



## **First Quarter 2004 Results**

Siena, May 14<sup>th</sup> 2004

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# Table of contents

1Q04 Results at a glance

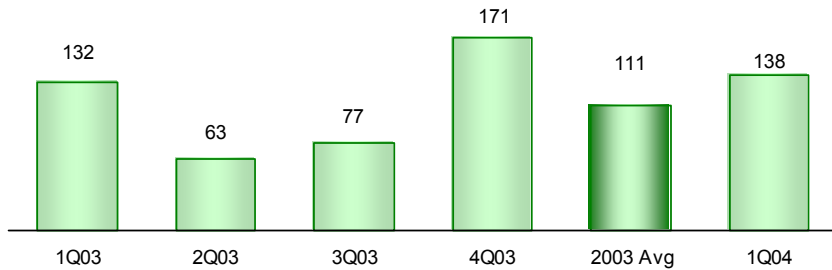
Details of results and Strategic Plan checkpoint

## 1Q04 Results at a glance

- Operating performance
- Main Ratios

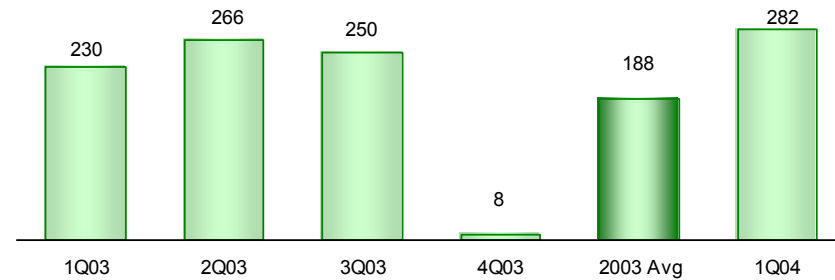
# Strong increase (+25% over 2003 avg.) of profitability.....

## Net Income +5,1%yoy



## Recurring Income\* +22,3% yoy

+50%  
Over 2003 Avg



(\* ) Operating Income net of Provisions and drawings on loans

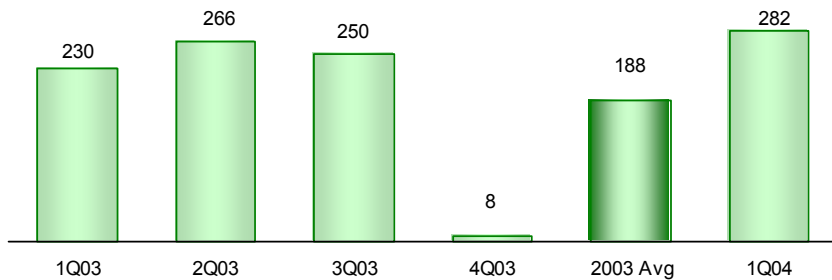
## Non recurring items and other provisions

Lower extraordinaries,  
higher tax rate  
(42.4% vs 38.6%)

€ mln	1Q04	Abs. Chg. yoy
Provisions for risks and charges	-22.4	+5.8
Extraordinary income (charges)	+8,2	-17,4
Income taxes	-102,9	+19,5

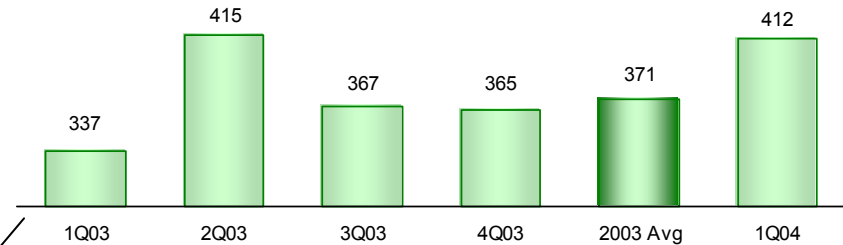
...sustained by solid recurring income growth...

**Recurring Income +22,3% yoy**

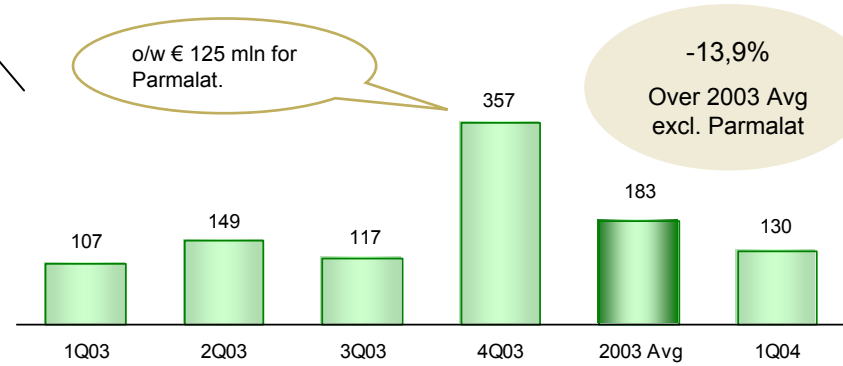


Operating Income +22,3% yoy

+11.1%  
Over 2003 Avg



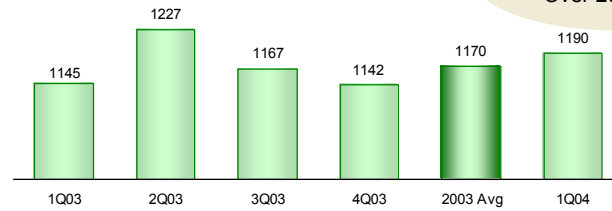
Provisions and drawings on loans +22,3% yoy



-13,9%  
Over 2003 Avg  
excl. Parmalat

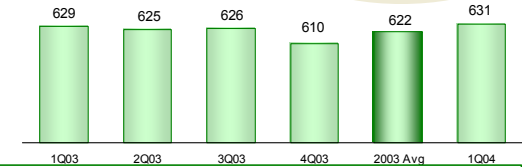
...boosted by growing revenues and further cost cutting...

Total Revenues +3.9% yoy



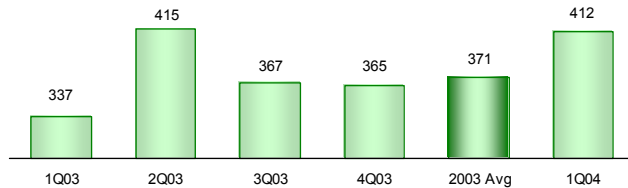
+1,6%  
Over 2003 Avg

Net Interest Income +0.3% yoy

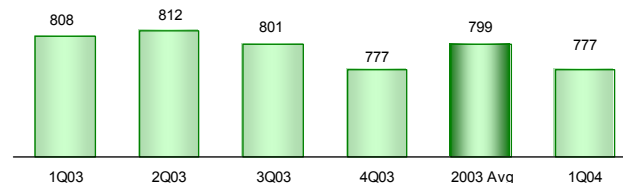


+1.4%  
Over 2003 Avg

Operating Income +22,3% yoy

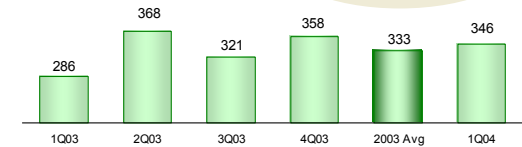


Total operating costs -3.8% yoy

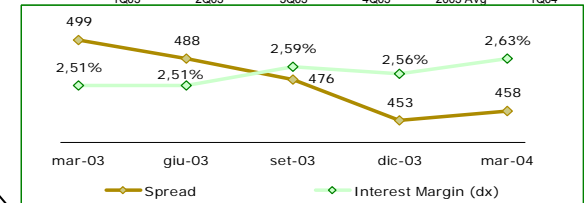


-2,8%  
Over 2003 Avg

Net Fees +20.9% yoy



+3.7%  
Over 2003 Avg



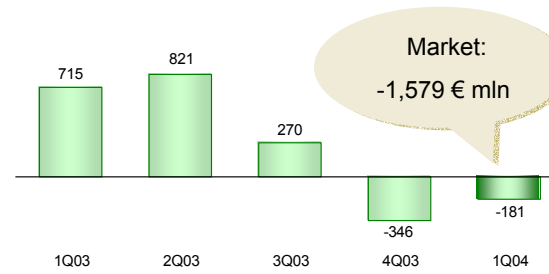
o/w

€ mln	1Q04	chg % yoy
AuM fees	117,5	+12,9%
Collection and Payment	34,6	+24,8%
Tax Collection fees	71,6	+66,9%

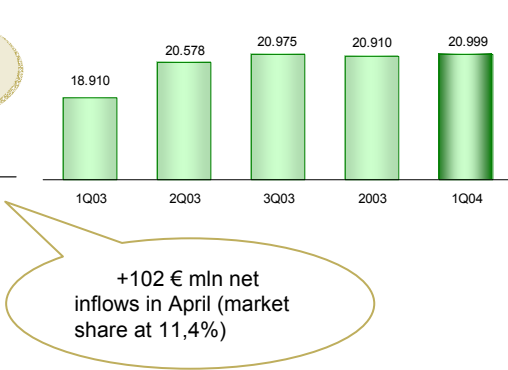
..with widespread increases in operating volumes

**Mutual Funds +11% yoy**

Flows Quarterly Evolution



Stock Quarterly Evolution



Market share: 4.14%

Funds performance: +1.76%

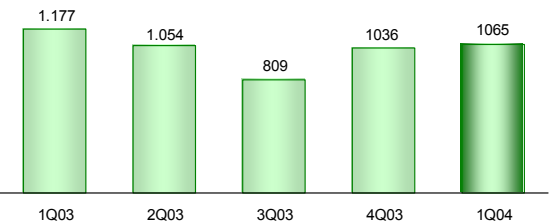
**Group volumes**

	1Q 04 €mln	% yoy chg
AUM	43,260	+12.5%
Assets under adm.	63,627	+0.6%
Direct funding	79,899	+3.6%
Loans*	69,357	+2.6%

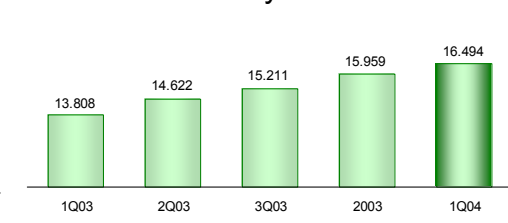
\* +4,8% yoy including securitized loans

**Life Insurance +19,5% yoy**

Flows Quarterly Evolution



Stock Quarterly Evolution



Market share of new inflows: 11% vs 10% at dec 03

Life insurance recurring premiums at 53 mln €

## Summary of the main ratios and comparison with Strategic Plan targets

	2003	1Q04 ann.	2006 E
ROE	7.7% (1)	9.2%	14%
Cost/income% (2)	68.3%	65.4%	57%
Provisions and drawings on loans	77 b.p (3)	75 b.p.	61 b.p.
Core Tier 1	6.3%	6.3%	7.0%

(1) Average net equity

(2) Including amortisation. Cost/Income 1Q03 at 70.6%

(3) Ordinary provisioning restated excluding Parmalat and other extraordinary events

## Details of results and Strategic Plan checkpoint

- Business growth
- Focus on costs
- Credit risk management
- Capital ratios

## Business growth

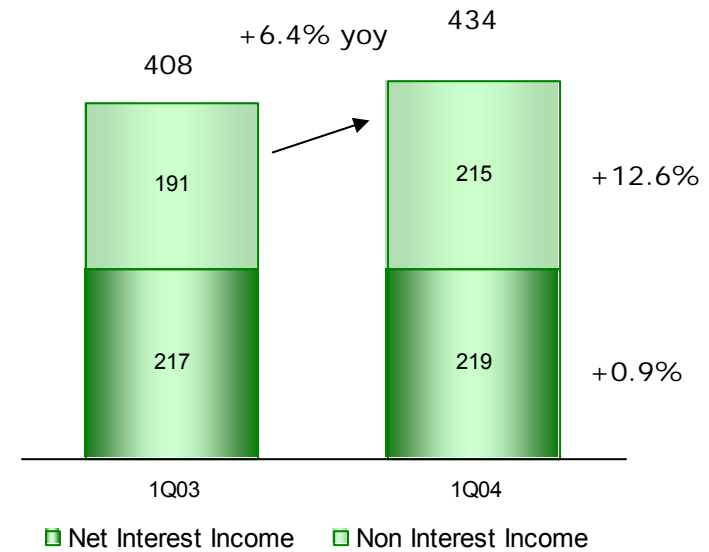
- Retail segment
- Private banking segment
- Corporate segment
- Other Business Areas

# Business growth: the retail segment

## Highlights

- Net inflows of saving products at 900 € mln
- New Mortgages at 785 € mln (+8,8% yoy); Consumer finance at 341 € mln (+66% yoy)
- Cost/Income: 70.5%
- Retention Rate at 94.1% (93.8% in 2002); Cross Selling 3,2 (2,7 in 2002)

## Revenues (€m)



## Volumes <sup>(1)(2)</sup> (€m)

	1Q04
AUM	36,500
Assets under adm.	29,500
Direct funding*	35,350
Loans*	14,700

(1) Chg yoy not available due to ongoing changes to the composition of the segment (ex. SB migration)

(2) Referred to Retail and Private segment

\* Average balances

# Retail segment: Strategic Plan checkpoint

## Strategies

## 1Q04 Checkpoint

### Family segment

(2.6m clients, assets < €25k)

- Reach targeted clients
- Manage continuous commercial campaign activity
- Reduce cost-to-serve (remote channels)
- Grow the customer base

- › new family platform rolled out on 15% of branches
- › set up of 7 sub segments to customize service offer and further dedicate branch staff

- › 80% of family customers involved at any time in one campaign. Preliminary evidences:
  - Mortgage flows over 550 mln euro
  - Family personal loans over 110 mln euro
  - Revolving cards: +60% in outstanding credit (system growth +26,4%)

- › 15 million transactions migrated to remote channels (47% of current overall “killer transactions”)
- › 9.4% market share on on-line payments

- › 430.000 clients of Consum.it to leverage on

### Affluent segment

(1m clients, €25k > assets < €500k)

- Increase relationship managers (from 1,805 to 2,700)
- Lengthen the duration of the relationship
- Increase upselling and product mix

- › 2.570 relationship managers up to 1Q04 (95% of Strategic Plan Target)
- › 100% of Group branches activated

- › Thanks to “Carattere “ platform the avg holding period of customers portfolio increased to 4.7 years from 4,1

- › Savings from existing customers increased by 10% yoy
- › “Core product” weight on total customer funds at 65% from 54%

# Retail segment: " Carattere " the affluent platform



*Launch of Carattere model: april 2002*

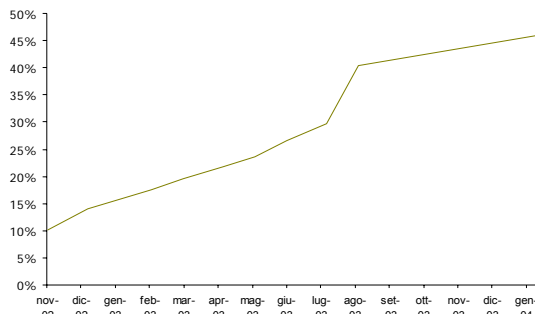
*Today: 100% branches of BMPS, BT & BAM activated*

*50% of Upper Affluent customers included in the "Carattere" program*

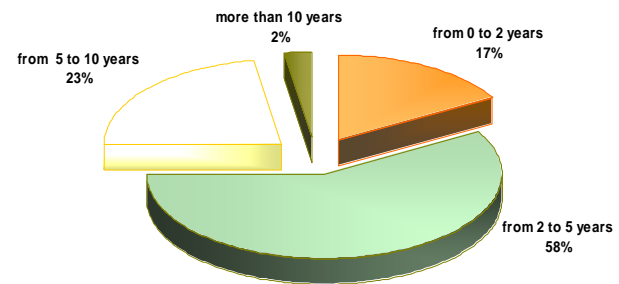
*Start on Lower Affluent customers: December 2003*

*Carattere is providing important informations about our customers' needs*

**Diffusion of Carattere**



**Holding period (years)**

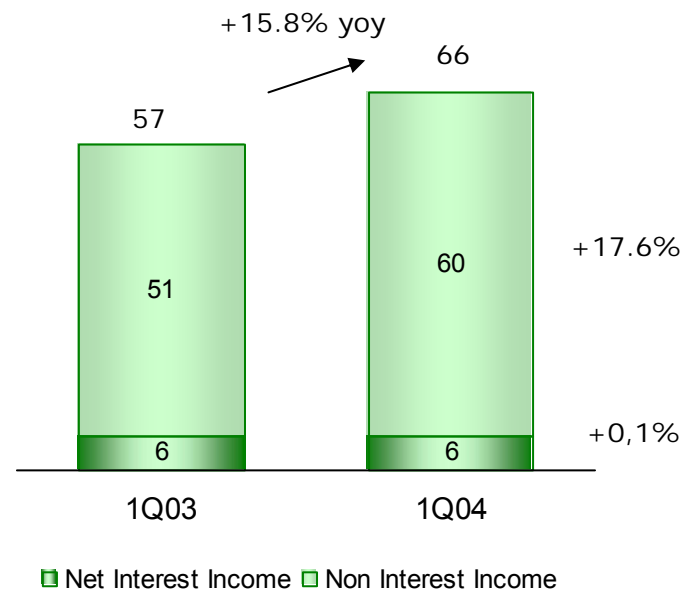


# Business growth: the private banking segment

## Highlights

- Net inflows of saving products at 340 € mln
- Cost/Income: 70.2%
- Cross Selling 6,0 (5,8 in 2002)

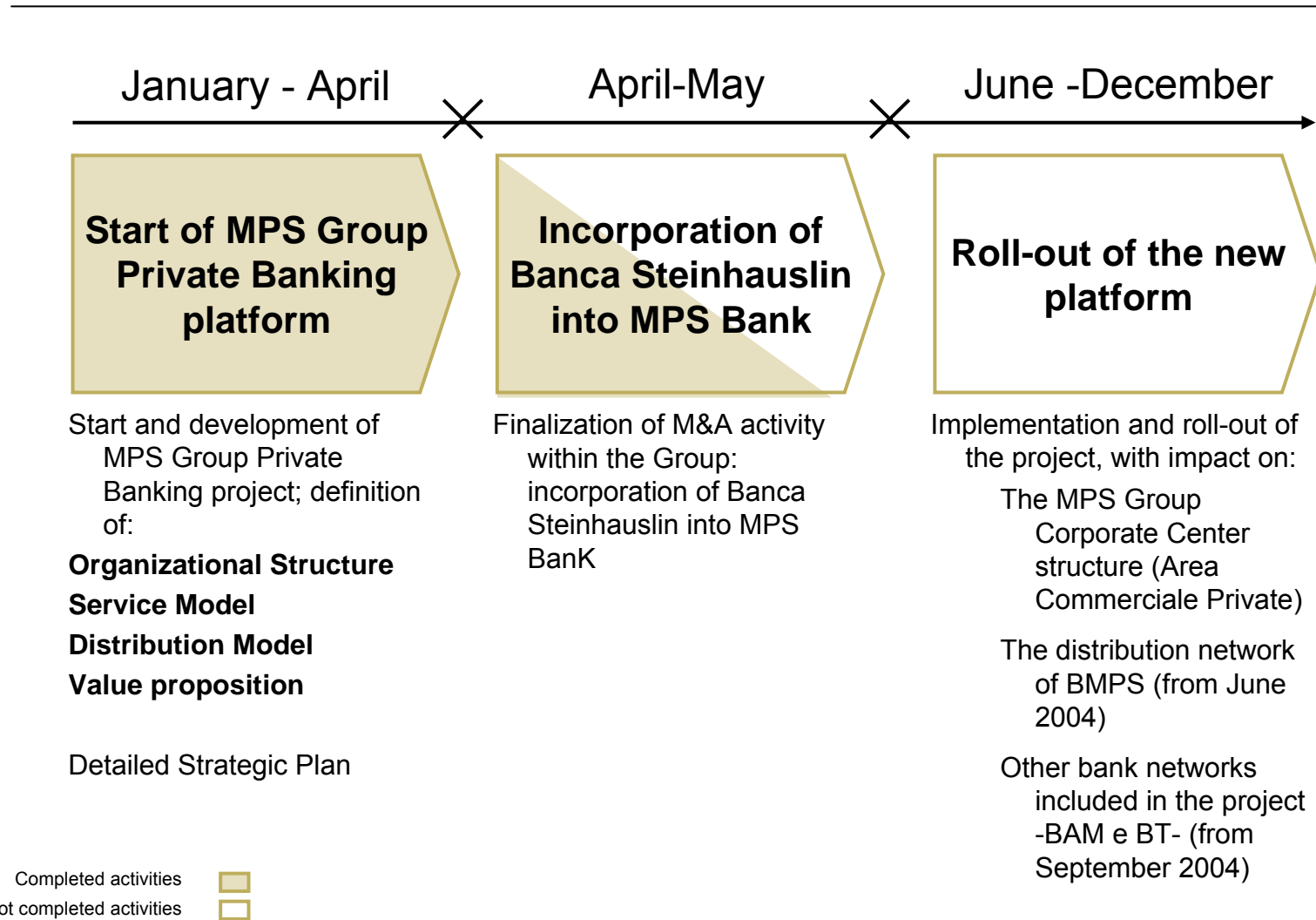
## Revenues (€m)



The segment is undergoing a fine tuning of the existing perimeter

# Private banking segment : Strategic Plan checkpoint

## 1Q04 Checkpoint

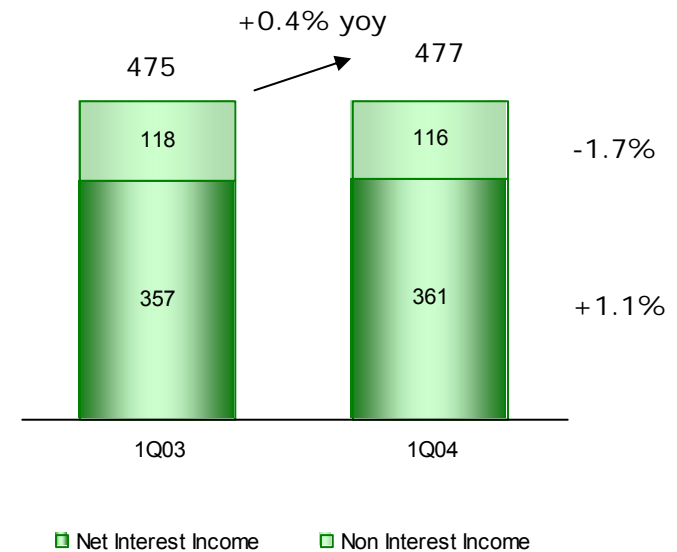


# Business growth: the corporate segment

## Highlights

- New Mortgages at 671 mln.€ (+8.1% yoy)
- Specialized lending inflows at 800 mln €
- Corporate Derivatives flows at 800 € mln
- Cost/Income: 55.8%

## Revenues (€m)



## Volumes <sup>(1)</sup> (€m)

	1Q04
Loans *	48.900
Direct funding*	16.500

(1) Chg yoy not available due to ongoing changes to the composition of the segment (ex. SB migration)

\* Average balances

# Corporate segment: Strategic Plan checkpoint

## Strategies

## 1Q04 Checkpoint

Small  
Business

- Centralize mkt intelligence and set up relationship managers
- Automate credit processes

➢ 1200 relationship managers up to 1Q04 (70% of total targeted)

➢ Customers covered :49% in BT, 90% in BMPS and 20% in Bam

SMEs

- Set up dedicated centers and relationship managers (from 320 to 750)
- Reduce risk applying the early warning procedures

➢ 479 relationship manager up to 1Q04 (64% of total targeted) and 60 SMEs centers ( 65% of total targeted)

➢ Customers covered : 50% in BT, 95% in BMPS and 30% in Bam

Local  
authorities

- Develop new dedicated units
- Offer corporate finance, project financing and remote banking services

➢ 7 dedicated units up to 1Q04 (30% of total targeted)

➢ 740 remote banking channels activated

Large  
corp.

- Centralize the relationships

➢ Identified 51 industrial groups to be centralized in the corporate center

➢ Inception of centralization project by March 2004

# The corporate bank of MPS Group: “MPS Banca per l’impresa”

## Strategies

---

- Strengthen the position of MPS Group in the existing and potential corporate client base through the establishment of a new bank focused on medium term financing and corporate advisory services.
- The new bank will arise from the integration of the operations of MPS Merchant, MPS Finance and Banca Verde.

## 1Q04 Checkpoint

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- Legal and corporate processes of integration already in progress
- Formal request of approval presented to the Bank of Italy
- Organizational chart and allocation of key responsibilities designed in order to maximize existing product-leadership of each contributing bank
- Increased the level of interaction between the new bank and the retail network of the group (SME units in key branches)
- Operational kick-off expected by October 2004

# Other Business Areas

## INTERNATIONAL BANKING

## FINANCE AND INVESTMENT BANKING

## EQUITY HOLDINGS MANAGEMENT

## Main results and Strategic Plan implementation

- Total customer funds at 8,500 € mln (+11.2% yoy); total customer loans at 2,000 € mln (-23% yoy); Total banking income at 28 € mln (-5,7% yoy)

- Set up of service model to support the SME in their internationalisation process

- Rationalization of the Group's foreign presence underway

- Approved BMP Belgium restructuring

- Centralized treasury activity of all the networks: reduction of amounts due from banks -37% yoy

- Reduction of Group VaR of 7.4% vs the 2003 avg

- Improving performance: Total banking income at 84 €/mln (+28% yoy)

- Divested some non strategic stakes for a capital gain of 12 €/mln as at the 31 March 2004.

- Underway divestiture of MP Suisse and MP Channel Islands

Focus on costs

# Focus on costs: Total operating costs -3.8% yoy

## Highlights

### Staff costs

- Net headcount reduction of 659 from December 2002 (39% of Strategic Plan target), to reach 1,000 at the end of 2004.
- Extraordinary charges to profit and loss for 9 € mln
- Headquarters and distribution networks undergoing centralization

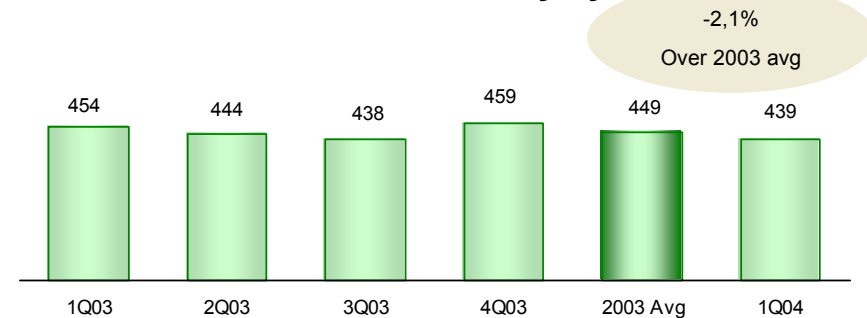
### Administrative expenses

- Administrative expenses (excluding fiscal and tax collection items) at 217 €mln (-5.9% yoy), below Strategic Plan target
- Renegotiated 40 supply contracts
- Underway optimisation of branch processes, back-office activities, etc.

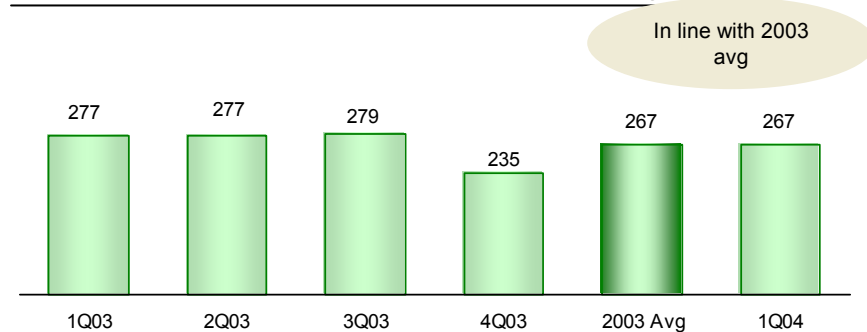
### Investments and IT costs

- Impressive governance on ICT investments (-50% vs 2001)
- Full benefits from 2002-2003 one-off amortization.

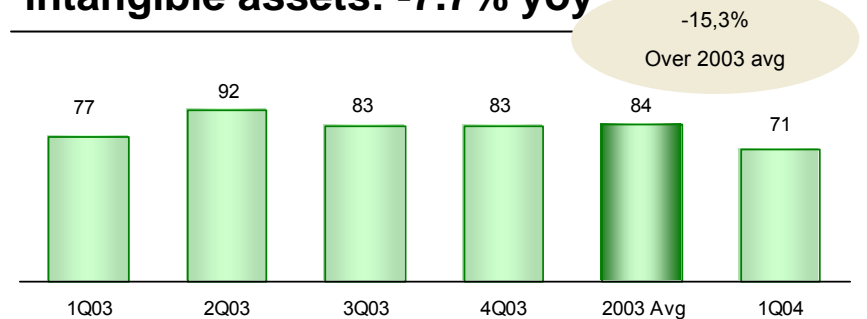
### Staff Costs: -3.3% yoy



### Other admn expenses: -3.4% yoy



### Valuation adjustments to fixed and intangible assets: -7.7% yoy

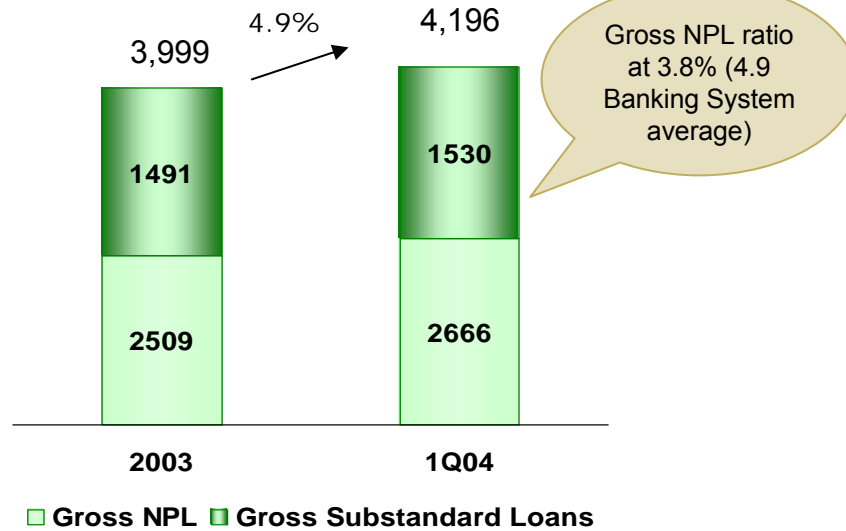


# Credit risk management

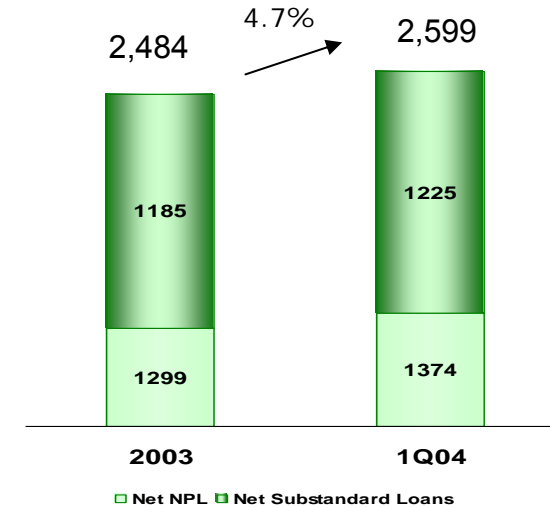
# Credit risk management

Difficult macroeconomic scenario  
(Italian Banking System gross  
NPL 's growth in february at 10%)

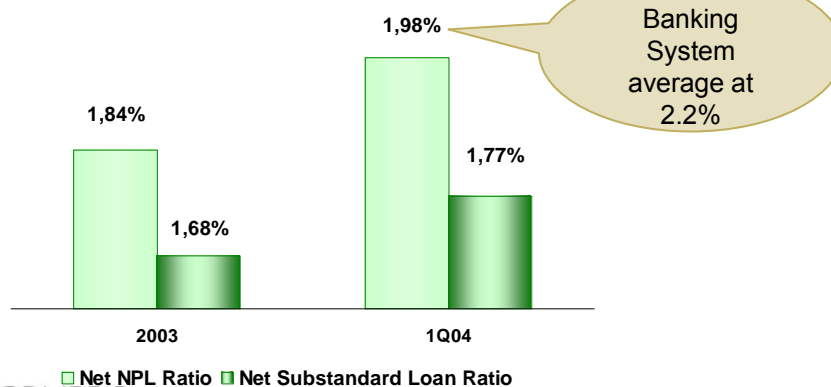
Gross NPL and Substandard loans (€m)



Net NPL and Substandard loans (€m)



MPS ratios



Write-downs over Gross NPL's

MPS Group	BMPS	BT	BAM	MPS Merchant	MPS Banca Verde
48,5%	49,0%	48,7%	51,0%	19,3%	15,5%

Net NPL's ratio by Business Unit

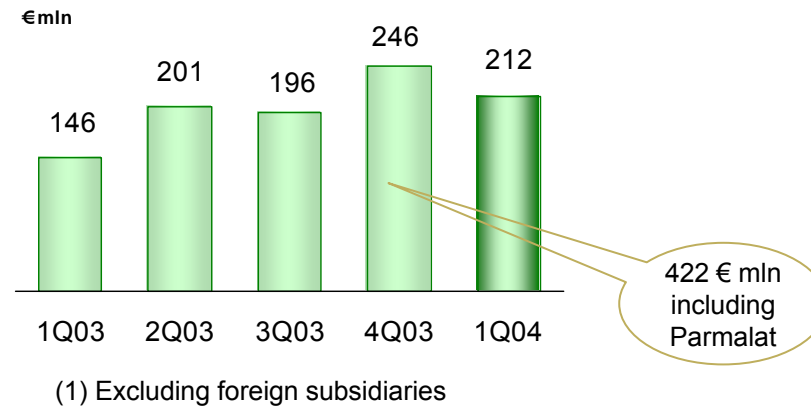
MPS Group	BMPS	BT	BAM	MPS Merchant	MPS Banca Verde
2,0%	1,7%	1,3%	2,7%	4,5%	2,7%

# Credit risk management

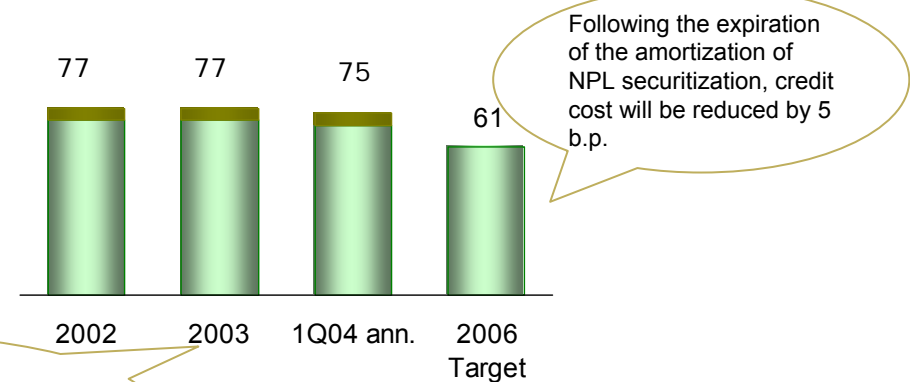
## Highlights

- Set up of granting process by segment: pilot successful, roll out started
- Definition of monitoring process: undergoing first adoption by BMPS and BT
- Implementation of internal rating models nearly completed. Expected loss estimated at around 76 b.p. at March 2004
- Ongoing development of market and operational risks internal models to be eligible for Basel II

## Gross NPL flows (1)



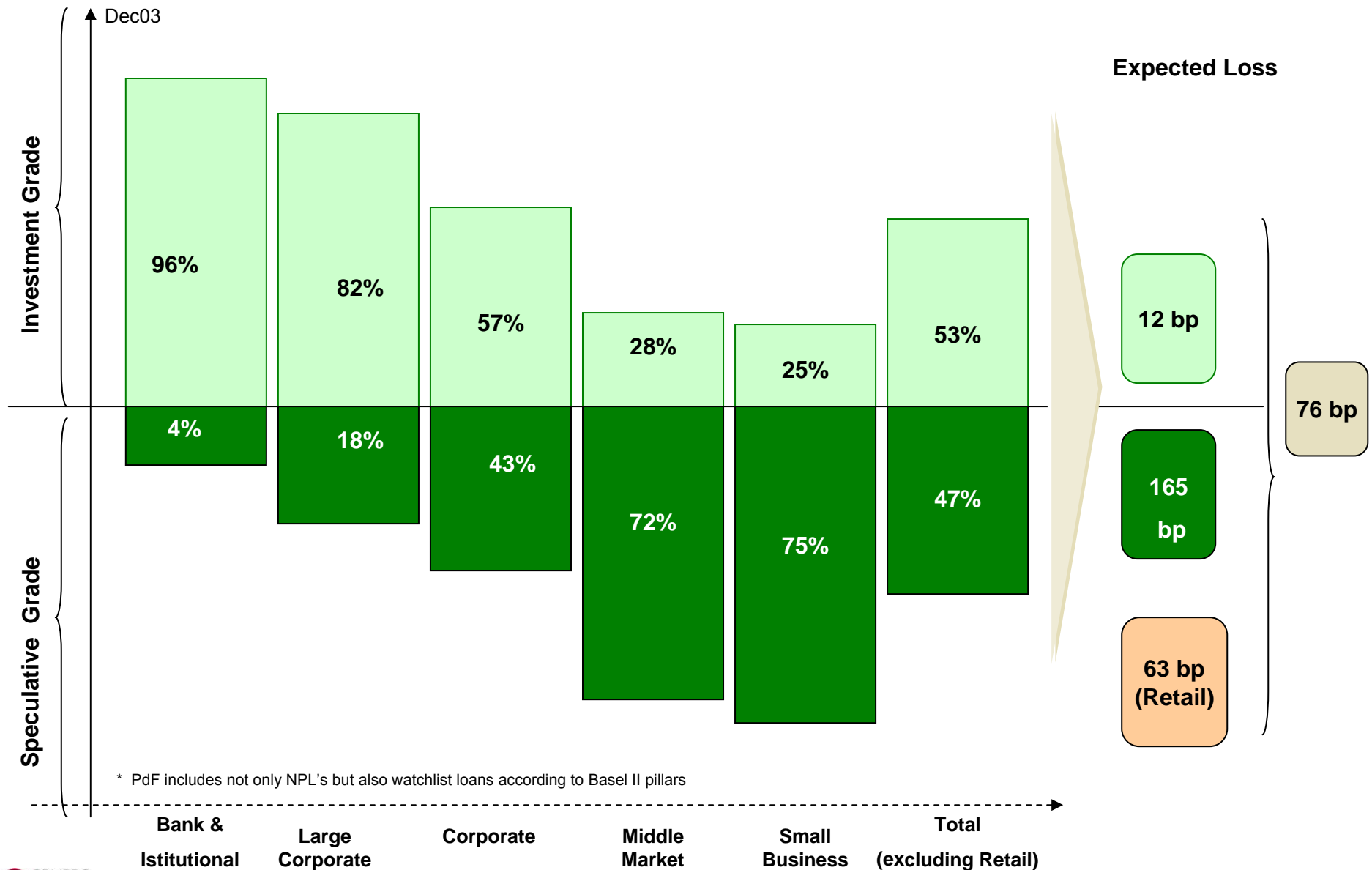
## Credit cost (b.p.)



Ordinary provisioning.  
104 b.p. including Parmalat and clean up related to some group's companies underlying restructuring

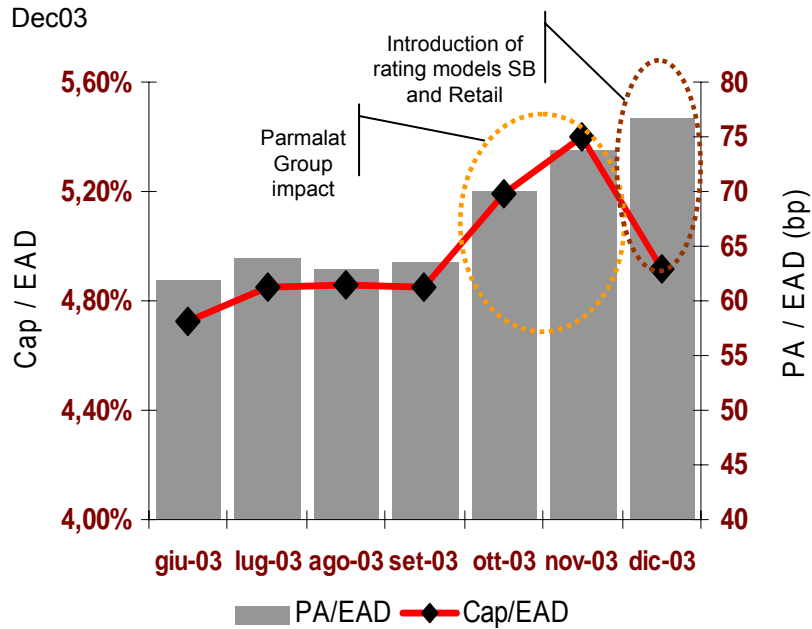
# Credit risk management

## Performing Loan Portfolio: Credit Risk Estimates\*



# Credit risk management

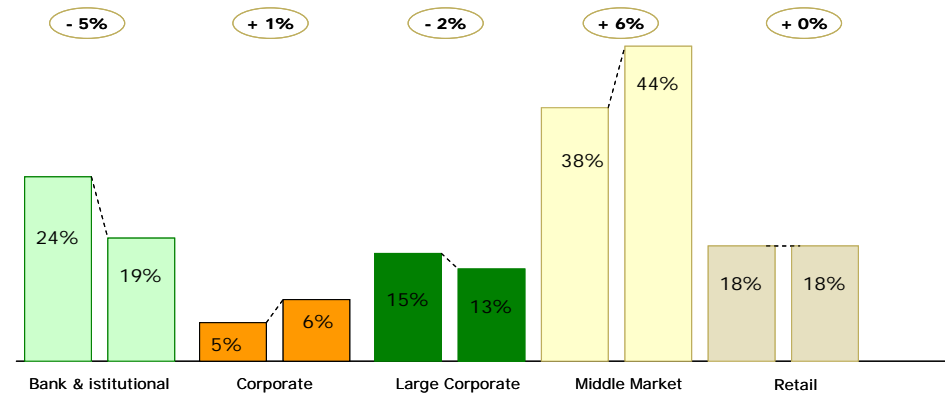
## Expected Loss & Capital Dynamic



## Rebalancing Performing loan portfolio\*

Dec02-Dec03

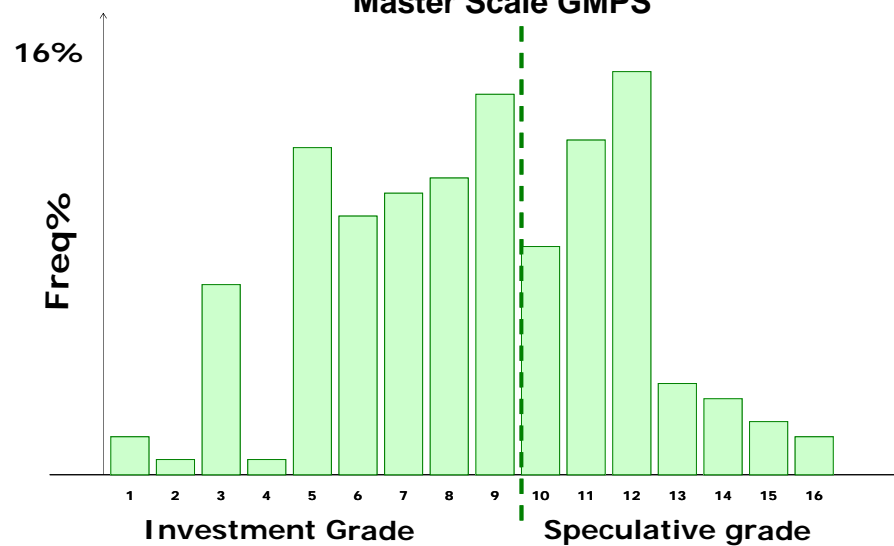
BMPS, BT, BAM



\* excluding loans to subsidiaries and foreign counterparts

## Performing Loan Quality distribution

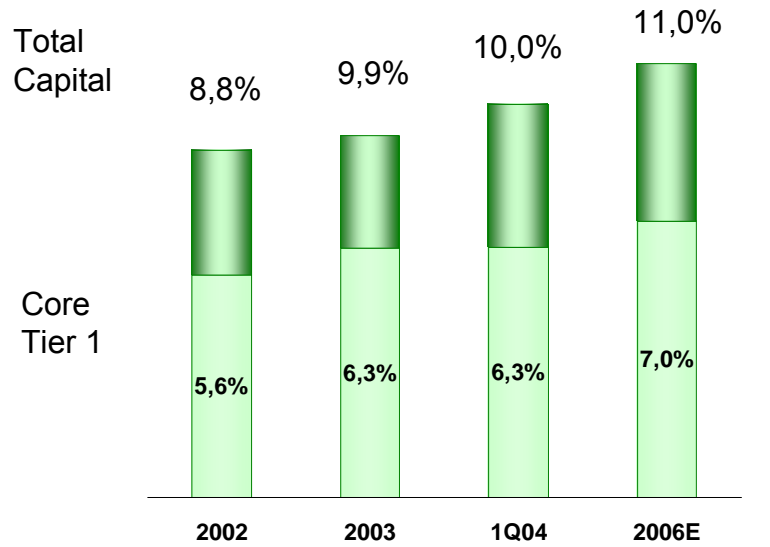
Dec03



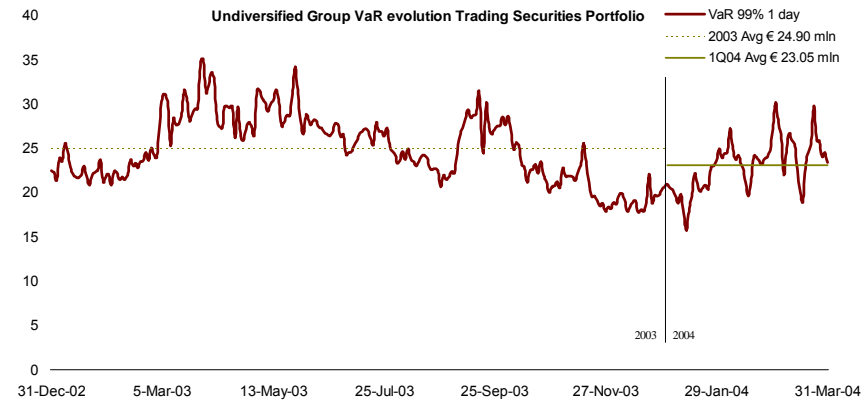
## Capital ratios

# Capital ratios

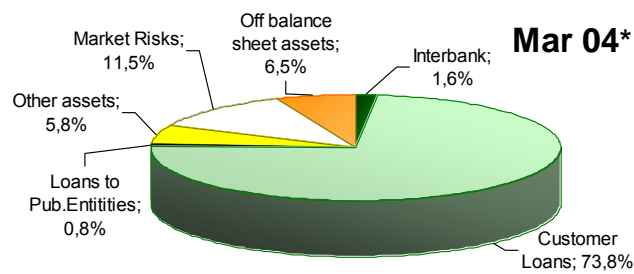
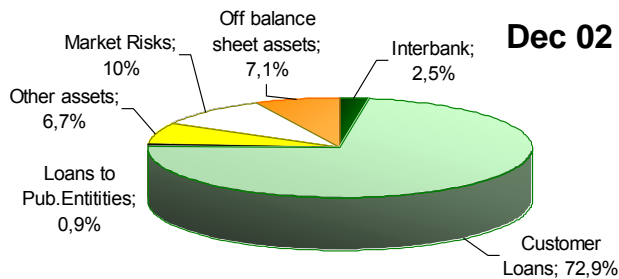
## Capital Ratios



- Moderate total RWA growth from year end (+1.7%)
- Interbank exposure: -37% yoy  
Foreign subsidiaries loans: -23% yoy
- Reduction of Group VaR by 7.4%.



## RWA breakdown

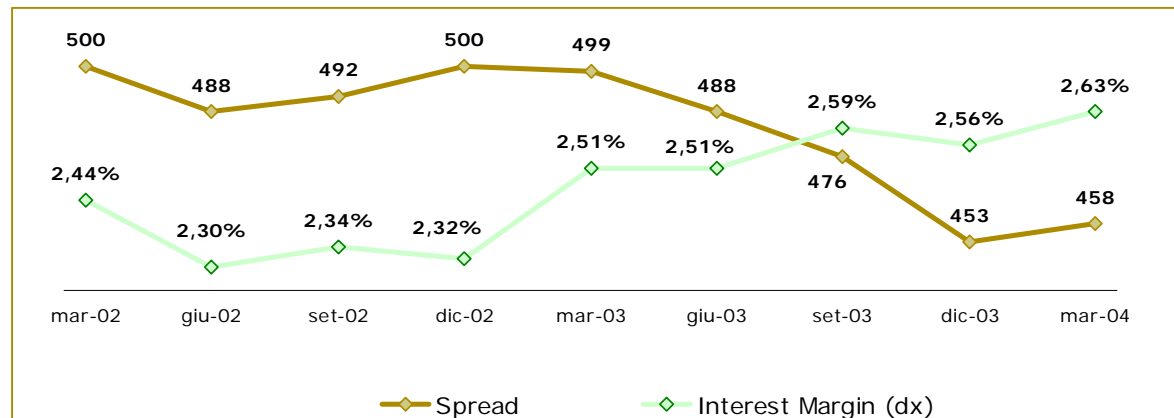
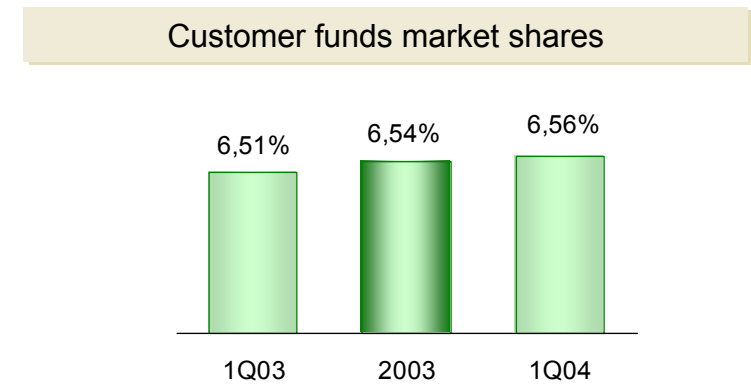
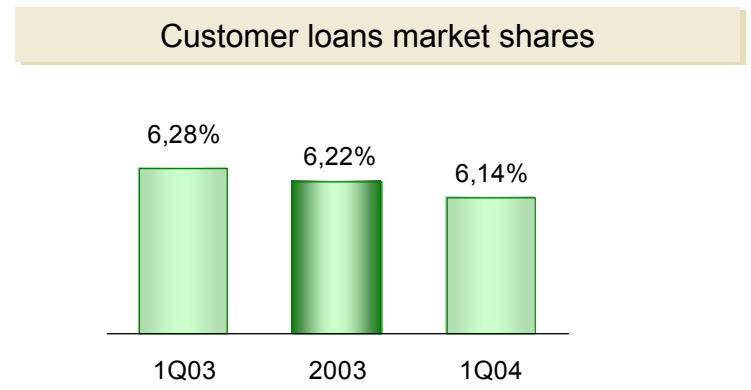
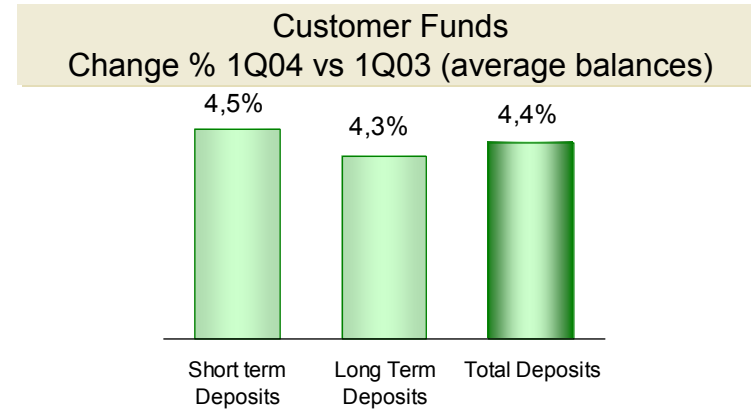
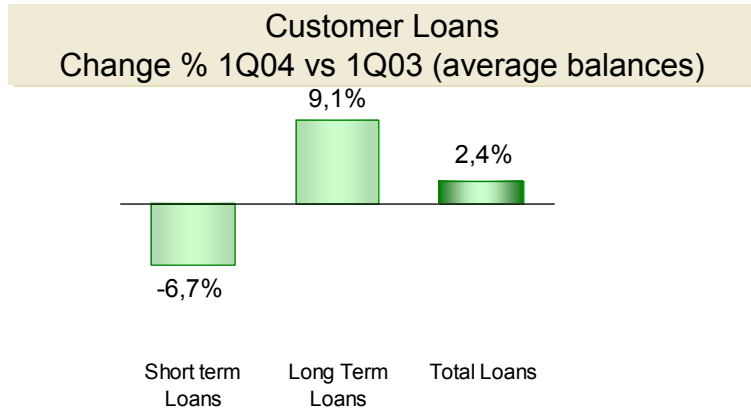


\* estimates

VaR at 31 March 2004: € mln 23,4

# Annexes

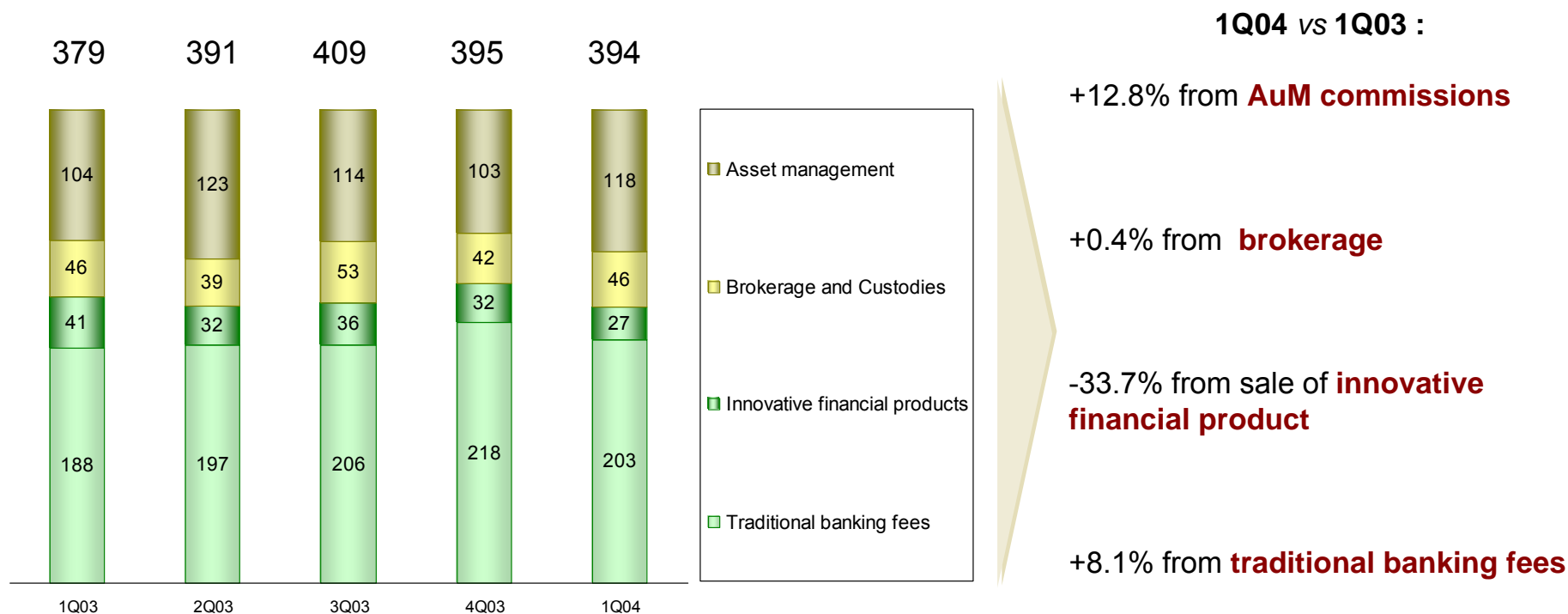
# Net Interest Income: +0.3% yoy



# Net Fees: +20.9% yoy

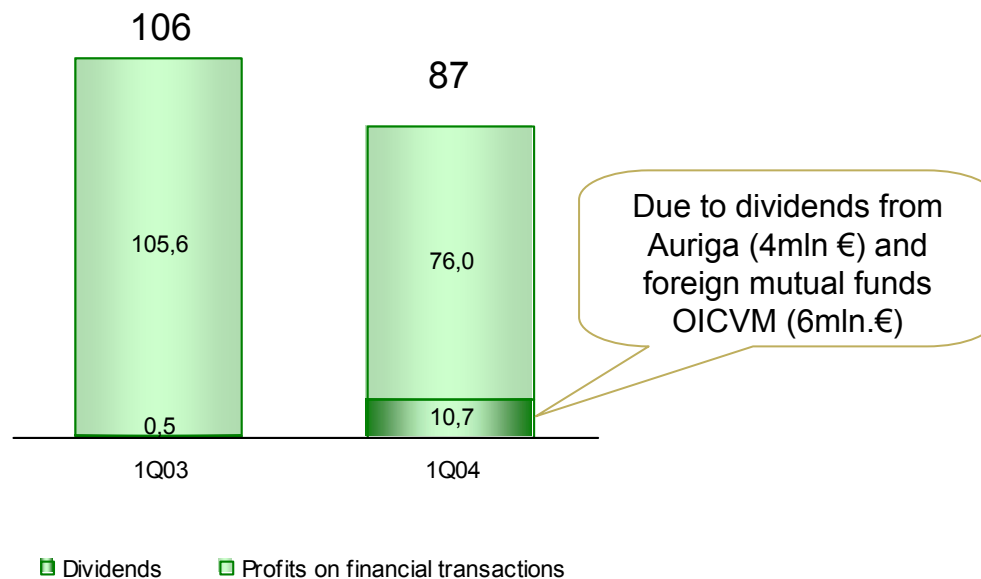
## Net banking fees\* +3.9% yoy

Quarterly evolutions

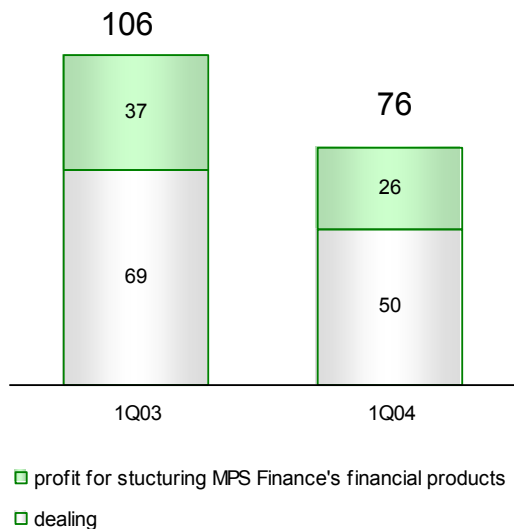


\* Reclassified following management criteria: excluding tax collection and including recoveries of account expenses and taxes

# Dividends and Profits on financial transactions

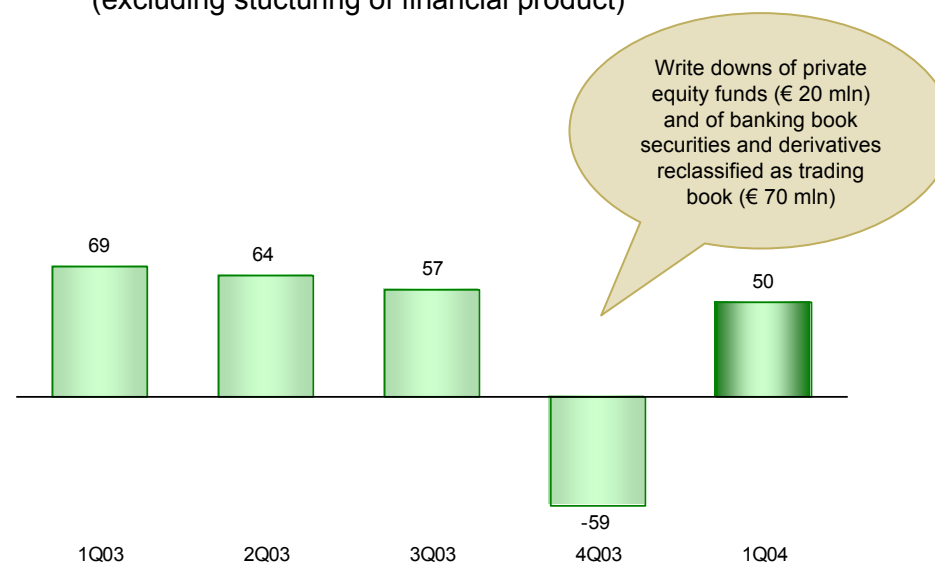


## Profits on financial transactions



## Dealing Profit

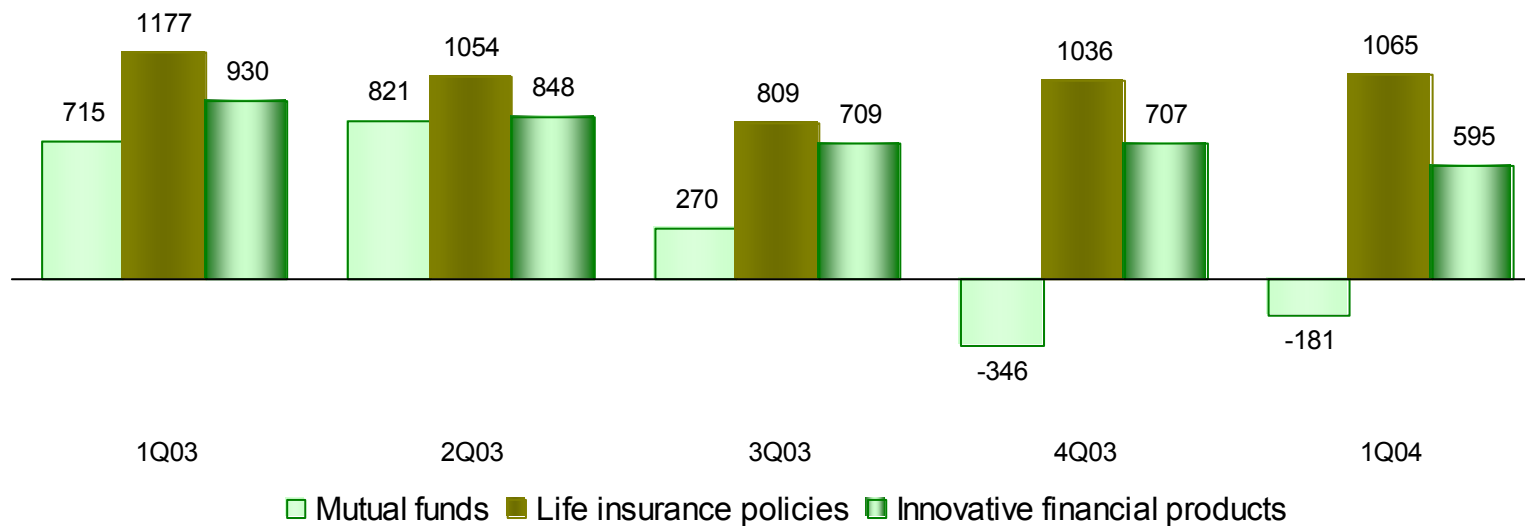
(excluding structuring of financial product)



# New inflows: details on saving product

## Investments Product Flows

	March 2004	March 2003
Mutual Funds	-181	715
Life Insurance policies <i>o/w</i>	1,065	1,177
<i>Ordinary life insurance policies</i>	735	789
<i>Index-linked policies</i>	269	193
<i>Unit-linked policies</i>	61	195
Innovative financial products	595	930



# New inflows: details on specialized lending flows

## Specialized lending and financial products for business

	March 2004	March 2003
MPS Finance	791	1784
Risk-management products		
MPS Merchant		
Disbursements	397	437
MPS Banca Verde		
Disbursements	189	162
MPS Leasing & Factoring o/w		
Leases signed	194	366
Factoring turnover	902	935
Consum.it		
Disbursements	341	205

# Regional franchise

