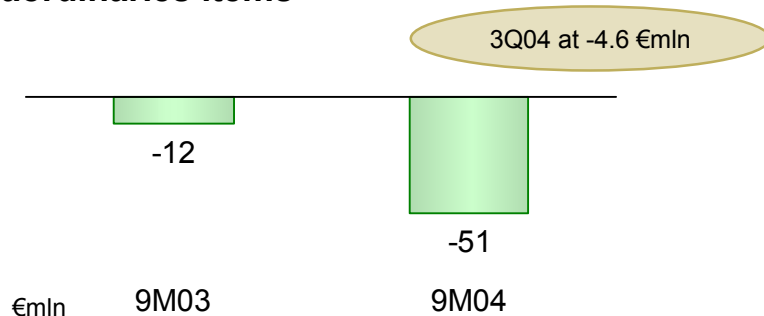
Other provisions

Provisions for risk & charges



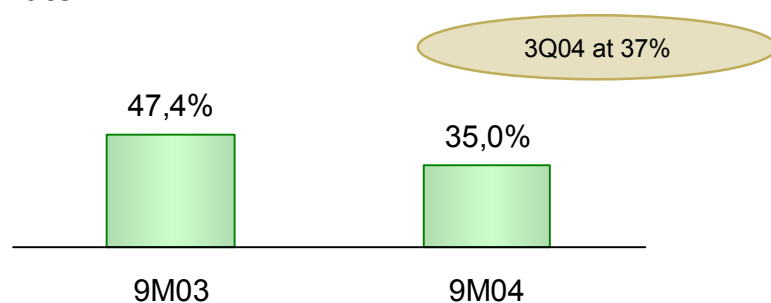
- 5.6 €m related to financial plans and B121 structured products.
- 8 €m for the national salary increase for banking staff (4 mln. € at June 04)
- Recoveries related to the statute-barred legal suit and restatement of other legal suits

Extraordinaries items



- -46 €m related to incentives for early retirement and severance fund (entirely charged and not amortized). 40 €m at June 04
- -47.7 €m related to claims on financial plans and B121 structured products settled and paid until now
- +35 €m for divestment of minority stakes (E-Biscom, Autostrade To-Mi, Sias, Monte Paschi Suisse, Monte Paschi Channel Islands). 29.6 €m at June 04

Tax rate



- 15 €m benefit on tax free income items (capital gain on sale of equity holdings)
- lower taxation on dividends
- Benefits from positive deferred taxation
- 17.9 €m of higher taxes due to DL 168 of July 2004
- Ordinary tax rate lower than 40%

IAS Impacts : preliminary evidences

Regulatory requirements still not definitive

First evidences from first application adoption

LOANS

Modest impact from application of new methodologies of impairment test for non performing loans (thanks to a high coverage) and for performing loans (thanks to the generic reserves)

REAL ESTATES

Positive impact from a prudent revaluation to market value

INTANGIBLE ASSETS

Not relevant

IAS Impacts : preliminary evidences

OTHER ASSETS AND LIABILITIES



Not relevant

MINORITY STAKES



Impacts to be defined according to market conditions

FINANCE and ALM



Modest impact

Operational trends expected for 4Q04

- Business volumes:

confirmed the acceleration for short term loans and spread stability; good commercial flows; stability of NPL/watchlist flows

- Revenues:

commercial revenues still improving; confirmed the expected recovery from trading profit

- Operating costs:

slightly higher over the 3Q04

- Provisions on loans:

slightly higher over the 3Q04

Business Plan Checkpoint

The Private Banking

3Q04 Checkpoint

The MPS Group aims to strengthen the current position in the strategic business area of Private Banking building a Private Banking Area and integrating Banca Steinhauslin into BMPS in order to:

- Rationalize the existing structures and apply a dedicated and uniform distribution model across the
- Manage with an integrated approach Private clients needs – not only regarding investments –
- Create a single product/service “factory” for the Group to assist Private clients, also through Group offshore structures

- Banca Steinhauslin incorporated into BMPS
- New Private Banking Area created and started activity (including the “factory”)
- Completed extension of the new service model on BMPS (26 Private Centers); in progress its extension to BT and BAM
- In progress the constitution of a new Company in Montecarlo

The new “Banca per l’Impresa”

3Q04 Checkpoint

The MPS Group aims to strengthen its positioning in the Corporate market setting up a new bank dedicated to Corporate lending and Corporate finance services through the integration of activities of MPS Merchant, MPS Banca Verde and part of MPS Finance

- Corporate restructuring and merger completed
- In progress activities to fully develop commercial potential and to complete organization restructuring through:
 - An integrated offer of medium–long term lending and of “Corporate finance” services (Advisory, Capital Market, Private Equity and Project Financing)
 - A strong integration with the SME dedicated structures (“*Centri PMI*”) for the distribution

Other project of the Group Business Plan (1/3)

Business Area	Goals	3Q04 Checkpoint
Retail	<ul style="list-style-type: none"> ■ Enhancement of service level through specialized platforms in each segment ■ Increase of commercial productivity ■ Fostering of internal growth 	<ul style="list-style-type: none"> ■ In progress extension of the service model dedicated to Family clients on the Banks commercial networks ■ In progress campaigns to promote utilization of electronic channels for basic operations ■ Over 2.800 professionals trained and dedicated to serve Affluent clients in the deployment of the “Carattere” service model ■ Defined and activated the restructuring and revamping plan for MPS Banca Personale (ex Banca 121PF) ■ Activated the deployment of the plan for new branches
Corporate	<ul style="list-style-type: none"> ■ Enhancement of service level through specialized platforms in each segment ■ Increase of commercial productivity 	<ul style="list-style-type: none"> ■ 76 new structures (Centri PMI) created and 450 professionals trained to serve SME clients; 1.600 professionals trained and dedicated to serve SB clients ■ Extension of the service model specific to PA and local authorities completed (60 specialists in the territorial network) ■ Large Corporate and Financial Institution relationship centralization in progress
Credit risk management	<ul style="list-style-type: none"> ■ Optimization of credit risk management through the reengineering of credit processes with segment specialization and adaptation 	<ul style="list-style-type: none"> ■ Completed extension of credit granting processes for SB clients; in progress definition of granting process for PMI e Retail clients ■ Almost completed extension of new credit monitoring (Early Warning System) processes to the Group commercial network

Other project of the Group Business Plan (2/3)

Business Area	Goals	3Q04 Checkpoint
International activity	<ul style="list-style-type: none"> ■ Development of a foreign network to support SME international service needs ■ Rationalization of the foreign points of presence ■ Optimization of the utilization of the corporate structures abroad 	<ul style="list-style-type: none"> ■ Defined new service model dedicated to support SME internationalization needs ■ Defined overall development and rationalization plan for foreign presence; concluded agreement with Citigroup for the opening of points of presence (Italian Desk) in East Europe ■ Created new Irish Company to manage proprietary and structured finance activities (merger of two existing companies) ■ Approved and in progress restructuring plan for BMP Belgio
Equity holdings management	<ul style="list-style-type: none"> ■ Rationalization of non strategic equity holdings portfolio ■ Definition of criteria for selection of equity holdings and for monitoring of portfolio performance 	<ul style="list-style-type: none"> ■ Sold MP Suisse and MP Channel Islands ■ In progress sale of non strategic minority equity holdings ■ Approved and in progress restructuring plan for MPS.net
Risk management	<ul style="list-style-type: none"> ■ Improvement of risk management processes coherently with Basel II ■ Application of management methodologies aimed at value creation 	<ul style="list-style-type: none"> ■ In progress development of market and operational risks internal model to be eligible for Basel II
Cost management	<ul style="list-style-type: none"> ■ Control administrative expenses through Cost Management actions and business process reengineering 	<ul style="list-style-type: none"> ■ In progress actions aimed at controlling/optimizing resources utilization and at renegotiating contracts ■ In progress the strengthening of the control mechanisms

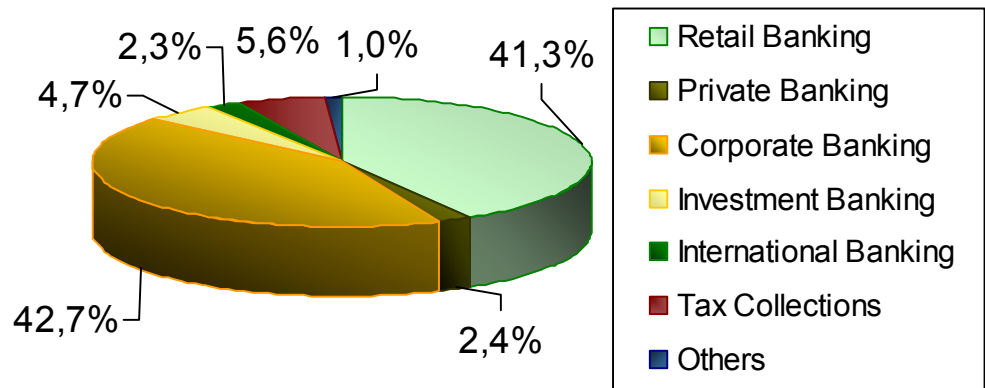
Other project of the Group Business Plan (3/3)

Business Area	Goals	3Q04 Checkpoint
Structural efficiency	<ul style="list-style-type: none"> ■ Business process redesign to free resources and professional time to dedicate to commercial activities ■ Control of IT costs ■ Optimization of investments 	<ul style="list-style-type: none"> ■ Business Process Reengineering of commercial networks in progress ■ Streamlining activities of central structures (Corporate Center, Headquarters and governance structures on the territory) in progress ■ Utilization of the “Master Plan ICT instrument in every budget cycle
Human Resources management	<ul style="list-style-type: none"> ■ Incentivation of key management roles in regards to the Group Business Plan objectives ■ Optimization of Human Resources utilization to increase productivity and reduce overall personal costs 	<ul style="list-style-type: none"> ■ Completed new MBO incentive system for key management positions of the Group ■ In progress human resources activities aimed at reconverting some of the resources to new roles and at reducing overall headcount (net reduction of 800 resources since the beginning of the Plan)
Other Areas	<ul style="list-style-type: none"> ■ Adapt general accounting and reporting to the requests and the principle of the new regulations ■ Rationalize and develop activities in Real Estate 	<ul style="list-style-type: none"> ■ In progress the design and the application of changes in general accounting to comply with IAS principles ■ Design of real estate rationalization plan in progress

Annexes

Results by business area

Contribution to total income



Ricavi	9M04 vs 9M03 %chg
Retail Banking	+2.8%
Private Banking	-1.1%
Corporate Banking	-1.8%
Investment Banking	-39.4%
International Banking	-16.0%
Tax collections	+21.5%

Results by business area

	€m	Retail Banking	
		9M04	Yoy chg. %
Revenues		1,385	+2.8%
Operating costs		1,019	-5.7%
Operating income		367	+37.4%
Cost/Income (1)		73.5%	
Raroc (2)		30.0%	

	€m	Private Banking	
		9M04	Yoy chg. %
Revenues		79	-1.1%
Operating costs		59	-7.9%
Operating income		20	+27.0%
Cost/Income (1)		74.9%	
Raroc (2)		143.0%	

	€m	Corporate Banking	
		9M04	Yoy chg. %
Revenues		1,431	-1.8%
Operating costs		842	-5.0%
Operating income		590	+3.3%
Cost/Income (1)		58.8%	
Raroc (2)		7.1%	

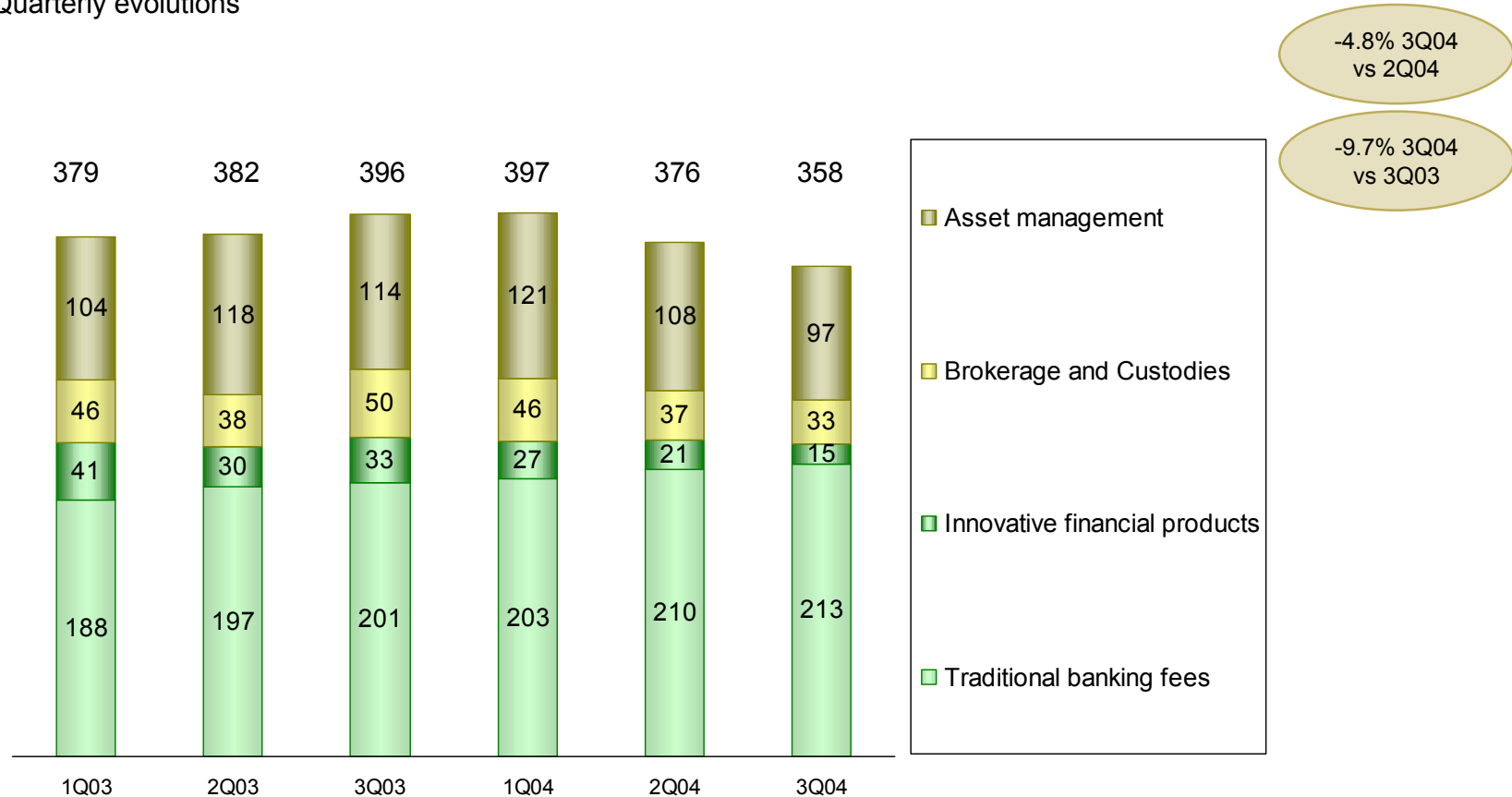
	€m	Investment Banking	
		9M04	Yoy chg. %
Revenues		157	-39.4%
Operating costs		66	+3.4%
Operating income		92	-53.2%
Cost/Income (1)		41.7%	
Raroc (2)		19.2%	

(1) Including amortisation; (2) Calculated over Economic Capital

Net Fees: 2.0% yoy

Net banking fees* -2.3% yoy

Quarterly evolutions



* Reclassified following management criteria: excluding tax collection and including recoveries of account expenses and taxes

Regional franchise

