MPS Group: results of the first nine months 2006

Net profit of Euro 687.5 million (+19.8%)

- **Steady structural growth in the key revenue components**
  - **Net interest income +4.9%**
  - **Net banking and insurance income +5.1%**

- **Operating costs well under control (+0.7%) despite non-recurring items and new branch openings during the year:**
  - ***Euro 44 million (18 million in the third quarter alone) in costs for early retirement incentives***
  - ***27 new branches and 7 new Private Centres during the year***
  - ***620 new hires of young personnel during the year. An additional 420 employees are expected to exit by year-end, against 443 who have already exited .***

- **Lower cost/income ratio: 60.7% (59.5% excluding charges related to early retirement incentives) down from 64.8% at year-end**

- **Considerable increase in the operating result (+13.5%) and in the pre-tax profit (+25.2%)**

- **Substantial increase in operating volumes**
  - **Loans: +12.1%**
  - **Direct deposits: +5.6%**
  - **Consum.it loans: +28.5%**
  - **MPS Leasing and Factoring loans: +6.7%**
  - **MPS Banca per l'Impresa placements: +14.6%**

- **Reinforcement of the sales force and increase in customer base**
  - **Back office/front office ratio of the network from 42% (at year-end 2005) to 36%**
  - **42 new financial promoters during the year**
  - **43,000 new customers during the year, 17,000 in the third quarter**

- **Sizeable decrease (-14.4% during the year) of total net deteriorated loans**

- **Improvement of the capital ratios: Tier 1 at 6.8% vs. 6.51% (year-end 2005)**

- **Active implementation of the Business Plan initiatives and positive outlook about key revenue elements of the fourth quarter**

Siena, November 9th 2006. The Board of Directors of Banca Monte dei Paschi di Siena S.p.A. has approved the MPS Group's results at September 30th 2006.

Main consolidated results[1]

In the first nine months of 2006, the **MPS Group** continued to implement its policies of development and support in order to pursue the economic, capital and structural objectives set for the year 2006.

From an operating and income standpoint, results reported growth as regards both (a) development of **assets and business performance**, combined with improvements in the positioning in the most attractive businesses, and (b) progress of the main income components, as demonstrated by the trends **in revenues** (+**5.1%** vs. the same period a year earlier), in **net operating income** – which **rose to Euro 1,129.6 million (+13.5% on the first nine months of 2005**), and in **net profit** (**Euro 687.5 million, +19.8% vs. the same period in 2005).**

Specifically, **consolidated banking and insurance income** showed:

net interest income of Euro 1,999.1 million (+4.9% vs. the first nine months of 2005, +1.3% compared to the second quarter) thanks in particular to the good growth (+5.9%) of the commercial segment, due to higher average amounts intermediated (up more than 8% in 2005).

net commissions reported rises (+0.9% with respect to September 30th 2005) to **Euro 1,334.4 million**, influenced by the lower incidence of performance fees and the lack of "account closure" fees, while reflecting the strong growth in continuing fees (+8.7% year-on-year). Additional declines were posted in income from the sale of products charged "up-front" (-30% in the third quarter vs. the two previous quarters) as a result of the relationship

[1] *For the purposes of providing a uniform representation of operations, the economic results of the Tax Collection Division, divested from 1st October 2006, are consolidated "line by line" as part of the MPS Group results.*

between "up-front" commissions and total commissions, which accounted for 5.0% in September 2006 (4% in the third quarter) down from 5.7% at September 2005.

net gain from realisation/valuation of financial assets of Euro 252.7 million (vs. Euro 163.3 million in the first nine months of 2005);

net insurance income of **Euro 102.2 million** (up 16.6% compared to September 30th 2005). This result reflects in the third quarter the recovery on the securities portfolio, already anticipated in the interim report, and generally positive trends in operations.

Among the other items forming total banking and insurance income, there were also **dividends, similar income and profits/losses of equity investments** of **Euro 43.8 million (vs. Euro 82 million in 2005).**

Overall, **consolidated banking and insurance income** amounted to **Euro 3,730.4 million** (+5.1% vs. the same period 2005); the third quarter 2006 reported one of the highest contribution of the last few quarters in terms of “structural” revenues (i.e. net of non-recurring items such as sale of investments, etc.), confirming the policy of sustainable growth undertaken by MPS some time ago.

As regards the cost of lending and financial assets, we highlight the following items.

“**net impairment losses due to loan deterioration"** of **Euro 324.4 million**, higher than in the first nine months of 2005, making it possible to increase coverage of doubtful loans.

“**net impairment losses due to deterioration of financial assets"** of **Euro 12.8 million,** which included revision of the valuation of the investment in several subsidiaries.

Consequently, **net banking and insurance income** amounted to **Euro 3,393.2 million**, with **growth of 4.6%** vs. September 2005.

Operating expenses (**Euro 2,263.7 million**) were essentially in line with 2005 figures (**Euro 2,248.9 million**), despite the expenses related to opening of 27 new branches and 7 new Private Centres during the year, payment of early retirement incentives (Euro 44 million, 18 million in the third quarter alone) and hiring 620 new young employees. However, new hires further reinforced the Group sales force (back office/front office ratio of the network fell to 36% from 42% at year-end 2005) and helped increase the customer base (43,000 new customers during the year, 17,000 in the third quarter alone). An additional 420 employees, mainly from headquarters, are expected to exit by the end of the year (excluding Tax Collection Division).

More specifically, **personnel costs amounted** to **Euro 1,435.2 million** (+1.6% YoY) and **other expense items to Euro 727.1 million** (+0.2%), **whilst depreciation & amortisation** totaled **Euro 101.4 million** (down by 8.9%).

The **cost/income ratio** inclusive of depreciation & amortisation thus decreased to **60.7%** (vs. 64.8% in December 2005) and to 59.5% after stripping out operating costs relating to demanning.

As a result of the above trends, **net operating profit** amounted to **Euro 1,129.6 million, progressing by +13.5% vs. 2005.**

As regards the breakdown by **business area,** nine months of 2006 has reported the growing contribution of the **commercial business**, which benefited from the **enhanced effectiveness of platforms specialised by customer segment and from a well-conceived relational policy**. More specifically:

Retail Banking:

- financial and insurance income: +9.4% year on year
- net operating income: +27.1% year on year
- loans to customers: +17.8% year on year

Private Banking:

- financial and insurance income: +17.7% year on year
- net operating income: +39% year on year
- loans to customers : +18.4% year on year

Corporate Banking:

- financial and insurance income +0.4% year on year
- net operating income: -2.4% year on year
- loans to customers : +6.7% year on year

Investment Banking:

- banking and insurance income: -2% year on year
- net operating income: -3.4% year on year

Pre-tax profit from continuing operations amounted to Euro 1,163 million, with growth of +**25.2%** vs 2005.

Completing the income and profit picture there were total **taxes** of **Euro 465.8 million** (vs. Euro 341.3 million in 2005) denoting a tax rate of approximately 40% (it was 37% in the first nine months of 2005), which reflects the recent changes regarding the non-deductibility from IRAP of any write downs not deducted in previous years and the non-deductibility of value adjustments made on investments in subsidiaries.

Consolidated pre-tax profit of Euro 687.5 million for the first nine months reflects an increase of 19.8% with respect to the same period in 2005. The annualized ROE comes to 13%.

Balance sheet highlights

In terms of asset and loan management, commercial operations of the first nine months of 2006 for the MPS Group translated into appreciable development of the main balance sheet items.

More specifically, **direct funding** (of approximately Euro 86.4 billion) grew by +5.6% YoY **whilst indirect funding remained at Euro 108 billion**.

This was mainly the result of the sale of **Euro 7.4 billion** in savings products, among which nearly **Euro 3 billion** in insurance premiums and more than **Euro 4.8 billion** in linear/structured bonds.

Customer loans grew by 12.1% YoY to Euro 88.8 million. This growth trend was buoyed by the domestic segment which, in terms of cash loans, increased to 10.6% (accounting for 6.2% of the market) thanks to significant growth in medium-/long-term loans (10.8%) as well as the acceleration recorded starting from the second quarter by short-term loans (10.4% YonY). There were sizeable disbursements of **mortgage loans (+0.8% YoY)** and **consumer** credit **(Consum.it) (+28.5% YoY)** while there was also an increased contribution of the other companies: MPS Banca per l'Impresa product sales grew by 14.6%, whilst the flows of MPS Leasing & Factoring progressed by 6.7% YoY.

As regards credit quality, the first nine months of 2006 ended with a significant decrease in net deteriorated credit exposure compared to 2005 (-14.4%), mainly pursuant to the reduction of watchlist loans and to past-due exposure. As regards coverage of loan risk, the incidence of write-downs on gross non-performing loans was 52.8% (in line with the year-end figure and up 51.8% vs. March 2006) whilst watchlist loans accounted for 26.4% (vs. 26% at year-end). The incidence of net non-performing loans on loans was 1.9% whilst on watchlist loans it was 1.1%. The positive flow of recoveries continued.

The capital structure of the Group was reinforced: **Tier 1 to 6.80%** against 6.51% (end of 2005).

This press release will be available on the web site at the address: www.mps.it

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INCOME STATEMENT AND BALANCE SHEET RESTATED ACCORDING TO OPERATING CRITERIA –MPS GROUP

Below we present the income statement and balance sheet restated according to operating criteria. More specifically, as regards the income statement for the two periods concerned, the main adjustments made relate to grouping of items and reclassifications to ensure a clearer reading of the operating trend.

Lastly, in order to permit uniform operating comparison also with previous quarters, the figures relating to the entire tax-collection segment have been reclassified in their respective items (Euro 2.7 million for net interest income; Euro 223.4 million for net commissions; Euro 165.5 million for operating charges; Euro 16.5 million for net allocations to the provision for risks and charges and other operating income/charges; Euro 12.7 million for current income taxes).
We also recall the fact that figures as at June 30th 2005 have been restated – compared with published figures – as per the Bank of Italy instructions introduced in the circular no. 262 issued in December 2005.

Highlights at 30 September 2006

■ **INCOME STATEMENT AND BALANCE SHEET FIGURES AND KEY INDICATORS**

MPS GROUP	09/30/2006	09/30/2005	% CHG
• INCOME STATEMENT FIGURES (in millions of euros)			
Financial and insurance income (loss)	3,730.4	3,547.7	5.1%
Net operating income	1,129.6	995.2	13.5%
Net profit (loss) for the period	687.5	573.7	19.8%
• BALANCE SHEET FIGURES AND INDICATORS (in millions of euros)	**09/30/2006**	**09/30/2005**	**% CHG**
Direct funding (2)	86,398	81,787	5.6%
Indirect funding	108,325	109,906	-1.4%
of which: assets under management	*48,407*	*48,351*	0.1%
of which: assets under custody	*59,918*	*61,555*	-2.7%
Customer loans	88,791	79,237	12.1%
Group net equity	7,688	6,637	15.8%
• KEY LOAN QUALITY RATIOS (%) (estimates)	**09/30/2006**	**12/31/2005**	
Net non-performing loans/Customer loans	1.9	1.9	
Net watchlist loans/Customer loans	1.1	1.2	
• PROFITABILITY RATIOS (%)	**09/30/2006**	**12/31/2005**	
Cost/Income ratio	60.7	64.8	
Cost/Income ratio restated according to operating criteria (3)	59.5	63.3	
R.O.E. (on average equity)	12.0	11.6	
R.O.E. (on year-end equity)	13.0	12.9	
Net adjustments to loans / Year-end investments	0.49	0.51	
• CAPITAL RATIOS (%)	**30/09/06 [a]**	**31/12/05 [a]**	
Solvency ratio	9.69	9.16	
Tier 1 ratio	6.80	6.51	
(°) determined using the Bank of Italy's prudential filters; (°°) estimated using the Bank of Italy's prudential filters			
• INFORMATION ON BMPS STOCK	**09/30/2006**	**12/31/2005**	
Number of ordinary shares outstanding	2,448,491,901	2,448,491,901	
Number of preference shares outstanding	565,939,729	565,939,729	
Number of savings shares outstanding	9,432,170	9,432,170	
Price per ordinary share:			
average	4.52	3.13	
low	3.72	2.43	
high	5.07	4.17	
• OPERATING STRUCTURE	**09/30/2006**	**12/31/2005**	**CHG**
Total head count - year-end(4)	26,479	26,542	-63
Number of branches in Italy	1,884	1,862	22
Number of branches & rep. offices abroad	36	30	6

(1) Data do not include Index linked funding, included as usual in "Assets under management".

(2) It is calculated excluding early retirement costs at 09/30/2006 (around 44,1 mln.€) and at 12/31/05 (73 mln.€).

MPS GROUP

■ RECLASSIFIED BALANCE SHEET (in millions of euros)

ASSETS	09/30/2006	09/30/2005	% chg
Cash and cash equivalents	410	415	-1.2
Receivables :			
a) Customer loans	88,791	79,237	12.1
b) Due from banks	13,434	9,373	43.3
Financial assets held for trading	41,252	47,339	-12.9
Financial assets held to maturity	4,247	4,298	-1.2
Equity investments	728	607	19.9
Underwriting reserves/reinsurers	12	9	38.5
Tangible and intangible fixed assets	3,411	3,226	5.8
of which:			
a) goodwill	*740*	*740*	*0.0*
Other assets	4,175	5,889	-29.1
Total assets	**156,458**	**150,392**	**4.0**

LIABILITIES	09/30/2006	09/30/2005	% chg
Payables			
a) Due to customers and securities (°)	92,848	88,484	4.9
b) Due to banks	23,145	16,751	38.2
Financial liabilities from trading	14,729	19,140	-23.0
Provisions for specific use			
a) Provisions for employee leaving indemnities	399	402	-0.8
b) Reserve for retirement benefits	337	441	-23.7
c) Other reserves	557	760	-26.6
Other liabilities	4,962	6,160	-19.5
Underwriting reserves	11,755	11,580	1.5
Group portion of shareholders' equity	7,688	6,637	15.8
a) Valuation reserves	637	888	-28.2
b) Reimbursable shares	0	0	n.s.
c) Capital instruments	46	46	0.0
d) Reserves	3,768	3,163	19.2
e) Share premium account	545	523	4.3
f) Share capital	2,026	1,935	4.7
g) Treasury shares (-)	-23	-491	-95.3
h) Net profit (loss) for the year	688	574	19.8
Minority interests in shareholders' equity	39	36	7.5
Total liabilities and shareholders' equity	**156,458**	**150,392**	**4.0**

(°) Data include Index linked funding stated in "Due to Customers" - "Other debts" of "Insurance Companies" (6.449 €/mln.at 09/30/06)

■ INCOME STATEMENT RESTATED ACCORDING TO OPERATING CRITERIA

MPS GROUP	09/30/2006 (°)	09/30/2005 restated (*)	CHG Abs.	CHG %
Net interest income	**1,999.1**	**1,905.0**	**94.2**	**4.9%**
Net commissions	1,334.4	1,322.1	12.3	0.9%
Income from banking activities	**3,333.5**	**3,227.0**	**106.5**	**3.3%**
Dividends, similar income and profits (losses) from equity investments	43.8	82.0	-38.2	-46.6%
Net result from realisation/valuation of financial assets	252.7	163.3	89.4	54.8%
Net gain (loss) from hedging	-1.8	-12.2	10.5	n.m.
Net insurance income (loss)	102.2	87.6	14.5	16.6%
Financial and insurance income (loss)	**3,730.4**	**3,547.7**	**182.7**	**5.1%**
Net adjustments for impairment of:				
a) loans	-324.4	-302.2	22.3	7.4%
b) financial assets	-12.8	-1.5	n.m.	n.m.
Net financial and insurance income (loss)	**3,393.2**	**3,244.1**	**149.1**	**4.6%**
Administrative expenses:	-2,162.2	-2,137.6	24.7	1.2%
a) personnel expenses	-1,435.2	-1,412.2	23.0	1.6%
b) other administrative expenses	-727.1	-725.4	1.6	0.2%
Net adjustments to the value of tangible and intangible fixed assets	-101.4	-111.3	-9.9	-8.9%
Operating expenses	**-2,263.7**	**-2,248.9**	**14.7**	**0.7%**
Net operating income	**1,129.6**	**995.2**	**134.4**	**13.5%**
Net provisions for risks and liabilities and Other operating income/costs	33.6	-36.5	70.1	nm.
Goodwill impairment	-0.3	-29.0	28.7	nm.
Gains (losses) from disposal of investments	0.18	-0.6	-0.4	nm.
Gain (loss) from current operations before taxes	**1,163.0**	**929.0**	**234.0**	**25.2%**
Taxes on income for the year from current operations	-465.8	-341.3	124.5	36.5%
Gain (loss) from current operations after taxes	**697.2**	**587.8**	**109.5**	**18.6%**
Minority interests in profit (loss) for the year	-9.7	-14.0	-4.4	-31.1%
Net profit (loss) for the year	**687.5**	**573.7**	**113.8**	**19.8%**

(°) 2006 figures include "line by line" tax collection data.

(*) Data restated on Bankit rules introduced with circular n. 262 (December 2005).

■ QUARTERLY TREND IN INCOME STATEMENT FIGURES RECLASSIFIED ACCORDING TO OPERATING CRITERIA

		2006		2005 (*)				Quarterly AVG	Quarterly AVG	
MPS GROUP	**3Q06**	**2Q06**	**1Q06**	**4Q05**	**3Q05**	**2Q05**	**1Q05**	**2005**	**2006**	**31/12/05**
Net interest income	**680.3**	**671.8**	**647.0**	**673.2**	**636.8**	**633.1**	**635.1**	**644.5**	**666.4**	**2,578.1**
Net commissions	431.4	441.2	461.8	459.2	441.0	449.9	431.1	445.3	444.8	1,781.2
Income from banking activities	**1,111.7**	**1,113.0**	**1,108.9**	**1,132.4**	**1,077.7**	**1,083.0**	**1,066.2**	**1,089.8**	**1,111.2**	**4,359.4**
Dividends, similar income and profits (losses) from equity investments	13.5	24.3	6.0	10.5	21.0	38.0	23.0	23.1	14.6	92.5
Net result from realisation/valuation of financial assets	24.4	52.1	176.3	12.0	47.0	51.7	64.7	43.8	84.2	175.3
Net gain (loss) from hedging	0.0	-2.1	0.3	-1.1	-3.7	-4.3	-4.3	-3.3	-0.6	-13.4
Net insurance income (loss)	60.6	9.1	32.4	26.0	31.6	31.5	24.5	28.4	34.1	113.7
Financial and insurance income (loss)	**1,210.2**	**1,196.3**	**1,323.9**	**1,179.7**	**1,173.6**	**1,200.0**	**1,174.2**	**1,181.9**	**1,243.5**	**4,727.5**
Net adjustments for impairment of:										
a) loans	-103.5	-113.4	-107.5	-124.7	-103.7	-109.2	-89.2	-106.7	-108.1	-426.9
b) financial assets	1.1	-11.9	-1.9	-137.7	-3.7	1.1	1.1	-34.8	-4.3	-139.2
Net financial and insurance income (loss)	**1,107.8**	**1,071.0**	**1,214.5**	**917.3**	**1,066.1**	**1,091.9**	**1,086.1**	**1,040.3**	**1,131.1**	**4,161.4**
Administrative expenses:	-729.0	-714.6	-718.6	-776.7	-723.5	-706.0	-708.0	-728.6	-720.7	-2,914.3
a) personnel expenses	-483.4	-477.2	-474.5	-519.1	-474.1	-462.5	-475.5	-482.8	-478.4	-1,931.3
b) other administrative expenses	-245.6	-237.5	-244.0	-257.6	-249.4	-243.5	-232.5	-245.7	-242.4	-983.0
Net adjustments to the value of tangible and intangible fixed assets	-35.0	-34.0	-32.5	-39.1	-37.7	-37.8	-35.8	-37.6	-33.8	-150.4
Operating expenses	**-764.0**	**-748.6**	**-751.0**	**-815.8**	**-761.2**	**-743.8**	**-743.8**	**-766.2**	**-754.6**	**-3,064.7**
Net operating income	**343.8**	**322.3**	**463.5**	**101.5**	**304.9**	**348.0**	**342.2**	**274.2**	**376.5**	**1,096.7**
Net provisions for risks and liabilities and Other operating income/costs	9.5	23.0	1.1	63.5	-6.4	-12.6	-17.6	6.8	11.2	27.0
Goodwill impairment		-0.3		0.0	0.0	-14.5	-14.5	-7.3	-0.1	-29.0
Gains (losses) from disposal of investments	0.01	0.16	0.01	1.10	-0.56	-0.02	-0.02	0.1	0.1	0.5
Gain (loss) from current operations before taxes	**353.3**	**345.2**	**464.5**	**166.2**	**298.0**	**320.9**	**310.1**	**273.8**	**387.7**	**1,095.2**
Taxes on income for the year from current operations	-143.2	-138.8	-183.8	59.7	-92.3	-106.8	-142.2	-70.4	-155.3	-281.5
Gain (loss) from current operations after taxes	**210.1**	**206.4**	**280.7**	**225.9**	**205.7**	**214.1**	**168.0**	**203.4**	**232.4**	**813.7**
Minority interests in profit (loss) for the year	-2.7	-3.8	-3.2	-9.4	-4.5	-4.7	-4.7	-5.9	-1.5	-23.5
Net profit (loss) for the year	**207.4**	**202.6**	**277.5**	**216.5**	**201.3**	**209.3**	**163.1**	**197.5**	**229.2**	**790.2**

(°) 2006 figures include "line by line" tax collection data.

(*) Data restated on Bankit rules introduced with circular n. 262 (December 2005).

■ SEGMENT REPORTING -

(mln.€)

09/30/2006	**Retail Banking**	**Private Banking**	**Corporate Banking**	**Investment Banking**	**Other Sectors**	**Corporate Center**	**Subtotal**	**Tax Collection**	**Total**
INCOME AGGREGATES									
Financial and insurance income (loss)	**1,506.0**	**101.7**	**1,372.5**	**294.0**	**182.5**	**47.6**	**3,504.4**	**226.1**	**3,730.4**
Net adjustments for impairment of loans and financial assets	-97.9	-0.2	-226.5		-7.9	-4.7	-337.2		-337.2
Operating expenses	-909.0	-50.5	-734.1	-76.6	-135.3	-192.7	-2,098.2	-165.5	-2,263.7
Net operating income	**499.1**	**51.1**	**411.8**	**217.4**	**39.4**	**-149.8**	**1,069.0**	**60.6**	**1,129.6**
Capital aggregates									
Customer loans	23,396.0	409.8	50,149.4	22.6	9,020.5	4,099.4	87,097.6		
Due to costumers and securities	* 37,672.5	3,227.9	18,918.1	173.5	12,148.8	14,257.7	86,398.4 *		

(*) The balance sheet figures do not include index-linked funding, included as usual in the aggregate "assets under management".