



2004 FY Results

Milan, 30 March 2005

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Group Results

Overview

Analysis of Main Results

Overview

Highlights 2004

Business Plan
2003-2006:
Main Initiatives

- › Banca Steinhauslin merged into BMPS
- › Set up of “Banca per l’impresa”
- › Restructuring of MPS Banca Personale (ex Banca 121 PF)
- › Sold Mp Suisse and MP Channel Islands and decided closing of Madrid and Singapore branches
- › Sold 27 minority equity holdings for a total amount of 129 €mln and a capital gain of 35 €mln

Business Plan
2003-2006:
Strengthening of
Commercial Platforms

- › Extension of Affluent platform completed, 2800 relationship managers trained
- › In progress extension of the family platform
- › Set up Private Banking Area
- › Extension of Sme’s platform in BMPS and BAM (460 relationship managers and 80 Sme’s Centers) completed
- › Over 1900 Small Business relationship managers trained
- › Large Corporate relationship centralization in progress
- › Extension of new credit granting and monitoring processes in progress

Highlights 2004

net interest
income +2.3%

-70 €mln from
up-front fees

Profit and loss aggregates

	Group €mln	2004 vs 2003 chg %	Commercial Banking €mln	2004 vs 2003 chg %
Basic income	3,767	-0.8%	3,896	In line
Total income	4,470	-4.4%	3,896	In line
Operating costs	3,097	-3.2%	2,487	-2.9%
Operating income	1,373	-7.0%	1,409	+5.6%
Total provisions and Extraordinary items	534	-45.4%	600	-11.0%
Net income	514	16.1%	459	+29.1%

Balance sheet aggregates

	€mln	Yoy chg. %
AUM	43,421	+2.7%
Funds under administration (1)	62,016	-2.6%
Direct funding	86,345	+4.9%
Loans	74,394	+5.7%

Key indicators (%)

	2004	2003
Cost / Income ratio	69.3	68.3
Provisioning	67 pb	80 pb
ROE (ex.goodwill amortization)	9.8	9.5
Core Tier 1	6.52	6.31

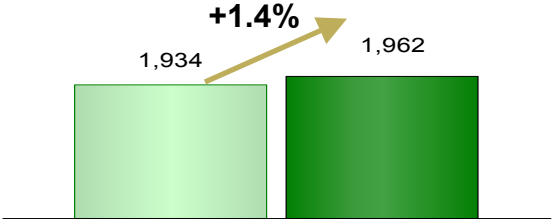
(1) This aggregates is influenced by the outflows of some important institutional accounts with a marginal profitability

Progressive implementation of commercial platform and of new credit process lifted commercial banking⁽¹⁾ profitability in the second half

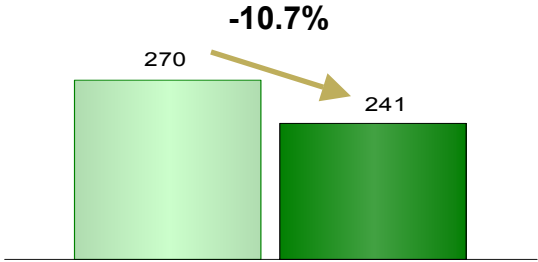
Commercial flows

> Acceleration of continuing fees product :
 Life insurance products +15%
 Bonds +50%

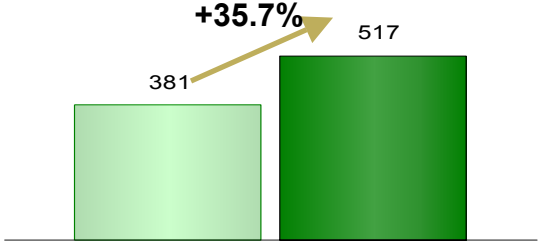
Revenues



Loan loss provisions



Operating Profit after loan loss provisions



■ 1H04 ■ 2H04

(1) Retail + Private + Corporate banking

Highlights 4Q04

4Q04 vs 3Q04
% chg

Increasing volumes

- Direct funding : 86,345 €mln +5.4%
- Loans: 74,394 €mln +4.4%

Recovery of revenues

- Net Fees: +15.4%
- Revenues from Investment banking: +186%
- Total income: +7.2% of which +4% in the Commercial Core Business

Operating Costs under control

- Operating Costs: +2.5% excluding the increase due to the new labour contract

Credit cost under control

- Total provisions: +19.4%
- NPLs and Substandard Loans inflows: +2.6%

2004 Results and Business Plan targets

Operating Costs

- Operating Costs just below business plan target 2006 (-1.1%)

Capital Ratios

- Core Tier 1: at 6.52% (+21 bp vs Dec 2003) **Target 2006: 7%**
- Total capital ratio: at 9,95% (+6 bp vs Dec 2003) **Target 2006: 11%**

Credit Risk Management

- Credit Cost at 67 bp in line with business plan target 2006 (61bp)

Business Growth

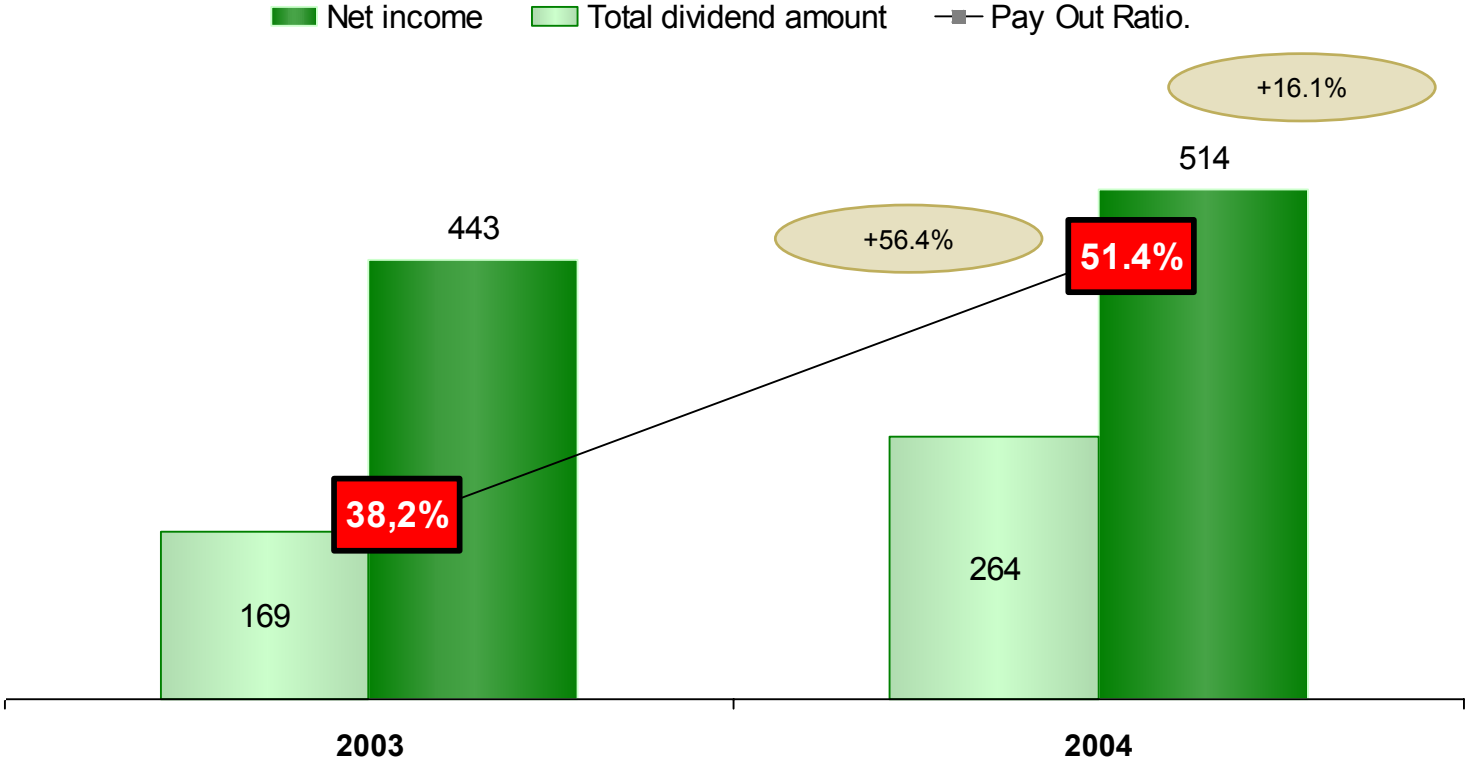
- Total income: below business plan target

- **Tougher environment than expected:**
 - i) Euribor 1M at 2.13% vs Business Plan estimate of 2.6% for year end
 - ii) Market short term loans : -4.3% yoy
 - iii) Market Mutual Funds flows: -9,8 €mld
- **Strong decrease of profits from financial transactions in 2Q04 and 3Q04**

Net Income

- +16,1% yoy

Profitability for shareholders in line with Business Plan target

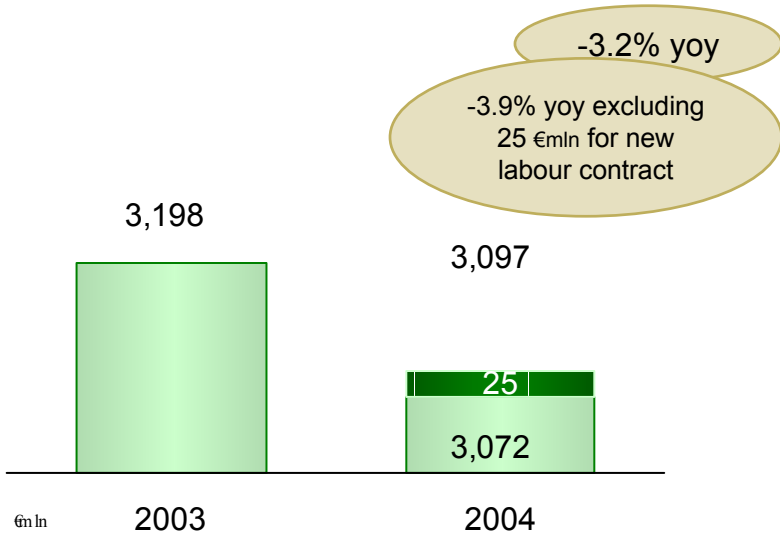


(1) Dividend amount proposed to the Annual General Meeting

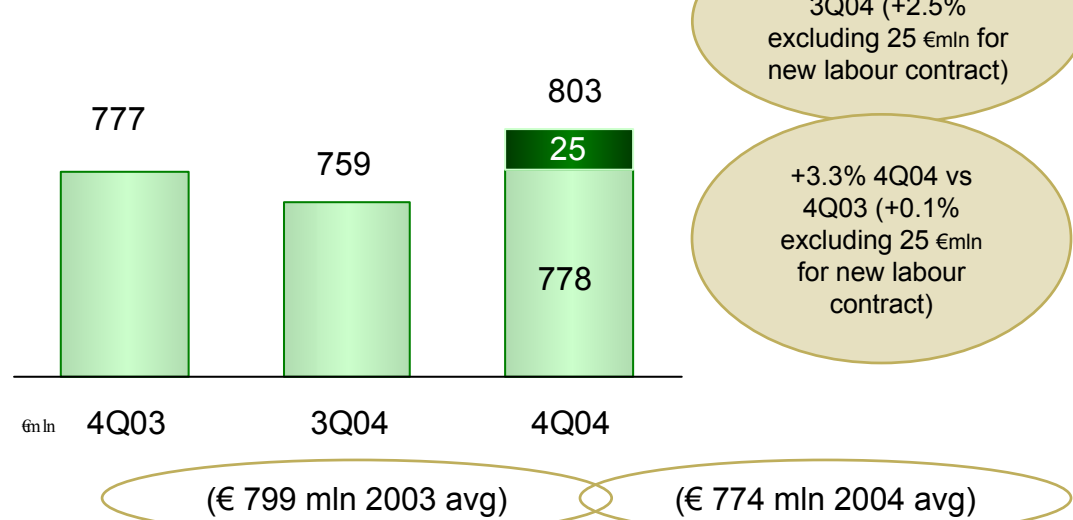
Analysis of Main Results

Operating costs: below Business Plan Targets

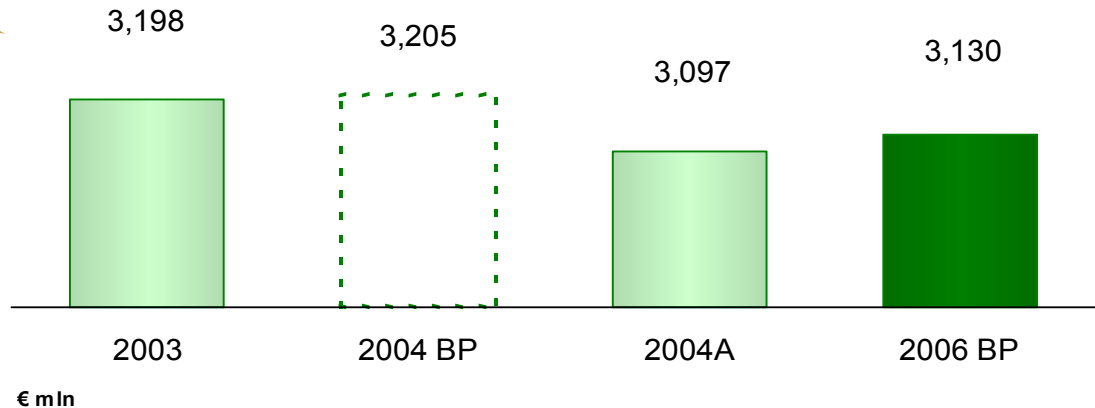
Annual evolution



Quarterly evolution



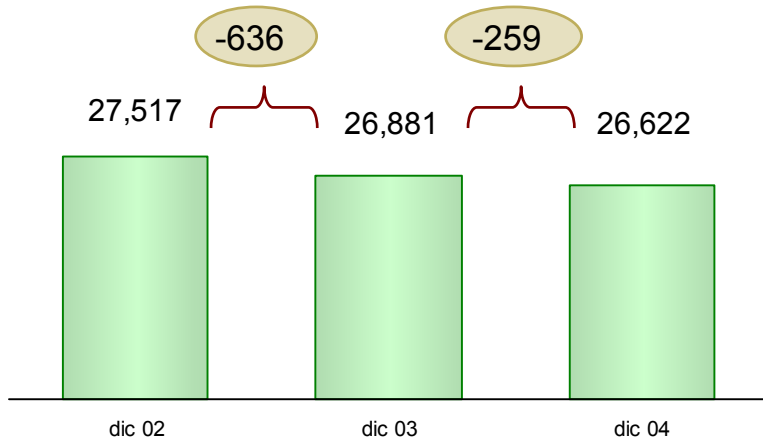
Well below targeted levels through 2006



Net headcount reduction : -895 from Dec02

(53% of the Business Plan target for 2006)

Employees (end of period)



- 1.195 including training employees of the tax collection business

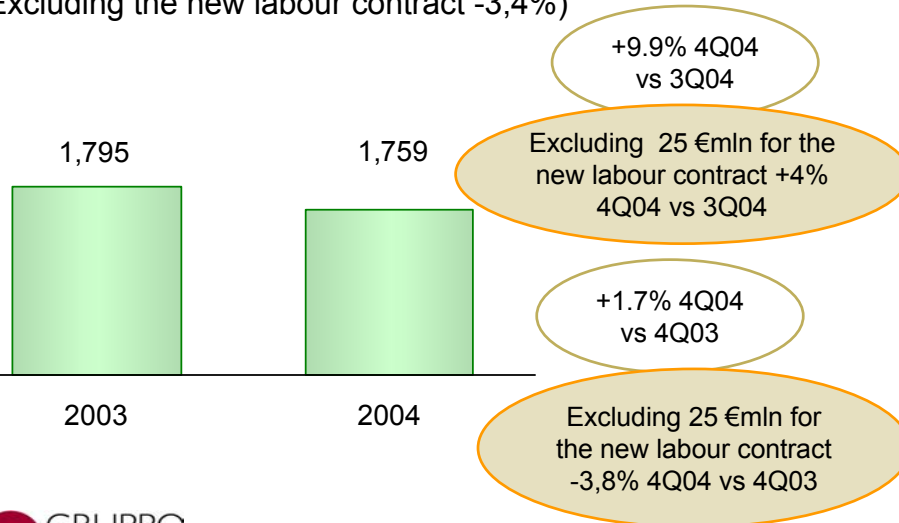
Restructuring costs

73 €mIn extraordinary costs related to incentives for early retirement and severance fund of the year entirely charged and not amortized as previously projected in the Business Plan

Total extraordinary costs for 2003-2004: about 133 €mIn vs 50 €mIn projected in the Business Plan

Staff Costs: -2% yoy

(Excluding the new labour contract -3,4%)



Staff costs

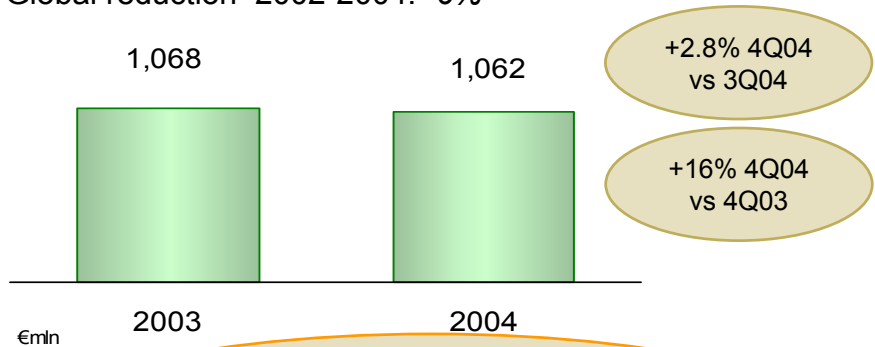
➤ Staff costs charged by 25 €mIn for the new labour contract as recovery of 2002-2004 period. In the first 9M04 were charged 8 €mIn on provisions for risk and charges.

➤ Estimated impacts of the new labour contract on staff costs for 2005 and 2006: +1.8% and +0.8% respectively.

Tighter governance on the other administrative and ICT costs

Other administrative costs : -0.6% yoy

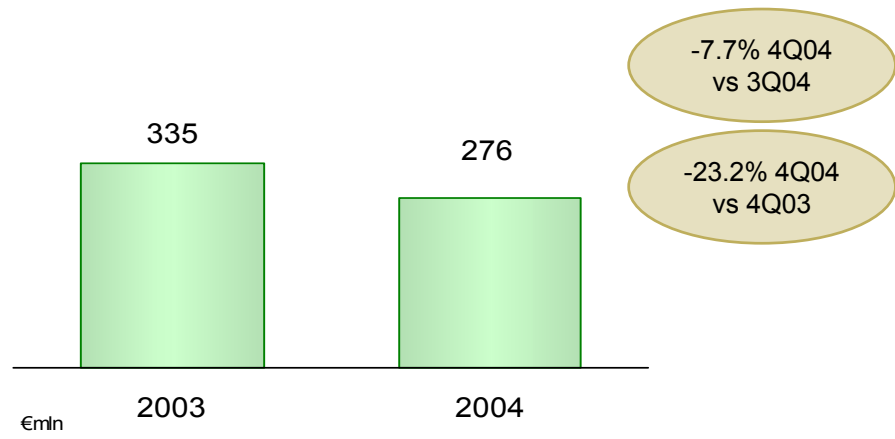
Global reduction 2002-2004: -6%



The 4Q03 (-15.8% vs 3Q03) was heavy impacted by the cost cutting initiatives made since June 2003, whereas these actions impacted all the quarters in 2004 stabilizing the results of each quarter.

Valuation adjustments: -17.5% yoy

Global reduction 2002-2004: -32%



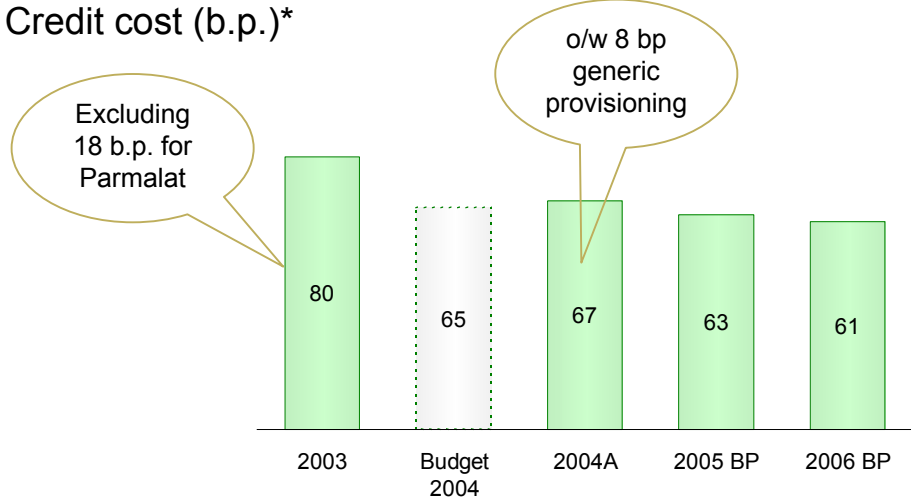
Tighter cost governance, renegotiation of contracts, centralization of decisions. In particular :

- > advisory (-17% yoy)
- > logistics (-12% yoy)
- > ICT (-7% yoy)

- > - 77 €m write-downs of intangible assets made in 2001-2002
- > Normalized level of ICT investments; 95 €m in 2004 vs more than 200 €m in 2001-2002

Strengthening of coverage and reduction of credit cost

Credit cost (b.p.)*



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

Credit cost at 67 bp.

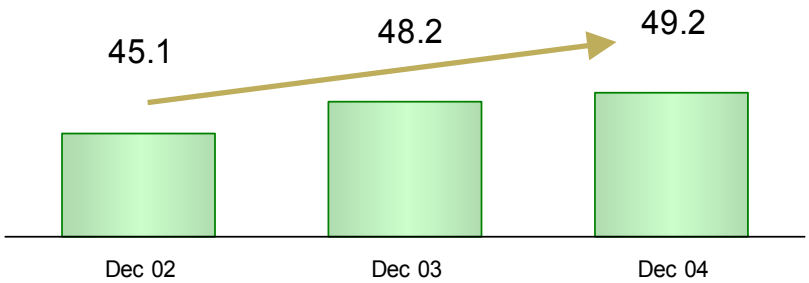
Negative impacts vs budget:

- i) 1 b.p. for Parmalat;
- ii) 1 bp for lower loan growth

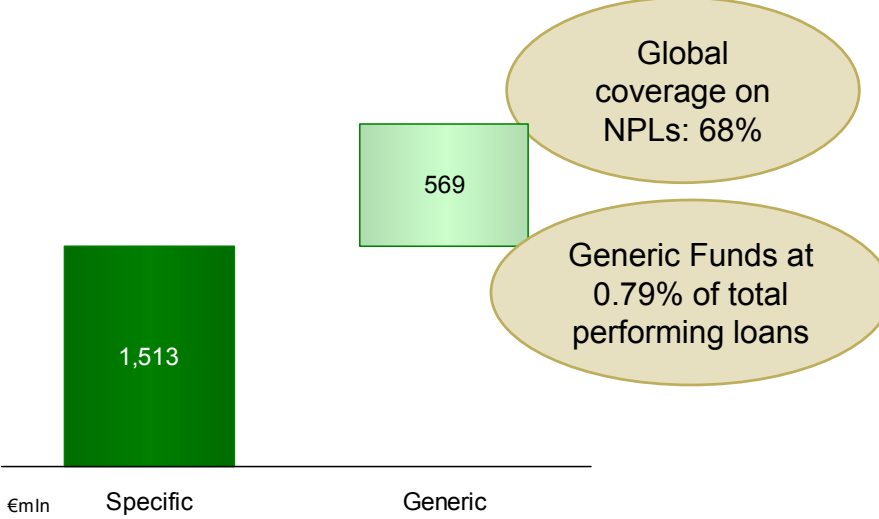
NPL Coverage Ratio (%)

Short term credit:

- 60%
- more than 70% including write-offs

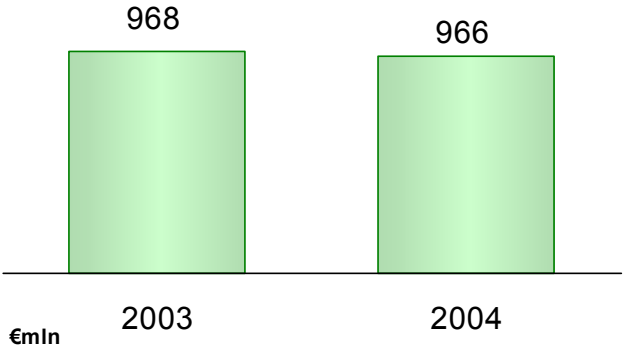


Global Coverage Ratio (%)

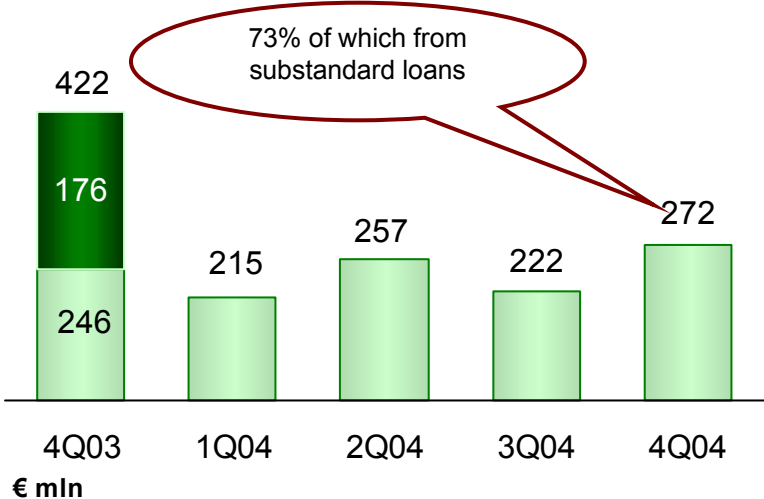


Credit Risk: stable/decreasing inflows

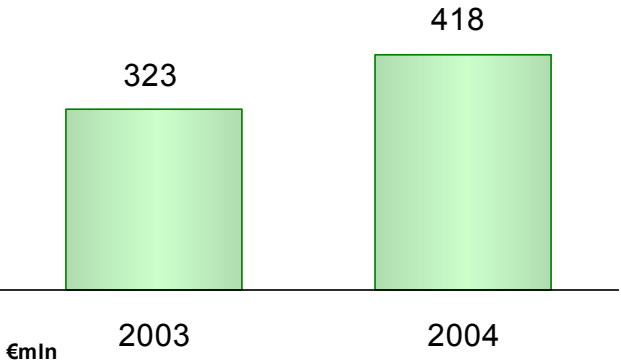
NPL inflows



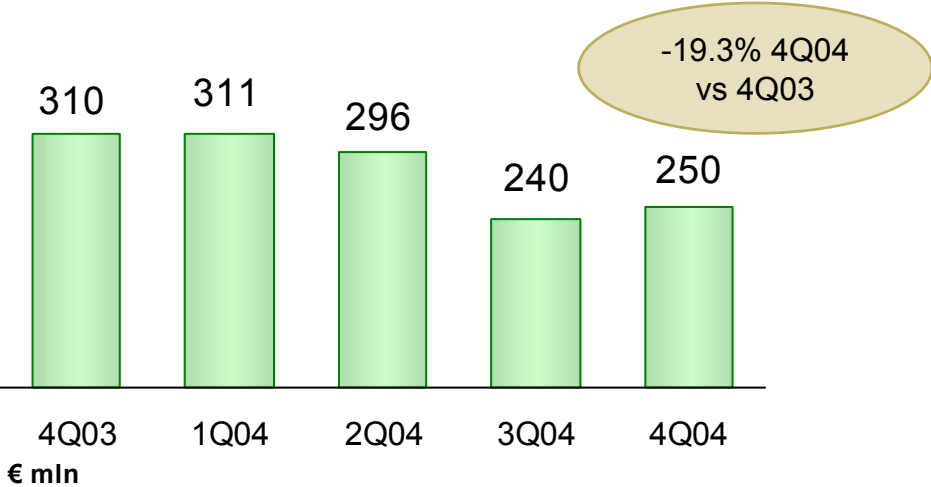
NPL inflows *quarterly evolution*



Recoveries: +29.4% y/y

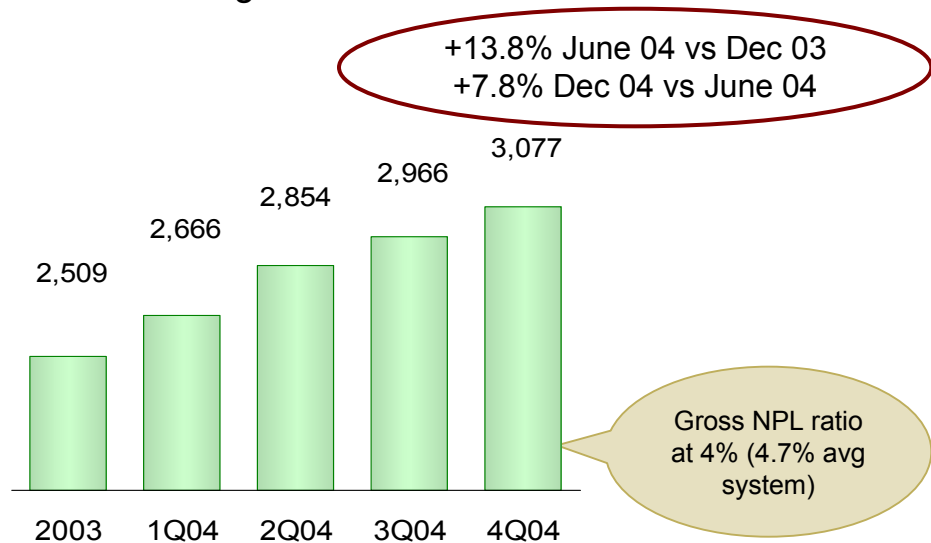


Substandard Loans *quarterly evolution*

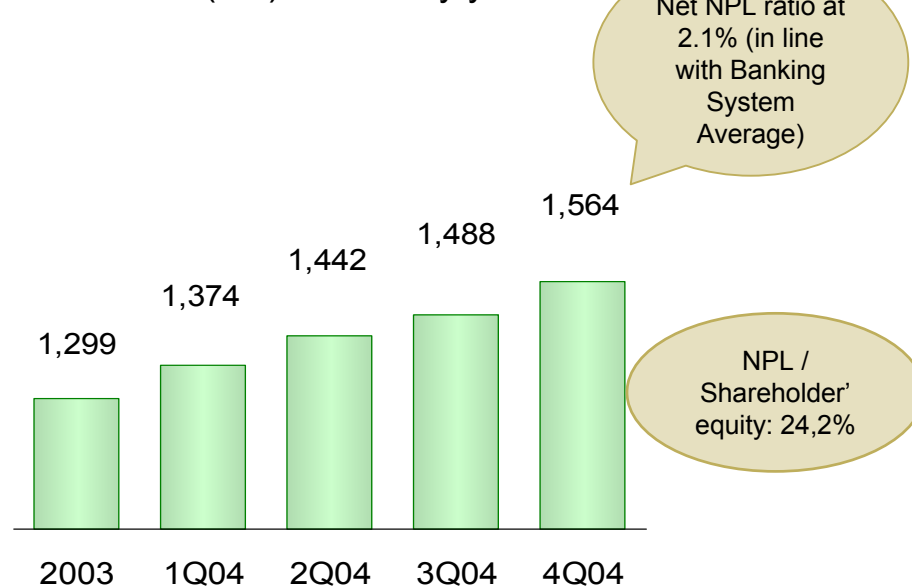


Credit Risk: deceleration of doubtful loans growth

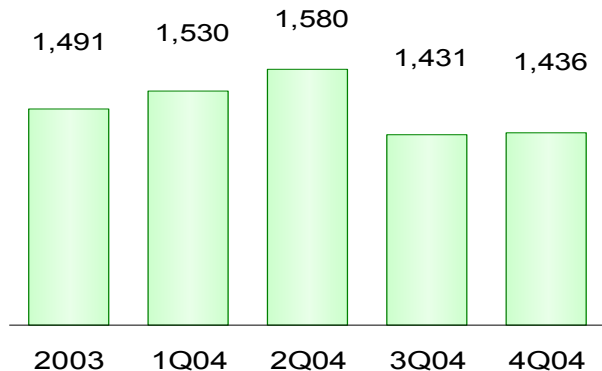
Gross NPLs (€m): +22.7% y/y
but decreasing 2H04 vs 1H04



Net NPLs (€m): +20.4% y/y

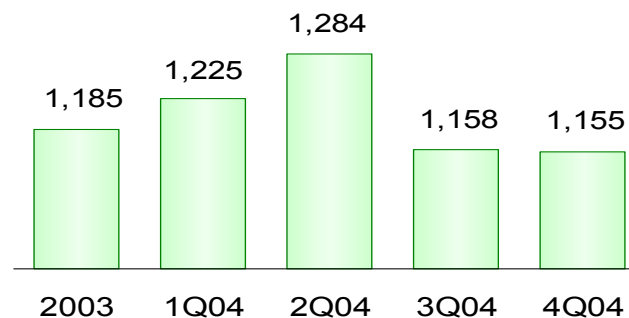


Gross substandard loans (€m): -3.7% y/y



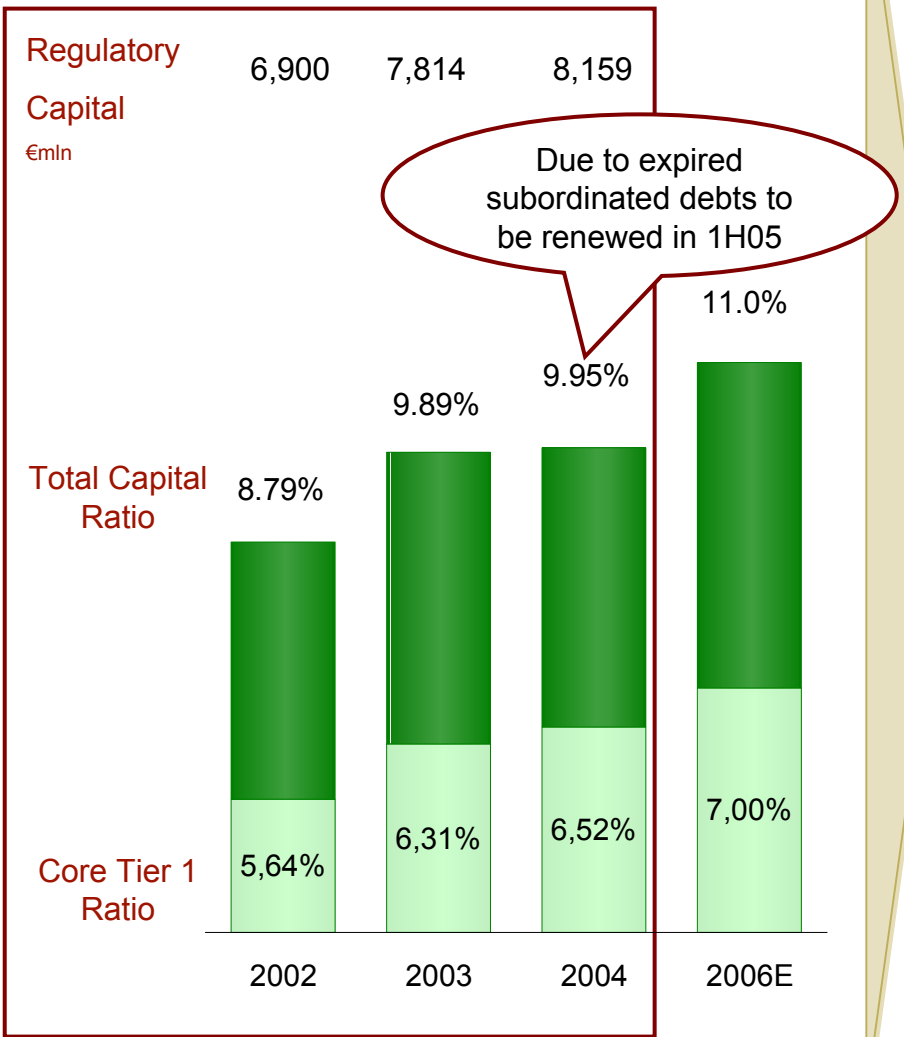
Gross NPL and Substandard Loans:
4,513 € mln. (+12.8% yoy)

Net substandard loans (€m): -2.5% y/y

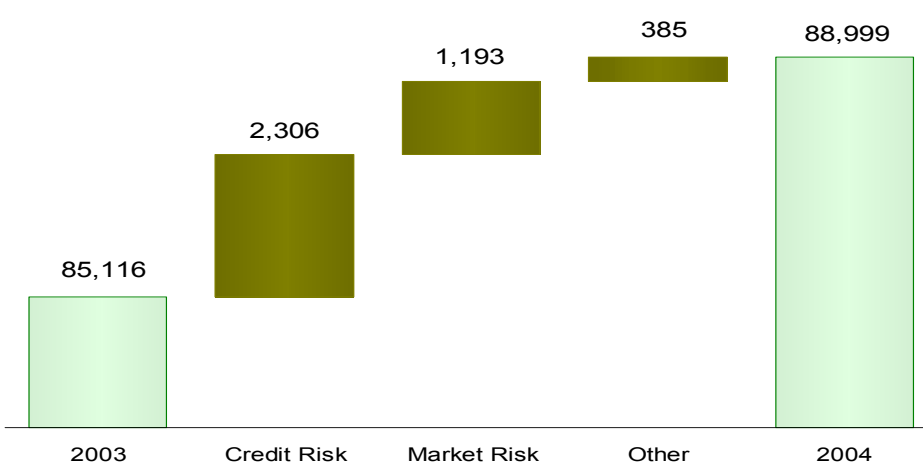


Net NPL and Substandard Loans:
2,719 € mln. (+9.5% yoy)

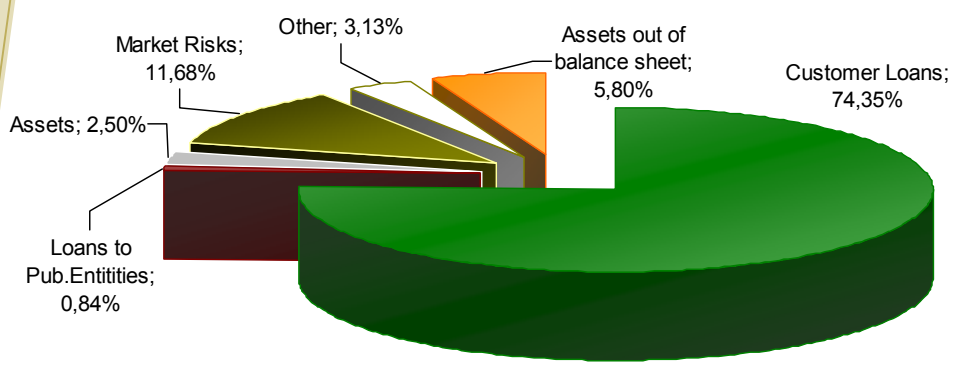
Capital Ratios



RWA (mln.€): +4.6% vs Dec 03



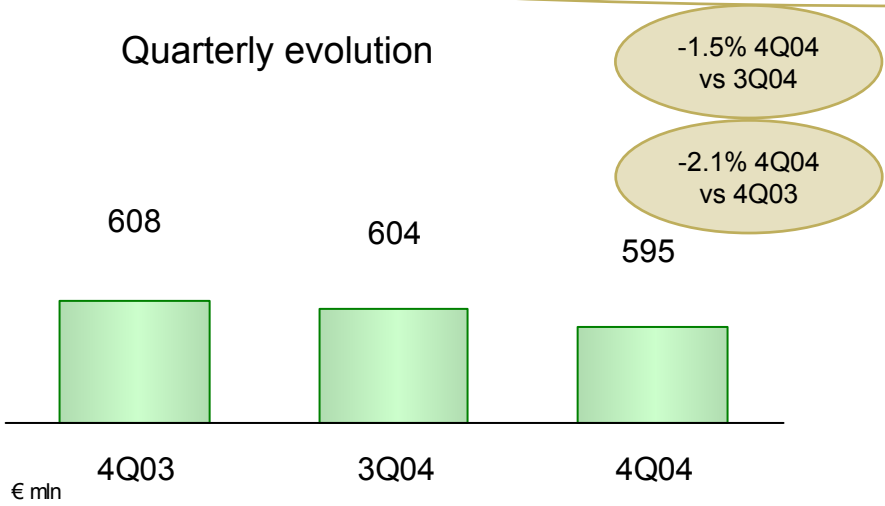
RWA breakdown



Business growth: Net interest income

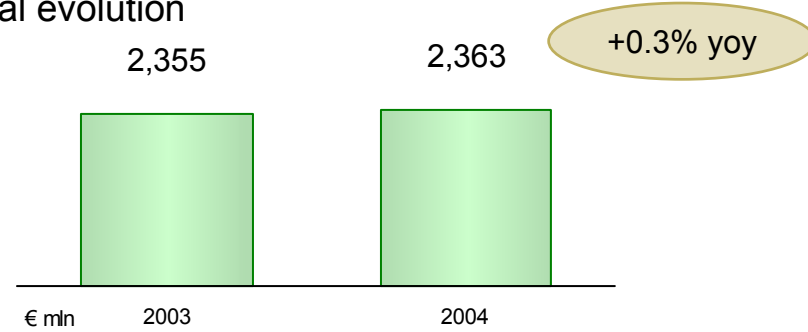
Due to the restatement of accounting past-due interests of MPS Merchant and Banca Verde made in the 4Q04 after the merger of the two banks, 8 €mln are not included anymore in the net interest income but directly written off from provisions on loans.

Quarterly evolution

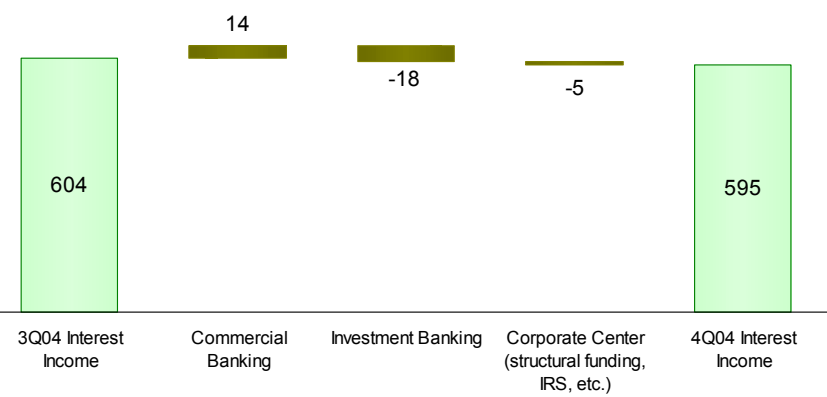


Commercial Banking Interest Income:

Annual evolution



Commercial banking: +48.1 €mln from volume effect; -40.4 €mln from spread effect



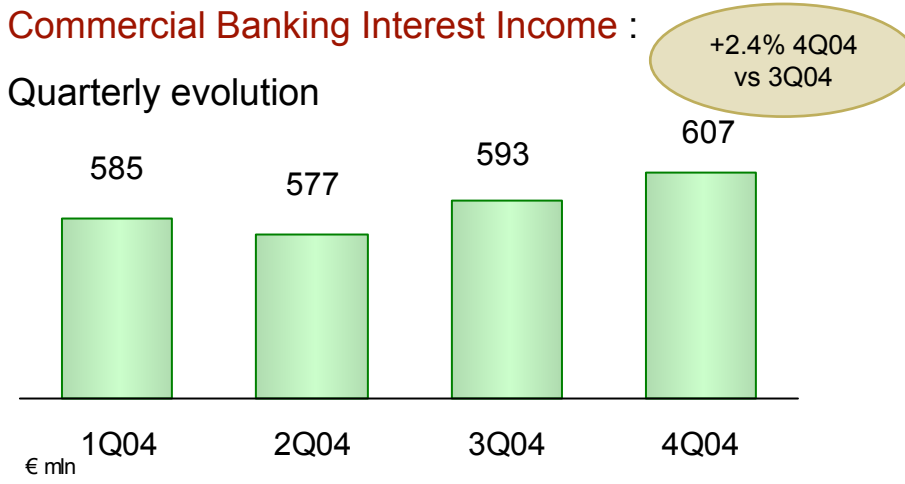
Commercial banking: +9.6 mln.€ from volume effect; +4.5 mln.€ from spread effect

Investment banking: -8 €mln for cost of funding from arbitrage deals; -10 €mln different accounting on securities in asset swap balanced with equal increase in "voice 60" (trading profits).

Corporate Center: consolidation effects and restatement of accounting past-due interests after the merger between MPS Merchant and Banca Verde

Commercial Banking Interest Income :

Quarterly evolution



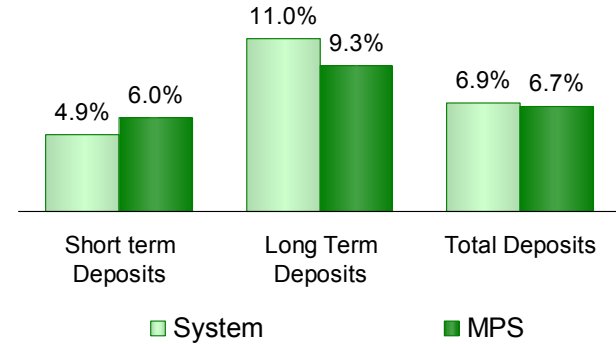
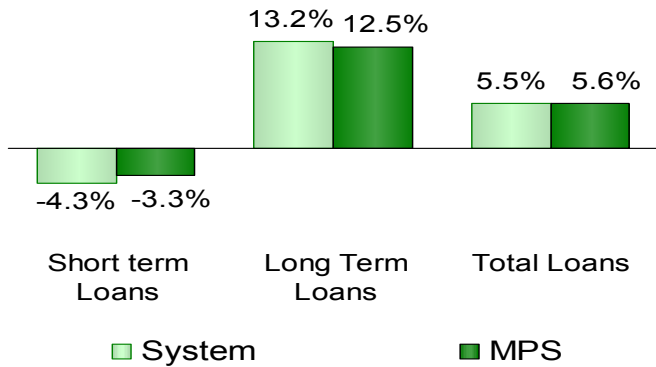
Business growth: Net interest income

Customers loans (at year end): +4.4% dec 04 vs sept 04

Customer funds (at year end): +5.4% dec 04 vs sept 04

Domestic customers loans: chg% 2004 vs 2003

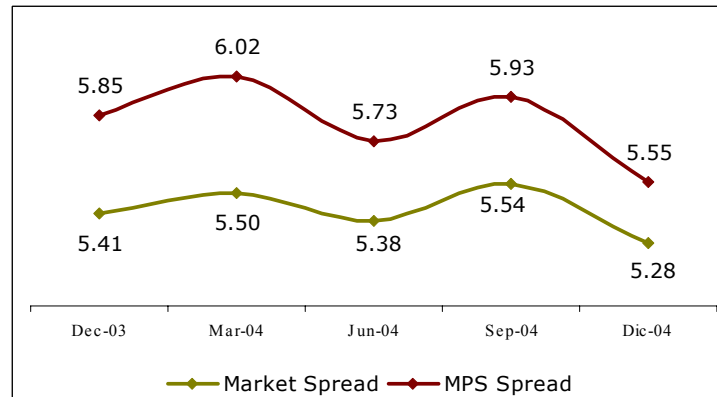
Domestic customer funds chg% 2004 vs 2003



Customers loans **market share**: 6.23% from 6.22% in Dec 03

Customer funds **market share**: 6.52% from 6.54% on Dec 03

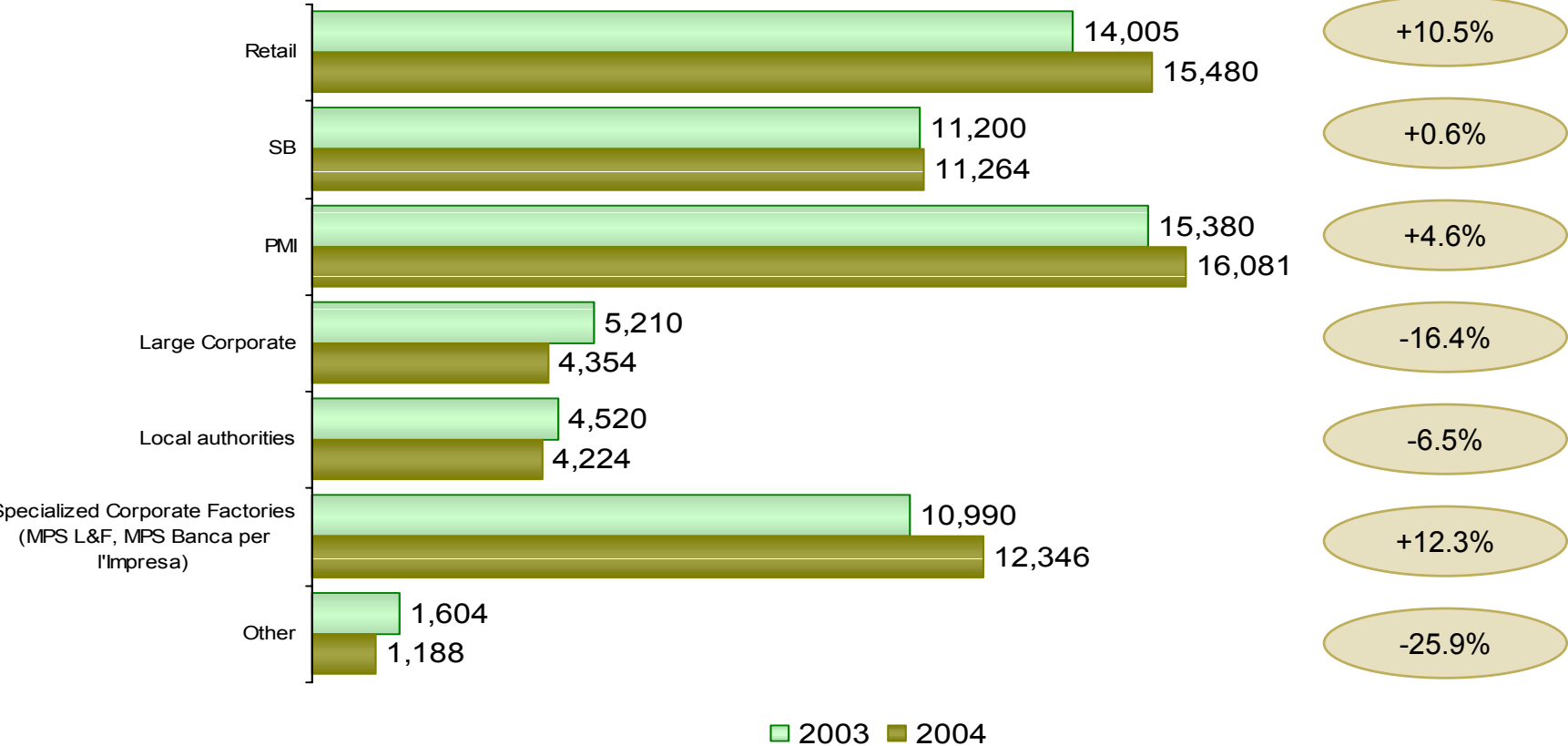
Trend in short customer spread*



Business growth: Net interest income

Breakdown of domestic loans (avg balances)

Trend 2004 vs 2003

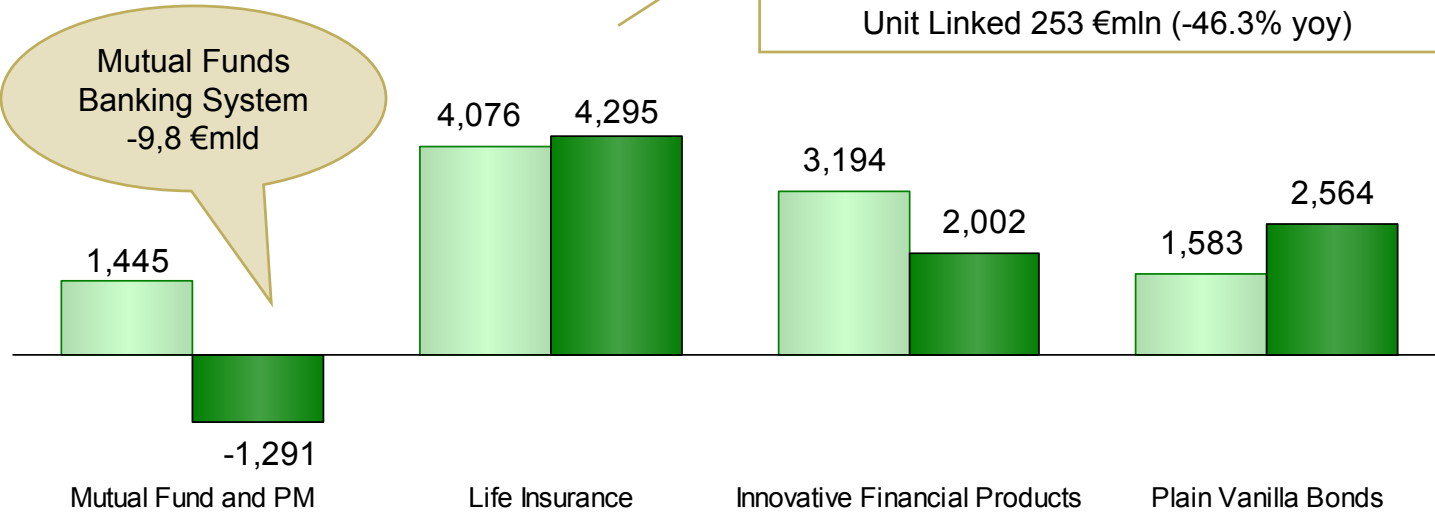


Total domestic commercial loans: 64,937 mln.€ (+3.2%)

Business Growth: saving products and lending flows

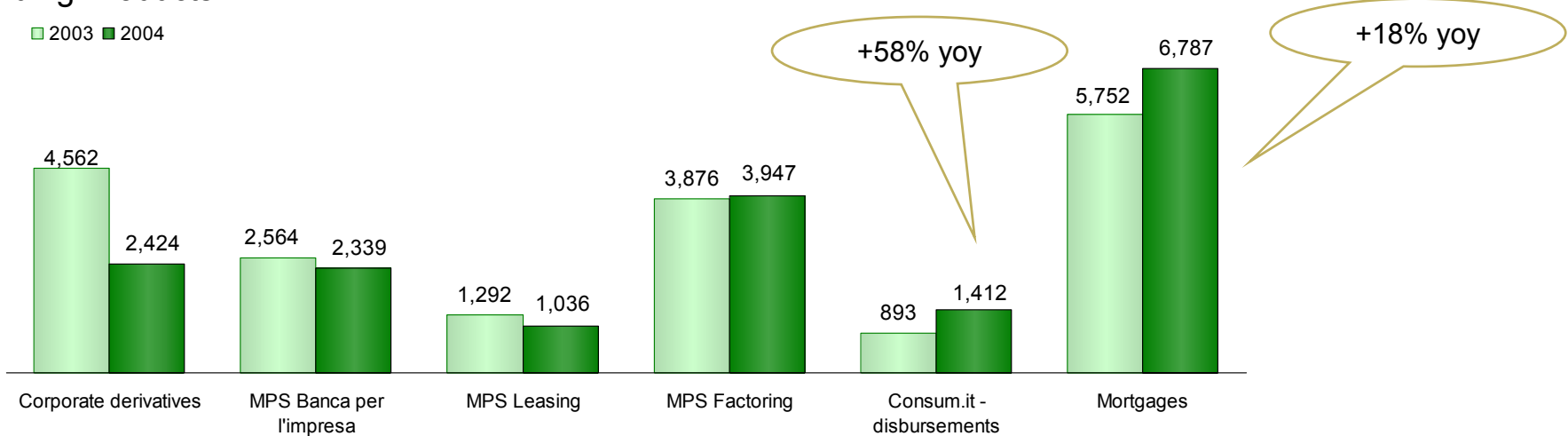
Saving Products

2003 2004



Lending Products

2003 2004

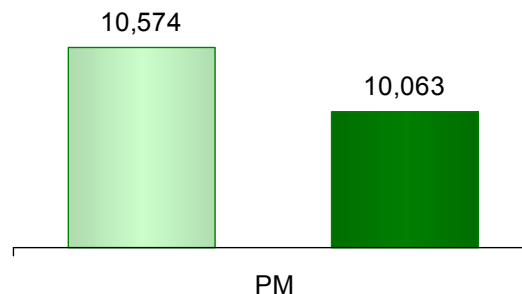
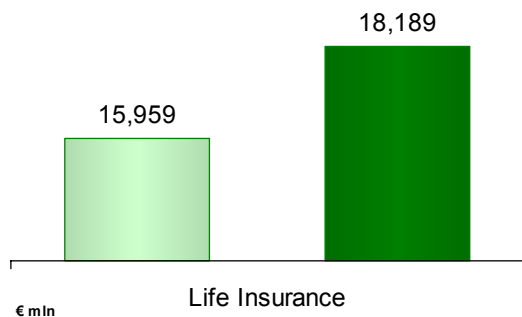
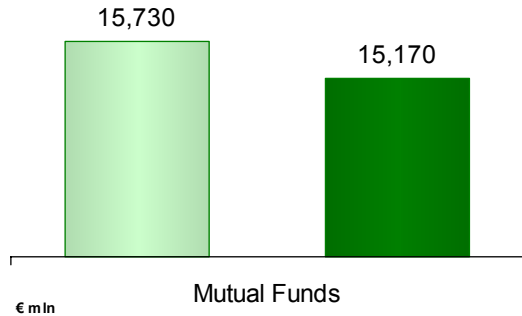


Business Growth: breakdown of AuM

AuM: 43,421 €mln (+2.7% y/y), of which

- Mutual Funds -3.6% (% on total AuM from 37.2% in 2003 to **34.9%** in 2004)
- Life Insurance +14.0% (% on total AuM from 37.8% in 2003 to **41.9%** in 2004)
- PM -4.8% (% on total AuM from 25.0% in 2003 to **23.2%** in 2004)

AuM Market share
at 5.9%



€ mln 2003 2004

Market share of stock at december: 4.04% (4.16% at december 2003)

Funds performance at december: 3.04%

Market share of new flows: 10.14% (10.08% at december 2003)

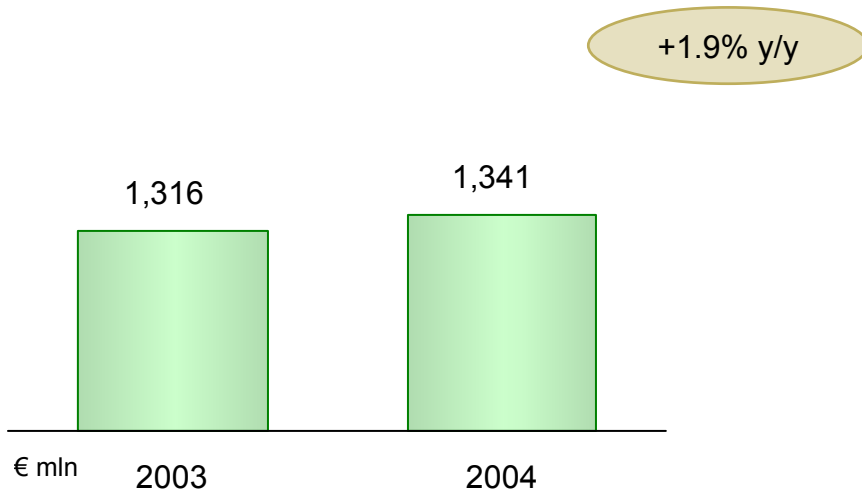
Embedded Value of new production: 110 €mln (90.5 €mln at december 2003)

Recurring premiums: 276.5 €mln vs 234 €mln in 2003

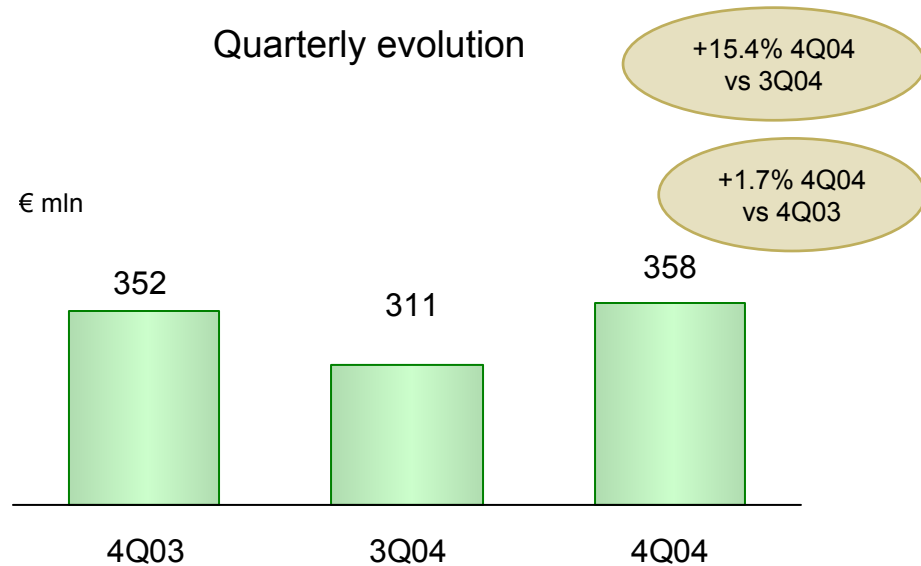
Market share of stock at december: 6.78% (6.37% at december 2003)

Business Growth: Net Fees

Annual evolution



Quarterly evolution



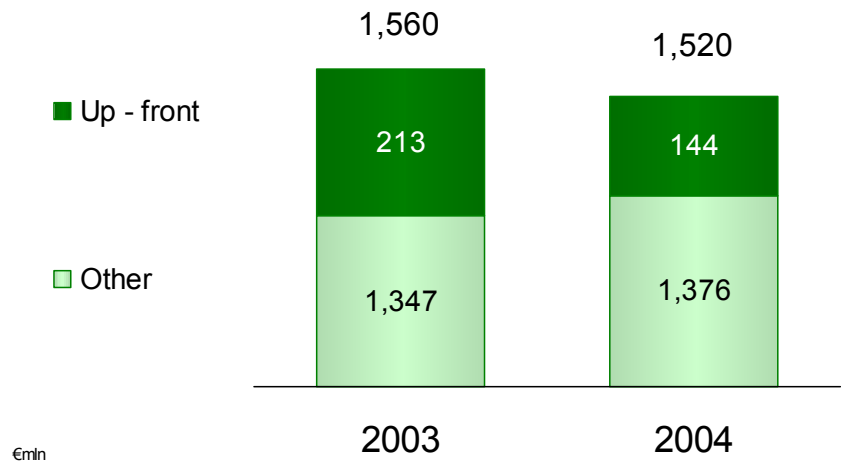
- > **traditional banking fees:** +6.3% yoy
- > **tax collection:** +10.9% yoy
- > **AuM:** -0.1% yoy
- > **innovative financial product:** -46.6% yoy due to -40 €mln yoy from retail products (in line with budget) and -21 €mln yoy from corporate products

- > **traditional banking fees:** +4.9% qoq
- > **AuM:** +20.1% qoq (of which +10 €mln for performance fees)
- > **innovative financial products:** -20.5% qoq due to lower volumes (-193 €mln)

Business Growth: Net Fees*

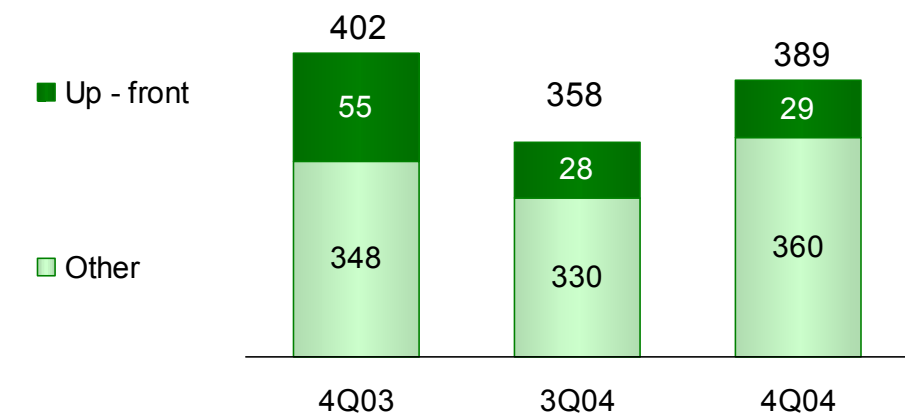
Lower contribution from total up – front fees

Annual evolution



	2003	2004
% up-front	13.7%	9.4%

Quarterly evolution



	4Q03	3Q04	4Q04
% up-front	13.5%	7.9%	7.5%

* Reclassified following management criteria

Breakdown of revenues by Business Area: Retail Banking

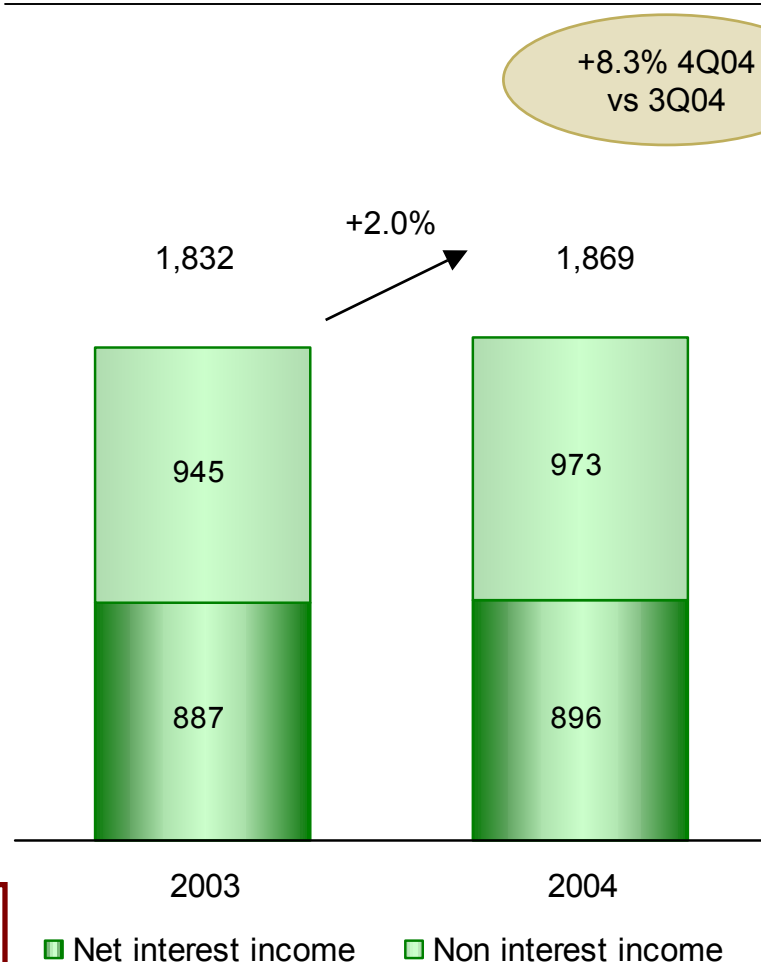
Highlights

- New inflows of saving products at 5,615 €mln
- New mortgages at around 3,770 €mln (+30% yoy); Consumer finance at 1,412 €mln (+58.1% yoy)
- Retention Rate at 95,3%; Cross Selling at 3,2
- Cost/income (inc. amortization and Corporate Center costs): 71.2% (74.8% 2003)
- Raroc at 19.9%

Residential mortgages market shares: 6.7% (6.2% at Dec 03)

Consumer finance market shares: 3.8% (more than 1 point vs 2003)

Revenues (€m)

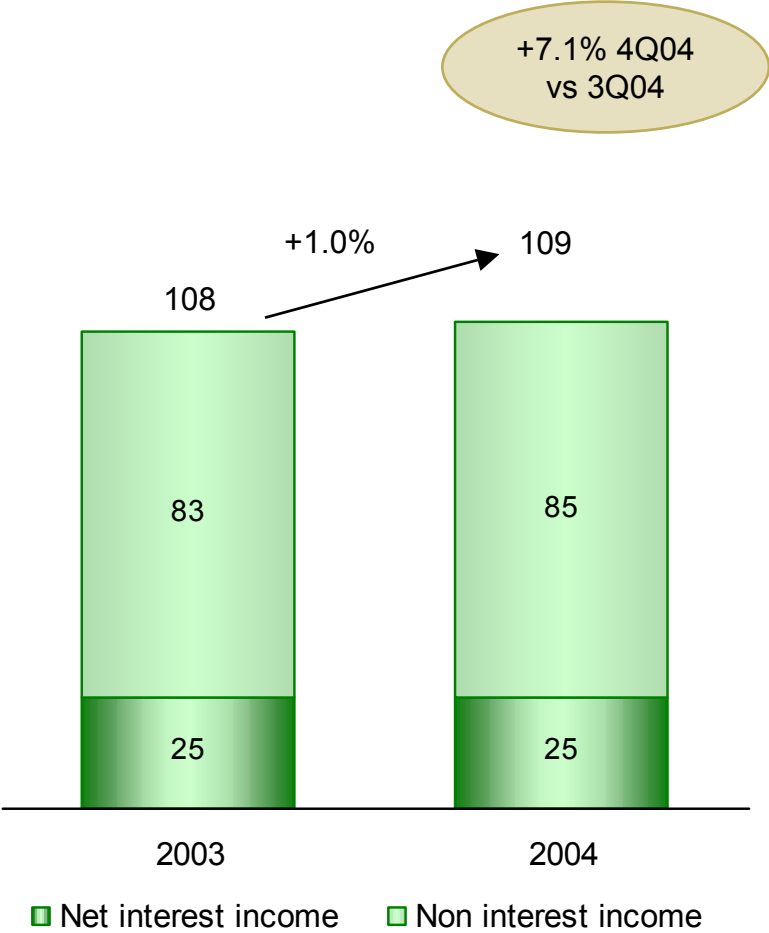


Breakdown of revenues by Business Area: Private Banking

Highlights

- > New inflows of saving products at around 800 €mln
- > Total funding +6%
- > Cost/income (inc. amortization and Corporate Center costs) : 71.3% (79% 2003)
- > Raroc at 157%

Revenues (€m)

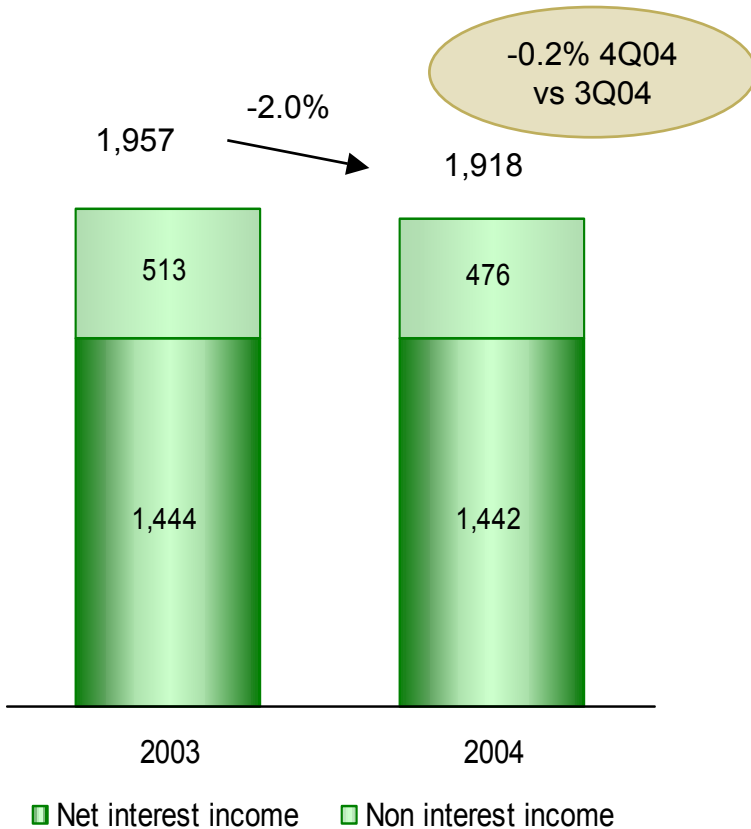


Breakdown of revenues by Business Area: Corporate Banking

Highlights

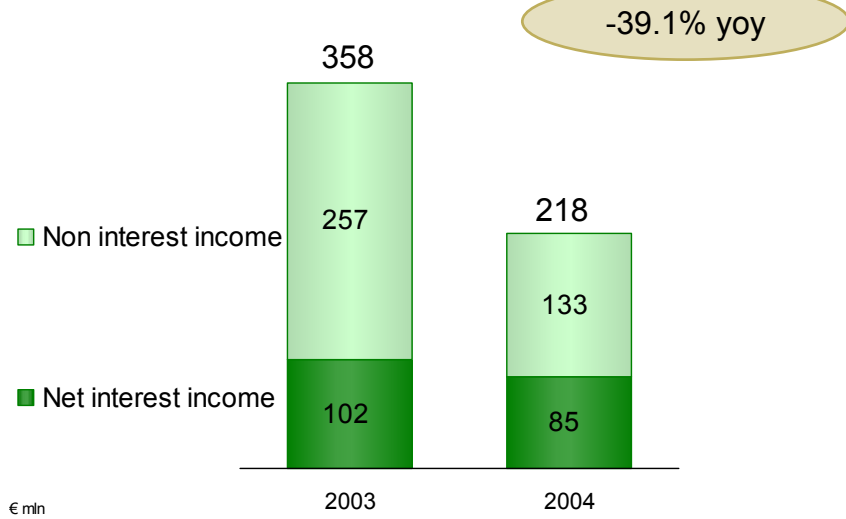
- Loan growth (avg balances): +1.2%
- Corporate Derivatives flows at 2,424 € mln (-23% y/y)
- MII term lending flows : 7,3 € mld
- Cost/Income (inc. amortisation and corporate center costs): 56.2% (56.5% 2003)
- Raroc at 6.8%

Revenues (€m)

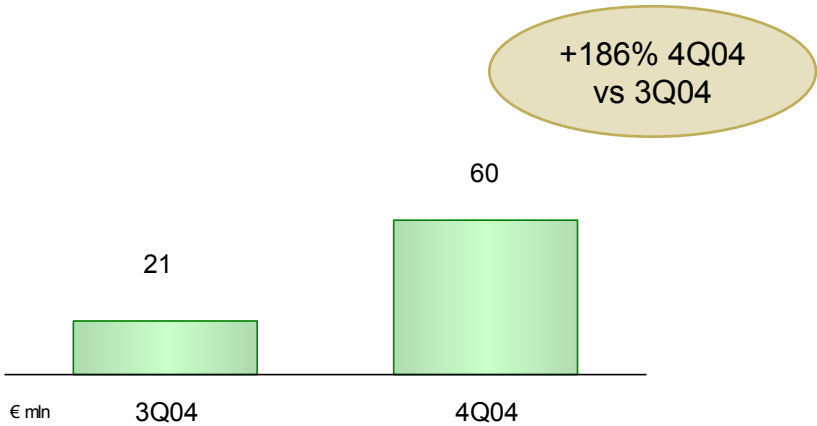


Breakdown of revenues by Business Area: Investment Banking

Annual evolution

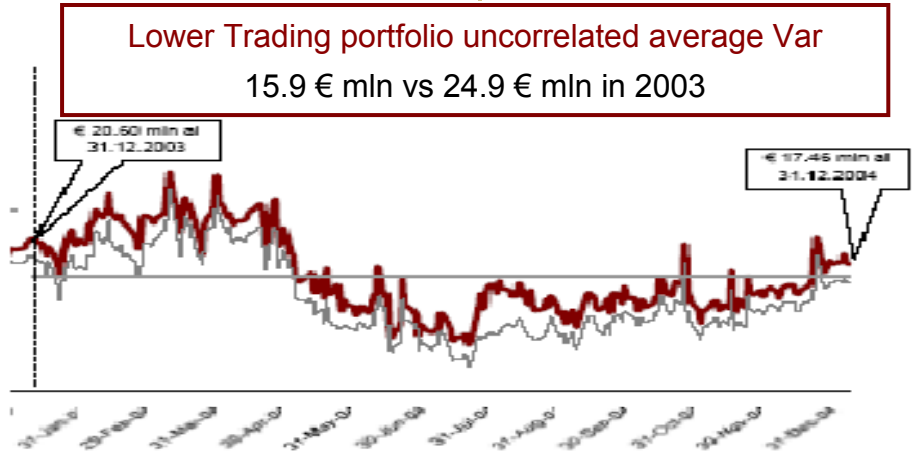


Quarterly evolution of total revenues



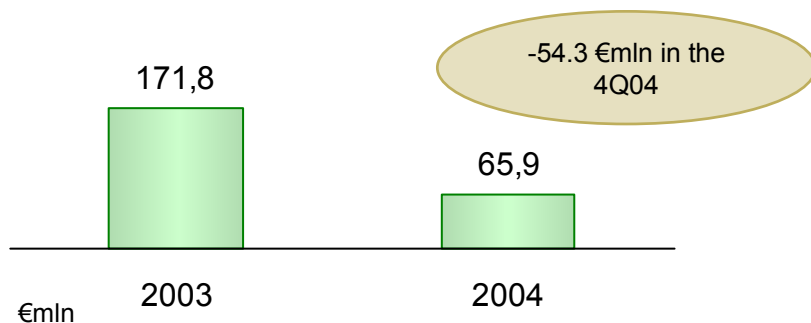
- > Lowest equity market volatility since the last 40 years; limited market opportunities
- > Lower total revenues due also to the new dividend taxation (now the contribution is net and not gross)
- > Cost/Income (including amortisation and corporate center costs): 41,7%
- > Raroc at 27%

- > Stabilization of revenues to the “ordinary” level
- > Market recovery and arbitrage on dividends (but with negligible impact on gross income)



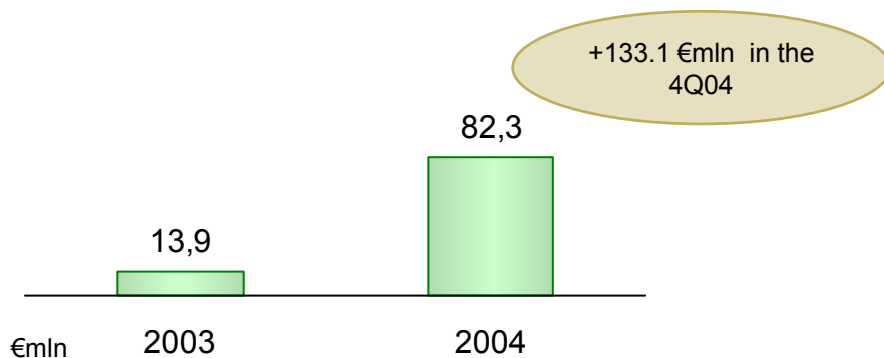
Non-operating Profit/Losses

Provisions for risk & charges



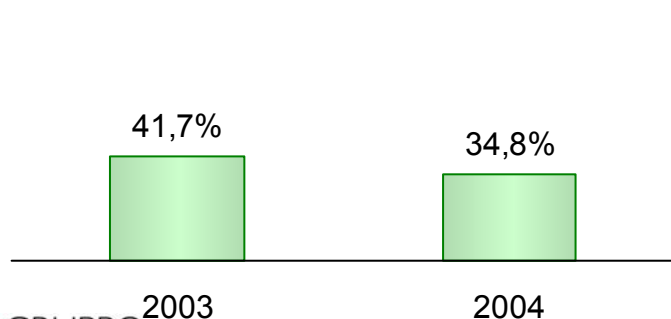
- pending litigations
- actions for revocation
- coverage of other operating risks

Extraordinary items



- +35 € mIn from divestment of minority stakes (E-Biscom, Autostrade To-Mi, Sias, Monte Paschi Suisse, Monte Paschi Channel Islands).
- -73 €mIn (27 €mIn in the fourth quarter) related to incentives for early retirement and severance fund (entirely charged and not amortized).
- -88 €mIn related to claims on financial plans and B121 structured products settled and paid until now. They were 48 €mIn at sept04
- +33 €mIn for utilization of the Reserve for risk & charges in relation to the definition of claims on financial plans.
- +122 €mIn from fiscal benefits due to equity holdings writedown realized in 2003 in the parent company and reversed in 2004.

“Effective” Tax rate



- Benefits from tax free income items (capital gain on sale of equity holdings)
- Lower taxation on dividends

Operational trend for the first two months of 2005

Starting from 2005, anticipating IAS rules, MPS Group has decided to change the accounting of innovative financial products fees from up-front to recurring/continuing.

Increasing Commercial flows:

Plain vanilla bonds: 550 €mln (+51%)

Life insurance products: 740 €mln (+6.8%)

AUM products: 109 €mln (+62.5%)

Retail Mortgages: 559 €mln (+24%)

Consumer Credit : 258 €mln (+32%)

Short term loans to Sme's and SB up by 3.8% between october and february .

NPL/ Watchlist inflows in line with budget.

Annexes

MPS Group: reclassified profit and loss statement

	(EUR mn)			
	12/31/2004	12/31/2003	chg	
			restated	Abs %
Net Interest Income	2,426.4	2,482.2	-55.8	-2.2
Net commissions	1,341.0	1,315.6	25.4	1.9
Basic Income	3,767.3	3,797.7	-30.4	-0.8
Dividends	84.4	111.5	-27.1	-24.3
Earnings of companies valued with net equity method	78.3	31.8	46.5	146.1
Profit (loss) from financial transactions	57.5	231.7	-174.2	-75.2
Other operating income	481.9	501.0	-19.1	-3.8
Non Interest Income	2,043.2	2,191.7	-148.5	-6.8
Total Banking Income	4,469.6	4,673.9	-204.3	-4.4
Administrative expenses				
- personnel expenses	-1,758.7	-1,794.7	36.0	-2.0
- other administrative expenses	-1,061.9	-1,068.1	6.2	-0.6
<i>o/w indirect taxes</i>	<i>170.1</i>	<i>171.9</i>	<i>-1.8</i>	<i>-1.0</i>
Total administrative expenses	-2,820.5	-2,862.7	42.2	-1.5
Gross Operating Profit	1,649.0	1,811.1	-162.1	-9.0
Valuation adjustments to fixed and intangible assets	-276.2	-334.9	58.7	-17.5
Net Operating Profit	1,372.8	1,476.2	-103.4	-7.0
Goodwill amortization	-506.5	-674.9	168.4	-25.0
Provisions for risks and charges	-26.9	-48.0	21.1	-44.0
Income from Banking Activity	839.4	753.3	86.1	11.4
Valuation adjustments to loans net of recoveries	-95.3	-102.9	7.5	-7.3
Provision to loan loss reserve	-65.9	-171.8	105.9	ns.
Writedowns to non-current financial assets	-16.9	-96.7	79.8	ns.
Profit (losses) from ordinary operations	661.3	381.9	279.4	73.2
Extraordinary income (charges)	82.3	13.9	68.4	ns.
Change in reserve for general banking risks	-1.1	300.0	-301.1	ns.
Income taxes	-215.6	-245.2	29.7	-12.1
Profit for the period before minority interests	526.9	450.6	76.3	16.9
Minority interests	-13.2	-8.1	-5.2	64.3
Net profit	513.7	442.5	71.2	16.1

MPS Group: quarterly profit and loss statement

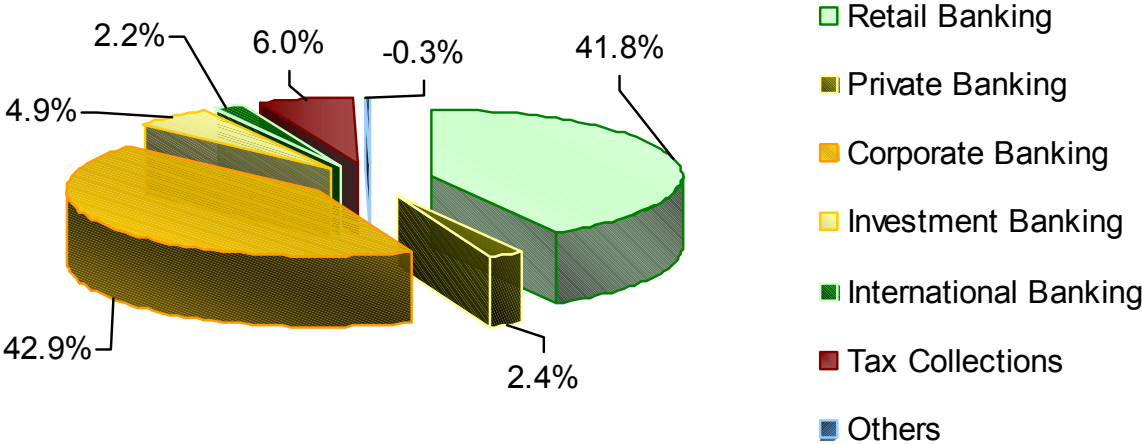
(in EUR mn)

	Year 2004 (*)				Year 2003 restated (*)			
	4Q04	3Q04	2Q04	1Q04	4Q03	3Q03	2Q03	1Q03
Net Interest Income	595.0	604.2	598.3	628.8	607.9	624.2	623.3	626.8
Net commissions	358.2	310.5	326.7	345.6	352.3	318.2	359.2	285.8
Basic Income	953.3	914.7	925.0	974.4	960.2	942.4	982.5	912.6
Dividends	18.6	16.1	39.1	10.7	12.5	3.8	94.8	0.5
Earnings of companies valued with net equity method	8.3	17.3	32.7	20.0	-5.4	18.4	6.3	12.6
Profit (loss) from financial transactions	10.7	-28.8	-0.4	76.0	-13.4	96.4	43.2	105.6
Other operating income	131.5	127.6	116.4	106.5	186.3	104.6	98.6	111.6
Non Interest Income	527.5	442.6	514.4	558.7	532.3	541.4	602.0	516.0
Total Banking Income	1,122.5	1,046.8	1,112.8	1,187.5	1,140.2	1,165.6	1,225.3	1,142.8
Administrative expenses								
- personnel expenses	-466.3	-424.1	-429.2	-439.1	-458.7	-437.8	-444.1	-454.1
- other administrative expenses	-272.8	-265.4	-256.2	-267.4	-235.2	-279.4	-276.7	-276.8
Total administrative expenses	-739.1	-689.5	-685.4	-706.5	-693.9	-717.2	-720.7	-730.9
Gross Operating Profit	383.3	357.3	427.4	481.0	446.3	448.4	504.6	411.9
Valuation adjustments to fixed and intangible assets	-63.9	-69.2	-72.2	-70.9	-83.3	-83.3	-91.6	-76.8
Net Operating Profit	319.4	288.1	355.2	410.1	363.0	365.1	413.0	335.1
Goodwill amortization	-122.8	-107.8	-156.5	-119.3	-328.5	-105.4	-144.6	-96.4
Provisions for risks and charges	-5.3	0.5	-13.1	-9.0	-26.8	-10.1	-2.8	-8.3
Income from Banking Activity	191.2	180.7	185.6	281.8	7.6	249.6	265.6	230.4
Valuation adjustments to loans net of recoveries	-23.9	-23.8	-23.8	-23.8	-25.6	-25.8	-29.3	-22.2
Provision to loan loss reserve	-54.3	-3.9	14.7	-22.4	-95.4	-20.9	-38.9	-16.6
Writedowns to non-current financial assets	-16.2	5.3	-4.7	-1.3	-39.9	-3.4	-52.5	-1.0
Profit (losses) from ordinary operations	96.8	158.3	171.9	234.3	-153.2	199.6	144.9	190.6
Extraordinary income (charges)	133.1	-4.6	-54.3	8.2	26.3	-14.1	-23.9	25.6
Change in reserve for general banking risks	-1.1	0.1	-0.1	0.0	300.0	0.0	0.0	0.0
Income taxes	-35.7	-56.9	-20.1	-102.9	2.4	-107.3	-56.9	-83.4
Profit for the period before minority interests	193.1	96.9	97.4	139.5	175.5	78.2	64.0	132.8
Minority interests	-4.4	-2.0	-5.5	-1.3	-4.8	-0.8	-1.2	-1.3
Net profit for the period	188.6	94.9	91.9	138.3	170.7	77.4	62.9	131.6

(*) The 2003 quarters have been restated after the merger between MPS Merchant and Banca Verde because of a different count of past-due interests, now included in the net interest income figures.

Results by business area

Contribution to total revenues



Revenues	2004 vs 2003 %chg
Retail Banking	+2.0%
Private Banking	+1.0%
Corporate Banking	-2.0%
Investment Banking	-39.1%
International Banking	-14.5%
Tax collections	+19.5%

Results by business area

€m	Retail Banking	
	2004	Yoy chg. %
Revenues	1,869	+2.0%
Operating costs	1,331	-2.9%
Operating income	538	+16.8%
Cost/Income (1)	71.2%	
Raroc	19.9%	

€m	Private Banking	
	2004	Yoy chg. %
Revenues	109	+1.0%
Operating costs	78	-8.9%
Operatin income	31	+38.4%
Cost/Income (1)	71.3%	
Raroc	157%	

€m	Corporate Banking	
	2004	Yoy chg. %
Revenues	1,918	-2.0%
Operating Costs	1,078	-2.5%
Operating income	840	-1.4%
Cost/Income (1)	56.2%	
Raroc	6.8%	

€m	Investment Banking	
	2004	Yoy chg. %
Revenues	218	-39.1%
Operating costs	92	-8.5%
Operating income	126	-51.0%
Cost/Income (1)	42.0%	
Raroc	27%	

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

Net Fees: 1.9% yoy

“Reclassified” Net Fees*: -2.6% yoy

<i>€m</i>	4Q03	1Q04	2Q04	3Q04	4Q04
Traditional Banking Fees	215	203	210	213	224
Brokerage	43	46	37	33	37
AuM	106	121	108	97	116
Innovative financial products	38	27	21	15	12
TOTAL	402	397	375	358	389

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




Regional franchise



Geographical distribution:

- North: 28.5%
- Center: 50.5%
- South and Islands: 21.0%

Branch market share*:

-  Over 7%
-  Over 4%
-  < 4%

*Data as of June 2004