MPS Group: results to 30 September 2004

Net profit up 19.6% to €325.1m

Increases in both core Tier 1 ratio (now 6.6%) and overall solvency ratio

- **Satisfactory growth in operating base:**
  - **direct funding up 5.1%,**
  - **funds under management up 3.7% (technical reserves up 14.9%)**
- **Growth in core commercial banking business:**
  - **banking income up 0.4% year-on-year and quarter-to-quarter;**
  - **operating profit up 14.7% year-on-year**
- **Flow of non-performing loans and problem loans slows by 14% and 19% respectively in third quarter**
  - **loan adjustments down**
- **Further strengthening in capital ratios:**
  - **core Tier 1 at 6.6%**
  - **overall solvency ratio at 10.5%**
- **Consolidated net profit €325.1m for first nine months, up 19.6% on same period of 2003**

* * *

Siena, 11 November 2004. The Board of Directors of Banca Monte dei Paschi di Siena SpA, meeting under the chairmanship of Professor Pier Luigi Fabrizi, today approved the results for the bank and for the MPS group for the nine months to 30 September 2004.

Against a still complicated economic background, the MPS Group continued to implement the decisions of its business plan, with some major developments including the creation of MPS Banca per L'Impresa which began operations in October and is achieving good results at the operating level.

The main group operating results

The MPS group achieved significant results over the nine months in operations and income, both as regards the development of its operating base and in terms of net profit, which was up some 20%. This was due in particular to the structural contribution of the group's core commercial businesses (retail, corporate and private), this being up both year-on-year and quarter-to-quarter, and also to a significant reduction in operating costs.

In particular, on the income side an analysis of total banking income shows
- interest margin of €1,837.3m with a significant improvement in the contribution from the core commercial business between the second and third quarters (up 2.6%) to match the first nine months of 2003, thanks both to strong growth in medium and long-term lending and to shrewd management of spreads. Compared with the same period of 2003, there was an overall decrease of 2.3%.
- net commission income up 2% year-on-year thanks to the increasing contribution from income linked with traditional banking services (up 7.1%) and the tax collection business.

Among the other contributors to total banking income we would like to mention the €70m contribution from companies valued at net assets (up 88%), among which the results of the group MPVita stand out with an income contribution of €50.9m, of which €17.1m was earned in the third quarter; the €46.8m net profit from financial operations; dividends received of €65.8m; and other operating income €350m.
Overall, total consolidated banking income net of profit and losses from financial operations amounted to €2,385m after nine months, a 0.4% increase on the first nine months of 2003.

As a result, total income from the core commercial business was up by 0.4% both for the first nine months and from quarter to quarter.

Operating costs were down 5.2% year-on-year to €2,293.7m, confirming the structural reduction in costs seen in previous quarters. In particular, valuation adjustments on tangible and intangible assets were down 15.6% to €212.3m, while administrative expenses were down 4% to €2,081.4m as a result of a 3.3% fall in employee costs for the first nine months to €1,292.3m, reflecting the whole range of initiatives launched last year to reduce the number of staff and to redeploy them, as well as to reduce the related components of cost.

Other administrative expenses at €789.1m (down 5.3%) reflect successful efforts at cost containment, with an even greater fall of 7.4% if indirect taxes and production expenses in the tax collection department are excluded.

The activities described above yielded an operating profit of €1,059.4m (down 5.3% on the first nine months of 2003), with the third quarter contributing €290.1m.

The overall cost-income index, including depreciation and amortisation, remains substantially unchanged compared with 31 December 2003 at 68.4%. The analogous ratio, calculated net of depreciation and amortisation, comes to 62.1%. As regards the breakdown by business area, the growing contribution of our commercial activities is clear, with a year-on-year increase of 14.7% in operating profit and a fall of some three percentage points in the cost-income ratio.
Also contributing to the result were adjustments and write-backs to the value of fixed assets totalling €495m compared with €584m in the same period of 2003. Among these, note:

a) net loan write-downs of €361.5m (first nine months of 2003: €319.6m) with a significant reduction in the third quarter (of €26.6m compared with the two previous quarters) as a result of a significant fall in the flow of doubtful loans, to which are added the quota for the period (€25.1m) relating to the 2001 securitisation of non-performing loans as well as provisions totalling €24.7m written to the general reserves.

b) net value adjustments to financial and other fixed assets worth €0.7m (€56.8m in 2003);

c) provisions for risks and charges to the amount of €11.6m (€76.4m in 2003).

As a result, profit from ordinary activities came to €564.5m, a 5.5% increase on the first nine months of 2003.
To complete the picture as regards income, there was a negative balance of €50.8m on extraordinary items (minus €12.4m in the same period of 2003), which includes among other things the extraordinary costs, amounting to €46m, connected with the plan to reduce

and redeploy the work force. As a matter of prudence, it was decided to write the whole of this off against the profits for the current year. The tax charge for the period was calculated at €179.9m compared with €244.7m at 30 December 2003.

Thus, taking into account the value of the components set out above, consolidated net profit came to €325.1m (with a €94.9m contribution from the third quarter), a significant year-on-year increase of 19.6%. Excluding goodwill depreciation, net profit for the nine months came to €395.6m, a 13.6% year-on-year increase.

The return on equity for the nine months, excluding the amortisation of goodwill on consolidation and net assets, came to 8.6%.

Turning to the balance sheet, it can be seen that direct funding increased by 5.1% to €82bn as a result of the change in the group's share of the Italian market, which has risen to 6.6%. Indirect funding amounted to €103.7bn, reflecting our performance in funds under management which were up 3.7% at 30 September to €43.5m, driven by the strong (14.9%) growth in the technical reserves of the bancassurance division. Here, the first nine months saw a €6.3m inflow of funds for placing in savings products, mainly concentrated in guaranteed capital/yield products that can be readily liquidated. In particular, there was a €3.3bn inflow of insurance premiums (the group's share of the inflow in the "bancassurance plus post office savings" system is estimated at 10.2%), €1.7m into financial products and €1.9bn into linear bonds.

Customer loans (the Group's share of the Italian market is 6.2%), which were up 2.1% year-on-year at 30 September, include the €1.5bn securitisation of performing loans in November 2003, net of which the increase would have been 4.2%. This result was boosted by medium-long term loans which showed an increase of 6.5% in terms of moving average balances (with an Italian market share of 6.5%) thanks to the grant of mortgage loans totalling more than €4.7bn since the start of the year (up 16% on the same period of 2003). The short-term component also recovered in the third quarter, with the annual rate of shrinkage in terms of average balances improving from 5.9% at 30 June to 4.5% at 30 December.

The third quarter also saw a significant slow-down in the flow of non-performing and problem loans compared with the second quarter, by 14% and 19% respectively, with the result that there has been a significant fall since 30 June in the stock of net doubtful loans and the related adjustments. As regards provisions to hedge credit risks, they have been further strengthened, as a result of the doubts that emerged over gross bad and doubtful debts, to 49.8% (a 1.6% increase on December 2003) while the ratio of write-downs to the original value of these debts is confirmed at around 60% (70% if mortgage loans are excluded). Bad and doubtful debts were equivalent to 3.9% of outstandings at 30 September (4% at 30 June), while net bad and doubtful debts stood at 2.1%, in line with their estimated value in the overall Italian banking system. On the other hand, the provision represented by “generic reserves” at 0.84% of performing loans is higher than the average for the system.

Finally, in line with the path laid down out by the Business Plan, the capital ratios are being structurally reinforced, and all have been further strengthened between June and September 2004, with the Tier 1 ratio estimated at 6.8% (it was 6.5% at 31 December 2003), core Tier 1 up from 6.3% to 6.6%, and the overall solvency ratio up from 9.9% to 10.5%.

In addition, in view of the developments in progress in the legislative field and in standards (including the insurance reform and the need to adapt to the IAS and Basle 2 criteria), the Board of Directors has mandated the Managing Director’s office to initiate procedures to arrange for an updating of the Business Plan. This is to be completed by next spring.

This press release will also be available on the Internet at www.mps.it

MPS GROUP: KEY DATA AND RATIO ANALYSIS

million euro

Profit and loss aggregates	09/30/04	09/30/03	Chg.%
Total banking income	3,353.1	3,539.3	-5.3
Net operating income	1,059.4	1,118.8	-5.3
Net income	325.1	271.8	19.6
Net income adjusted for goodwill	396.5	349.1	13.6

Balance sheet aggregates	**09/30/04**	**09/30/03**	**Chg.%**
Direct funding - including subordinated debt	81,919	77,958	5.1
Indirect funding	103,678	105,669	-1.9
including: Funds under management	*43,485*	*41,945*	*3.7*
Mutual Funds	*15,643*	*15,882*	*-1.5*
PM	*10,367*	*10,852*	*-4.5*
Life Insurance and Pension Funds	*17,474*	*15,211*	*14.9*
including: Funds under administration	*60,194*	*63,724*	*-5.5*
Customer loans and advances	**71,276**	**69,802**	**2.1**
Consolidated shareholders' equity	**6,315**	**6,324**	**-0.1**

Credit quality indicators (%)	**9/30/2004**	**12/31/2003**
Net non-performing loans / Customer loans and advances (%)	2.09	1.84
Watchlist credits / Customer loans and advances (%)	1.62	1.68

Profitability ratios (%)	**9/30/2004**	**12/31/2003**
Non interest income/Total banking income	45.2	46.8
Cost/Income ratio % (excluding depreciations and amortization)	62.1	61.2
Cost/Income ratio % (including depreciations and amortization)	68.4	68.3
Cost/Income ratio % (including depreciations and amortization) (°)	67.0	66.2
R.O.E. (net equity as of end of period)	7.2	8.3
R.O.E.(*)	7.0	7.7
Adjusted ROE (%) (*)	8.6	9.5

(°) excl. Tax Collection area

(*) average net equity

Solvency ratios (%)	**9/30/2004**	**12/31/2003**
Total capital ratio %	10.5	9.9
Tier 1 Ratio %	6.8	6.5

Share data	**9/30/2004**	**12/31/2003**
Number of shares outstanding	2,448,491,901	2,448,491,901
Number of preferred shares outstanding	565,939,729	565,939,729
Number of savings shares outstanding	9,432,170	9,432,170
Ordinary share price during the year:		
- average	2.51	2.42
- low	2.30	1.93
- high	2.74	2.85

Operating structure	**9/30/2004**	**9/30/2003**	**Abs. Chg.**
Number of banking employees (end of period)	24,272	24,496	-224
Number of total employees (end of period)	26,722	27,040	-318
Number of branches in Italy (*)	1,841	1,835	6
Number of foreign branches and foreign representative offices	35	38	-3

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

MPS Group

Reclassified Consolidated Balance Sheet **(in EUR mn)**

ASSETS	9/30/2004	9/30/2003	Changes Abs	Changes %	31/12/2003
Cash on hand and deposits with central bank and post office	421	452	-31	-6.9	671
Loans:					
a) Customer loans and advances	71,276	69,802	1,474	2.1	70,405
b) Amounts due from banks	11,387	9,321	2,066	22.2	8,551
Trading Account Securities	12,231	13,749	-1,517	-11.0	14,342
Non-current assets					
a) Investment securities	3,664	3,978	-314	-7.9	3,964
b) Equity investments	2,662	2,702	-40	-1.5	2,621
c) Fixed assets and intangible assets	2,289	2,524	-235	-9.3	2,512
Positive consolidation differences & positive net equity differences	841	954	-113	-11.8	913
Own shares or quotas	9	7	2	32.7	16
Other assets	17,425	19,835	-2,410	-12.2	18,995
Total Assets	**122,205**	**123,323**	**-1,118**	**-0.9**	**122,989**

LIABILITIES AND SHAREHOLDERS' EQUITY	9/30/2004	9/30/2003	Changes Abs	Changes %	31/12/2003
Liabilities					
a) Customer deposits and borrowed funds backed by negotiable instruments	77,378	74,282	3,096	4.2	77,863
b) Due to banks	14,566	18,649	-4,083	-21.9	15,058
Reserves for specific use					
a) Pension funds	452	463	-11	-2.3	427
b) Staff severance indemnity reserve	457	402	55	13.6	430
c) Other reserves for risks and charges	732	696	35	5.1	784
d) Reserve for taxes	435	425	9	2.2	647
Other liabilities	16,980	18,012	-1,032	-5.7	16,805
Reserve for loan losses	313	368	-55	-14.9	311
Subordinated debt	4,540	3,676	864	23.5	4,475
Minority interests	36	25	11	44.4	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	60	361	-300	-83.3	61
d) Negative consolidation and net equity differences	6	23	-16	-71.9	6
e) Reserves	3,466	3,211	255	7.9	3,186
f) Profit (loss) for the year	325	272	53	19.6	443
Total Liabilities and Shareholders' Equity	**122,205**	**123,323**	**-1,118**	**-0.9**	**122,989**

MPS Group
Reclassified Consolidated Balance Sheet (in EUR mn)

ASSETS	9/30/2004	30/06/2004	31/03/2004	31/12/2003	30/09/2003	30/06/2003	31/03/2003
Loans:							
a) Customer loans and advances	71,276	71,912	69,357	70,405	69,802	70,616	67,606
b) Amounts due from banks	11,387	10,184	8,180	8,551	9,321	11,421	12,999
Trading Account Securities	12,231	13,648	14,795	14,342	13,749	14,787	15,103
Non-current assets							
a) Investment securities	3,664	3,866	3,916	3,964	3,978	4,065	4,259
b) Equity investments	2,662	2,606	2,618	2,621	2,702	2,575	2,730
c) Fixed assets and intangible assets	2,289	2,370	2,493	2,512	2,524	2,562	2,666
Positive consolidation differences & positive net equity differences	841	865	888	913	954	972	849
Other assets	17,855	17,393	20,508	19,682	20,294	21,246	24,282
Total Assets	**122,205**	**122,843**	**122,756**	**122,989**	**123,323**	**128,245**	**130,493**

LIABILITIES AND SHAREHOLDERS' EQUITY	9/30/2004	30/06/2004	31/03/2004	31/12/2003	30/09/2003	30/06/2003	31/03/2003
Liabilities							
a) Customer deposits and borrowed funds backed by negotiable instruments	77,378	78,614	75,312	77,863	74,282	74,481	73,759
b) Due to banks	14,566	13,796	15,814	15,058	18,649	21,302	23,576
Reserves for specific use	2,075	1,998	2,384	2,288	1,986	1,962	2,310
Other liabilities	16,980	17,107	18,033	16,805	18,012	20,610	20,699
Reserve for loan losses	313	318	314	311	368	363	361
Subordinated debt	4,540	4,758	4,578	4,475	3,676	3,267	3,330
Minority interests	36	34	28	35	25	23	36
Shareholder's equity	6,315	6,216	6,293	6,154	6,324	6,236	6,422
Total Liabilities and Shareholders' Equity	**122,205**	**122,843**	**122,756**	**122,989**	**123,323**	**128,245**	**130,493**

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

	9/30/2004	9/30/2003 restated	Changes Abs	Changes %	Quarterly Avg 2003	31/12/2003
Net Interest Income	**1,837.3**	**1,879.8**	**-42.5**	**-2.3**	**1,244.8**	**2,489.6**
Net commissions	982.8	963.3	19.5	2.0	657.8	1,315.6
Basic Income	**2,820.1**	**2,843.1**	**-23.0**	**-0.8**	**1,902.6**	**3,805.1**
Dividends	65.8	99.1	-33.2	-33.5	55.8	111.5
Earnings of companies valued with net equity method	70.0	37.2	32.7	88.0	15.9	31.8
Profit (loss) from financial transactions	46.8	245.1	-198.3	-80.9	115.9	231.7
Other operating income	350.4	314.8	35.6	11.3	250.5	501.0
Non Interest Income	**1,515.7**	**1,659.4**	**-143.7**	**-8.7**	**1,095.8**	**2,191.7**
Total Banking Income	**3,353.1**	**3,539.3**	**-186.2**	**-5.3**	**2,340.6**	**4,681.3**
Administrative expenses						
- personnel expenses	-1,292.3	-1,336.0	43.6	-3.3	-897.3	-1,794.7
- other administrative expenses	-789.1	-832.8	43.8	-5.3	-534.0	-1,068.1
o/w indirect taxes	117.1	115.0	2.1	1.8	86.0	171.9
Total administrative expenses	**-2,081.4**	**-2,168.8**	**87.4**	**-4.0**	**-1,431.4**	**-2,862.7**
Gross Operating Profit	**1,271.7**	**1,370.4**	**-98.8**	**-7.2**	**909.3**	**1,818.5**
Valuation adjustments to fixed and intangible assets	-212.3	-251.6	39.3	-15.6	-167.4	-334.9
Net Operating Profit	**1,059.4**	**1,118.8**	**-59.4**	**-5.3**	**741.8**	**1,483.6**
Goodwill amortization	-71.4	-77.3	5.9	-7.6	-51.4	-102.9
Provisions for risks and charges	-11.6	-76.4	64.8	ns.	-85.9	-171.8
Valuation adjustments to loans net of recoveries	-389.7	-351.9	-37.7	10.7	-341.2	-682.3
Provision to loan loss reserve	-21.6	-21.2	-0.3	1.6	-24.0	-48.0
Writedowns to non-current financial assets	-0.7	-56.8	56.1	ns.	-48.4	-96.7
Profit (losses) from ordinary operations	**564.5**	**535.2**	**29.3**	**5.5**	**191.0**	**381.9**
Extraordinary income (charges)	-50.8	-12.4	-38.4	ns.	7.0	13.9
Change in reserve for general banking risks	0.0	0.0	0.0	ns.	150.0	300.0
Income taxes	-179.9	-247.7	67.8	-27.4	-122.6	-245.2
Profit for the period before minority interests	**333.9**	**275.1**	**58.8**	**21.4**	**225.3**	**450.6**
Minority interests	-8.8	-3.3	-5.5	167.7	-4.0	-8.1
Net profit for the period	**325.1**	**271.8**	**53.3**	**19.6**	**221.3**	**442.5**

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

	Year 2004			Year 2003 restated			
	3Q04	2Q04	1Q04	4Q03	3Q03	2Q03	1Q03
Net Interest Income	**606.2**	**600.3**	**630.8**	**609.8**	**626.0**	**625.1**	**628.7**
Net commissions	310.5	326.7	345.6	352.3	318.2	359.2	285.8
Basic Income	**916.7**	**927.0**	**976.4**	**962.1**	**944.3**	**984.4**	**914.4**
Dividends	16.1	39.1	10.7	12.5	3.8	94.8	0.5
Earnings of companies valued with net equity method	17.3	32.7	20.0	-5.4	18.4	6.3	12.6
Profit (loss) from financial transactions	-28.8	-0.4	76.0	-13.4	96.4	43.2	105.6
Other operating income	127.6	116.4	106.5	186.3	104.6	98.6	111.6
Non Interest Income	**442.6**	**514.4**	**558.7**	**532.3**	**541.4**	**602.0**	**516.0**
Total Banking Income	**1,048.8**	**1,114.8**	**1,189.5**	**1,142.0**	**1,167.4**	**1,227.1**	**1,144.7**
Administrative expenses							
- personnel expenses	-424.1	-429.2	-439.1	-458.7	-437.8	-444.1	-454.1
- other administrative expenses	-265.4	-256.2	-267.4	-235.2	-279.4	-276.7	-276.8
Total administrative expenses	**-689.5**	**-685.4**	**-706.5**	**-693.9**	**-717.2**	**-720.7**	**-730.9**
Gross Operating Profit	**359.3**	**429.4**	**483.0**	**448.1**	**450.2**	**506.4**	**413.8**
Valuation adjustments to fixed and intangible assets	-69.2	-72.2	-70.9	-83.3	-83.3	-91.6	-76.8
Net Operating Profit	**290.1**	**357.2**	**412.1**	**364.8**	**367.0**	**414.8**	**337.0**
Goodwill amortization	-23.8	-23.8	-23.8	-25.6	-25.8	-29.3	-22.2
Provisions for risks and charges	-3.9	14.7	-22.4	-95.4	-20.9	-38.9	-16.6
Valuation adjustments to loans net of recoveries	-109.8	-158.5	-121.3	-330.4	-107.2	-146.4	-98.3
Provision to loan loss reserve	0.5	-13.1	-9.0	-26.8	-10.1	-2.8	-8.3
Writedowns to non-current financial assets	5.3	-4.7	-1.3	-39.9	-3.4	-52.5	-1.0
Profit (losses) from ordinary operations	**158.3**	**171.9**	**234.3**	**-153.2**	**199.6**	**144.9**	**190.6**
Extraordinary income (charges)	-4.6	-54.3	8.2	26.3	-14.1	-23.9	25.6
Change in reserve for general banking risks	0.1	-0.1	0.0	300.0	0.0	0.0	0.0
Income taxes	-56.9	-20.1	-102.9	2.4	-107.3	-56.9	-83.4
Profit for the period before minority interests	**96.9**	**97.4**	**139.5**	**175.5**	**78.2**	**64.0**	**132.8**
Minority interests	-2.0	-5.5	-1.3	-4.8	-0.8	-1.2	-1.3
Net profit for the period	**94.9**	**91.9**	**138.3**	**170.7**	**77.4**	**62.9**	**131.6**