MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

MPS BANKING GROUP

BANCA MONTE DEI PASCHI DI SIENA SpA

2006 CONSOLIDATED
FINANCIAL STATEMENTS
MONTE DEI PASCHI DI SIENA BANKING GROUP

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MPS
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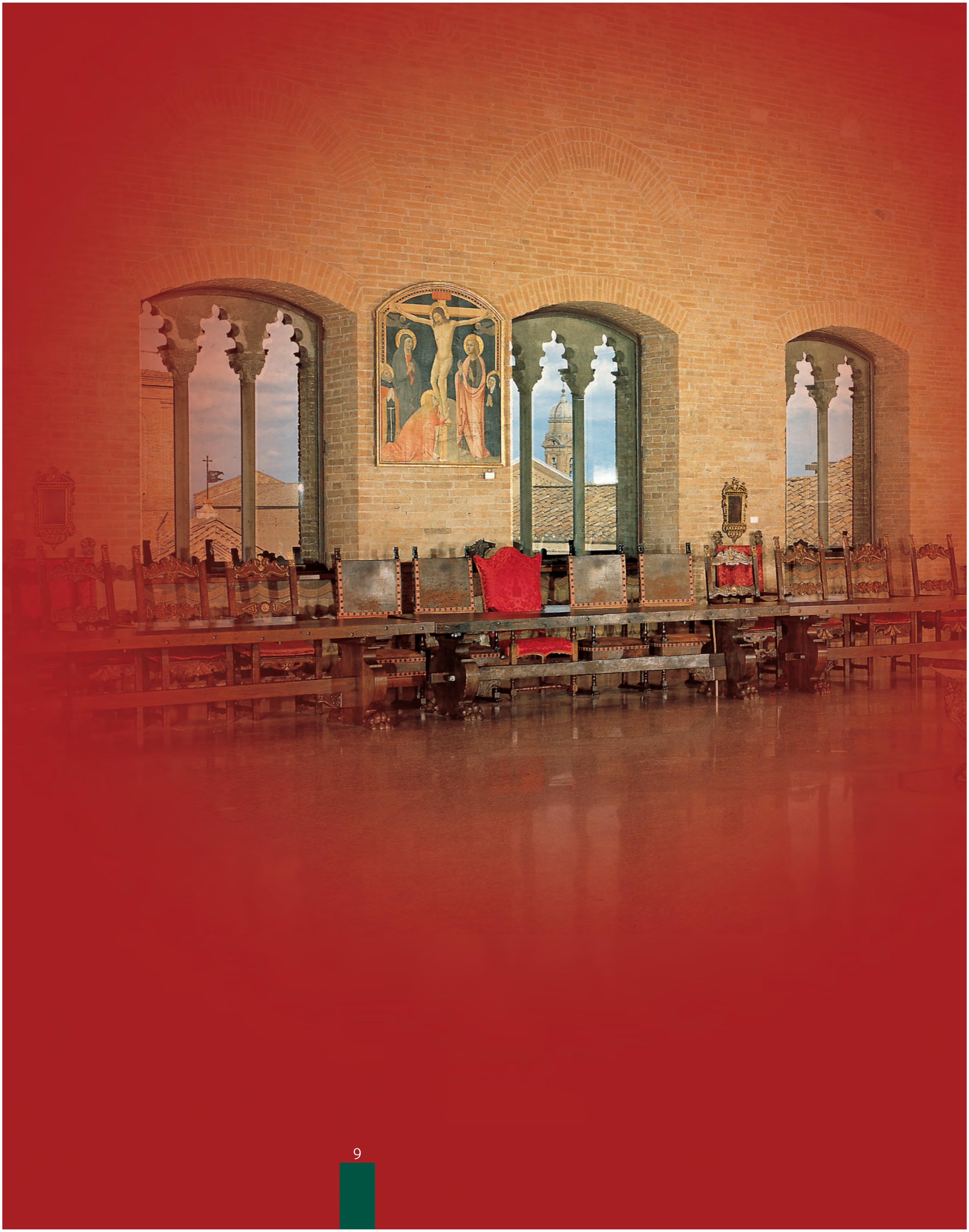

LETTER TO THE SHAREHOLDERS

The year of 2006 was very important and positive, but also challenging and complicated, for the Bank and the MPS Group.

Against a rapidly and continuously developing backdrop which was characterized by growing competitiveness, the gap between the best players and the worst players increased and lack of efficiency and excellence increasingly implied the risk of leaving the stage.

In reply to this challenge, Monte dei Paschi di Siena clearly felt the need of "changing step".

The 2006-2009 Business Plan codified the strategic guidelines for the development of a new path of growth focused on our basic mission of creating value in a sustainable way.

The Plan is strongly oriented to achieving efficiency and increasingly important commercial results, in the awareness that sharp actions on operations will be required in order to achieve them.

The Plan was appreciated by our shareholders, first of all Fondazione Monte dei Paschi, and by the market.

The Plan was based on a very global view of the MPS Group which has represented a steady point of reference for the definition of different roles and objectives, involving the constructive participation of all interested parties with promptness, professionalism and enthusiasm.

Thus, the events, facts and figures, the best ever experienced, indicated in the 2006 Annual Report have a particular meaning . In the second half of 2006, the whole Group, and especially the commercial networks, were required to operate on the basis of particularly challenging objectives and were involved in a deep reorganization which has not been completed yet.

The new Business Plan is not only a mere reaction to present events, as a result of which we would lag behind our best competitors. It rather results from our will to anticipate change before it occurs, in light of any innovations necessary for the banking industry and in view of the global, domestic, economic and social trends emerging during the historical phase we are living.

As a result of the commitment and dedication of all of us, the foundations of a project were laid down in 2006. The MPS Group's Management risked compromising its own credibility on this project, so that the Bank and the MPS Group may play a prominent part today and in future, and be ready to face any challenges and transform them into growth opportunities due to their innovation capacity.

The new Board of Directors and the new CEO of the Parent Bank were appointed in 2006, when the Top Management team was reshuffled and many employees with high seniority left the Bank.

As the Chairman in office as of 30 April 2006, I wish to thank Fondazione for proposing me for Chairman and the Shareholders for the responsibility they entrusted me with. A note of thanks also goes to the Chairman, Mr.Mancini, and Mr.Parlangeli for their loyal and helpful support during the last few months. It was important for us to feel that Fondazione and the Bank's major shareholders strongly shared our views and values and never failed to support and continuously encourage us in our way to excellence. Let me also extend my thanks to all those who handed over the baton, because it would have been impossible to prepare an Annual Report like the one we are submitting to you today, without their legacy.

We are aware that there is still much to be done: as our target for 2009, we intend to double 2005 profits. There are no shortcuts to do it, but only one solution, namely sheer hard work.

The 2006 Annual Report proves that the ambitious targets we have set will be undoubtedly achieved if all of us are unequivocally result-oriented.

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The year of 2006 was also featured by the important dynamics which have characterized the global scenario for a long time.

The integration of the commercial and financial markets strained the competitive capacity of the western economies.

The increase in migratory flows created new brackets of population with specific characteristics and requirements in mature societies and triggered integration problems, but also growth opportunities as a result of the decline of demographic indices.

The deterioration of energy issues and climatic changes challenged the capacity of matching sustainability with economic development.

These high-profile issues might seem faraway from the papers usually accompanying a corporate annual report. However, they also have major repercussions on a large banking institution such as Monte dei Paschi.

As a result of the global opening of the markets, the international presence of many of our companies became strategic. That is why they require specific support from the banking industry. The new Business Plan of the International Banking Area of Banca MPS aims to achieving a leading position in international trade finance in support of the projects of international expansion of the Italian SMEs.

The capacity to recover competitiveness of Corporate Italy is based first of all on innovation. In this regard, the banks can play a major role in support of business initiatives, but also in partnership with the public sector. For instance, in 2006 MPS was committed to the project of the Biotech Park of Siena, and participated in the incorporation of Biofund SpA, the seed capital company.

This is how we materially intend to prove that it is possible to interpret the Bank's role in an innovative way, as the driving force of development and "virtuous" support to economy. By so doing, the Bank matches traditional lending business and innovations with a focus on valuable ideas, projects, professional skills, the quality and the quantity of the relations which come into play.

In addition, the migratory flows also gave business opportunities, in terms of products promoting bank inclusion and creating value to the customers and the Bank, not only with reference to basic services. In 2006 the Bank carried out "Paschi Senza Frontiere" (No frontiers), an initiative which proves the Bank's material commitment to meeting new fast-developing needs.

The prices of raw materials and energy are inevitably bound to increase with the passing of time. The streamlining policies of consumption and environmental impact will increasingly represent an important competitive instrument in relation to costs, and a promotional tool.

Corporate Social Responsibility – and focus on the environment which represents a salient element - is so important for our Group that we have prepared a specific reporting paper, the Socio-Environmental Report, which was awarded the "Oscar prize for the best economic, social and environmental reporting" for its latest edition.

These changes intermingle with economic development, characterized also in 2006 by positive economic trends. The world GDP rose by more than 5%, still driven by the US (though slowing down) dynamics and the continuous growth of China and India at a very brisk pace.

The GDP in the Eurozone showed a considerable acceleration (from +1.4% in 2005 to 2.6%), with a good economic and financial balance. Eastern Europe recorded high growth rates, approximating 6% in Russia and Poland.

High global economic growth was flanked by moderate inflation rates and historically low long-term interest rates.

However, the operating backdrop remains uncertain and unstable due to geo-political conflicts, the volatility of the energy market, the advent of new economic powers in the international scenario, persistently old but topical poverty and, in view of the present situation, the deteriorating cleavage between haves and have-nots.

Africa – which is the source of raw materials and low-cost manpower – is the symbol of the world economic imbalance and poverty. The economic growth rate of the continent –

around 5% also in 2006 – ignores very low absolute income levels and, on average, does not take account of existing injustice and dramatic situations. Africa's share of the global GDP comes to 3.4%, with the African population accounting for almost 13% of the world's population.

This imbalance causes heavy losses of human lives, insecurity and destroys brains and massive tangible and intangible wealth.

International trade expanded by more than 8%, which is higher than the average level reached in the five years going from 2000 to 2005, with global export market shares being remixed in favour of new emerging economies.

Unfortunately, the global imbalance of external payments progressed further. 30% of the US trade deficit – which reached 6.6% of the GDP – results from trade exchange with China, which now holds about 45% of the US Treasury bills together with Japan.

In addition, derivative instruments and debt-funded acquisitions – mostly led by private equity players – developed rapidly, with the market for these transactions virtually doubled in 2006. New players and new instruments ranging from hedge funds to credit default swap became more and more widespread.

Therefore, financiarization is a rising phenomenon, as a trend which consolidates the role of finance but opens up new challenges to stability. The financial industry proved to have a good crisis reaction capacity. However, no alarming signs should be ignored and it is necessary to support any initiatives not to prevent but to govern a process which otherwise might limit development. Financiarization separate from the growth of real economy might contribute to dangerously cumulated unexpressed risks, which cannot be quantified easily. There is actually an underlying concept: the real antidote to any hypothetical devastating crisis is the rational and necessary correlation between two worlds, the world of finance and the world of labour, production, investments and consumption.

Italy proved to be dangerously slow in reacting to the new challenges. Globalization compromised the competitiveness of Corporate Italy, but in the long run it also encouraged a natural process of corporate selection and structural conversion, with the emergence of the companies which were able to introduce innovations and/or develop.

The results of this process were also evident from the standpoint of economic trends. In 2006, the GDP resumed its growth (+1.9%) at a pace higher than the expected existing potential growth rate, estimated at about 1.5%. Economic recovery was driven by investments and especially by exports, which increased by 5.5% and 8.8% in terms of volume and value, respectively. This confirmed the gradual shift toward higher value-added production. The increasing penetration of our goods in the foreign markets reduced the impact of the energy deficit and contained the erosion of our international trade share.

However, the growth of Italy is lower than in the rest of the EU, partly due to structural, regulatory and fiscal constraints which still affect the global efficiency of economy, and determine a tendential disadvantage in comparison with productivity levels.

In 2006 the process of consolidation of the banking industry was resumed and speeded up by the recent, well-known aggregations. Against a competitive international backdrop which is expanding at least at the European level, the banking industry was also involved by outstanding cross border transactions. Italian banks purchased investments in foreign banks, mainly in eastern Europe, in an amount topping EUR 4 billion. The BNL/BNP transaction accounted for almost EUR 9 billion on its own.

In 2006, the banking business was characterized by the appreciable development of lending and funding, the decline of funds under management and growing focus on the quality of services rendered to the customers in a scenario of major changes also from the regulatory viewpoint.

Bank competition between the players increased as evidenced, in particular, by the difficult shift of any increase in the official interest rates to the banking spread. The average interest rate on short-term corporate loans climbed by 1% - if considering the low registered in november 2005 and the value recorded at the end of February – with respect to an increase in official interest rates of 1.5%.

The accelerating growth of lending (from 8.3% in 2005 to 9.9%) was mainly determined by high corporate demand for short-term loans associated with increasing business. Besides, the demand for medium-/long-term loans increased (+9.7%), in line with the demand for funds to be used for fixed investments. The demand for restructuring transactions slightly reduced in comparison with the total, with mergers and acquisitions remaining steady.

With reference to credit quality, in a scenario where the ratio of global NPLs to total loans decreased from 3.7% to 3.4% partly due to the assignment of doubtful outcomes; the weight of new NPLs to corporate loans in 2006 was steady around 1.1%, as registered in the previous two years.

In reply to evolving customers' requirements, the banks gave strong momentum to their capacity of supplying services and advisory services (i.e. corporate finance, private equity, investment banking, M&A, assistance to international expansion, risk management instruments).

This contributed to improve the quality of bank-corporate relations. In the mid '90s, only one quarter of loans had a maturity of over 5 years. Today this percentage approximates 40%, multiple exposures have decreased and most small businesses have business relations with only one bank.

The trend of retail loans – although showing a slowdown which reflects the declining growth of real estate prices and increasing interest rates - was positive, both in relation to mortgage loans and consumer credit. The volume and the charges for debt service in relation to disposable income are 46% and 7%, respectively. These percentages are still modest in comparison with the EU average and confirm that the Italian banks can expand further in these areas. The weight of new NPLs to retail loans was limited, around 0.8% (0.7% in 2005).

After the decline experienced in the last decade, private savings – in terms of impact on income – stabilized at high levels. Italian households are among the “thriftiest” in the world.

Disillusionment and disappointment suffered in the last few years influenced the attitudes of the investors who – after the peak in the diffusion of funds under management and directly-owned equities registered in the period bridging the late ‘90s and the early 2000s – are now biased toward liquidity and real estate, with growing emphasis on the relation between costs and the actual capacity of fund managers to create value added.

This situation is confirmed by the data for 2006: the households mainly invested in financial instruments characterized by moderate risk and return levels. In the meantime, the size of innovative segments – though still limited – increased. In the last two/three years the only categories of mutual funds which showed positive net flows included opportunities funds and hedge funds.

In the last few years the banks took many steps forward in terms of product innovation with the objective of meeting changing customers’ needs.

From this viewpoint, a business area which apparently has a particular development potential is the area of welfare plans. As a result of the demographic trends which, excluding immigration, are indicative of additional future ageing of the population, the early enforcement in 2006 of the welfare reform boosted the sector of pension funds, with the banks playing a prominent part.

In this area, just like in all other business areas, the banks shall face customers who are more and more mature, demanding and discriminating, require customization and, at the same time, are offered a wide range of products, easily accessible through modern distribution structures. Bank customers prove greater discretion in their choices and forget dated subordination and dependence.

The banking industry was also involved by major regulatory actions, which were already set or are being set, including (i) Basle 2 which better matches the banks’ risk profile and their capital requirements; (ii) the law in relation to the protection of investments which pursues objectives of greater transparency and the protection of retail customers and minority shareholders; (iii) the European Directive on financial markets (Mifid) which will be enforced in November 2007 and will have a strong impact on the banks’ organization structure and commercial strategies.

The recent legislative measures adopted in Italy in relation to deregulation massively involved the banking industry. Just think of the rules concerning the ius variandi, closing fees and mortgage loans. The underlying objective of increasing competitiveness in favour of retail and corporate customers and consumers’ protection can be shared totally.

The financial community feels the need of other regulatory initiatives, now required, which incorporate the reform of bankruptcy crimes, urgently needed due to the malfunction of the relative penal regulations (going back to the early ‘ 40s) and the renewed bankruptcy law. It is necessary to give certainty of law to the crucial loan disbursement business and put the banks in a position to play their role during corporate crises.

With reference to the reforms approved and the measures not yet passed by the Parliament, two aspects are baffling. Firstly, the binding determination of contractual clauses which are partly justified by the different weight of the contracting parties but cannot replace the free law of supply and demand , especially when enforceable regulations oblige one of the parties to take a risk, failing an appropriate remuneration (as in the case of the elimination, if any, of maximum overdraft bank charges). Secondly, the environment where these measures are designed and debated. The Italian banking industry played a crucial role in the current economic recovery, and not only in relation to the transactions with large industrial groups (i.e. Fiat, Lucchini, Piaggio etc.) but also, and above all, to the numberless initiatives in support of small and medium-sized enterprises, despite the difficulties and the impediments created by 60-year-old regulations to those who intend to support the companies during their crises with an entrepreneurial spirit. This climate is neither understandable nor shareable. The time has come to fill the competitive gap between our country and the European Union countries, in fiscal and regulatory terms. Efficiency is a problem of the corporates which might be solved only in an efficient and fast institutional environment.

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Against this backdrop, in 2006 the Bank and the MPS Group achieved excellent results in 2006. Net profit hit a historical high at more than EUR 910 billion (+20.8% with respect to 2005), the ROE climbed to 13.3% and BMPS shares closed the year at EUR 4.91 (as of 31 December 2006 + 24.4% with respect to the beginning of the year and +86.7% in comparison with January 2005), thus outperforming the market and the banking industry.

The dividend recommended (EUR 0.17 per share) is the highest ever distributed, which is three times as much as the dividend of 2003, with a 31% increase with respect to 2005. This means a return of 3.5% on last Friday’s price (EUR 4.923).

These figures are indicative of the growth of the major income items, increasing operating volumes, effective cost control policies, monitoring of credit quality and capital management.

These figures result from the commitment and dedication of all employees and the Management’s skill of working together, like a real team.

These figures prove that the actions of the MPS Group are driven by market logic, the creation of value and return on capital.

These figures increasingly focus on the interest of all stakeholders, including the shareholders, the customers, the employees, society, the environment and the Country.
This is our way to match the public interest and proper corporate management, without

having any general mandate. Meanwhile, any economic agent must have his/her own Country's interest at heart, in accordance with his/her interpretation of the role he/she plays. In our case, this implies the awareness that the energy of thousands of people can be employed for the purpose of modernizing our financial system, and consequently the Italian entrepreneurial fabric, if such an effort is completely made within what we conveniently define as "public interest".

As a result of the management policies adopted in 2006, income advanced - with Net Operating Income rising by 40% to EUR 1,279 million - and efficiency increased with the cost/income ratio standing at 60.9% (64.8% in 2005). The creation of value, as measured in terms of Annual Value Added (AVA), came to EUR 280 million, with a Raroc of 10.8% considerably improving in comparison with 8% in 2005.

The commercial results achieved in 2006 confirm the Group's share in the main business segments, its growing presence in some strategic business areas and the growth of the customers' base, with about 52,000 new customers and a total of more than 4,513,000 customers.

With a view to attracting new customers and effectively managing customers' relations, the continuous development of the distribution channels is of paramount importance. The Group made huge investments in distribution channels in a logic of improvement of service levels for the purpose of consolidating the front office in the smaller branches and transforming the branches into a multi-channel centre of customers' relations.

It is therefore crucial to further develop the use of remote-distance channels, which already represent an element of excellence of the MPS Group. The distribution model is developing in the direction of a mix of modes of customers contact, where the branch represents the core of supply characterized by greater competence, specialization and customization. Remote-distance channels imply large numbers and operations with a higher standardization and automation rate.

With reference to the management of funds, the MPS Group's attractive results incorporate the placement of new products which topped EUR 8.5 billion, though in light of the criticalities emerging in the area of funds under management which involved the whole banking industry. The MPS Group confirmed to be one of the bancassurance market leaders, with an 8% share of the flows of new global production and an excellent position in relation to traditional insurance policies (12% market share).

The Group's global funding – which is higher than EUR 193 bn – benefitted first of all from the buoyant trend of direct funding. Such aggregate (with a market share of 6.5% virtually in line with the beginning of the year) registered a strong progress (7.2% on a yearly basis) partly due to the liquidity resulting from indirect funding. Indirect funding actually declined both in relation to funds under administration and funds under management, with the Networks continuing to re-allocate funds to higher value added investments, but always in compliance with the customers' risk profile.

As regards the credit market, in line of continuity with prior years, the guidelines of our commercial policy were oriented to finding the proper balance between the supply of an appropriate financial support to entrepreneurial initiatives and the utmost rigour and selectivity in risk assessment.

Lending almost reached EUR 92 billion, with a 10% increase with respect to 31 December 2005. This trend was driven by the domestic component which advanced, in terms of good loans, by about 10.4% (with a market share of roughly 6.3%). In this sector, the development of the aggregates in relation to consumer credit and retail mortgage loans was particularly positive.
The Group's market share went from 7.1% to 7.3% with respect to retail mortgage loans and climbed from 4.5% to 5.1% with reference to consumer credit disbursements.

The progress of lending was flanked by the improvement of credit quality, as evidenced by the sizeable reduction (-13.6%) of the amount of net impaired loans and the ratio of net NPLs and watchlist credits to customer loans (from 3.2% to 3.9%), in addition to increasing risk coverage (from 33.3% in 2005 to 38.7% in 2006).

Said trends resulted in an appreciable development of income components, first of all "core" components (i.e. interest income and customers' commissions) which advanced by 3.4% on a yearly basis, with a sharply accelerating contribution in the fourth quarter (+5.7%). Interest income totalled about EUR 2,714.2 million (+5.2%), with net commissions coming to EUR 1,491 million approx. (+0.3% with respect to 31 December 2005).

Rounding out the picture of the Group's profitability is the aggregate of dividends, similar income and Profits (losses) from equity investments which amounted to EUR 43.8 million (EUR 92.1 million as of 31 December 2005) and net profit/loss from trading/valuation of financial assets stood at EUR 530.6 million (EUR 175.2 million as of 31 December 2005).

In 2006, net value adjustments for loan losses came to EUR 461 million (+43.9 million with respect to 31 December 2005) with a provisioning rate of about 50 bp which consolidates the quality improvement of the Group's loan portfolio. Net value adjustments for losses on financial assets showed a negative balance of EUR 125.4 million, mostly due to the updated valuation of the investment held in Hopa (writedown in the amount of roughly EUR 104 million).

The aggregate of operating expenses reflects the initiatives undertaken late in 2006, in relation to the early implementation of the Business Plan, in particular higher costs for early retirement plans and investments in technology, new branches, communications and advisory services. However, operating expenses recorded a moderate growth (+2.6%) due to the initiatives aimed at the structural containment of expenses, rigourously carried out also in 2006.

A positive contribution to these results came from all Business Areas. In particular, the Net Operating Profit of Commercial Banking rose by 5.1% with respect to 31 December 2005.

The cost/income ratio stood at 59.6% (60.4% as of 31 December 2005) with a 27.8% Raroc. The Net Operating Profit of Private Banking progressed remarkably (43.4%), with the cost/income ratio going down to 54.6% (from 62.9% in 2005) and a 30% Raroc. The Net Operating Profit of Corporate Banking jumped by 3%, with a cost/income ratio of 51.8% (51.6% in 2005) and a Raroc of 11.8%.

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As already hinted at, the results of operations for 2006 are also determined by the trends of the second half-year, with the start of the new Business Plan – approved on June 26. The Plan focused on the achievement of commercial excellence and first-class customers' relations with the objective of optimizing profitability and value creation for the shareholders, though playing the role of point of reference for all stakeholders. The Business Plan was pivoted on (i) strategies oriented to the development of the business model and the consequent restructuring of the organization and distribution structure, (ii) actions of restructuring and efficiency boost, (iii) active risk management and (iv) capital optimization.

The 2006-2009 Business Plan is based on the assumption that the Italian banking market still has an unexpressed potential, emerging from the comparison with our major European partners (for instance in the areas of mortgage loans, consumer credit, life and property casualty insurance, private banking).

The Plan intends to seize these business opportunities also through a different approach to customers' service. This approach should be hinged on a segmentation which takes account of two aspects in an integrated way: (i) traditional segmentation by income brackets, but also (ii) segmentation in relation to the ladder of needs, for the purpose of identifying more standardized (and, at the same time, mobile) customer clusters in order to be able to better monitor the customers' developing requirements and possibly anticipate any changes.

All aspects of the Business Plan comply with two apparently abstract general principles, time and space. Actually, there is nothing more tangible than our customers' time and space, and the time and space which separate us from them. There is nothing more tangible than the will to anticipate the changes we are facing in time and space.

In the second half of 2006, a new communications strategy was defined in relation to the Business Plan objectives, including more continuous and effective media relations and the development of some instruments which had not been used enough, so far. That is why the scope of competence of the Communications Area was re-designed and expanded, including sponsorships, corporate social responsibility, in-house corporate communications, Internet issues, with satisfactory results in a short time.

The work carried our in the last few months of 2006 included, inter alia, the planning of an effective TV-broadcasted institutional campaign from early March 2007, and the review of the MPS Group's website, which is deemed to be by far one of the best bank sites on the basis of accessibility, transparency and information completeness.

Marketing issues are flanked by efficiency. The Business Plan contemplates a cost/income target of 51%. It is one of the most difficult targets, because we cannot achieve it by simply cutting costs indiscriminately. We would obtain prompt but short-lived results, because they are detrimental to the Bank's development prospects. It is necessary to focus on both components of the cost/income ratio, eliminating any unproductive costs but making all investments required to support income growth.

This point should be clear, since the only impediments we will find in the achievement of the results of the Plan will stem from the limits of our skills. We have repeatedly and clearly stressed that there is no "Sienese" factor of opposition to changes, or even worse, something which obliges us to be inefficient. The Bank's geographical franchise - which is undoubtedly rooted in Siena, but also in the domestic market – is a competitive factor in itself. It is up to the Board of Directors, the Management and our personnel to convert it into efficiency and entrepreneurship.

The Plan is also oriented to the consolidation and streamlining of the distribution network in quantitative (consolidation of the geographical presence and migration of low-potential branches) and qualitative terms, with massive investments in human resources training and retraining. About 200 branches (150 new branches and 50 migrations) are expected to be opened in four years in geographical areas with a high income potential for the purpose of expediting the acquisition of new customers, expected to increase by 470,000 units during the term of the Plan. In addition to business development initiatives, the Plan outlines actions of efficiency boost and restructuring which imply an expected net staff decrease of about 10%.

This action was first taken in 2006 and will be further implemented in 2007.

The new Business Plan also contemplates that the Bank's resources are readily used in support of business. Hence, special emphasis is placed on risks, the cost of credit and the pressing streamlining of strategic equity investments and fixed assets in general, for the purpose of freeing up capital. From this viewpoint, we followed the repeated suggestions of our shareholders and the market, and will further develop them in 2007.

The implementation of the above requires two kinds of instruments, and in particular the instruments directly concerning the employees, the way they are rewarded and the way they play their role within the Bank.

Therefore, it is necessary to focus on the quality of work, the corporate capacity to meet individual ambitions, the transparency and traceability of career paths, the capacity of offering a proper, comfortable and pleasant workplace, rather than benefits.

We can win the competitive challenge we are facing only with the employees' strong commitment, which does not only stem from economic benefits or dull, rigid attitudes, but mainly from a shared plan and growth prospects.

Today the corporate loyalty of our employees, which is a salient characteristic of MPS, merits greater innovation. We have resolutely created a system based on transparency and merit, as the only applicable standard of evaluation. In this framework, we shall take account of employees' aspirations and skills, their willingness to co-operate and get involved, in order to improve and follow appropriate professional paths. It would be strange if a company which intends to stand out in a competitive market disregarded the principle of merit in the training, development and selection of its Management.

This is flanked by some considerations on the rewarding system. In this regard, the Plan makes references to clear objectives of creation of value, eliminating any automatic career upgrades, both for the Management and other employees, in view of their different tasks and responsibilities.

There are also organization and marketing instruments. We are aware that today we are not yet able to always provide our customers with the best existing products. The Plan actually focuses on excellence in the distribution and selection of product factories, in light of the opening of our commercial structure and the valuation of joint ventures with specialized players.

One of the major points of the Business Plan is based on the assumption that the model of a bank which distributes only the products it produces has clear limits and, as the most effective solution, the Bank should limit its production to the activities it excels in. In a logic of customer satisfaction, supply shall embrace the best available products, at the lowest cost and in compliance with the customer's risk profile.

The implementation of the Plan started earlier than expected, partly because some results had to be achieved in a short time to give credibility to the Plan itself and the new Management which had to carry it out.

In a few months, we achieved the Plan target based on the reduction of equity investments and the consolidation of capital ratios, revolutionized the sales and marketing structure, boosted operations efficiency, reorganized our geographical presence and completed personnel turnover.

In this regard, I should thank all employees and the Management for their efforts, and in particular our CEO, Mr. Vigni, and his team. Let me also extend my thanks to Mr.Menzi who supervises operations, costs and lending and in a short time succeeded in implementing a new organization model radically changing the bank's presence in the territory; Mr.Morelli who is working in the Corporate area and has to fill the gap which separates the Bank from the best market players in a short time, while he finalizes major strategic transactions; Mr. Romito who is reorganizing the Wealth Management area and gave a valuable contribution to the execution of the joint venutre with Axa; Mr. Barbieri who completed the integration of the small business segment in the retail platform and is now working at designing new products and identifying new channels.

We could have spread this effort over a longer period – perhaps in the short time it would have been easier to manage changes and ensure the smooth running of operations, in particular commercial operations. However, we thought that all of this would have become a disadvantage in the medium term. As a matter of fact, competition is becoming tougher and the operating backdrop would not have justified a wait-and-see attitude.

Thus, it is important to highlight some significant parts of the new Business Plan which were already implemented a few months after it was started.

Commercial operations have been reorganized and business models have been redesigned on the basis of three areas: (i) Commercial Banking and Distribution Network, with the expansion of the commercial scope of action and the extension of the “Carattere” and “Family” platforms, (ii) Private Banking and Wealth Management, with the streamlining of the processes of asset allocation and selection of products, also third parties’ products, and possible strategic alliances, (iii) Corporate Banking and Capital Markets, with the direct and centralized management of key clients, the development of international business, the project of integration of MP Banca Impresa and MPS Finance.

The restructuring project of international business was designed in compliance with the guidelines focusing on (i) the support to the international expansion of domestic customers, (ii) the repositioning of our presence in the geographical areas with expected greater development and (iii) the streamlining of the existing network.

As already hinted at, the new model of geographical presence based on Geographical Areas has been implemented and the Branch Plan has been carried out, with the opening of new branches and the increase in the number of SME Centres and Private Centres.

The network was consolidated partly due to the measures adopted with the objective of reducing and rejuvenating human resources. At the end of 2006, the MPS Group personnel numbered 24,348 staff units, with a decrease of 2,194 units with respect to 31 December 2005, also resulting from the sale of the tax collection business as of 1 October 2006. Meanwhile, human resources were re-distributed and remixed in support of the Networks, where the workforce grew by about 960 employees on a yearly basis, with a consequent decline in H.O.units due to the centralization of non-core business at the Parent Bank. The ratio of back office /front office resources dropped to 32% (42% as of 31 December 2005).

The absolute number of executives was reduced by 87, with the executives/total employees ratio going down to 2.2%. This percentage is close to the industry average and implies structural benefits in terms of personnel expenses, effective 2007.

All of this would not have been possible without the decisive contribution of the Human Resources Area, the understanding of the Unions and the extraordinary commitment of all employees, who were involved in a very significant process of change in quantitative and qualitative terms.

As a result of the major capital management transactions executed with the contribution of the CFO, Mr. Pirondini, and his unit, the portfolio of strategic equity investments was streamlined and capital was freed up for a more remunerative use in the core business and new growth opportunities. In addition, the equity investment (1.583%) held in Assicurazioni Generali was sold and a 14.8% stake held in Finsoe was disposed of.

We are therefore facing a deep reorganization and we did succeed in implementing it and continuing to produce good results. With this in mind, we have to properly plan a path of continuous and steady growth, which led us from past history to our present situation, and will lead us to what we intend to become in future.

The 2006-2009 Business Plan stemmed from an in-depth analysis which highlighted some of our gaps in comparison with the market. The objectives of 2009 are indicative of our will to realign ourselves with our best competitors.

It is an ambitious plan based on the instruments provided for by the Business Plan. We shall be good at making the best of these instruments, not only for the purpose of improving ourselves, but also to persuade our customers that we are able to offer "something more". Our customers' opinion and the market judgement shall irrevocably test the quality of our actions.

However, we still have a long way to go. We have to look forward and be ready to change course if necessary, with no second thoughts or uncertainties. There are actually many signs and material evidence to show that we embarked on a positive path.

A special mention goes to the MPS Group banks and in particular the MPS network, which is supervised by Mr. Marino and represents the real vital core of our banking group, with growth rates clearly higher than the Plan estimates. BAM has pursued its positive performance and Banca Toscana has started to show positive signs of recovery after a far from easy period, following a radical managerial reshuffle.

The figures for the first months of 2007 show an increase of about 50,000 customers, slightly lower than the number of customers acquired in 2006, thus confirming that the Group is following a virtuous path of growth, solidly based on actual elements which anticipate further positive developments. This consideration is also confirmed by the global improvement of market ratings, such as S&P's upgrading of the outlook of Banca Monte dei Paschi di Siena, Banca Toscana and Banca Agricola Mantovana from "stable" to "positive". This indicates the gradual improvement of our Group's profitability, in addition to Moody's recent upgrading of the Parent Bank's long-term debt rating from a1 to aa3.

A major transaction (it cannot be defined differently) was also finalized early in 2007. The long-term strategic partnership with Axa establishes a system of relations with a leading international insurance company, and opens up a world of opportunities to Monte dei Paschi.

It was the best possible agreement, both from the industrial and financial viewpoint, with the best partner and at the best price.

In Italy deep innovations have to be introduced in the bancassurance market, the welfare market is to be explored, and the life and non-life property casualty market still offers many opportunities for growth to the banks.

This joint venture will represent the only platform of Axa in Italy (excluding its present scope of action) in relation to the welfare business and for the purpose of expanding its activity to non-captive networks. It is also a starting point for exploring new opportunities, also abroad. Pursuant to the agreement, we will be entitled to distribute our banking products to the existing Italian customers of Axa (about 1.6 million).

Axa contributes its know-how to the partnership, with the objective of seizing any growth opportunities and the market profitability, improving the management of trading volumes and enhancing the quality of products and services for our customers.

The value added of the MPS Group is the great strength of its network associated with its leading position in the Italian bancassurance market.

Axa also invited the Chairman of Banca Monte dei Paschi to join its Supervisory Board, as a material token of the strategic value Axa gives to the agreement we entered into.

The priorities given for the remaining months of 2007 are clear and we shall proceed expeditiously.

We shall be committed to stabilizing costs. The 2006 initiatives concerning personnel will have a strong impact on this financial year, but additional actions shall be required to further reduce human resources in the Head Office, who will migrate to the commercial networks.

We shall intensify the initiatives focused on human resources training and retraining. Human resources still represent a real distinctive feature, a non-reproducible asset which might determine the success of a company in a scenario where easy access to technology and information rapidly cancels any other competitive advantage.

We shall consolidate the improved performance of Banca Toscana and the corporate area, with the revival of MP Banca per l'Impresa as a fundamental step of the new business plan.

We shall assess other partnership options in relation to other strategic businesses, in particular the management of non-performing loans, asset management and consumer credit.

We shall pursue the streamlining of the Group's equity investments and fixed assets.

Let me now approach the issue of growth. Growing competition in the financial markets actually increases qualitative and quantitative comparisons.

Qualitative comparison is based on efficiency and profitability, as the first instruments of independence. The companies which are not efficient and profitable in the market might become a possible prey, irrespective of their size. A rapid increase in the efficiency and the income-generating capacity of our Bank should represent a priority for those who care about the Bank's future.

As one of the most outstanding quantitative results achieved in the last few months, we finally succeeded in obtaining a capital structure which enables us to positively evaluate the growth of the distribution capacity of our network and seize any opportunities, in light of appropriate industrial and market conditions.

* * *

Ladies and gentlemen,

This is the description of the initiatives and actions undertaken in 2006. In the first few months of 2006, these initiatives were carried out by the previous Board of Directors which the whole Bank wishes to thank. In particular, my special thanks are due to Mr. Fabrizi and Mr. Tonini for the years they spent working in the interest of Monte. Today's results are also dependent on their efforts.

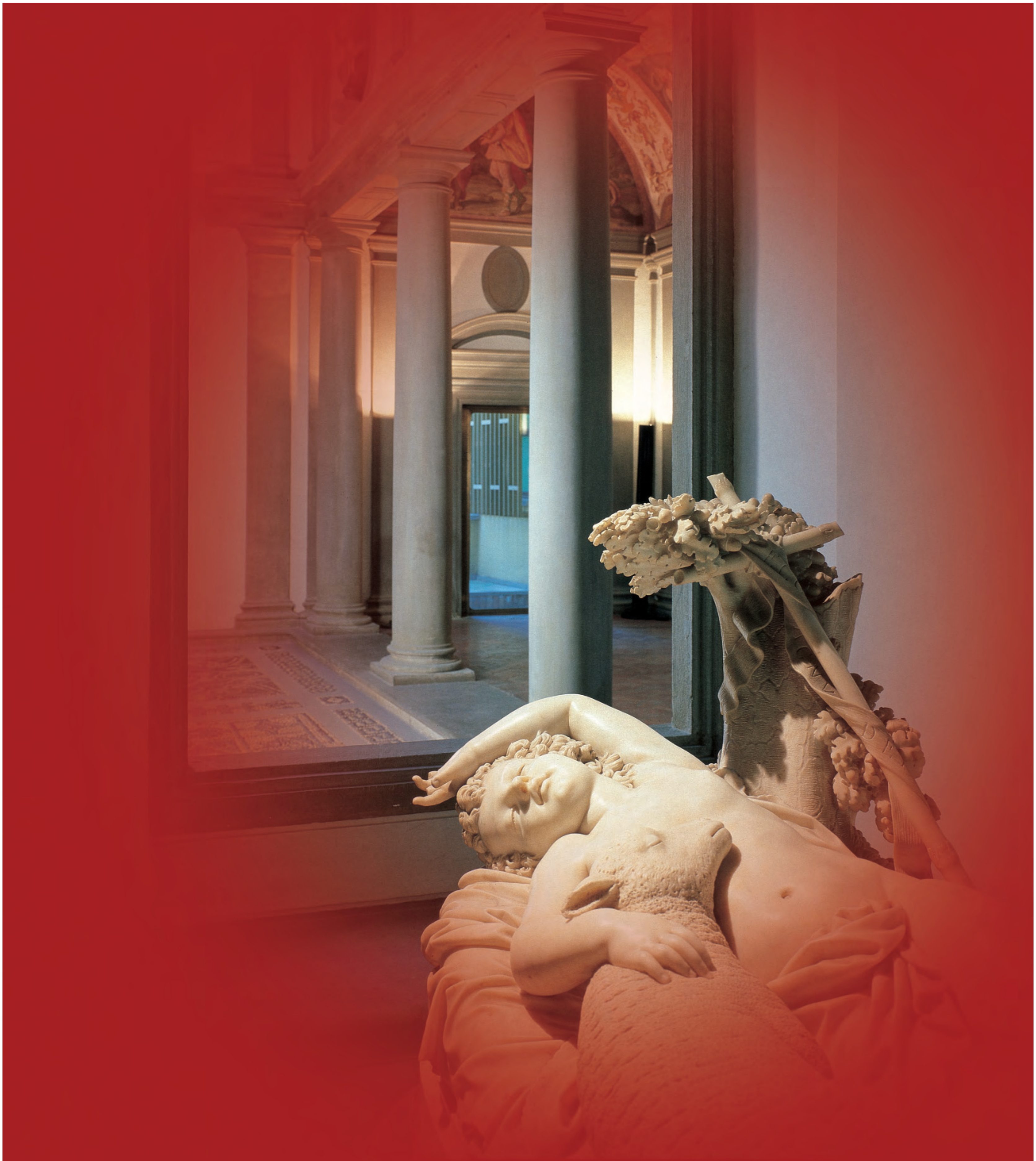
Please spare a thought for Stefano Bellaveglia. We are implementing *His plan* and we miss him day after day.

We started the year of 2007 working hard and making huge efforts. Nevertheless, we are aware we are still far from excellence, but no work can be completed if there is no start, if the first step is not followed by other increasingly faster steps in the right direction.

Therefore, there is still much work to be done, but this also implies many possible satisfactions. We shall work hard with a view to presenting a more efficient and profitable Bank – which is able to play a prominent part in the domestic scenario – at the end of our term of office.

As already said at the outset, the only prescription for accomplishing all of this is teamwork, as we might say today.

Well, we have a first-class team, we are fully aware of the directions to be followed and have the spirit and the proper unity of purpose to achieve the results contemplated by the Business Plan.



CORPORATE OFFICERS, SENIOR MANAGEMENT, AND AUDITORS

BOARD OF DIRECTORS

Giuseppe Mussari, *Chairman*
Francesco Gaetano Caltagirone, *Deputy Chairman*
Ernesto Rabizzi, *Deputy Chairman*
Fabio Borghi, *Director*
Turiddo Campaini, *Director*
Lucia Coccheri *Director*
Lorenzo Gorgoni, *Director*
Andrea Pisaneschi, *Director*
Carlo Querci, *Director*
Pierluigi Stefanini, *Director*

BOARD OF STATUTORY AUDITORS

Tommaso Di Tanno, *Chairman*
Pietro Fabretti, *Acting Auditor*
Leonardo Pizzichi, *Acting Auditor*
Carlo Schiavone, *Substitute Auditor*
Marco Turillazzi, *Substitute Auditor*

SENIOR MANAGEMENT

Antonio Vigni, *Chief Executive Officer*
Giuseppe Menzi, *Deputy Chief Executive Officer*
Marco Morelli, *Assistant Chief Executive Officer*
Nicolino Romito, *Assistant Chief Executive Officeri*

INDEPENDENT AUDITORS **KPMG S.p.A.**

THE IMPLEMENTATION OF THE 2006 BUSINESS PLAN AND AN OVERVIEW OF OPERATIONS

THE 2006-2009 BUSINESS PLAN

1) The major issues in the Business Plan

On 26 June 2006 the Board of Directors of Banca Monte dei Paschi di Siena S.p.A. approved the new Business Plan of the Group for the three-year period from 2006 to 2009. The new Plan of the MPS Group aims to consolidating the Group's leading market position in terms of size and quality of supply, and optimizing profitability and shareholders' value through attentive capital management, though playing the role of point of reference for all the stakeholders. In this framework, the Plan defines specific strategic guidelines based on: a) the development of the business model and the following reorganization of the organization and distribution structure; b) actions of restructuring/boost in efficiency; c) the active management of credit risks and capital optimization, as outlined hereunder.

Development of the business model and following reorganization of the organization and distribution structure

In order to properly cope with the changes in the competitive scenario, become the leader in customers' service and expedite the process of development, the Plan develops the business model from a multi-market approach to a multi-relational approach based on "mobile clusters" of customers (e.g. prevailing industrial sectors by economic/geographical district, immigrants resident in a domestic area). As a result, the Group is divided into three new business divisions (Corporate Banking and Capital Markets, Private Banking and Wealth Management, Commercial Banking and Distribution Network) which are in charge of innovatively co-ordinating the activity carried out by the existing Business Areas. In particular, Corporate Banking and Capital Markets shall develop the relations with corporate customers by: a) re-designing the commercial area of reference (focus on SMEs, Large Corporates, Public Sector, Institutional Investors and transfer of the Small Business segment to the Retail co-ordination Area); b) directly managing high-potential relations in a centralized manner; c) repositioning of supply in the direction of a greater structural contribution of income from services; d) closer integration with the international department. Private Banking and Wealth Management shall ensure (i) the integrated management of the Group's factories which deal with asset management, private banking, social welfare and life insurance products, partly through the gradual multi-brand opening of the product portfolio and selective JVs , (ii) the extension of the Private platform through the development of a "Family Office" supply, (iii) the enhancement of MPS Banca Personale which reports directly to Private Banking and Wealth Management. Commercial Banking and Distribution Network shall be in charge of monitoring the Retail and Small Business segments - with growing emphasis on the clustering logic of the customers - increasingly enhancing the value of the specialistic skills of Consum.it (also in this case through selective JVs) which were acquired in the mortgage loan business, and developing cross-selling techniques. The growing emphasis which is placed in all sectors on Customer Satisfaction and the global quality of services rendered represents a strategic and pivotal value for the Plan.

From the viewpoint of organization restructuring, the Group has set up a governance unit (the Group Service Centre) reporting to the Deputy CEO for the purpose of ensuring improved efficiency to the organization processes, the reorganization and optimization of the portfolio of fixed assets (equity investments, real estate, NPLs). Rounding out the picture is the position of the CFO, who is in charge of planning, balance-sheet issues, tax planning, treasury, capital allocation/management and risk management. Two thirds of the Top Managers who shall face the new challenges - with an average age of 49, very strong motivations and incentive systems linked with value-creation objectives – have been rejuvenated.

The Plan is also oriented to the gradual consolidation and streamlining of the distribution network in quantitative (consolidation of the presence in the territory and migration of low-potential branches) and qualitative terms, with massive investments in human resources training and requalification. The plan of expansion and streamlining of the network contemplates the opening of about 200 branches in four years (including 150 new branches and 50 migrations) in geographical areas with a high income potential, where the Group presence is not yet widespread. This is done in order to speed up the acquisition of new customers, expected to grow by 470,000 units during the Plan's term. New Private Centers and SME Centers are expected to be opened, in addition to the streamlining of the promoter network of Banca Personale. The Group organization structure will consist of geographical Areas, in charge of the co-ordination of the Network and the development of operations and support to commercial activities. A more efficient use of technology and processes, the migration of human resources from back office to front office, the acceleration of the time to market method of innovative products and services and the extension of the staff working hours in the branches will ensure the reduction of response time to the customers.

Restructuring/efficiency actions

The initiatives oriented to business development will continue together with the efforts of restructuring and improvement of efficiency started in the last three years. In particular, personnel will be reduced sharply by about 10%, both through the sale of the tax collection business unit and the remix of staff which will involve banking units and product/service factories, and imply an outstanding plan of recruitment of young personnel. Any procedures useful for reducing H.O. staff will be activated in order to consolidate the commercial network, with a reduction of the average cost of human resources. Besides, the streamlining of the Head Offices and the major branches will ensure (i) to optimize and free up resources and professional time to be devoted to the consolidation of the distribution network (through requalification programs), (ii) to increase front office personnel and (iii) to encourage "ordinary" retirement processes. With respect to administrative expenses, any cost-cutting actions already started shall become more structural and be oriented to the centralization of purchasing marketing, sophisticated capital budgeting systems and additional cost management initiatives (about EUR 90 million).

☐ Active management of credit risks and capital optimization

The Plan gives particular importance to the active management of credit risks which will benefit from the streamlining/improvement of efficiency of this sector, the optimization of first disbursement and monitoring processes specialized by customer segment and the introduction of advanced credit risk management methods resulting from the Basle 2 Project. The profitability and soundness of the Group's capital structure will be improved. This includes, in particular, the reduction of the weight of financial assets, the re-allocation of capital allocated in fixed assets (equity investments, real estate and NPLs) in favor of commercial business and the optimization of the structure and cost of funding. As a consequence, the MPS Group will be able to consolidate its capital ratios and generate a huge capital surplus with respect to its objectives.

☐ Major economic-financial targets as of 2009

On the basis of the above guidelines, the Plan incorporates ambitious income and profitability targets enabling the Group to compete with the best Italian players within the established deadline. Following is the summary of the major objectives for 2009:

CAGR e Targets

	CAGR 2005-2009***
Income	6.59%
Costs	1.09%
Loan adjustments	1.9%
Net Profit	**17%**

	Targets	
	2005	**2009**
Cost/Income	64.8%	51.2%
ROE	12.9%	18.1%
AVA*	75	655
RAROC	9.0%	16.3%
Tier 1	6.5%	7.5%

* :AVA (Annual value added), calculated on the basis of a cost of capital of 8%
*** Proforma values of the expected sale of the Tax Collection business unit

2) The Implementation of the Business Plan

Immediately after the approval of the Business Plan, the Group started all initiatives preliminary to the Plan's fast implementation and in many cases expedited the projects with respect to the established guidelines. Early in July the expected projects (with about 60 full-time dedicated resources) were launched with 6 major issues being followed up by the Heads of the Business Areas, the CFO and the Head of Human Resources. A specific Program Management Office (PMO) dedicated to the monitoring of these issues was set up. In particular, following are the actions already implemented or started in 2006.

☐ Development of the business model

The Group's division into three business areas (i.e. Corporate Banking & Capital Markets, Private Banking & Wealth Management, Commercial Banking & Distribution Network), which co-ordinate the network activity in an innovative way, lays the foundations of the new customers' multi-relation approach provided for by the Business Plan.

♦ *Commercial Banking & Distribution Network*

- *Retail customers*. The Group has completed the consolidation of the Retail Commercial Platforms. In particular, as of July 2006, the responsibility of Small Business Customers (businesses with a turnover lower than 2.5 million) was transferred from the Corporate Area to the Retail Area, and the Carattere (Affluent Segment) and Family platforms were extended.

♦ *Private Banking and Wealth Management*

- *Private Banking customers*. The Group continued to extend the Private platform and pursued the design of the business concept in relation to the new "Family Office" supply.
- *MPS Banca Personale*. The Group continued to relaunch and restructure the network of financial promoters.
- *Wealth Management*. As indicated by the Business Plan, in the area of banc assurance the MPS Group started the process of selection of possible alliances with primary international insurance companies, which is being finalized (additional information is provided in the section covering "Major events subsequent to year-end"). In addition, the strategic project of re-design of MP Fiduciaria was approved;

♦ *Corporate Banking & Capital Markets*

- *Corporate Customers*. The commercial area of reference was re-designed with a focus on the SMEs, Large Corporates, Public Sector, Institutional Investors, with the follow-up of the Small Business segment being transferred to Commercial Banking & Distribution Network;
- *Key Clients*. High-potential customer relationships are managed directly and at a centralized level by a new dedicated area which was set up for the purpose of following up the

Group's key clients. This model is based on a customized marketing approach, characterized by professional advice, business recommendations and the wide range of the Group's specific and innovative products and services available to the customers;

- *International Banking.* The structure and the scope of action of the international area has been re-designed after the approval of the International Business Plan which contemplates: a) the growth in International Trade Finance, with a refocus of the marketing initiatives of the domestic network and the consolidation of the supply and servicing capacity of the H.O. and the international network; b) the streamlining of the MPS Group presence in the main international centers for the purpose of better supporting ITF business by extending the representative office network to fast-growing geographical areas and consolidating operating and service relations with international and local partners; c) the monitoring of international diversification opportunities for the Group business.
- *Development of product companies*. The approved guidelines of the integration process between MPS Finance and Banca per l'Impresa contemplate the split-off of MPS Finance and the following merger in MPS Banca per l'Impresa. The Business Plan of the resulting company is being finalized in compliance with the strategic guidelines provided for by the Parent Bank's Plan.

☐ REORGANIZATION OF THE DISTRIBUTION AND ORGANIZATION MODEL

Following are the most significant initiatives undertaken in 2006 for the Business Plan implementation:

- *Branch plan and distribution network*. During 2006, 38 new branches were opened (with the opening of other 90 branches approx. being expected during 2007) with the migration of 12 branches. The Group also created an area for the development of (traditional and innovative) distribution channels which monitors the development of the Branch Plan. 36 new specialists' centers (including 27 SME/Public Entities Centers and 9 Private Banking Centers) were opened and about 60 new resources were added to the network of financial promoters.
- *Distribution network*. In order to properly support the commercial network and ensure optimal effectiveness and management efficiency, the Group organization structure has been fully re-designed for the purpose of geographical follow-up. The newly-created geographical Areas are in charge of the network co-ordination and the implementation of operations and support to marketing and sales activities. BMPS set up 9 geographical areas in replacement of former 21 Major Branches and Banca Toscana created 4 geographical areas (instead of former 16 Major Branches). Important organization changes led to the reduction of staff in the H.O. and the consolidation of the commercial network.
- *Organization model*. The organization structure of the new Parent Bank has been implemented by integrating different responsibilities within the Group units and minimizing intermediate hierarchical levels. The new organization model of the Head Office of Banca Mps has been designed with the centralization of non-core business at the Parent Bank.
- *Product companies*. The major initiatives include the disposal of the tax collection business on 1 October 2006 which will enable the Group to increasingly focus on its core

business and improve its cost/income ratio by 1%. In addition, MPS.Net and MPS Professional merged in the Parent Bank and Paschi Gestioni Immobiliari started being restructured.

☐ INITIATIVES OF RESTRUCTURING AND EFFICIENCY BOOST

♦ *Human Resources*

The process of human resources remix under way involves banking units and product/service factories. As of 31 December 2006, the Group workforce included 24,348 staff units, with a decline of 2,194 employees with respect to 31 December 2005. This is mostly attributable (-2,084 units) to the termination of the tax collection business (transfer to the Inland Revenue Agency) as of 1 October 2006. The decrease in total workforce was flanked by a significant internal remix in favor of the Network (+960 resources on an annual basis) with a decline in H.O. personnel and in the back office-front office ratio (from 42% as of 31 December 2005 to 32%), due to the following initiatives:

- massive ouflow of personnel with high seniority and hierarchical level (about 550 staff units out of a total of 930, including 130 Executives) through the early retirement plan and the Solidarity Fund, mostly within the H.O.;
- new recruitments of youth (about 820 employees), most of all within the Network;
- migration of about 350 resources from the H.O. to the Network, as a result of personnel freed up by organizational integration projects , in compliance with the Business Plan.

♦ *Streamlining of administrative expenses*

Cost-cutting actions became more structural, with a sharp centralization of the purchasing process, a more sophisticated use of capital budgeting instruments and further cost management initiatives in a total amount of about EUR 90 million during the validity of the Business Plan, partly already implemented in 2006.

☐ ACTIVE MANAGEMENT OF CREDIT RISKS AND CAPITAL OPTIMIZATION

- **Equity investments/ACPM** The MPS Group portfolio of strategic equity investments was gradually restructured and the related capital freed up, in compliance with the Business Plan objectives. To this end, the stake (1.583%) held in Assicurazioni Generali Spa was sold. In December 2006, as a result of a request of withdrawal coming from Deutsche Bank (as the Bank's partner), the Bank increased its stake in the Santorini vehicle from 49% to 100%, with no additional investments and no changes in the nature and riskiness of its investment. This reorganization transaction also implied benefits in terms of capital absorption (total ratio). An interest of 14.8% approx. of Finsoe was sold subsequently (additional information is provided in the section covering "Major events subsequent to year's end"). As of 31 December 2006, the Active Credit Portfolio Management (ACPM) Unit – which was established for the purpose of (i) optimizing the risk/return profile of the Group global loan portfolio, (ii) reducing high concentration of risks, (iii) creating additional capacity of generating new investment opportunities – carried out a

"Zero cost Portfolio Protection" transaction. This involved the coverage of about 12.50% of the portfolio of large industrial groups, and freed up the economic capital absorbed.

- **State of the Business Plan**. As of December 2006, the business plans of the MPS Group commercial banks, the MPS Group Operating Consortium had been approved and the Plans of the main Group companies had been started.

A SUMMARY OF THE TRENDS OF 2006

In 2006, the MPS Group achieved appreciable commercial results, confirmed its market share in the main business segments and increased its relations from the quantitative and qualitative viewpoints. Such results - achieved as usual through a management based on the centrality of customers, relationship ethics and the quality of service - confirm the growing commercial effectiveness of the platforms specialized by customer segment and the gradual benefits of a policy which is biased towards more structural and lasting modes of income contribution.

In particular:

with reference to funds management, the Group commercial networks realized assets flows topping EUR 8.5 billion (EUR 10.5 billion as of 31 December 2005), thus absorbing the criticalities which emerged in the area of asset management, heavily compromised by the outflow of funds characterizing the whole industry. As a result, total funding progressed by 3.5% year on year, with direct funding growing by 7.2%;

with reference to loan management, in line with prior years, the Group marketing policy was oriented to balance the supply of a proper financial support to business initiatives and the utmost rigor and selectivity in risk assessment. At the same time, the Group improved its specialists' skills in consumer credit and retail customer mortgage loans. The networks and the special credit companies disbursed loans in the amount of EUR 14.1 billion (+4.5% with respect to the volumes as of 31 December 2005), with a quarterly structural and diversified progress. These considerable disbursement flows determined a hefty growth of lending (+10.1% year on year). The Group's traditional conservative lending policy, in addition to the rigorous criteria of identification of doubtful outcomes, reduced the amount of net loan losses considerably (-13.6%) and reduced the ratio of net NPLs+ watchlist credits/customers' loans from 3.2% to 2.9%. Risk coverage climbed from 33.3% in 2005 to 38.7% in 2006;

In view of the customers directly managed by Consum.it, the customers' portfolio included 4,513,000 customers as of 31 December 2006 (versus 4,461,000 customers as of 31 December 2005). This is attributable to the structural growth of the acquisition rate, flanked by the gradual improvement of the retention rate resulting from the continuous efforts the Group is making in terms of greater "customer's proximity" and increase in "customer satisfaction".

The Net Operating Profit advanced to EUR 912.8 million, or +40% on an annual basis (+32.2% with respect to 31 December 2005), mainly driven by the progress of income (+10.4%). In view of the contribution from non-operating activities, the consolidated profit for the period stood at EUR 910.1 million, rising by 20.8% in comparison with 2005

(+15.2% in comparison with published data). The cost/income ratio improved at 60.9% (64.8% in 2005); ROE reached 13.3% (12.9% in 2005). With reference to the regulatory ratios, as of 31 December 2006 TIER I ratio was 6.53% (6.51% at the end of 2005) with a solvency ratio of 9.48% (9.16% as of 31.12.2005).

MPS GROUP – 2006 RECLASSIFIED CONSOLIDATED FINANCIAL STATEMENTS

The following balance-sheet and profit-and-loss accounts as of 31 December 2006 have been reclassified. In particular, following are the major changes *introduced in the 2005 and 2006 profit and loss statements* – which involve aggregations of accounts and reclassifications for the purpose of ensuring a clear view of the Group's trends:

a) "Net profits/losses from the trading/valuation of financial assets", an account of the reclassified profit and loss statement, includes Account 80 (Net profit/loss from trading), Account 100 (Profit/loss from the sale of loans, financial assets available for sale and held upon maturity and financial liabilities) and Account 110 (Net profit/loss from financial assets and liabilities valued at fair value), integrated with the dividends resulting from "sophisticated" securities transactions closely associated with the trading component (EUR 429.5 million as of 31/12/06) and adjusted with the cost of funding of said transactions (EUR 21.6 million), once eliminated from "interest expense and similar charges";

b) "Dividends, similar income and profits (losses) from equity investments" includes Account 70 "Dividends and similar income" and Account 240 "Profits (losses) from equity investments". Any dividends from sophisticated transactions as outlined under a) have been eliminated from the aggregate;

c) "Net valuation adjustments/recoveries to loan losses" in the reclassified profit and loss statement were determined by reclassifying charges in the amount of EUR 47.4 million (e.g. writedown of junior securities coupons, financial plans) which are classified more properly among "Net provisions for risks and charges and other operating income/charges";

d) "Other administrative expenses" in the reclassified profit and loss statement was integrated with the portion concerning the recovery of stamp duty and expense recovery from customers (EUR 182.5 million as of 31.12.06), posted under Account 220 (Other operating charges/income) in the balance-sheet;

e) "Net provisions for risks and charges and other operating income/charges" in the reclassified profit and loss statement result from the difference of Account 220 "Other operating income/charges" and Account 190 "Net provisions for risks and charges", once eliminated further items as described under c) and d).

In addition to the above reclassifications, as a result of the disposal of the tax collection business (on 1 October 2006) and the expected loss of control of the insurance companies (additional information is provided in the notes to the financial statements), further reclassification/standardization was required with reference to prior quarters. In particular, as regards the disposal of the tax collection business, reclassification only concerned the quarters of 2006 and 2005. In order to ensure continuity to the trends of the insurance sector, give a view closer to the prospective view and reclassify accordingly with reference to the quarters, income items involved in the eliminations were integrated. In particular, interest income in the amount of EUR 73.7 million as of 31/12/06 was eliminated, with net commissions in the amount of EUR 71.4 million being integrated.

With reference to the re-determination of personnel expense for 2005 in compliance with IAS 8 (effect resulting from the recalculation of the actuarial reserve of the pension fund of a subsidiary charged to 2005, since it was impossible to appropriate it in each prior year; see notes to the financial statements), the annual trend of personnel expense stood at 4.9% with respect to the data published in 2005 and net profit came to 15.2%.

The **consolidated balance-sheet** was reclassified as follows:

e) “Negotiable Financial assets” on the assets side of the reclassified balance-sheet include Account 20 (Financial assets held for trading purposes), Account 30 (Financial assets valued at fair value) and Account 40 (Financial assets available for sale);
f) “Other assets” on the assets side of the reclassified balance-sheet incorporate Account 80 (Hedging derivatives), Account 90 (Value adjustment of financial assets subject to general hedging), Account 140 (Fiscal assets), Account 150 (Non-current assets and groups of assets being sold) and Account 160 (Other assets);
g) “Customer deposits and securities” on the liabilities side of the reclassified balance-sheet include Account 20 (Customer deposits), Account 30 (securities issued) and Account 50 (Financial liabilities valued at fair value);
h) “Other liabilities” on the liabilities side of the reclassified balance-sheet include Account 60 (Hedging derivatives), Account 70 (Change in value of financial liabilities part of a macro hedge), Account 80 (Tax liabilities), Account 90 (Liabilities related to discontinued operations) and Account 100 (Other liabilities).

As of 31 December 2005, only Customers deposits and securities as of 31/12/2005 in relation to assets being sold (EUR 6,583 million) have been reclassified under “Other assets”, in line with the current accounting modes.

REPORT OF CONSOLIDATED OPERATIONS

Highlights at 31/12/06

INCOME STATEMENT AND BALANCE SHEET FIGURES AND KEY INDICATORS

MPS GROUP	**31/12/06**	**31/12/05**	**% chg**
● INCOME STATEMENT FIGURES (in millions of euros)			
Financial and insurance income (loss)	4,772.1	4,320.8	10.4
Net operating income	1,279.0	912.8	40.1
Net profit (loss) for the period[1]	910.1	753.4	20,8
● BALANCE SHEET FIGURES AND INDICATORS (in millions of euros)	**31/12/06**	**31/12/05**	**% chg**
Direct funding	93,976	87,696	7.2
Indirect funding	99,079	108,855	-9.0
of which: assets under management	*47,966*	*48,439*	-1.0
of which: assets under custody	*51,113*	*60,417*	-15.4
Customer loans	91,941	83,526	10.1
Group net equity	7,775	7,232	7.5
● KEY LOAN QUALITY RATIOS (%)	**31/12/06**	**31/12/05**	
Net non-performing loans / Customer loans	1.8	1.9	
Net watchlist loans / Customer loans	1.1	1.2	
● PROFITABILITY RATIOS (%)	**31/12/06**	**31/12/05**	
Cost/Income ratio	60.9	64.8	
Cost/Income ratio restated according to operating criteria[2]	59.2	63.3	
R.O.E. (on average equity)	12.1	11.6	
R.O.E. (on year-end equity)	13.3	12.9	
Net adjustments to loans / Year-end investments	0.50	0.51	
● CAPITAL RATIOS (%)	**31/12/06**(a)	**31/12/05**(a)	
Solvency ratio	9.48	9.16	
Tier 1 ratio	6.53	6.51	
(a) determined using the Bank of Italy's prudential filters			
● INFORMATION ON BMPS STOCK	**31/12/06**	**31/12/05**	
Number of ordinary shares outstanding	2,454,137,107	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	4.61	3.13	
low	3.72	2.43	
high	5.08	4.17	
● OPERATING STRUCTURE	**31/12/06**	**31/12/05**	**Abs. chg**
Total head count-year-end[3]	24,348	26,542	-2,194
Number of branches in Italy	1,903	1,862	41
Financial advisor branches	139	138	1
Number of branches & rep. offices abroad	36	30	6

[1] The change versus 2005 net profit previously published was 15.2%.

[2] The restated cost-income ratio has been calculated by deducting from operating expenses the cost of early retirements recorded at 31 December 2006 (€79.7 million) and 31 December 2005 (€70.5 million).

[3] The 2005 figure include 2,156 Tax Collection staff of which 72 employees have been transferred to the Parent Company in 2006, according with Unions.

INCOME STATEMENT RESTATED ACCORDING TO OPERATING CRITERIA (in millions of euros)

MPS Group	31/12/06	31/12/05 restated	Change Ins.	Change %
Net interest income	**2,714.2**	**2,580.3**	**133,9**	**5,2**
Net Commissions	1,490.6	1,486.5	4.2	0.3
Income from banking activities	**4,204.9**	**4,066.8**	**138.0**	**3.4**
Dividends, similar income and profits (losses) from equity investments	43.8	92.1	-48.3	-52.4
Net result from realisation/valuation of financial assets	530.6	175.2	355.4	n.s.
Net gain (loss) from hedging	-7.2	-13.4	6.2	-46.4
Financial and insurance income (loss)	**4,772.1**	**4,320.8**	**451.3**	**10.4**
Net adjustments for impaiment of:				
a) loans	-461.0	-417.1	-43.9	10.5
b) financial assets	-125.4	-138.5	13.2	-9.5
Net financial and insurance income (loss)	**4,185,7**	**3,765.1**	**420.6**	**11,2**
Administrative expenses:	-2,772.0	-2,707.5	-64.5	2,4
a) personnel expenses	-1,861.6	-1,828.9	-32.7	1,8
b) other administrative expenses	-910.4	-878.7	-31.8	3,6
Net adjustments to the value of tangible and intangible fixed assets	-134.7	-144.8	10.1	-6,9
Operating expenses	**-2,906.7**	**-2,852.3**	**-54.4**	**-1,9**
Net operating income	**1,279.0**	**912.8**	**336.2**	**40,1**
Net provisions for risks and liabilities and Other operating income/costs	4.1	-23.7	27.8	-117,5
Goodwill impaiment	-0.6	-29.0	28.4	-97,9
Gain (losses) from disposal of investments	2.91	0.5	2.4	ns.
Gain (loss) from current operations before taxes	**1,285.4**	**860.7**	**424.8**	**49,4**
Taxes on income for the year from current operations	-500.9	-249.2	-251.7	101,0
Gain (loss) from current operations after taxes	**784.6**	**611.5**	**173.1**	**28,3**
Gain (loss) on fixed assets due for disposal, net of taxes	145.4	165.4	-20.0	-12,1
Minority interests in profit (loss) for the year	-19.8	-23.5	3.6	-15,5
Net profit (loss) for the year*	**910.1**	**753.4**	**156.7**	**20,8**
Net profit (loss) for the year previously published	*910.1*	*790.2*	*119.9*	*15,2*

(*) Previously published 2005 Net profit (loss) was reclassified pursuant to IAS 8 after a subsidiary recalculated the mathematical reserve of the severance indemnity provision since it was not possible to split it among prior financial years.

QUARTERLY TREND IN INCOME STATEMENT FIGURES RECLASSIFIED ACCORDING TO OPERATING CRITERIA (in millions of euros)

MPS Group	2006 4th quarter	2006 3rd quarter	2006 2nd quarter	2006 1st quarter	2005 4th quarter	2005 3rd quarter	2005 2nd quarter	2005 1st quarter
Net interest income	**717.8**	**680.3**	**670.2**	**645.9**	**677.9**	**635.9**	**632.3**	**634.3**
Net commissions	379.7	358.1	364.4	388.4	375.1	369.9	380.1	361.3
Income from banking activities	**1,097.4**	**1,038.5**	**1,034.6**	**1,034.3**	**1,053.0**	**1,005.9**	**1,012.4**	**995.6**
Dividends, similar income and profits (losses) from equity investments		13.5	24.3	6.0	10.1	21.0	38.0	23.0
Net result from realisation/valuation of financial assets	277.8	24.4	52.1	176.3	11.9	47.0	51.7	64.7
Net gain (loss) from hedging	-5.4	0.0	-2.1	0.3	-1.1	-3.7	-4.3	-4.3
Financial and insurance income (loss)	**1369.9**	**1,076.4**	**1,108.9**	**1,216.9**	**1,073.9**	**1,070.1**	**1,097.8**	**1,079.0**
Net adjustments for impaiment of:								
a) loans	-149.6	-101.8	-107.8	-101.8	-116.4	-102.8	-108.9	-89.0
b) financial assets	-117.6	-0.6	-8.6	1.4	-37.0	-3.7	1.1	1.1
Net financial and insurance income (loss)	**1,102.7**	**974.0**	**992.5**	**1,116.5**	**820.4**	**963.6**	**990.0**	**991.2**
Administrative expenses:	-793.9	-669.9	-653.9	-654.3	-767.2	-656.2	-639.7	-644.4
a) personnel expenses	-535.6	-448.8	-441.9	-435.3	-535.9	-437.9	-419.9	-435.2
b) othe administrative expenses	-258.3	-221.1	-212.0	-219.1	-231.3	-218.3	-219.8	-209.2
Net adjustments to the value of tangible and intangible fixed assets	-36.4	-34.2	-32.9	-31.3	-37.3	-37.6	-36.3	-33.6
Operating expenses	**-830.3**	**-704.1**	**-686.7**	**-685.6**	**-804.5**	**-693.8**	**-676.0**	**-678.1**
Net operating income	**272.4**	**269.9**	**305.8**	**430.9**	**15.9**	**269.8**	**314.0**	**313.1**
Net provisions for risks and liabilities and Other operating income/costs	-4.3	9.3	10.2	-11.1	19.9	-7.1	-19.2	-17.2
Goodwill impaiment	-0.3		-0.3		0.0	0.0	-14.5	-14.5
Gain (losses) from disposal of investments	2.7	0.01	0.16	0.01	0.53	0.00	-0.02	-0.02
Gain (loss) from current operations before taxes	**270.5**	**279.2**	**315.9**	**419.8**	**36.3**	**262.8**	**280.2**	**281.4**
Taxes on income for the year from current operations	-73.2	-117.8	-131.6	-178.2	82.2	-94.6	-97.6	-139.2
Gain (loss) from current operations after taxes	**197.3**	**161.4**	**184.3**	**241.6**	**118.5**	**168.2**	**182.6**	**142.2**
Gain (loss) on fixed assets due for disposal, net of taxes	35.4	48.7	22.1	39.2	70.6	38.1	31.1	25.7
Minority interest in profit (loss) for the year	-10.2	-2.7	-3.8	-3.2	-9.4	-4.5	-4.7	-4.7
Net profit (loss) for the year	**222.5**	**207.4**	**202.6**	**277.5**	**179.7**	**201.7**	**208.9**	**163.1**

MPS GROUP

RECLASSIFIED BALANCE SHEET (in millions of euros)

ASSETS	**31/12/06**	**31/12/05** (°)	**% chg**
Cash and cash equivalents	612	563	8.7
Receivables:			
a) Customer loans	91,941	83,526	10.1
b) Due from banks	11,991	9,994	20.0
Financial assets held for trading	30,578	45,819	-33.3
Financial assets held to maturity	0	4,302	n.s.
Equity investments	744	703	5.9
Underwriting reserves/reinsures	0	12	
Tangible and intangible fixed assets	3,417	3,517	-2.8
of which:			
a) goodwill	*740*	*740*	*-0.1*
Other assets	19,272	5,332	n.s.
Total assets	**158,556**	**153,767**	**3.1**

LIABILITIES	**31/12/06**	**31/12/05** (°)	**Var. %**
Payables			
a) Due to customers and securities	93,976	87,696	7.2
b) Due to banks	15,878	16,207	-2.0
Financial liabilities from trading	16,715	17,106	-2.3
Provisions for specific use			
a) Provisions for employee leaving indemnities	386	403	-4.3
b) Reserve for retirement benefits	427	599	-28.7
c) Other reserves	583	586	-0.4
Other liabilities	22,778	11,971	90.3
Underwriting reserves	0	11,922	
Group portion of shareholders' equity	7,775	7,232	7.5
a) Valuation reserves	650	618	5.2
b) Reimbursable shares	0	0	
c) Capital instruments	71	46	55.1
d) Reserves	3,598	3,346	7.5
e) Share premium account	561	539	4.0
f) Share capital	2,030	2,026	0.2
g) Treasury shares (-)	-45	-97	-53.7
h) Net profit (loss) for the year	910	753	20.8
Minority interests in shareholders' equity	38	46	-17.5
Total liabilities and shareholders' equity	**158,556**	**153,767**	**3.1**

(°) Only "Due to customers and securities" figure at 31 December 2005 was restated according to IFRS 5.

OVERVIEW OF OPERATIONS

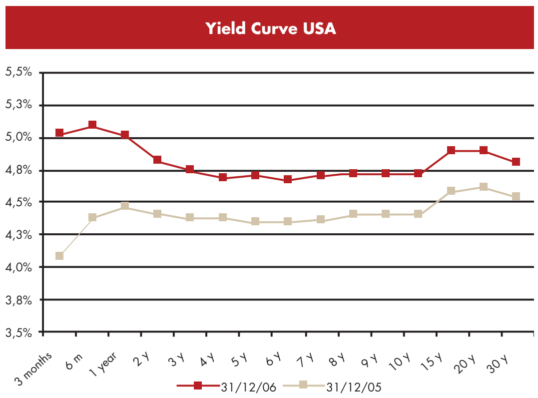
THE MACROECONOMIC AND FINANCIAL SCENARIO

The year of 2006 was characterized by the huge growth of the GDP at an international level (more than 5%), topping the levels recorded in 2005. Inflationary pressure mitigated gradually, thus reflecting the decline in oil prices which bounced back from USD 80 per barrel last summer to slightly over USD 60 in December 2006.

GROWTH RATES IN THE LEADING ECONOMIES

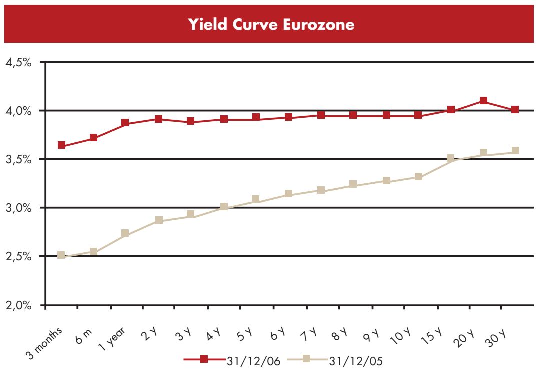
	2004	2005	2006 (prev.)
Usa	3.9	3.2	3.3
Eurozone	1.9	1.5	2.7
Italy	1.2	0.1	1.9
Germany	1.2	1.0	2.7
France	2.1	1.2	2.0
Japan	2.3	1.9	2.2
China	10.1	10.2	10.7

After a brilliant Q1 in the **US**, the growth of GDP slowed down. This is indicative of the deterioration of the building industry and the manufacturing industry. Consumer expenditure and investments remained steady. However, the economic trends of 2006 were slightly higher than in 2005 (*see table*). The annual **inflation** rate dropped to about 2.5% in December, but the trend accelerated (from 2.2% to 2.8%) in light of the core component.



After four interest rate rises in the first half of the year (with the reference rate going from 4.25% to 5.25%), **the FED stopped its monetary restriction policy**. The risks of an excessively moderate economic growth became a priority with respect to a few permanent inflationary pressures. The benchmark curve of yields showed a negative trend in its first part, but remained virtually flat with respect to the following maturities (up to 10 years), thus reflecting any expectations of a reverse trend of the monetary policy, which partly disappeared early in 2007.

In Asia the recovery of Japan consolidated with the central Bank increasing the overnight rate to 0.25% in July 2006 after several years (at the end of last February the rate rose to 0.5%). The other major economies in the area show **appreciable expansion rates (higher than 10% in China)**. Latin America and eastern Europe also experienced a satisfactory growth (around 5%).



In the Eurozone, the year closed with a GDP estimated to grow by 2.7%, sharply progressing with respect to 1.5% in 2005. The acceleration is attributable to all the components of demand, (e.g. the progress of investment outlays, the positive net contribution from international trade and the revival of private consumption).

In 2006 the **Italian economy** resumed expanding (with the GDP at + 1.9%). **The strong expansion of international trade** and, in particular, the recovery of internal demand in Germany **fuelled the development of exports** which grew (+5.3%) more than imports. Such recovery also involved investments (+2.3% after a one-year standstill) and was in addition to the acceleration of consumer expenditure (from +0.6% to + 1.5%), boosted by better conditions in the labour market and the increase in real wages. After an adverse 2005, **industrial production progressed** (+1.9%), mainly driven by the car industry and the mechanical industry. The increase in oil and energy prices did not involve the remaining consumer goods. **Therefore, the annual inflation rate stood at 2.2%**.

As a result, **the European Central Bank increased the reference interest rate from 2.25% to 3.50%**, with the objective of curbing inflationary trends which – though steady with respect to 2005 (+2.2% on a yearly average) – are deemed to be at risk in light of the economic recovery and the expansion (at a pace of 9-10%) of monetary aggregates and private lending. **The benchmark yield curve reduced its slope considerably**, thus reflecting the decline in risk premium, confidence in the effectiveness of the monetary policy in the medium term and higher demand for securities from institutional investors.

The major Stock Exchange markets registered a significant increase in stock quotations. The MSCI index (in local currencies) climbed by 14%: this is indicative of the brilliant performance of the European Stock Exchange markets (Eurostoxx: +15%), the US markets (S&P 500: + 14%) and the emerging countries (+29%). The Japan Nikkei 225 index was also recovering (+6.9%). **Stock prices at the Milan Stock Exchange rose by 19%**, flanked by a huge increase in trading volumes (+21%) and market capitalization (almost 53% of the GDP). Stock prices of financial companies recorded an impressive performance with a 23.4% and 18% increase with reference to bank shares and industrials, respectively flanked by a lower increase for service companies (+10%). **Bond market** indices (*total return*) grew by about 3% in the USA, but remained steady in the Euro zone. **On the front of the foreign exchange markets, the US dollar continued to depreciate with respect to the euro** (by 11.6% during the year), thus reflecting the different approach to the monetary policies by the FED and ECB.

BANKING BUSINESS

In 2006, banking business was characterized by an **appreciable growth of lending and funding, and a decline in the flows of assets under management**. The interest rate spread shows a moderate increase (6 bp on a yearly average) and global profitability improved. The banking industry achieved appreciable results in search for further efficiency earnings, also driven by increasing competitiveness as a consequence of mergers and the arrival of foreign players.

The **trend of bank direct funding was over 8% on an annual basis**. The increase in the volume of bonds held is appreciable (almost + 11%), also encouraged by the abolition of the regulations concerning maturities conversion and the placement of extendible-maturity bonds in the international markets. However, the growth of current accounts slowed down gradually, from 8% approx. in the first quarter of 2006 to +6% in the fourth quarter, as a result of increasing opportunity cost. On a yearly average, current accounts increased by 7%, slightly less than in 2005 (+7.6%). Repurchase agreements accelerated sharply from 5% to 16% in 2006, with savings deposits at a virtual standstill and continuously declining certificates of deposit. As of 31 December 2006, the **MPS Group market share** of direct funding stood at 6.5%, in line with the figures recorded at the beginning of the year.

With reference to **funds under management, net funding from investment funds decreased by more than 9 billion**, due to the redemptions (more than 42 billion) concerning Italian-law funds, only partly offset by the positive contribution of roundtrip and foreign funds. This opposite trend with respect to the European tendency is partly due to the unfair fiscal treatment of Italian funds, which the Government has recently proved to be willing to review. Opportunities and hedge funds are still successful (although their success declined in the second half of the year), with net redemptions mostly concerning bond and liquidity funds (more than 32 bn as a whole) and also equity and balanced funds (see table). On the front of **distribution channels**, the networks of promoters achieved satisfactory results (more than 7 bn funding), mainly driven by the placement of opportunities funds. Bank outlets suffered from high redemptions of bond and equity funds.

■ **MUTUAL FUNDS - NET FUNDING (in EUR million)**

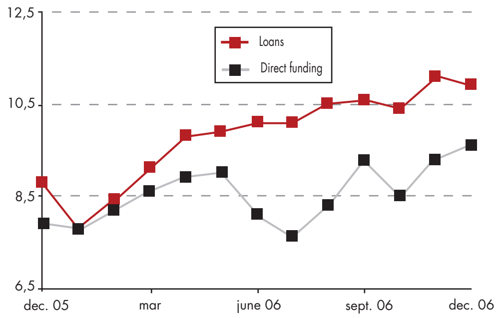
	Total founds	Equity funds	Bonds funds	Monetary funds	Opportunity Hedge funds
Q1 - 2006	8,050	4,994	-5,806	-5,249	11,289
Q2 - 2006	-7,636	-7,308	-7,441	-892	10,142
Q3 - 2006	-4,812	-777	-8,381	1,743	3,384
Q4 - 2006	-5,000	-2,681	-4,696	-1,476	4,613
Total for 2006	**-9,398**	**-5,772**	**-26,324**	**-5,874**	**29,428**

As of 31 December 2006, the **MPS Group** market share of mutual funds stood at 3.81%, inclusive of Italian and roundtrip funds. **This share comes to 4.3%, at the levels recorded at the end of 2005**, also considering third parties' funds traded (accounting for approx.23% of total funds placed).

The new production of banc assurance (including post offices) tops 43 bn, with a 5% decline year on year. The outstanding decline in funding from traditional products (accounting more than 41% of global production) and the modest decrease in index-linked policies is not offset by the growing flows of unit-linked policies. The insurance agents' production also dropped (by 2%), whereas the promoters' share in the market progressed, because – unlike the banks – they mostly operate with unit-linked policies, with marginal operations in traditional policies. The **MPS Group market share for the year was 8%**, almost reaching 12% and 6.8% with respect to traditional policies and index-linked policies, respectively.

(Retail and private) funds under management of banks and asset management companies showed net redemptions by over 3 bn, mostly attributable to individual portfolios under management which account for 54.3% of total volume (falling by about 5% with respect to December 2005). Global funds under management advanced by 4.6% , thus reflecting the positive trend of the financial markets. **The MPS Group market share** stood at 4%, with a peak of 4.6% in individual portfolios under management.

Banking industry: Performing loans and direct funding - annual change (%) at end of period



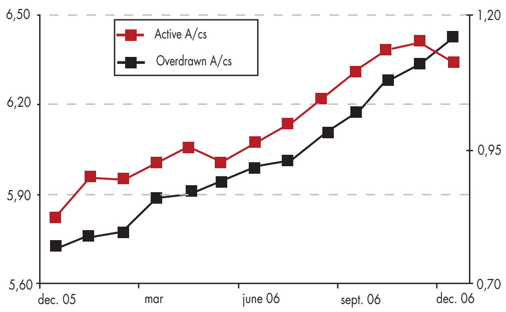
During the second half of 2006, **the growth of bank loans accelerated with a an annual average increase of 9.9%** (8.3% in 2005). Therefore, the trend of bank loans – which is much better than the trend of economy - is mainly indicative of the high demand for short-term loans from non-financial companies, in relation to their increasing turnover (after a three-year standstill, short-term loans grew by 5.2% on average on a yearly basis). The weight of total loans of the energy, chemical and metallurgical industries, in addition to services available for sale, increased, also fuelled by some large mergers and acquisitions. **The Group's market share of total bank loans remained steady at 6.3%**.

The households' demand for mortgage loans was less impressive, with growth going from +16.4% in December 2005 to 13.6% in October 2006 (latest data available). **As a result, medium-/long-term loans fell from 14.4% to 12.8% on average on an annual basis**. The slowdown of retail loans was flanked by the steady demand from non-financial companies with a high propensity for longer maturities loans, associated with increasing investments, in addition to extraordinary finance transactions. **The MPS Group market share was still above 6% with reference to total medium-/long-term loans and climbed to 7.3% with reference to households' mortgage loans**.

As of 31 December 2006, **gross NPLs** rose by 3.9%; the NPLs/total loans ratio came to 3.4%, declining with respect to December 2005 (3.7%). Increasing NPLs during the year mostly concerned non-financial companies (+5.7%) and retail consumers (+2.5%). During the second half of 2006 net NPLs rose again and at the end of the year topped the levels registered in December 2005 by about 2%. The net NPLs/total loans ratio dropped below 1.3%.

Bank interest rates fluctuated less than the reference rates of the monetary policy (+125 bp), influenced by intensifying competitiveness.

Retail and Corporate Interest rate - %



Interest rates on A/C retail and corporate loans increased by slightly more than 50 bp with respect to December 2005 (by 74 bp with respect to total loans). Over the same period, interest rates on deposits and bonds (calculated on the basis of outstanding volumes of bonds) climbed by 50 bp.

As a consequence, **the A/C spread reduced marginally on average year on year in comparison with 2005**, with the global spread (funding-lending) increasing by 6 bp.

MAIN REGULATORY ISSUES

The investments reform law (no.262/2005) was enforced on 12 January 2006 and supplemented in December 2006 with Legislative Decree 303/2006. In the area of **corporate** governance, focus is placed on the **protection of minority shareholders and the role played by the manager in charge of drafting corporate documents. The presence of independent directors within the Board of Directors** is also regulated. The relations between the banks and their shareholders are regulated by the provisions stated by the Bank of Italy and any reference to statutory loan obligations is eliminated. The reform pursues objectives of **greater market transparency and protection of retail customers**, with initiatives in relation to the placement of financial products, including the **mandatory submission of a prospectus for bank bond issues and the placement of securities (such as corporate bonds) initially underwritten by institutional investors**. The abolition of the preliminary review of the Bank of Italy with reference to the issues of financial instruments in the primary market is also important. The new **organization of the Regulatory Authorities consolidates** the joint management of supervision within the Bank of Italy and changes the management of controls in case of mergers and acquisitions between banks, with the Bank of Italy and the Antitrust Authority being charged jointly of (i) a sound and prudential management and stability and (ii) competitiveness, respectively.

Law decree no.223 of 4 July contains some important provisions concerning banking activity. New modes of communications with the customers were introduced with reference to **any one-sided amendments to term agreements. Such amendments shall be made only on the basis of justified reasons and the customer shall be entitled to terminate the agreement with no penalty or closing fees**. Any changes in interest rates resulting from the decisions made by the ECB shall involve both debit and credit interest rates and shall not be prejudicial to the customers. The decree also states that all **professionals shall be obliged to have a current account dedicated to the management of their professional activity**, and shall not collect cash professional fees, if exceeding a pre-established amount (with a gradual reduction of the maximum limit with the passing of time). Additional measures oblige the banks to notify the Inland Revenue of the personal data of their customers holding financial instruments, and any **tax amendments in relation to the sums paid to the employees, for the purpose of early retirement plans, and stock option plans**.

Law 296/2006 (Financial Act for 2007) has enforced the provisions in relation to complementary welfare introduced by Legislative Decree 252/2005 one year in advance, as of 1 January 2007. As a result, private employees shall decide **no later than 30 June 2007 whether they intend to invest their staff severance indemnity still to be accrued in complementary welfare funds or to keep it in their company's funds** (in this case, if the company has at least 50 employees, the indemnity shall be allocated to an INPS-managed fund). The law includes also other aspects concerning the reintroduction (passed by law 286/2006) of the **inheritance tax and the tax on donations** and, in

particular, the non-taxability of the **transfers of companies or business units and shares and shareholdings of companies** to heirs, provided the beneficiaries continue to carry out corporate business or hold the controlling stake of the company for at least five years.
The law provides for a **more rigorous IRES regulation in relation to trusts**, in addition to some tax benefits with respect to corporate mergers carried out in 2007-2008.
The Financial Act for 2007 also approved the cut of the tax wedge, which excluded a few industries, such as the banking industry. To this end, it is worthwhile mentioning that, in the European scenario, the gradual alignment of customers conditions requires the preliminary standardization of general conditions, starting from taxation.

With reference to supervisory regulations, the CICR (Credit and Savings Interdepartmental Committee) resolution of 22 February 2006 **implied the conversion of maturities** and abolished quantitative limits in relation to medium-/long-term corporate loans (30% of total funding).

THE MPS GROUP DOMESTIC SALES AND MARKETING ACTIVITY AND CUSTOMER PORTFOLIO

During 2006, the MPS Group achieved considerable results in relation to sales and marketing, confirming its market share in the major business segments and enhancing the quantitative and qualitative value of its customer base. As usual, these results were achieved by adopting an approach oriented to enhancing customers' potential and ensuring high-quality customers' relations in view of consolidating the customers' confidence. In a scenario characterized by growing competitiveness and regulatory complexity, the following elements prove to be structural factors in relation management. Professional skills, quick response time, emphasis on customer satisfaction and a steady drive to the total quality of service enabled the bank to effectively meet the retail requirements of investment allocation and to ensure an appropriate financial and advisory support to the companies. Following are the main elements which characterized commercial operations in relation to funds management and lending.

1) FUNDS MANAGEMENT

The **flows of products placed by the MPS Group Commercial Networks topped EUR 8.5 billion (EUR 10.5 bn as of 31 December 2005), absorbing the criticalities which emerged in funds management, heavily compromised by the redemptions of funds involving the whole industry**.

Following is the mix of the main products placed by the MPS Group, which was driven by the increasing weight of **bonds, with a satisfactory performance concentrated in the first half of the year**:

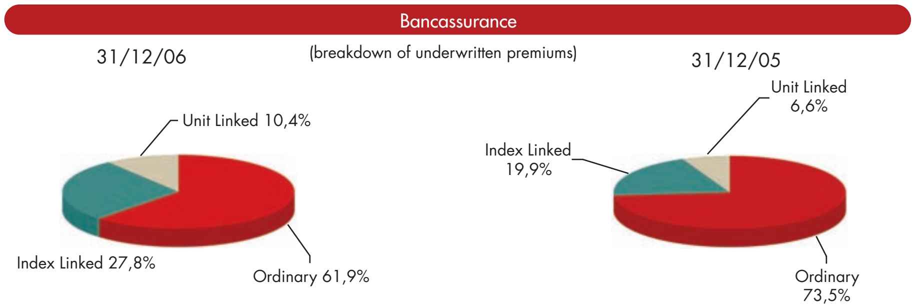
PRODUCT PLACEMENTS (in million of euros)

	31/12/06	31/12/05
Mutual funds/Sicavs (*)	-409	-40
Individual portfolios under management	-557	770
Life-insurance policies *including:*	3,782	5,234
Ordinary	2,339	3,847
Index Linked	1,050	1,040
Unit Linked	393	347
Bonds *including:*	5,718	4,496
Linear	4,037	2,703
Structured	1,681	1,793
Total	**8,534**	**10,460**

(*) Multimanager Mutual funds/SICAVs sold directly to customers don't included into other product.

In particular:

- ***Life insurance premiums underwritten almost reached EUR 3.8 bn***. As a result, the MPS Group confirmed to play a leading role in the Banc assurance and Post market, **with a market share of approximately 8% for the products placed during the period**. With reference to the new production of the MPV Group, insurance premiums underwritten as of 31 December 2006 came almost to EUR 3 billion. The contribution of Quadrifoglio Vita Spa (a 50%-owned subsidiary of Banca Agricola Mantovana) was also positive, with insurance products placed in the amount of more than EUR 700 million as of 31 December 2006. The breakdown of premiums compared with 31 December 2005 proves that Index- and Unit-linked policies are now prevailing, with ordinary insurance policies losing ground in line with the downward market trends for 2006.



- **Net redemptions of collective and individual funds under management amounted to EUR 966 million**, after a good start in Q1. In particular:

  - **Net redemptions of mutual funds/SICAVs** came to EUR 410 million approx. (- EUR 40 million as of 31 December 2005) incorporating the expected switch from the monetary funds (net redemptions from direct customers – EUR 609 million) to other more dynamic fund categories, and the growing weight of extragroup products (net flows: EUR 620 million), mainly in the area of the private platform;

  - ***Net redemptions of individual portfolios under management totalled slightly less than EUR 560 million*** (net positive flows of EUR 770 million as of 31 December 2005), as the balance of (i) EUR 175 million concentrated on individual fund portfolios (GPF)/individual share portfolios (GPS) and (ii) redemptions in the amount of EUR 732 million concerning ordinary individual portfolios under management;

- ***Bond volumes totalled EUR 5.7 billion*** (EUR 4.4 bn as of 31 December 2005), including:

  - **Structured bonds** (EUR 1.7 billion) with low option contents and no up-front fees collected by the Networks after 2005;

  - **Linear Bonds** in the amount of EUR 4 billion.

■ 2) LENDING

In line of continuity with prior years, lending operations were oriented to balancing the supply of an appropriate financial support to the corporates with the utmost rigour and selectivity in risk assessment, further enhancing the Group's skills in consumer credit and retail mortgage loans. **New loans disbursed by the Group networks and the special credit companies** came to EUR 14.1 billion (+4.5% with respect to 31 December 2005). In particular,

- **new mortgage loans granted and disbursed by the Group networks** to the customers topped EUR 7.8 bn (in line with the high levels of December 2005, thus boosting the growth of medium-/long-term loans by 9.5%, as outlined in the section covering capital aggregates).

■ LOANS DISBURSEMENT (*) TO RETAIL, CORPORATE AND PRIVATE CUSTOMERS

(in millions of euros)

	31/12/06	31/12/05	Abs. chg. yoy	% chg. yoy
Monte dei Paschi di Siena	4,142	4,124	18	0.4
Banca Toscana	1,716	1,868	-152	-8.1
Banca Agricola Mantovana	1,958	1,947	11	0.6
MPS Banca Personale	52	67	-14	-21.6
Total	**7,868**	**8,005**	**-136**	**-1.7**

(*) ex. disbursements for public works.

- **Specialized lending** also continued to develop at a fast pace. In particular, **Consum.it (consumer credit)** which mostly services retail customers, recorded a flow of total disbursements in the amount of about EUR 2.7 bn (+25.7% in comparison with 2005 with **a market share climbing from 4.6% in December 2005 to 5.1%)**. Agricultural and investment credit disbursed by Mps Banca per l'Impresa progressed considerably (+17.8%). On the front of corporate customers, **factoring operations expanded appreciably by 5.8% (estimated share of 4.2% with respect to 4.1% as of 31 December 2005). Leasing operations slowed down (-3.7% year on year) with a market share topping 2.4%**. The marketing of **hedging products for corporates and public agencies is rocketing (+15.4%)**.

■ SPECIALISED CREDIT AND CORPORATE FINANCIAL PRODUCTS (in millions of euros)

	31/12/06	**31/12/05**
MPS Finance		
risk management (1)	4.423	3.834
MPS Banca per l'Impresa		
disbursements	2.597	2.204
MPS Leasing & Factoring		
incl.: new leases executed	1.153	1.197
factoring turnover	4.343	4.105
Consumit		
disbursements	**2.671**	2.125

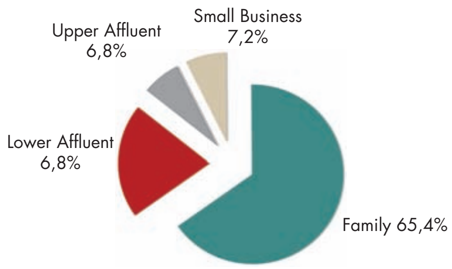
(1) figures also include products issued by Networks directly.

3) CUSTOMER PORTFOLIO

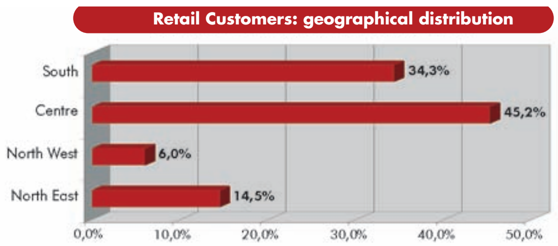
As of 31 December 2006, the customers of the Group (including the direct customers of Consum.it) **numbered about 4,513,000 (4,461,000 at the end of 2005). Retail customers and Private customers accounted for 97.8% and 0.7%, respectively, of the commercial networks[1] customers (4,144,000), with the remaining 1.5% represented by Corporate Customers**.

A review of the **retail business** (4,055,000 customers) shows that the weight of **Family segment** is more than 65% and represents the majority of customers, followed by the Lower Affluent segment (20.6%), Small Business (7.2%) and Upper Affluent customers (6.8%).

MPS Group Retail Customers

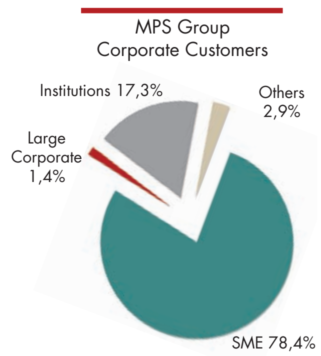


The **geographical breakdown of retail customers** confirms the Group's traditional franchise in central and southern Italy. However, the MPS Group moderately expanded its presence (+0.4%) in the last three years in the north-western areas of Italy.



[1] Including the customers of: Banca Monte dei Paschi di Siena, Banca Toscana, Banca Agricola Mantovana and MPS Banca Personale.

SMEs, Government Agencies and Large Corporates account for 78%, 17% and 1.4% respectively of the Group's **61,127 corporate customers** (now referred to as Key Clients for organizational purposes).



Following is the **breakdown of customers by business sector**

MPS Groups: composition % by activity

	Total Customers	Retail	Corporate
Agricolture	3.7	3.9	2.5
Public utilities	0.3	0.2	1
Manufacturing: extraction and chemical	2.2	1.6	4.5
Metallurgy and mechanical	7.7	6.9	11.2
Alimentary, wearing, leather, textile	11.6	10.5	15.8
Construction and building	11.1	11.7	8.3
Wholesale distribution	9.2	8.5	12.2
Retail distribution	19.3	22	7.5
Tranport and communication	3.4	3.4	3.5
Banking, insurance and services	12.1	12.4	10.6
Public administration	5.2	5.7	2.8
Not classified	14.2	13.1	20.1

The table hereunder includes the number of Group customers by segment and bank seniority. It can be easily noticed that the MPS Group has **very high customer loyalty levels**

MPS Groups: segmentation % by age

	Clienti
1-3 years	16.6
4-5 years	9.3
6-10 years	21.2
11-20 years	41.7
more than 20 y	11.2

The following **analysis of the acquisition and retention rates** from 2004 to 2006 shows the structural growth of the acquisition rate, with the retention rate remaining steady.

	Retention 2006	Acquisition 2006	Retention 2005	Acquisition 2005	Retention 2004	Acquisition 2004
Total Customers	93.5	7.1	93.5	6.5	92.0	4.9

This trend is indicative of the efforts the Bank is making for the purpose of improving **“proximity” to the customers**, by intensifying contacts (at least once per year) and steadily implementing Service Models/Commercial Platforms.

Customers contacted at least once a year				
	2006		2005	
Total Customers	**4,144,099**	**59.2**	**4,120,6651**	**47.7**
		% Contacted Customers		% Contacted Customers
Retail	4,054,654	59.2	4,035,817	47.6
Private	28,318	91.7	26,471	78.3
Corporate	61,127	47.3	58,363	46.1

With reference to specific projects, the Bank has started a project in order to **create single records of prospects**, to be used for marketing purposes and to be extended to the Group Banks. The records, which will be mostly fuelled by external sources but will also use internal sources and other information synergies – in compliance with data treatment regulations – shall be constantly aligned with internal records and the networks will use it through territorial campaign management instruments. As regards potential corporate customers with financial statements, a credit pre-scoring shall be available to the networks in order to prepare business offers to be submitted to the customers during marketing calls.

CAPITAL AGGREGATES

The above-mentioned commercial operations in terms of funds management and lending, in addition to the foreign network operations, made a strong contribution to the development of the major capital aggregates, as shown hereunder.

■ 1) FUNDING AGGREGATES

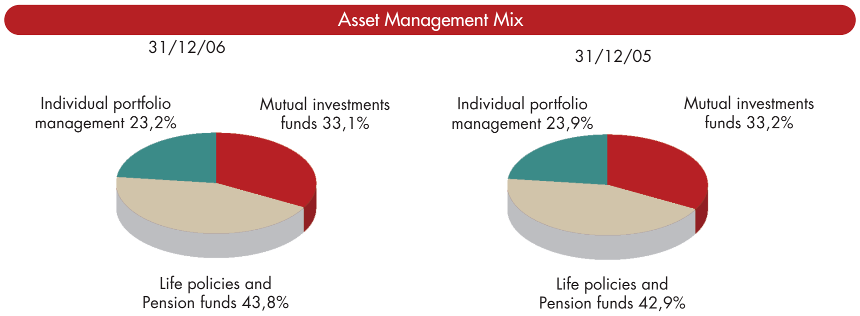
As a result of the Group's commercial operations, total funding grew by about 3.5%, net of the outflow from funds under management of a large corporate deposit, with an almost nil impact on profitability.

■ **CUSTOMER FUNDING** (in millions di euros)

	31/12/06	31/12/05	% chg. vs 31/01/05	% weight 31/12/06
Direct customer funding	**93,976**	**87,696**	**7.2%**	***48.7%***
Indirect customer funding	**99,079**	**108,855**	**-9.0%**	***51.3%***
assets under management	*47,966*	*48,439*	-1.0%	*24.8%*
assets under custody	*51,113*	*60,417*	-15.4%	*26.5%*
Total customer funding	**193,055**	**196,551**	**-1.8%**	***100.0%***

In particular, ***indirect funding* came to EUR 99,079 million as of 31.12.2006) with**:

- **The balance of *funds managed*, which totalled EUR 47,966 million (1% decrease year on year)**, with the weight of the component of "life insurance policies and pension funds" at 43.8% (42.9% as of 31 December 2005).



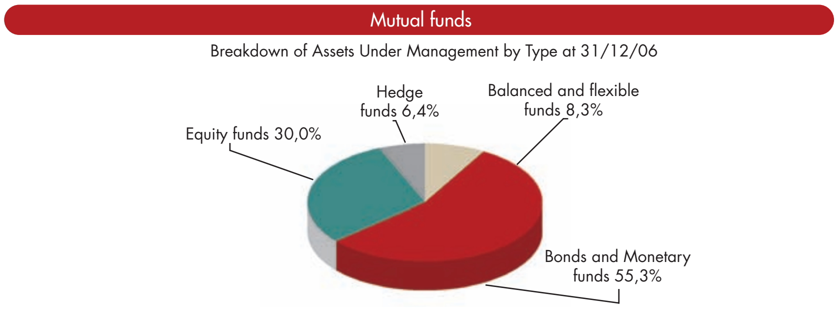
In the above chart:

- ***With reference to life insurance policies*, the technical reserves in relation to the Group commercial networks came to EUR 21 bn (+1.1% with respect to 31**

December 2005), mainly driven by the prevailing weight of traditional life policies, which however slowed down with respect to prior year;

- ***The balance of the Group mutual funds/SICAVs* amounted to EUR 15.8 billion**, dropping by 1.4% with respect to 31 December 2005.

The chart below illustrates the mix of investment funds by type, evidencing a modest growth of equity funds (at 30% with respect to 29.2% as of 31.12.2005) and a decline in the weight of bond and monetary funds:

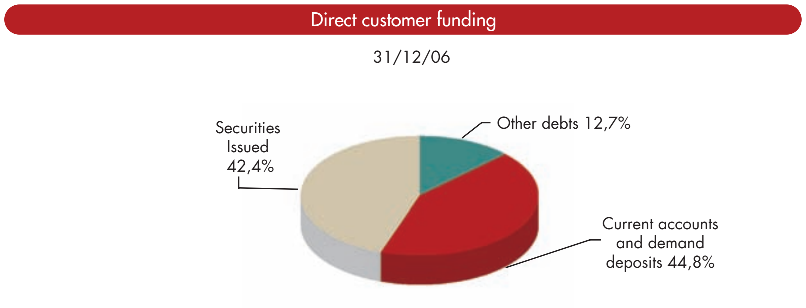


The balance of *individual portfolios under management* stood at EUR 11,1 billion (EUR 11.5 bn with respect to 31.12.2005).

The total balance of ***funds under administration*** amounted to EUR 51.1 billion, with a 1.4% progress, net of the outflow (about EUR 10 bn) in relation to the custody of some strategic shareholdings held by a large corporate customer, as a result of their market quotation.

Direct funding (at about EUR 94 billion, **with a domestic market share of 6.5%**) advanced considerably by 7.2% in comparison with data as of 31 December 2005, mainly driven by bonds placed with retail customers and short-term deposits which absorb liquidity coming from indirect funding.

Following is the mix of the aggregate by type:



And by business sector:

COMMERCIAL FUNDING (in millions of euros)

	31/12/06	% chg. yoy	% weight 31/12/06	% weight 31/12/05
Commercial Banking/Distribution network	44,201	7.2%	59.8%	59.6%
Corporate Banking/ Capital Markets	25,397	2.5%	34.4%	35.8%
Private Banking/ Wealth Management	4,332	36.5%	5.9%	4.6%
Total	**73,930**	**6.8%**	**100.0%**	**100.0%**

The geographical breakdown of traditional customers' deposits in the domestic network is as follows:

MPS GROUP

Deposits of ordinary customers with italian branches

Distribution by Customer Residence - *in EUR mn*

Geographical Area	31.12.06	% weight 31.12.06	% weight 31.12.05
Northern Italy	9,693	22.9	22.5
Central Italy	21,696	51.3	53.4
Southern Italy and Islands	10,926	25.8	24.2
Total	**42,314**	**100.0**	**100.0**

2) LENDING

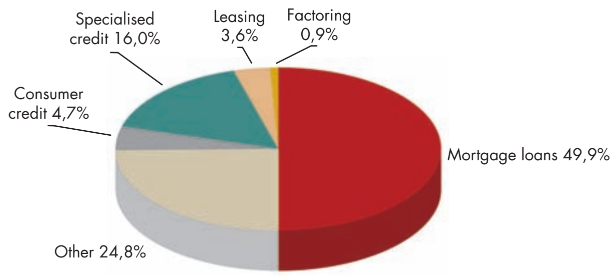
A)THE MPS GROUP COMMERCIAL OPERATIONS

As a result of the above-mentioned hefty flows of disbursements, outstanding loans totalled almost EUR 92 billion (+10.1% in comparison with the data as of 31 December 2005). Growth was mainly driven by domestic performing loans which advanced by approx. 10.4% (**with a market share of 6.3%**) boosted by medium-/long-term loans (+9.5%) but above all by the acceleration recorded in the second quarter by short-term loans (+11.8% y-o-y).

Following is a breakdown of consolidated loans by type:

Outstanding Loans

31/12/06



and by business sector:

CUSTOMER LOANS (in millions of euros)

	31/12/06	31/12/05	% chg. a/a	% weight 31/12/06	% weight 31/12/05
Commercial Banking/ Distribution network	36,535	33,224	10.0%	42.9%	42.7%
Corporate Banking/ Capital Markets	47,784	43,845	9.0%	56.1%	56.3%
Private Banking/ Wealth Management	805	807	-0.3%	0.9%	1.0%
Totale	**85,124**	**77,877**	**9.3%**	**100.0%**	**100.0%**

The geographical breakdown of customers' loans within the domestic network is as follows:

MPS GROUP

LOANS to ordinary resident customers italian branches

Distribution by Customer Residence - *in EUR mn*

Geographical Area	31.12.06	% weight 31.12.06	% weight 31.12.05
Northern Italy	27,500	33.2	34.1
Central Italy	38,146	46.0	45.6
Southern Italy and Islands	17,199	20.8	20.3
Total	**82,845**	**100.0**	**100.0**

B) CREDIT QUALITY

The MPS Group closed the year 2006 with net loan losses sharply decreasing (-13.6%), with a limited weight of loan losses with respect to total customers' loans. The ratio of NPLs and watchlist credits (net of valuation adjustments) to total loans came at 2.94% with respect to 3.21% in 2005.

■ **BREAKDOWN OF CUSTOMER LOANS BY RISK** (in millions of euros)

Risk category - Net book values	31/12/06	31/12/05	% weight 31/12/06	% weight 31/12/05
A) Impaired loans	**3,839**	**4.442**	**4.18**	**5.32**
a1) Non-performing loans	1,691	1,573	1.84	1.88
a2) Watchlist loans	1,015	1,026	1.10	1.23
a3) Restructured loans	111	88	0.12	0.10
a4) Past due	1,022	1,756	1.11	2.10
B) Performing loans	**87,523**	**78,701**	**95.19**	**94.22**
C) Other assets	**579**	**383**	**0.63**	**0.46**
Total Customer loans	**91,941**	**83,526**	**100.0**	**100.0**

These results were due to the outstanding decrease in past due loans (-41.8%), the decelerating yearly trend of NPLs (-3%) and watchlist credits (-7.9%), and the positive outcome in terms of management of the NPLs portfolio mandated to MPS Gestione Crediti Banca **which collected a total amount of EUR 493.2 million for the whole Group (+6.6% with respect to 31 December 2005)**.

The coverage of loan losses was consolidated considerably, thus proving the Bank's conservative policy in relation to provisions, with a 38.7% weight of gross total loans (33.3% as of 31 December 2005). In particular, the percentage of coverage was 54.1% in relation to gross NPLs (52.8% at the end of 2005), with the coverage of the commercial Banks approximating 60%. Portfolio valuation adjustments to performing loans account for 0.6% of the aggregate.

■ **PROVISIONING RATIOS**

	31/12/06	31/12/05
"provisions for NPLs and watchlist loans"/ "gross NPLs +gross watchlist loans"	**46.3%**	**44.9%**
"provisions for watchlist loans"/"gross watchlist loans"	**25.1%**	**26.0%**
"provisions for NPLs"/"gross NPLs"	**54.1%**	**52.8%**

Following is the breakdown of some credit quality indicators for the Group's major business units:

BREAKDOWN NPLS AND WATCHLIST LOANS BY BUSINESS UNIT (in millions of euros)

Risk category - Net values at 31/12/06	**Group**	**BMPS**	**BT**	**BAM**	**MPS Banca per l'Impresa**		**Consumit**
Non-performing loans	1,691	658	230	150	546	63	20
% weight on customer loans	1.8%	1.3%	1.7%	1.4%	4.9%	1.4%	0.5%
"loan loss provisions"/ "gross NPLs"	**54.1%**	**57.9%**	**57.1%**	**57.5%**	**33.4%**	**75.0%**	**73.5%**
Watchlist loans	1,015.2	308	205	89	240	83	21
% weight on customer loans	1.1%	0.6%	1.5%	0.9%	2.2%	1.9%	0.5%
"loan loss provisions"/ "gross NPLs"	**25.1%**	**32.1%**	**24.6%**	**16.8%**	**14.1%**	**31.8%**	**30.0%**

Banca per l'Impresa registered a more limited weight of valuation adjustments, due to the guarantees securing the loans disbursed.

PROFITABILITY AGGREGATES

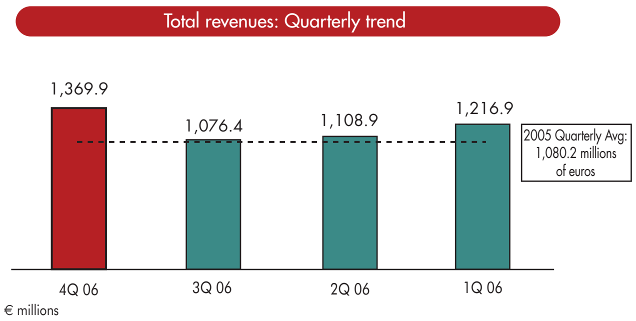
As a result of the above-mentioned dynamics, the consolidated Net Operating Income and the consolidated Profit for the year progressed by 40.1% and 20.8% (15.2% with respect to the data published in 2005) respectively, as described hereunder.

1) OPERATING PROFITABILITY

THE DEVELOPMENT OF OPERATING INCOME: THE COMPOSITION OF FINANCIAL AND INSURANCE INCOME

With reference to the development of income from financial and service business, as of 31 December 2006 ***financial and insurance income*** **stood at EUR 4,772.1 million (+10.4% with respect to 31.12.2005), with the "core" component (interest income + commissions from customers) advancing by 3.4% year on year and strongly accelerating in the fourth quarter (+5.7%)**.

The main aggregates developed as follows:



- ***Interest income*** **in the amount of EUR 2,714.2 million approx. rose by 5.2% with respect to 31 December 2005, as a result of the strong quarterly momentum (+5.5% in the fourth and third quarter)**. The Commercial Networks contributed with an increase of around 5.1% which benefited from the expansion of average volumes traded higher than 8.3%, partly offset by a decline of 4 cents in the yield spread (10 cents in September). The Parent Bank's proprietary finance and treasury fell by 43% y-o-y, mainly due to the lower contribution from securities portfolio starting from the second quarter of 2006;
- ***Net commissions*** **grew by 0.3% with respect to 31.12.2005 at about EUR 1,491 million, with a highly accelerating quarterly profile (+6% in the fourth and third quarters)**. Income from asset management developed by 1.6% (in particular, "continuing" fees rose by 6%). Service commissions fell by 0.7%, in view of the cancellation of the closing fees of current accounts and securities transfers. In addition, they are affected on a year-on-year comparative basis by particularly high arrangement income collected from large corporate customers during 2005 (excluding this, the growth of service income would stand at 2.3%) ;
- ***Dividends, similar income and Profits (Losses) from equity investments*** amounted to

EUR 43.8 million (EUR 92.1 million as of 31 December 2005) including EUR 27.5 million attributable to dividends from equity investments and EUR 15.5 million in relation to profits from companies consolidated with the net equity method. The decline with respect to 2005 was attributable to the minor contribution from some companies (including Uno A Erre which posts a loss of EUR 11.6 million);

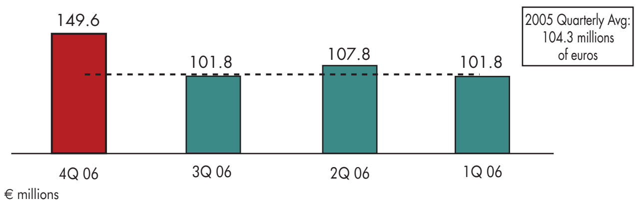
- ***Net income from trading/valuation of financial assets*** came to EUR 530.6 million (EUR 175.2 million as of 31.12.2005), with an appreciable progress in relation to the component associated with the trading activity performed by the Parent Company and MPS Finance, in addition to the profits from the sale of the equity investments held in Assicurazioni Generali (EUR 223 million), BNL (EUR 54.1 million), Fiat (EUR 22 million) and Farmafactor (15.3):

NET RESULT FROM REALISATION/VALUATION OF FINANCIAL ASSETS
(in millions of euros)

	31/12/06
Net Profit from trading	239.9
Profit/loss from loans, available for sale financial assets and financial liabilities	323.2
Fair Value financial assets and liabilities	-32.6
Net result from realisation/valuation of financial assets	**530.6**

THE COST OF CREDIT: NET VALUATION ADJUSTMENTS FOR LOAN LOSSES AND FINANCIAL ASSETS

Net adjustments for impairment of loans: Quarterly trend



With reference to income resulting from loan disbursements, in 2006 the Group posted ***net valuation adjustments to loan losses*** **in the amount of EUR 461 million (+EUR 43.9 million with respect to 31.12.2005), with a provisioning rate of about 50 bp**. This is indicative of the improved quality of the Group's loan portfolio (2005 provisioning rate: 51 bp), which was achieved as a result of massive investments in state-of-the-art procedures in support of loan disbursement and monitoring.

Net valuation adjustments to losses on financial assets showed a **negative balance** (EUR 125.4 million). The account includes an updated valuation of the investment held in Hopa (with a book value of about EUR 1 per share), which implied an investment write-down of about EUR 104 million, as a consequence of the recent, important events which involved the company.

As a result, ***income from financial and insurance business*** **totalled EUR 4,185.7 million with a 11.2% increase with respect to 31 December 2005**.

OPERATING EXPENSES: OPERATING CHARGES

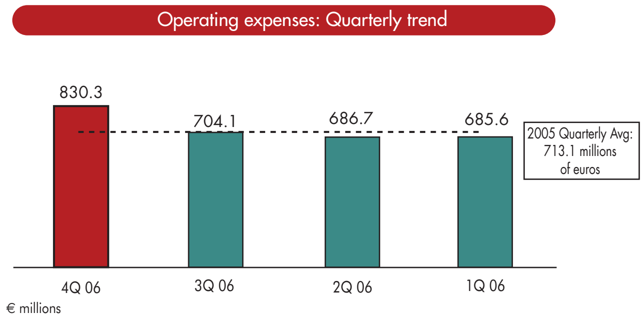
Late in 2006, **Operating Charges** were indicative of the initiatives in relation to the "advanced" implementation of the 2006-2009 Business Plan, including higher costs (more than EUR 35 million) resulting from staff early retirement plans.
Other administrative expenses also included massive investments in technology, new branches, communications, advisory services implemented in the fourth quarter of 2006, for the purpose of speeding up the start of the projects provided for by the Plan and the achievement of the objectives.
However, despite the inevitable heavy costs associated with said investments, Operating Charges increased modestly (+2.6%), as a result of the initiatives aimed at the rigorous, structural containment of expenses in 2006, in line of continuity with prior years.

■ **OPERATING EXPENSES** (in millions of euros)

	31/12/05	31/12/04	Abs. chg. vs 31/12/05	% chg. vs 31/12/05
Personnel expenses	1,861.6	1,828.9	32.7	1.8%
Other administrative expenses	910.4	878.7	31.8	3.6%
Administrative expenses	**2,772.0**	**2,707.5**	**64.5**	**2.4%**
Net adjustment to the value of tangible and intangible fixed assets	134.7	144.8	-10.1	-6.9%
Operating expenses	**2,906.7**	**2,852.3**	**54.4**	**1.9%**

In particolar:

A) ***Administrative expenses*** **increased by 2.7% in comparison with 31.12.05** as a result of:



- Personnel expenses in the amount of EUR 1,861.6 million (book value), including non-recurrent charges in relation to the benefits paid to the personnel of the former Tax Collection Unit, in addition to charges for early retirement plans in the amount of EUR 79.7 million (EUR 70.5 million in 2005).

Once eliminated said components and re-determined personnel expenses for 2005 as a result of the recalculation of the actuarial reserve of the pension fund of a subsidiary, the annual trend on a comparative basis was +2.8%. This is attributable to salary increases (full impact of the changes associated with the National Labour Contract during 2005; renewal of the Supplementary Corporate Labour Agreement) which accounted for 3.5%, with the effects partly mitigated (-0.7%) by the benefits generated by workforce remix (retirement of personnel with high seniority and hierarchical level; recruitment of young employees) and the rigorous management of other expense variables;

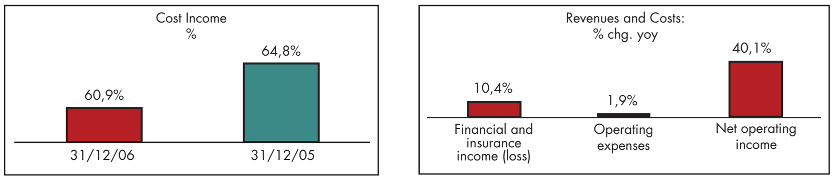
Other administrative expenses **(EUR 910 million**, net of recoveries of stamp duty) progressed by 3.6%, incorporating the expenses in relation to the expansion of the geographical network, the development of fast-growing businesses (i.e. consumer credit) and support to technological innovation.

B) **Net valuation adjustments to fixed and intangible assets** amounted to **EUR 134.7 million** declining by 7% with respect to 31 December 2005.

Accordingly, the Net Operating Profit stood at EUR 1,279 million, with a 40.1% increase year on year (EUR 912.8 million as of 31.12.2005, +32.2% with respect to the data published in 2005).

The cost/income ratio – as a result of the above-mentioned profits from the sale of equity investments - fell to 60.9% (improving by 4% with respect to 31 December 2005).

EFFICIENCY RATIO and REVENUES/COSTS TREND



2) EXTRAORDINARY ITEMS, TAXES AND NET PROFIT FOR THE YEAR

Net profit for the year consists of the positive balance of ***Net provisions for risks and charges and Other operating income/charges*** in the amount of EUR 4.1 million (-EUR 23.7 million as of 31 December 2005), which incorporates:

- **An amount of EUR 82 million in relation to other operating income/charges**, which mainly include residual income components (income from non-banking companies, contingent assets etc.);

- Net provisions for risks and charges totalling a **negative balance of EUR 77.9 million**, mostly associated with the coverage of possible operating risks (lawsuits, actions for revocation etc. ...)[2];

Given the effect of the foregoing, the profit from current operations before taxes came to EUR 1,285.4 million with a 49.4% increase year on year.

[2] With reference to the Report on Operations as of 30 June 2006 (note 4, of the paragraph covering "Extraordinary items, taxes and net profit for the period) in relation to the claim for damages submitted by the Temporary Administrator of Parmalat Spa to Banca Monte dei Paschi di Siena and its subsidiary MPS Finance, it is confirmed that – though at a preliminary stage of judgement, the risk of losing the case is deemed to be remote. Therefore, no specific provisions have been made.

Rounding out the picture of profitability are:

- **Income tax on current operations for the year** in the amount of EUR 500.9 million (EUR 249.2 million as of 31 December 2005), with a tax rate of roughly 36.5% which absorbs the recent innovations in relation to IRAP non-deductibility of loan write-offs which were not deducted in prior years, and of capital losses on equity investments.

- **Profits from groups of assets being sold after taxes** in the amount of EUR 145.4 million, declining with respect to 2005 (EUR 165.4 million) . This trend is attributable to the 50% reduction of the contribution from the tax-collection area, which contributed to the Group's results only for a part of the year, whereas the insurance area recorded a growth of about 26%. In particular, the life insurance companies (**Monte Paschi Vita and Monte Paschi Life**) showed a net profitability of EUR 63 million (+36.3% year on year) and EUR 28 million (+18.8% year on year), mainly driven to the improved result of the financial business caused by increasing market rates.

On the property casualty front, **Monte Paschi Assicurazione Danni** posted a net profit of EUR 12.2 million, with a 25% increase in comparison with 2005.

Therefore, also in view of the contribution from the above-mentioned components and minority interests, consolidated net profit for the period stood at EUR 910.1 million (+20.8% with respect to 31.12.2005 and + 15.2% with respect to the data published in 2005). The ROE was 13.3% (ROE calculated on average shareholders' equity: 12.1%).

Such results take advantage of the positive contribution from the Parent Company (BMPS), all the Group's Business Units (as outlined in the following section covering Segment Reporting) and in particular from **Banca Agricola Mantovana** (EUR 78.8 million) and **Banca Toscana** (EUR 93.5 million).

In compliance with the recently-issued CONSOB instructions, following is the comparative breakdown of the Parent Company's net equity and profit for the period and consolidated net equity and profit for the period.

COMPARATIVE STATEMENT OF THE PARENT COMPANY'S NET EQUITY FOR THE PERIOD AND CONSOLIDATED NET EQUITY AND PROFIT FOR THE PERIOD (in EUR '000s)

	31.12.2006	
	Net equity	**Profit and loss statement**
Balance as per the Parent Company's balance-sheet	7,674,526	867,903
Incl. valuation reserves from the Parent Company	*398,109*	
Effect of consolidation of subsidiaries with the line-by-line method	-491,329	624,939
Surplus - with respect to the book values - resulting from the valuation with the net equity method	94,575	17,153
Reversal of dividends distributed by the Subsidiaries	0	-538,277
Elimination of investment writedowns / revaluations	310,619	102,028
Infragroup adjustment after way-out of Borsa Italiana stake from parent company to another subsidiary	-117,829	-107,165
Effect of reversal of capitalized commissions	-45,314	-26,818
Other adjustment	97,632	-29,671
Reserves from valuation of subsidiaries	252,145	
Group Net equity and Net profit (loss) for the period	**7,775,025**	**910,092**

SEGMENT REPORTING, SALES AND MARKETING POLICY, RESEARCH AND DEVELOPMENT

1) PRIMARY SEGMENT REPORTING

With reference to the *Segment Reporting* contemplated by the IAS regulations, the MPS Group adopted the *business* approach and chose, for the purpose of **primary reporting** of income/balance-sheet data, **a breakdown of results in accordance with the business sectors committed to carrying out consolidated operations**.

On the basis of said approach, following is a breakdown of the results achieved by the business areas as of 31 December 2006, aggregated in compliance with the new organization structure as defined by the 2006-2009 Business Plan. Following are the differences between this reporting and the previous ones (additional information is provided in the Notes to the Consolidated Financial Statements - "Section D"):

- **Changes in the organization structure**;
- **Reclassifications made as a result of the disposal of the tax-collection area and the future partial disposal of the insurance companies**.

Following are the major changes with reference to the first aspect:

- The Commercial Banking/Distribution Network Area incorporates – as in the case of the Retail Banking Area – the retail customers of the commercial banks, also including small businesses, effective the date of this annual report (previously classified as corporate customers). Unlike the Retail Banking Area, Mps Banca Personale and the asset management companies (belonging to the Private Banking Area), in addition to life insurance companies and property casualty companies being sold, have been eliminated. The Area also includes minority equity investments in Banca Monte Parma and Banca Popolare di Spoleto.

- With respect to the "Private Banking" business segment, the Private Banking/Wealth Management Area includes the private customers of the commercial banks, the asset management companies, MPS Banca Personale and MP Fiduciaria.

- In comparison with the Corporate Banking business segment, the Corporate Banking/Capital Market Area incorporates corporate customers (net of the migration of small businesses to retail customers) and Key Clients (former Large Corporate customers), the foreign branches, MP Banque and MP Belgio, Intermonte SIM and MPS Finance Banca Mobiliare.

■ **SEGMENT REPORTING - Primary segment** *(in millions of euros)*

31.12.06	Commercial Banking/Distribution network	% chg yoy	Private Banking/Wealth Management	% chg yoy	Corporate Banking/Markets	% chg yoy	Corporate Center	% chg yoy	Total Reclassified Group	% chg yoy
INCOME AGGREGATES										
Net Financial Income (loss)	**2,627.1**	**6.1%**	**325.1**	**13.3%**	**1,331.0**	**3.2%**	**488.8**	**82.8%**	**4,772.1**	**10.4%**
Net adjustment for impaiment of loans and financial assets	-271.9	18.5%	-5.0	-27.9%	-181.9	2.2%	-127.6	-9.7%	-586.4	5.5%
Operating expenses	-1,566.8	4.7%	-177.4	-1.7%	-689.1	3.5%	-473.5	-7.1%	-2,906.7	1.9%
Net operating income	**788.4**	**5.1%**	**142.8**	**43.4%**	**460.0**	**3.0%**	**-112.3**	**-70.7%**	**1,279.0**	**40.1%**
CAPITAL AGGREGATES										
Performing loans	36,535.1	10.0%	805	-0.3%	47,784	9.0%	5,126	25.8%	90,250	10.1%
Due to customers and securities	44,201.2	7.2%	4,332	36.5%	25,397	2.5%	20,046	8.3%	93,976	7.2%
Assets under management	31,687.3	-2.8%	11,923.7	5.8%	3,401.5	-6.4%	953.2	1.20%	47,966	-1.0%
PROFITABILITY RATIOS										
Cost Income	59.6%		54.6%		51.8%		96.9%		60.9%	
Raroc	27.8%		30.0%		11.8%				10.8%	

Following are the major aspects which characterized the activity of each Area in 2006:

A) COMMERCIAL BANKING AND DISTRIBUTION NETWORK

■ THE SALES AND MARKETING POLICY AND PRODUCT/SERVICE INNOVATION

In 2006, the MPS Group sales and marketing policy was oriented to **consolidating the customers' confidence in light of the principles of clarity, transparency and the utmost attention to the requirements indicated. Customer care and the diffusion of the culture of customer satisfaction** in the network are the basic elements of our approach to the market.

■ CURRENT ACCOUNTS

In view of the importance of current accounts within the range of services supplied to retail customers, the MPS Group inaugurated an intensive activity of research and development of new products:

- The "Giovani più" package account is targeted at young customers in the range of 18-35 years, with an integrated supply of banking and non-banking services which were specifically selected among the services appropriate for the different lifestyles of the youth;
- "Nuovo Conto Affari" is targeted at independent professionals. This package account offers banking and non-banking services suitable for the requirements of the targeted customers in exchange for a monthly fee. As a new customer, the independent professional opening a Conto Affari is given "Conto Identikit linea evoluta" free of charge for two years;
- Nuovo Conto Identikit is targeted at new Family Customers. The account is successful, partly due to the very clear and transparent method of identification of the most appropriate profile, in accordance with the number and kind of transactions, with a view to minimizing the costs for the final customers. This product, belonging to the category of package accounts, is characterized by a technical and pricing structure matching an appropriate price/frequency of use ratio with a competitive supply in comparison with the competitors' initiatives.

On the front of **asset management, the range of mutual funds was streamlined through regulations and procedures, and the structure of costs was simplified**. The funds supplied have been restructured so as to exploit the management opportunities given to the asset management firms **by the new regulations enforced in March 2006**. To this end, some funds were re-named and, in particular, the "Ducato portfolio" funds have

been re-named **"Ducato Multimanager" so as to highlight that these products are managed by other asset managers**.
In addition, **with reference to opportunity funds**, the MPS Group designed products enabling retail customers to indirectly invest in **hedge funds or other innovative funds**.
In relation to Corporate Social Responsibility, ethical funds were transformed into **charity funds**, which support social utility projects with their management fees.

With regard to bancassurance, a pilot project was activated in some major branches of Banca Monte dei Paschi with the objective of reviewing and **consolidating the distribution** model of protection insurance products. On the basis of this initiative, a few "Bancassurance Information Desks" were opened in some branches and some "Bancassurance Support Units" were set up in the Major Branches selected. **R&D** was aimed to optimizing the range of products, with a review of minimum amounts guaranteed and the launch of a new insurance policy with specific assets provision. During the first half of 2006, the Group started to market an individual pension plan (**PIP**) dedicated to Banca Personale.

On the front of marketing initiatives, it is worthwhile mentioning **an innovative campaign - "Campioni del Monte"(Champions of Monte)** - started in the third quarter of 2006 in co-operation with Gazzetta dello Sport and inaugurated at the branches of BMPS, with the objective of celebrating the victory of the Italian football team in the latest World Football Championships. This initiative, which was successful due to the implicit wordplay in the name of the campaign and the gadget given as a present to the customers (the World Championships football with the issue of Gazzetta celebrating victory) contributed to the acquisition of new Customers and the increase in the cross selling rate to participating Customers.

An innovative marketing approach to **foreign nationals working and living in Italy** has been tested, **with a string of contacts being established** with the channels providing services to the immigrants and committed somehow to immigration issues (i.e. Embassies, Consulates, Associations, Agencies, Unions). The instruments useful for operating with greater effectiveness incorporate the agreements with some foreign correspondent banks (Attijariwafa in Morocco, Banka Credins in Albania and CBAO in Senegal) for free-of-charge receipt of remittance from the country of origin. The Group also participated in the **"MIDA" International Project** which has the objective of enhancing native-language communications channels (Call centers, leaflets, advertising etc..) and territorial components such as assistance centres (*additional information is provided in the section covering "The MPS Group Corporate Social Responsibility"*).

In 2006 the Group conducted the second **Customer Satisfaction Annual Survey** in relation to the MPS Group Retail customers (Family, Affluent and Private with

■ CUSTOMER SATISFACTION ANNUAL SURVEY

- The outcome of the survey confirms last year's excellent results. More than 75% of the customers declare they are "satisfied" or "very satisfied" with their relation with one of the Group banks. The percentage of "unsatisfied" or "very unsatisfied" customers is around 5% (-1% with respect to 2005).
- The survey also indicates that our customers choose their bank on the basis of traditional factors (family bank, proximity). New customers (customers acquired 2-3 years ago) incorporate a large percentage of customers attracted by specific products or word-of-mouth advertising (more than 70% of our customers would recommend one of the Group banks to a friend or a relative).
- The outcome of "exit interviews" shows that the main causes for breaking off relations with the Group (23.5%) are due to logistics (change of home address or business address).

net assets up to EUR 1.5 million), planned and co-ordinated by the CRM Customer Satisfaction Unit. In addition to the general survey, the Group conducted another survey with the customers who broke off relations with the Group in the prior month (so-called "exit interviews") (*see box*).

With reference to the actions aimed at improving bank-customer relations, the MPS Group participated in the **IX ClearPacts Initiative** in relation to customers' profiling in investment services. As a consequence, the Group has released **a new mode of profiling** of Affluent Customers, which will integrate regulatory commitments (i.e. Consob, ClearPacts and ISVAP) within the "Carattere" platform.

CONSUMER CREDIT

In 2006 the retail demand for new loans was buoyant, with the **MPS Group consolidating its leading position in the market of retail mortgage loans and consumer credit**.

These results were achieved due to the contribution of several initiatives on the front of product innovation which were made available to the commercial networks:

- With reference to **retail mortgage loans,** a market where the demand for products meeting specific requirements has expanded considerably, the MPS Group marketed **mortgage loans financing the total purchase of a home** (loan disbursed/building value max.ratio up to 100%) and **developed the range of mixed rate products** (Mutuo **13 Modulare**). Early in 2007 the Group expects to market specific products targeted to time employees, senior customers and the youth;

- With respect **to personal loans**, the Group successfully inaugurated a new line of loans **("Prs Carattere") exclusively targeted at Affluent Customers** and characterized by a **very fast time of inquiry and particularly favourable conditions in terms of interest rates, maturities and amounts to be financed**.

The MPS Group new initiatives for the period also incorporate the marketing of **"Casaleasing", a real estate leasing for the purchase of the second home** by retail customers who already own their first home. Briefly, this is a financial lease transaction in relation to "tourist-residential" housing which might involve considerable economies on the total cost of the transaction if compared with a mortgage loan. The Group also continued to **develop the synergies with third parties' networks** (i.e. real estate companies and agents, and loan brokers) **aimed at increasing market shares in the mortgage loan market**.

Additional information in relation to research and development in the area of payment systems to retail customers is provided in the section covering "*Payment systems*".

COMMERCIAL PLATFORMS

During the year, the Group consolidated the Retail Commercial Platforms. In particular, starting from July 2006, in line with the 2006-2009 Group Business Plan, **the management of Small Business Customers (companies with a turnover lower than 2.5 million) was transferred from the Corporate Area to the Retail Area**. To this end, the Group prepared an action plan, which will be developed leveraging on the following key points:

- The Structure, by adjusting the modes of customers' segmentation and commercial follow-up;
- The Systems, by amending the existing operating and lending instruments and processes for commercial management;
- The Skills, through measures undertaken to fill in the gaps in the skills of the human resources;
- The Culture, for the alignment and integration of the system of values shared by the Retail Area.

At the same time, the MPS Group started the **activities aimed at re-defining supply to Small Business Customers**, with the objective of taking advantage of the synergies resulting from the reorganization of reporting lines for the Branch Managers. **The chain of responsibility** was cut by streamlining geographical presence. In particular, with reference to lending aspects, the Group is adopting **measures optimizing response time**, improving **risk monitoring** and developing **a pricing policy** consistent with the risk profile of the transaction and the customer.

During the year, the MPS Group **continued to extend the Carattere platform** which, as of 31 December 2006, numbered roughly 700,000 **Affluent Customers** (70% of the segment). The model is highly appreciated by the customers and this is proven by new funding which – in the case of a customer managed through Carattere – is about 6 times as much as funding from a customer not managed through Carattere. In terms of mix, on average a "Carattere" customer has a percentage of funds under management which is much higher than a traditional customer.

From the viewpoint of organization, in support to the business with the **Affluent** segment, important initiatives were undertaken in relation to **the development of the instruments available to account managers**, in addition to the introduction of qualitative performance ratios closely associated with relationship management which contribute to optimize service quality. In particular, **"Relation Groups"** – the new application - better focuses on the customers' needs.

On the front of the **Family segment**, emphasis was placed on customer acquisition, through the development of projects of local monitoring of marketing activities, and approaches oriented to limit the erosion rate. As a result of the extensive application of the

Family Commercial Platform, the Group developed the customers base already acquired, by integrating the Group Contact Center marketing initiatives with the network actions. **To this end, the Group tested a sophisticated approach to customer communications ("Prompting customers' calls")**, with customized messages being sent to the customers as part of commercial campaigns, when they operate through ATMs or Internet Banking. **Given the success of the initiative among the customers, this approach will be extended to other innovative channels in 2007**.

Additional information about the actions undertaken in relation to the lending process to the retail segment is provided in the section covering "*The optimization of the lending process*" in the chapter dealing with the corporate market.

OPERATING RESULTS

On the front of **commercial production flows**, the volumes of funding and lending of the Commercial Banking & Distribution Network Area totalled EUR 6.4 bn and EUR 7.4 bn, respectively. As a result, total funding progressed by 1.3% year on year, although influenced by customers' upgrading to the category of Private Customers. Direct funding advanced considerably (+9.1% y-o-y in terms of average volumes), driven by bonds.
Loan volumes traded by Commercial Banking and Distribution Network stood at roughly EUR 36.2 billion (+13.6% in comparison with 31 December 2005), with medium-/long-term loans climbing by 18.7%.

Total income (EUR 2,627.1 million) rose by 6.1% y-o-y. Net Operating Profit stood at EUR 788.4 million with an increase of 5.1% year-on-year. The cost/income ratio for Commercial Banking & Distribution Network was 59.6% (60.4% in December 2005).

COMMERCIAL BANKING/DISTRIBUTION NETWORK (in millions of euros)

	31/12/06	**% chg. yoy**
INCOME AGGREGATES		
Net interest income	1,717.1	9.1%
Net commissions	897.5	0.7%
Financial income (loss)	12.4	12.8%
Net Financial income (loss)	**2,627.1**	**6.1%**
Net adjustment for impairment of loans and financial assets	-271.9	18.5%
Operating expenses	-1,566.8	4.7%
Net operating income	**788.4**	**5.1%**
CAPITAL AGGREGATES		
Performing loans	36,535.1	10.0%
Due to customers and securities	44,201.2	7.2%
Assets under management	31,687.3	-2.8%

The banks and product companies contributing to Commercial Banking & Distribution Network include:

– **Consum.it** further accelerated its growth pace with a net profit of EUR 37.2 million (+12% in comparison with 2005);
– **Banca Monte Parma** (a 49.3% affiliated company consolidated with the proportional method) realized a net profit of EUR 11 million (+30% in comparison with December 2005);
– **Banca Popolare di Spoleto** (equity investment of 25.9% consolidated with the proportional method) realized a net profit of EUR 8.5 million (+16.7 y-o-y).

B) PRIVATE BANKING & WEALTH MANAGEMENT

■ THE OPENING PLAN OF NEW PRIVATE BANKING CENTERS

♦ In 2006 the MPS Group inaugurated 9 Private Banking Centres (7 operated by BMPS, 1 by BAM and 1 by Banca Toscana) . The opening of the new Private Banking Centres is dependent, on the one hand, on the development of new customers and, on the other hand, on the opportunity of more directly supplying the distinctive services of the private banking service model.

In 2006, the major initiatives undertaken included **the development of private banking supply** (financial and non-financial services), **the completion of technological platforms and the expansion of geographical presence, with the dual objective of improving the quality of service rendered and ensuring the growth of the quantity of Private Banking Customers as contemplated by the 2006-2009 Business Plan**.

With reference to the enhancement of the product catalogue, in **the segment of individual portfolios under management** – which represent "core" supply in the private banking service model of the MPS Group – the Group launched a **new line of mutual funds under delegated management ("Alpha Azionaria Europa")** focused on Eurozone investments. This was flanked by the review and amendment of the equity benchmark of reference of some lines (GP Flex and GP Alta Gamma), with the objective of reducing portfolio risks resulting from any foreign exchange fluctuations..

In relation to **multibrand supply**, the multimanager platform with open architecture was expanded with the **development of** the directly placed Sicav range and the inauguration of the partnership with three international investment firms, **"Morgan Stanley", "Franklin Templeton" and "Mellon"**. On the front of **insurance supply**, the Group launched the **Unit Private insurance policy**, a unit-linked policy by MP Life which invests in selected multimanager Sicav lines.

With reference to **non-financial advisory services**, the existing **advisory services** were followed by the consolidation of **art advisory and real estate services** as a result of the co-operation with an insurance broker, Willis Italia SpA.

The instruments of relational support and marketing monitoring incorporate:

- the release of the **Professional Global Advisor (PGA) system**, which represents the main support in the process of relational interaction with the customers;

- the additional operating implementation of the organic analysis and commercial support system **(MAP – Monitoring of Private Aggregates)** at all levels of the private banking area.

On the front of **communications**, the 2006 plan is based on several innovations, including an **advertising campaign** for the purpose of consolidating the brand strategic positioning of the Group, a cycle of important events held in the financial markets and other "satellite" events concerning trusts, art and sport.

OPERATING RESULTS

As of 31 December 2006, the Area had placed **commercial flows** (total flows in the amount of EUR 1,230 million) mainly in Wealth Management products (in particular, extra group SICAVs and individual portfolios under management) with a weight of about 62% of total net funding. As a result, total funding of Private Banking stood at about EUR 21 bn (+5.7% y-o-y), driven by direct funding (+19.8% in terms of average balances) and asset management (+5.8%).

Total income of Private Banking came to EUR 325.1 million, considerably rising by 13.3% y-o-y. Net Operating Profit stood at EUR 142.8 million with an increase of 43.4%. The cost/income ratio was 54.6% (62.9% in December 2005).

PRIVATE BANKING/WEALTH MANAGEMENT (in millions of euros)

	31/12/06	% chg. yoy
INCOME AGGREGATES		
Net interest income	56.5	25.5%
Net commissions	268.2	5.3%
Financial income (loss)	0.5	n.s.
Net Financial income (loss)	**325.1**	**13.3%**
Net adjustment for impairment of loans and financial assets	-5.0	-27.9%
Operating expenses	-177.4	-1.7%
Net operating income	**142.8**	**43.4%**
CAPITAL AGGREGATES		
Performing loans	804.8	-0.3%
Due to customers and securities	4,331.7	36.5%
Assets under management	11,923.7	5.8%

The companies contributing to Private Banking & Wealth Management include:

- **MP Asset Management SGR** posted a consolidated net profit of EUR 65 million (+26.3% in comparison with 2005), boosted by the market positive performance;
- **MPS Banca Personale** took advantage of the effects of the Recovery Plan started in 2005, showing a 14.3% growth of total funding and a reduction of net losses (-EUR 22.3 million with respect to –EUR 38.3 million in December 2005);

Additional information about the insurance companies is provided in the paragraph in relation to the Corporate Centre.

C) CORPORATE BANKING & CAPITAL MARKETS

■ THE SALES AND MARKETING POLICY AND PRODUCT/SERVICE INNOVATION

In 2006, research and development and marketing initiatives in the corporate market were oriented to consolidating the role of the MPS Group as the banking partner of reference, through the development of products and services for the support of the different phases of the corporate life cycle, the implementation of projects of innovation and research of new markets, and the supply of solutions for limiting corporate financial risks.

With reference to the contribution given by the Group to geographical economic growth - in co-operation with local public authorities and private agencies – special emphasis is placed on the success of the "Tuscany Industry Bond", an innovative plan of financial assistance – worked out with Fidi Toscana and the Region of Tuscany – for the development of Tuscan SMEs. The disbursements of loans in relation to the original ceiling of EUR 250 million have been completed. In the short term, the Group shall start the procedures for checking the existence of the conditions required for securitization.

■ MPS GROUP/NATIONAL RESEARCH COUNCIL AGREEMENT

- The initiatives undertaken in 2006 include the execution of a co-operation agreement by the MPS Group and the National Research Council, with the objective of encouraging the transfer of knowledge from the scientific system to the industrial system, as a basis for increasing the competitiveness of Italian corporates in a globalization environment;
- To this end, the MPS Group arranged a meeting in co-operation with the National Research Council and Federlegno for the purpose of showing the businessmen operating in the wood industry in the area of Pordenone the research, innovation and finance instruments processed in support of the agreement. The area of Pordenone, the region of Prato and the food processing industry in Apulia are the first three areas selected for the development of innovation projects.

The numberless projects in co-operation with primary Italian partners for the **development and corporate competitive re-positioning** include:

- The start of the implementation of the measures contemplated by the **protocol with the Region of Tuscany** in order to improve the SMEs access to loans (also as information and training in relation to Basle 2) and to encourage the consolidation of corporate structure, and the prevention and treatment of reversible crises;

- **The agreement with Confederazione Nazionale delle Cooperative** (Federation of Italian Co-operative Societies) for the disbursement of loans for the implementation of biogas production facilities to participating members, as part of the MPS Group support project of the **initiatives oriented to increasing energy savings and the use of alternative energy sources**;

- **With reference to Local Authorities**, the Group finalized and put into effect a protocol with ANCI Toscana in order to encourage know-how exchange in support of technical staff operating in the Local Authorities participating in ANCI and involved in the management of financial and capital services of Tuscan Municipalities. **In particular, the protocol shall cover issues in relation to**:

  - Innovative finance;
  - Project financing;
  - The enhancement of real estate

In the segment of **subsidized loans** – which has become even more important after the reform of Confidi and their transformation into risk-mitigating parties, the Group has carried out many initiatives, including "Portale Confidi", an application which collects all Banking Industry and MPS Group data in relation to the operations of the main collective loan guarantee agencies. More in general, other initiatives are under way for the purpose of enhancing relations with **Confidi/Industry Associations**, as the strategic partners in the development of relations with local corporates, based on the **requirement of using the new loan disbursement criteria (Basle II)**.
The distinctive features of the **corporate product catalogue** incorporate the **instruments of access to subsidized loans**. To this end, emphasis is placed on the **activities in relation to the promulgation of the new law 488** (with **MPS Banca per l'Impresa playing a leading role in the domestic market**), with particular regard to the review of the "Agevolo" bridging loan package, **the planning of new operational paths** (as a result of the opening of the 2006 calls for bids in relation to industry, tourism and trade), and the **training of human resources** who will play a more prominent part during the inquiry stages than in the past, when "old" law 488 was enforced.

The new products launched during the year include:

- The development of the **new "A Basilea" medium-/long-term loan** targeted at the corproates with specific economic/capital characteristics which intend to start an action of partial financial balance in view of the application of the Basle 2 criteria;

- The marketing of a **product for financing photovoltaic industry projects**, which take advantage of the incentives indicated by the Ministerial Decree of 6 February 2006 (Energy Account);

- The development of **"Loans with contribution"** (completing the range of "medium-/long-term loans" with expected management of interest subsidies disbursed by third parties), and **"Loans with covenants"** targeted at new SMEs or SMEs which do not often apply for loans. This kind of loan contemplates a floating spread in relation to the improvement of some specific corporate indicators which can be automatically identified. This product is expected to be launched early in 2007;

- The implementation of **"Edilcarnet", a package targeted at the building industry** which meets the specific needs of builders and offers benefits in terms of globally applied costs. This product is expected to be marketed early in 2007.

With reference to the **management of corporate liquidity**, the Group continued to supply structured bonds and certificates of deposit which ensured attractive performances to the investors. In 2006, the Group

LEASING INITIATIVES

Following are the major initiatives undertaken in the area of leasing:

- The incorporation of a new company, MPS Commercial Leasing, registered in the list of financial brokers pursuant to art.107 of the Banking Act (TUB), with the objective of optimizing the activity with the leasing agents, and expanding the operations to suppliers and dealers;
- The Consumer Leasing project (with pilot tests to be started in the short term), a synergy between Consum.it and MPS L&F for the supply of leasing products to the dealers who have an agreement with Consum.it. This will enable affiliated dealers to complete the range of products and to optimize the synergies between different sales channels;
- The participation of MPS Leasing & Factoring in Eudishow, the most important scuba-diving show in Europe, and the International Boat Show of Genoa, the most important in Europe.

consolidated **its leading position in the corporate market with respect to insurance products**, as a result of a wide and diversified supply. The Group also continued to supply both standardized and customized **interest rate risk and foreign exchange risk hedging products. Hedging products of floating-rate loans still aroused interest**.

The efforts of the MPS Group in the corporate segment also went to the **consolidation of supply in support of the internationalization** of our companies through highly innovative financial and advisory services, as outlined in the chapter covering "*International Banking*".

In support of the service models and the commercial network, the Group continued to **monitor corporate customers' satisfaction** and integrate **Corporate CRM** IT instruments, with the objective of expanding the customer understanding, in support of the commercial activity of the account managers and its monitoring.

Additional information concerning the developments in the **area of corporate payment systems** is provided in the section covering "*Payment systems*".

CORPORATE FINANCE

In 2006 MPS **Banca per l'Impresa** undertook many initiatives in several segments of operations, by proposing state-of-the-art solutions which can integrate traditional loan supply.

Following are the key initiatives with reference to **corporate finance**:

- The **project financing** business - which was intensified and consolidated in the field of infrastructure and utilities – was also extended to the upgrading of urban areas. As far as **utilities** are concerned, the MPS Group operated in all sectors (i.e. water, energy, gas, waste), with particular regard to the growth of operations in the area of **energy from renewable sources**. As many as 6 financing transactions were carried out in relation to wind parks, with 10 wind parks being built in Campania, Apulia and Sicily but also in Tuscany for the first time. Additional information about the MPS Group operations in the development of renewable energy is provided in the section covering "*The MPS Group corporate social responsibility*". With reference to **infrastructure and the upgrading of urban areas**, two transactions were executed in relation to urban areas located in Florence (former Manifattura Tabacchi – Tobacco Industry Plant) and Milan (former Centro Smistamento Poste – Post Sorting Centre);

- **Advisory services** were characterized by the acquisition of important financial advisory mandates in relation to the projects of ATO Leghorn, ATO Viterbo and the Tramway in Latina. **Acquisition financing** continued to be expanded with reference to acquisitions conducted by primary private equity institutional investors and acquisitions by corporate customers, with the MPS Group playing the role of Mandated Lead Arranger (MLA) in many deals. During the year, the Group executed 29 deals (including the acquisitions of Risanamento & Sviluppo Napoli, Savino del Bene, SDN, Screen Service, Sebach, SPII and Vetriceramici). **M&A advisory services** were developed through the acquisition and/or management of mandates which concerned deals with public and private counterparts in relation to extraordinary corporate finance, corporate re-organization and assistance for the planning of/participation in calls for bids.

In the area of **private equity** (*see box*), the actions in support of the development of small

PRIVATE EQUITY

In 2006 MPS Venture SGR made new investments in 7 companies (with a counter value of EUR 37.6 million). In particular:

- MPS Venture 1 Fund purchased equity investments in Imaging (Esaote Group), Raco (now Dynamic Technologies) and Cargo Venture (Savino del Bene Group);
- Siena Venture Fund purchased Daimont (Sebach Group);
- MPS Venture Sud Fund and MPS Venture Sud 2 co-invested in SDN – Studio Diagnostica Nucleare (Naples);
- Emilia Venture Fund purchased Organic Spintronics and Seconda (APA Group – Ferrario Colors).

and medium-sized enterprises with high growth potential incorporate the activity of **MPS Venture SGR**, a subsidiary of MPS Banca per l'Impresa. The company manages seven closed-end equity investment funds with total assets amounting to EUR 326 million. **Three new funds targeted at qualified investors** (MPS Venture 2, Emilia Venture and MPS Venture Sud 2) **started operating in 2006**. In light of the launch of the new funds, **MPS Venture Sgr is the Italian asset management firm which manages most closed-end funds in Italy**.

Service-related activity encompasses business in relation to **loans for scientific research**. Operations with respect to the **Fund for Research Facilities** on behalf of the Ministry of Education, University and Research implied the preliminary inquiry of 12 projects with investments qualified for a contribution amounting to more than EUR 51 million. With reference to the **Fund for Technological Innovation** on behalf of the Ministry of Economic Development, 11 inquiry reports totalling investments in the amount of EUR 11.3 million were processed. 99 transactions were qualified for **Pia Innovazione** operations (Integrated Facilities Package managed by the Ministry of Economic Development), with subsidized investments in a total amount of EUR 645 million. Additional information in relation to **Law 448** is provided in the section covering *"The sales and marketing policy and product/service innovation"*.

On the front of **environmental issues**, the Bank secured confirmation of ISO 14001 environmental certification and EMAS, in addition to SA 8000 social responsibility standard, as a result of the expected maintenance review by RINA, the certifying entity.

COMMERCIAL PLATFORMS

With reference to the Corporate commercial platforms, the extension of the SME Centres to Banca Toscana was completed in October 2006. At the same time, the Group pursued the fine-tuning of the operations and organization of the commercial activity of such centres.

As of 31 December 2006, the MPS Group numbered 108 operating SME Centres, including 63 for BMPS, 24 for Banca Toscana and 21 for BAM. There were about **700 SME managers who are independent from the viewpoint of management** and can rely on **the co-operation of product specialists for preparing a highly customized supply**.

On the front of **"Key Clients"**, the Group completed the process of centralization of BT and BAM customer relations at the Parent Bank. The Key Clients Area (formerly Large Corporate and Financial Institutions Area) consists of **two units**: the **"Key Client Lending Unit"** dedicated to the management of the lending and administrative process and the **"Key**

Clients Commercial Unit" dedicated to the customers' commercial development and management.

The **Local Authorities and Public Administration Project** aims at enhancing the Group's role of banking partner of reference with respect to the Local Authorities segment, the households and small businesses related thereto. In this framework, the Group continued to implement and fine-tune its structures and integrated supply and, in particular, set up a **research and marketing desk** for the purpose of better understanding emerging market needs and consolidating smooth relations between the Commercial Bank Networks and the Product Companies.

■ INITIATIVES OF OPTIMIZATION OF THE LENDING PROCESS

In 2006, the MPS Group continued to **re-engineer the processes of loan disbursement, monitoring and control**, with the primary objective of increasing efficiency and effectiveness, partly through the **use of the new methods introduced by the new accord on capital (Basle 2)** (*see the chapter covering "Integrated risk and capital management"*).

With a view to fully integrating risk measurement within the lending processes, the MPS Group has developed application procedures in support of the new lending processes.
The procedures developed consist of two macro-categories:

- Procedures for the management of loan disbursement/monitoring (Electronic Credit Files. Trend Management etc...);

- Procedures for rating management (rating assignment and review, management of customers shared among the Group banks, etc....)

The procedures developed comply with the specific features of customer segments and consist of:

- Procedures developed for the management of "individual" retail customers (Retail Electronic Credit File)

- Procedures developed for the management of small loans to small businesses (Simplified Electronic Credit File);

- Procedures developed for the management of large loans or loans to larger companies (In-Depth Electronic Credit File).

These procedures were developed with priority being given to the corporate segment first, and secondly to the retail segment.

In **June 2006**, in line with the time-plan for the validation of the advanced internal model of credit risks (AIRB), the **MPS Group banks started the experience period for their corporate customers**. In operating terms, the networks of the Group commercial banks and MPS Banca per l'Impresa have followed a **single process of creditworthiness assessment**, loan disbursement and monitoring of risk exposures since June 2006, in accordance with the new principles confirmed by the supervisory regulations issued by the Bank of Italy at the end of 2006.

In **June 2007**, in compliance with the statutory provisions, the Group banks are expected to start the experience period for their **retail** customers, with gradual extension also to Consum.it.

As a result of the growing importance of the **internal rating system** within the MPS Group management processes, in September 2006 the Group set up a **unit in charge of reviewing the smooth operations of this system**, as part of the Credit Policies and Control Area. The unit also meets the requirement of creating a **Credit Risk Control Unit** within the groups which adopt the AIRB systems, for the purpose of implementing second-level controls in support of smooth operations.

■ OPERATING RESULTS

In 2006, the Corporate Banking Area – which focuses on high-standing Corporate customers (middle and large corporates, public entities) and the Foreign Network – achieved satisfactory qualitative and quantitative results. In particular, the Area confirmed the trend emerged during 2005 in relation to domestic customers (detailed information about the Foreign Network is provided in the following section covering "Secondary reporting), featured by a substantial expansion of medium-/long-term loans but also by the clear acceleration of short-term loans. The growth of **new loan disbursements** remained hefty (more than EUR 2.2 bn, or + 21% year on year in relation to the commercial banks). The positive trend of **special credit** continued, with all business lines developing considerably in comparison with prior year.

The **loans disbursed by the Corporate Banking Area** came to EUR 43.2 billion in terms of average balances (+6.4% y-o-y), with medium-/long-term loans accounting for about 60% of total (59.4% in 2005). **Total funding** declined (-24.1%), due to the outflow of securities included in the funds under administration of a large corporate customer (about EUR 10 bn), who re-organized its corporate structure and listed some of its subsidiaries.

Total income for Corporate Banking (EUR 1,331 million) progressed in comparison with the results as of 31 December 2005 (+3.2%). The declining trend of interest income (falling mark-up) and the virtual stability of net commissions (which last year were characterized by major arrangement deals in relation to large corporate customers) are offset by the strong progress of income from financial business (MPS Finance and Intermonte). The net operating profit amounted to EUR 460 million, increasing by 3% y-o-y. The cost/income ratio for the Area came to 51.8% (versus 51.6% as of December 2005).

■ **CORPORATE BANKING/CAPITAL MARKETS** (in millions of euros)

	31/12/06	% chg. yoy
INCOME AGGREGATES		
Net interest income	890.3	-2.4%
Net commissions	312.6	-0.4%
Financial income (loss)	128.2	n.s.
Net Financial income (loss)	**1,331.0**	**3.2%**
Net adjustment for impairment of loans and financial assets	-181.9	2.2%
Operating expenses	-689.1	3.5%
Net operating income	**460.0**	**3.0%**
CAPITAL AGGREGATES		
Performing loans	47,784.0	9.0%
Due to customers and securities	25,397.1	2.5%
Assets under management	3,401.5	-6.4%

The companies included in the Corporate Banking Area incorporate:

- **MPS Banca per l'Impresa** which consolidated its leading position and posted a net profit in the amount of EUR 64.5 million (+28.5%).
- **MPS Leasing & Factoring – Banca per i servizi finanziari alle imprese** consolidated its market position and posted a net profit of EUR 10.7 million in comparison with the modest profit recorded as of 31 December 2005 (EUR 0.2 million).
- **MPS Finance** posted a net profit of EUR 66.0 million (+92.4%).
- **Intermonte** closed the year with a net profit of EUR 57.4 million (-21.4%).

D) CORPORATE CENTER

The Corporate Center is an aggregation of (i) all operating units which are individually below the benchmarks required for primary reporting, (ii) the MPS Group H.O units (i.e. governance and support functions, business finance and depositary bank, the management of equity investments and capital segments of divisionalized entities where ALM, treasury and capital management activities are particularly important), (iii) the service Units supporting Group units (with particular regard to the units in charge of the management of the collection of doubtful loans, real estate management and the development and management of IT systems, all of them reporting to the Capital, Cost and Investment Governance Area). The Corporate Center also incorporates profits/losses from the companies consolidated with the net equity method and eliminations resulting from infragroup items.

■ THE MPS GROUP FINANCE BUSINESS

During the second half of 2006, the new Business Plan implemented a new organization model contemplating the split of finance business into two areas of responsibility. As a result, Proprietary Finance directly reports to the CEO and Support Finance (Treasury and Capital Management) reports to the CFO.

PROPRIETARY FINANCE

Proprietary Finance operated against a backdrop characterized by a sharp increasing trend of long-term interest rates in the first part of the year, with an increase of 90 bp in the 10-year EUR swap rate, associated with a shock in relation to all risky asset classes (equities, corporate and high-yield bonds) in May-June 2006. The second half of 2006 was featured by the regained stability of long-term interest rates and the recovery of risky asset classes.

As usual, the Group activity in the bond market was oriented to obtaining profitability from the trends, and the curve and value movements in relation to volatility surface. In addition, volatility was considerable in relation to the spreads between different foreign exchange rates and aimed to taking benefit of the clear trend of reduction between USD and EUR rates.

The "net long" position in the equity market taken in the first months of 2006 was considerably reduced in April. This proved to be tactically favourable, when the downward trend appeared again early in May. In the second half of 2006, the Group took again long positions in the equity market which produced good results due to the rally occurred from mid-June to the end of the year.

The same strategic positioning was taken on the front of lending, with widening mid-year spreads having very moderate negative repercussions on the P&L statement.
This kind of exposure was an important factor which contributed to the positive results of proprietary finance. It is part of a structural reduction of financial assets which involved both financial assets for trading purposes (-12% approx. with respect to 31 December 2005) and financial assets available for sale (-28% with respect to 31 Decmber 2005):

FINANCIAL ASSETS FOR TRADING PURPOSES (end-of-period, in EUR million)

	Parent Company 31/12/06	Abs. Chg yoy	Abs. Chg %	MPS Group 31/12/06	Abs. Chg yoy	Abs. Chg %
Cash assets	**7,216**	**-3,537**	**-32.9%**	**20,856**	**-999**	**-4.6%**
Including:						
Bonds and other fixed-income securities	4,464	-5,704	-56.1%	6,481	-6,454	-49.9%
Equities and shares of mutual funds (OICR)	616	31	5.2%	1,292	35	2.8%
Loans	0	0	n.s.	10,867	3,213	42.0%
Loan losses sold, not written off	2,136	2,136	n.s.	2,216	2,207	n.s.
Trading derivatives	**3,567**	**-1,676**	**-32.0%**	**5,588**	**-2,505**	**-31.0%**
Including:						
Positive value of financial derivatives	3,547	-1,687	-32.2%	5,382	-2,594	-32.5%
Positive value of credit derivatives	20	11	119.0%	206	88	75.2%
FINANCIAL ASSETS FOR TRADING PURPOSES	**10,783**	**(5,213)**	**-32.6%**	**26,444**	**(3,504)**	**-11.7%**

■ **FINANCIAL LIABILITIES FOR TRADING PURPOSES** (end-of-period, in EUR million)

	Parent Company 31/12/06	Abs. Chg yoy	%	MPS Group 31/12/06	Abs. Chg yoy	%
Cash liabilities	**193**	**99**	**105.5%**	**12,922**	**3,590**	**38.5%**
Including:						
Amounts due to banks		0	n.s.	6,664	1,510	29.3%
Amounts due to customers	193	118	158.9%	6,190	2,060	49.9%
Outstanding securities		0	n.s.	67	20	42.2%
Trading derivatives	**3,715**	**-1,407**	**-27.5%**	**5,260**	**-2,300**	**-30.4%**
Including:						
Negative value of financial derivatives	3,671	-1,687	-28.5%	5,024	-2,420	-32.5%
Negative value of credit derivatives	44	11	304.8%	236	120	103.4%
FINANCIAL LIABILITIES FOR TRADING PURPOSES	**3,908**	**(5,213)**	**-25.1%**	**18,182**	**1,076**	**6.3%**

With reference to **financial assets available for sale**, the MPS Group sold its investment in Generali Assicurazioni SpA on the block market at the total price of about EUR 677 million, with realized profits in the amount of EUR 223 million. This sale followed the disposal of the stakes held by the MPS Group in BNL (total price: about EUR 355 million, with a profit of EUR 54.1 million) and Fiat (total price of about EUR 280 million, with a profit of EUR 22 million) which occurred during the first quarter of 2006:

■ **FINANCIAL ASSETS AVAILABLE FOR SALE** (end-of-period, in EUR million)

	Parent Company 31/12/06	Abs. Chg yoy	%	MPS Group 31/12/06	Abs. Chg yoy	%
Financial assets available for sale	**2,709**	**-1,338**	**-33.1%**	**4,091**	**-1,594**	**-28.0%**
Including:						
Bonds and other fixed-income securities	1,709	233	15.8%	2,815	9	0.3%
Equities and shares of mutual funds (OICR)	999	-1,571	-61.1%	1,277	-1,603	-55.7%
Loan						
Loan losses						

■ TREASURY & ALM

In 2006, the monetary policies of the major central banks remained restrictive and fears of continuous interest rate increases decided by the Federal Reserve Bank and the European Central Bank produced a sharp price adjustment and, consequently, the return of volatility in all markets.

With reference to **interest rate risk and liquidity**, traded volumes gradually increased as a result of the MPS Group commercial and financial commitments. The management of traded volumes was based on the positive trend of the financial markets, both ensuring appropriate liquidity levels and minimizing interest rate risk through selective and prompt hedging with derivative instruments. As regards the *technical kinds of funding*, the Group continued to issue short-term international certificates of deposit, with a utilization at year-end of EUR 2.9 bn at the London Branch and EUR 1.3 bn at the New York Branch. On the front of *liquidity settlement*, emphasis was placed on liquidity budget estimates for the purpose of optimizing the management of financial flows and limiting the daily average liquidity requirement (about EUR 3 bn). During the year, increasing trading volumes determined the growth of lending (about 2 bn) and the reduction of funding (-0.3 bn). Therefore, as shown in the following table, **the MPS Group's net borrowing position – with funding at -EUR 3.9 bn at the end of 2006 – shows a reduction of the imbalance of about EUR 2.3 bn year on year**.

■ **INTERBANK BALANCES** (end-of-period, in EUR million)

	Parent Company 31/12/06	Abs. Chg yoy	%	MPS Group 31/12/06	Abs. Chg yoy	%
Amounts due from banks	29,754	4,215	16.5%	11,991	1,997	20.0%
Amounts due to banks	20,457	312	1.5%	15,878	-329	-2.0%
Net borrowing position	**9,297**	**3,903**	**72.3%**	**(3,887)**	**2,136**	**-37.4%**

In the area of **interest rate derivative trading and hedging, Treasury** consolidate its market making position in the screen-based markets and the OTC markets. In 2006, the total amount of short-term derivatives in the Banking Book included amounts denominated in Euro and other currencies (USD, GBP and CHF), and reached 145 bn, which represent the most used form of interst rate risk hedging during the year.

In 2006 the ***activity of the Repurchase Agreement Desk*** was particularly feverish both in terms of service activity and as a profit centre. As "service activity", the funding of proprietary portfolios was moved to the OTC market through monetary policy transactions with the European Central Bank (with a monthly turnover of securities securing major refinancing transactions in the amount of about EUR 1 bn) and conducted through the MPS Group network. In 2006, the Group finalized and implemented the **"Group Repurchase Agreement Basket"** project, which runs on a Finance Area application, as the last project of centralization at BMPS.

The ***Treasury Call Desk*** mainly carried out a traditional service activity with the Networks, giving a contribution both in terms of P&L statement, and maintenance and improvement of business relations. The Call Desk traded volumes, with institutional investors, in the amount of about EUR 4.1 bn with respect to spot currency purchase and sale and EUR 11.2 bn in relation to swap transactions. The bank networks (BMPS, BT and BAM) executed 321 options with a nominal value of EUR 402 million.

■ OPERATING RESULTS

The Finance Area of the Parent Bank made a contribution of EUR 215.9 million to total income, with a 15.5% decline year on year. This trend is dependent on the joint effect of the growth (+5.7%) of traditional income (trading, treasury and depositary bank) and the fall of other components, also due to the effects of the first application of the international accounting principles (IAS/IFRS). The net operating profit, inclusive of costs, stood at EUR 177.5 million (-29.1%).

PARENT COMPANY - PROPRIETY FINANCE AND TREASURY (in millions of euro)

	31/12/06	% chg. yoy
INCOME AGGREGATES		
Net interest income	72.2	-43.0%
Net commissions	32.0	18.5%
Financial income (loss)	111.7	9.6%
Net Financial income (loss)	**215.9**	**-15.5%**
Net adjustments for impairment of loans and financial assets	-24.8	n.s.
Operating expenses	-13.6	4.1%
Net operating income	**177.5**	**-29.1%**

THE MANAGEMENT OF THE GROUP'S EQUITY INVESTMENTS

In 2006, in accordance with the provisions of the 2006-2009 Business Plan, the **Equity Investments Unit** focused on the disposal of minority investments, also in huge amounts, including Assicurazioni Generali, Fiat, Parmalat, Dada and others.
The economic impact of such sales and the dividends from the outstanding portfolio (EUR 34 million approx.) produced a significant growth of income for the area (EUR 325 million).

Following are the major transactions[3] which involved the MPS Group equity investments in 2006:

- **Acquisitions of new equity investments, incorporation of new companies, infragroup movements and participation in capital increases**

- Valorizzazioni Immobiliari SpA: this company was incorporated early in February after the split of wholly-owned MPS Immobiliare SpA (book value: EUR 100 million).
- Riscossione Sicilia SpA – Palermo: purchase of a 40% stake from the Region of Sicily and the Inland Revenue (total investment: EUR 6.4 million), in addition to the sale to Riscossione Sicilia SpA of 60% of the share capital of Montepaschi SERIT S.p.A.
- C.I.S. Comp. Invest.Sviluppo SpA.: purchase from Banca Agricola Mantovana of a 4.167% investment (book value: EUR 2.5 million).
- SI Holding SpA: increase in our stake held in the holding company of Carta SI SpA (from 19.712% to 24.47%; with an additional investment of EUR 6.96 million).
- JPP Eurosecurities of New York: Intermonte Sim SpA purchased the whole capital with an investment of EUR 1.6 million.
- Fontanafredda srl: a company incorporated by MPS Tenimenti SpA. The new company was transferred the business unit of MPS Tenimenti, represented by the agricultural and oenological activities, and tourist-accommodating facilities of Fontanafredda Estate. On 28 December 2006 the company was sold to MPS Finance at the price of EUR 82 million.

[3] If not otherwise indicated, any changes in equity investments are in relation to the Parent Company (BMPS).

- MPS Net SpA and MPS Professional: merger by incorporation in Banca Monte dei Paschi di Siena.
- MPS Commerciale Leasing SpA: established by MPS Leasing & Factoring which holds the whole share capital (EUR 5.2 million).
- Sansedoni SpA: increase in the investment from 15.14% to 17.088%, as a result of the partial split of Valorizzazioni Immobiliari SpA (countervalue of the transaction: EUR 21.3 million).
- S.I.A. Ced Borsa – Società Bancaria per l'Automazione SpA: increase in the investment held, from 1.567% to 2.815% (with an additional investment of EUR 3 million).
- Immobiliare Novoli SpA: Banca Toscana increased its stake from 5% to 8.33%, with an investment of EUR 2.8 million.
- Santorini Investment Ltd. Partnership: increase in the investment from 49% to 100%, as a result of the withdrawal of the majority partner (Deutsche Bank), with our investment unchanged.
- MPS Finance Banca Mobiliare SpA: Banca Monte dei Paschi di Siena transferred its equity investments in Hopa Spa (9.60%), Borsa Italiana (10.36%), Montepaschi Vita (100%) to MPS Finance. Banca Monte dei Paschi di Siena had preliminarily sold its 40% stake in Montepaschi Life and the whole (100%) of Montepaschi Assicurazione Danni to Montepaschi Vita. The investments in Borsa Italiana and Hopa were transferred through a non-cash transaction which implied a corresponding increase in the net equity of MPS Finance SpA, through a capital increase at a share premium. Banca Monte dei Paschi di Siena participated in two capital increases of MPS Finance (with capital going from EUR 130 million to a total of EUR 834.3 million).
- Consum.it: capital increase from EUR 32.13 million to EUR 182.07 million, with the participation of Banca Monte dei Paschi di Siena and Banca Toscana on the basis of their respective investments.
- MPS Banca per l'Impresa SpA: Banca Monte dei Paschi di Siena participated in the capital increase with an additional investment of EUR 41.8 million (in addition to EUR 8.45 million approx., as the contribution from Banca Toscana).
- Monte Paschi Vita SpA: participation in a capital increase which implied an additional investment of EUR 54.9 million (in addition to EUR 5.1 million approx., as the contribution from Banca Toscana).
- Fabrica Immobiliare SpA: Monte Paschi Asset Management Sgr underwrote a capital increase with an additional investment of EUR 1.8 million, and its stake unchanged at 45%.
- Fidi Toscana SpA: participation in a capital increase which implied a disbursement of about EUR 1 million (in addition to a contribution of EUR 0.8 million and EUR 0.4 million from Banca Toscana and MPS Banca per l'Impresa, respectively).
- Agrisviluppo SpA: Banca Agricola Mantovana underwrote a capital increase which implied an additional investment of EUR 5.8 million (investment going from 97.802% to 98.224%).

- BIOS MPS SpA.: reinstatement of the share capital as a result of the losses posted as of 30 September 2006.
- Microcredito di Solidarietà Spa: incorporation of the new company in January 2006 with an investment of EUR 0.4 million (40%).

Disposal/Sales of equity investments

- Assicurazioni Generali SpA: the 1.583% investment held by Banca Monte dei Paschi di Siena was sold to MPS Finance, which in turn sold it on the block market for a total amount of EUR 676.7 million. This transaction was executed with Mediobanca.
- FIAT SpA: sale on the block trading market of 0.566% of the share capital of the Turin company, in addition to 0.405% sold by Banca Toscana. The unit price was EUR 8.245 versus a unit book value of EUR 7.333;
- MTS Spa: disposal of a 2.45% stake to S.Paolo IMI and the Royal Bank of Scotland in a total amount of EUR 6 million;
- Banca Nazionale del Lavoro: sale to Deutsche Bank of a 4.345% stake at the unit price of EUR 2.6727 versus a unit book value of EUR 2.2623;
- Farmafactoring SpA: sale of the investment (11%) to Apax Europe VI Fund in a total amount of EUR 16.5 million.
- Charme Investments Sca of Luxembourg (14.526%): sold to FI.SVI.TRE srl at the total price of EUR 14 million;
- Dada SpA: sale of the investment (3.94%) through a private placement procedure to 19 institutional investors at the total price of EUR 10.4 million.
- Kerself Spa: MPS Banca per l'Impresa contributed to the Stock Exchange listing of the company and sold shares during a public offer for sale and exchange, thereby reducing its stake from 20.034% to 6.51% of the company's capital;
- PRO.MO.MAR. Spa: MPS Banca per l'Impresa sold its 10.9% investment.
- GERIT SpA and SORIT SpA: sale by Banca Monte dei Paschi di Siena of the investments held in GERIT (99.978%) and SORIT (76.225%) to Riscossione SpA (Rome). Transfer to GERIT – after the sale – of the business unit through which Banca Monte dei Paschi di Siena directly carried out tax-collection business in the regions of Rome, Grosseto, Latina, Leghorn and Siena.
- PADANA RISCOSSIONI SpA: sale by Banca Agricola Mantovana of a 54.538% stake to Riscossione SpA (Rome);
- Parmalat SpA: sale of 0.555%, at the unit price of EUR 2.498.

SERVICE COMPANIES AND OTHER MINOR COMPANIES

With reference to profitability:

– MPS Gestione Crediti Banca posted a net profit of EUR 4.93 million.

– MPS Immobiliare posted a net profit of EUR 36.58 million.

– Paschi Gestioni Immobiliare posted a net profit of EUR 1.35 million.

– MPS Tenimenti posted a net profit of EUR 0.35 million.

INSURANCE AREA

The life insurance companies **(Monte Paschi Vita and Monte Paschi Life)** posted net profits in the amount of EUR 63 million (+36.3% y-o-y) and EUR 28 million (+18.8% y-o-y), respectively, mainly due to improved income from financial business resulting from increasing market interest rates. On the property casualty front, **Monte Paschi Assicurazione Danni** posted a net profit of EUR 12.2 million, advancing by a sizeable 25% in comparison with 2005.

2) SECONDARY REPORTING

As a basis for secondary reporting, the MPS Group adopted the breakdown of operating results by geographical area. The MPS Group mostly operates in the domestic market, with particular focus on central Italy (the Group realizes 98.6% of its net operating profit in Italy).

The Group international business is strongly oriented to supporting the operations of domestic customers. Particular emphasis is placed on the development and follow-up of the **international expansion of the Italian SMEs**, in a logic of commercial penetration of new or emerging markets and assistance to foreign investment projects.

With regard to **commercial activity** (see the section covering "*The distribution channels*", with reference to the development of the "direct foreign network"), the Group's competitive supply was based on products and services (i.e. Global SACE Insurance Policy, Exportkey, assignment without recourse of credits in relation to foreign companies with transfer of SACE policy and VAT recovery) which represent consolidated operating instruments and attract sizeable commercial flows with an appropriate return in terms of commissions.

In particular, the Group intensified its activity on the front of export financing to emerging countries and **steadily co-operated with SACE for risk insurance coverage**, for the purpose of keeping those risks within the limits contemplated by its credit policies, partly as a result of the activation of risk sharing agreements with other players in the industry. The Group made the most of the **working agreements** executed with **SACE**, and on-line confirmations with volumes exceeding EUR 60 million.

■ EXPORTKEY

♦ Exportkey is a product which enables SMEs exporting Italian goods and services to negotiate business transactions with counterparties in high-risk countries, with a Bank of the MPS Group irrevocably committed to taking on such risk. If required, the Bank can also assign the claim without recourse, at pre-established conditions and with sight collection for the following export transactions. This facility is very competitive for foreign importers, who can take advantage of payment extensions in line with the "European" finance rates.

Exportkey (*see box*) continued to be increasingly successful, with volumes of EUR 182 million for the period (EUR 161 million in 2005).
In relation to services, the Parent Company is the Agent Bank for 4 credit lines of development financial aid (including 3 lines to Tunisia and 1 to Algeria) in a total amount of EUR 123.50 million.

From the standpoint of organization, in support of the **corporate requirements of international expansion**, the Group implemented "**InternationalPartner**", a new service model (see box) which includes "**Welcome Bridge**". This new product is flanked by corporate advisory services and assistance, with the objective of providing the companies with financial resources which can be subsidized with Government financial aid to the international expansion of national or supranational companies, for the purpose of:

- Developing and implementing programmes of commercial expansion toward the countries which already receive exports from these companies;
- Increasing commercial penetration in new markets;
- Finding the best plant/facilities location abroad, for producing parts of the production cycle.

■ INTERNATIONAL PARTNER: A SERVICE MODEL

♦ With InternationalPartner, the MPS Group aims at integrating its international supply with a range of assistance and advisory services in support of the projects of international expansion. This embraces (i) the technical review of the "business project", (ii) the definition of the scope of the project, (iii) the analysis of the financial requirements, (iv) the search for subsidized and market sources of finance and, finally, (v) implementation. This sophisticated activity requires multidisciplinary skills, to be found within and outside the Group, which integrate several areas of analysis useful to the new service model (e.g. financial, legal, fiscal, environmental issues etc.)
As a result, the Group operates a network of professional and skilled independent consultants located in "Target Countries".

♦ Briefly, the new service model of international expansion was designed as an innovative model for the SMEs, switching from passive assistance to the customized management of customer relations, with an advisory approach to the customers and with the Group playing the role of permanent point of reference. There are considerable advantages in terms of co-ordination of all stages of international expansion and customers' loyalty.

The **ICE/GMPS Card** will be available in the first half of 2007 to flank this new product. The Card will give access to very favourable conditions and the information services of the Italian Trade Commission (ICE), with no restrictions.

In compliance with the objectives of development of the Group's operating skills to service the companies in emerging areas, **Correspondent Banking activity** was essentially hinged on two aspects:

- **The improvement of efficiency in the management of relations with foreign correspondents**, at the Group level, with operating centralization at the Parent Company;

- **The increase in business flows from abroad**, with specific initiatives in areas of particular commercial interest (Turkey, Russia and China). Specific promotional initiatives were orchestrated by the MPS Group (i) in China with the participation of about 70 managers of primary Chinese banks in the "**China Italy Banking Symposium**" which dealt with issues of mutual interest and (ii) in Russia with 40 Russian managers participating in a seminar covering Trade Finance.

OPERATING RESULTS

The trading volumes of **International Banking** progressed by 1.4% y-o-y in terms of average balances with reference to the loan portfolio.

Income from financial and insurance business totalled EUR 109.4 million with a 5.6% increase with respect to December 2005. The net operating profit stood at EUR 17.8 million with a 17.8% decrease y-o-y, which had benefitted from loan value recoveries (about EUR 10 million versus adjustments in the amount of EUR 1.5 million in 2006). The cost/income ratio came to 82.7% (89.4% in December 2005).

SEGMENT REPORTING - SECONDARY SEGMENT (in millions of euro)

31/12/06	Foreign	% chg. yoy
INCOME AGGREGATES		
Net Financial income (loss)	**109.4**	**5.6%**
Net adjustments for impairment of loans and financial assets	-1.1	-110.4%
Operating expenses	-90.5	-2.3%
Net operating income	**17.8**	**-17.8%**
CAPITAL AGGREGATES		
Customer loans	1,974.6	7.8%
Due to customers and securities	7,097.6	2.4%
PROFITABILITY RATIOS		
Cost Income	82.7%	
Raroc	2.6%	

With reference to the foreign banking subsidiaries, the contribution made by Monte Paschi Banque to net income came to EUR 8.8 million (with respect to virtual breakeven as of 31 December 2005), driven by increasing interest income (+9.9%) and net commissions (+37.8%). Monte Paschi Belgio, which is re-positioning its business from the quality and quantity standpoint, posted a net profit of EUR 2.4 million and opened two new branches.

INTEGRATED RISK MANAGEMENT

RISK MANAGEMENT PROCESS AND COMPLIANCE WITH BASLE 2 STANDARD

The risk management process at the MPS Group is based on several fundamental principles which provide for a clear definition of control roles and responsibilities at three levels.

The Board of Directors of the Parent Bank is responsible for defining the overall degree of risk aversion and the operating limits in relation thereto. The Board of Statutory Auditors and the Internal Controls Committee are instead charged with evaluating the degree of efficiency and the adequacy of the internal controls system, with particular reference to the control of risk.

The Head Office is responsible for ensuring compliance with risk management policies and procedures. The Risk Committee prepares risk management policies and verifies the overall observance of the limits on risks assigned at various levels of operations. The Parent Bank Risk Committee has the responsibility of evaluating the risk profile of the single companies of the Group and at a consolidated level, and therefore capital absorption (both capital for regulatory purposes and economic capital) in addition to the trend of the risk-return performance indicators.

The Finance Committee has been assigned the tasks of planning the Group funding, identifying initiatives to be adopted for the best risk-return profile of Asset & Liability Management and defining any capital management actions.

The Internal Controls Area is charged with defining the regulations applicable to the internal control systems and verifying the actual application and observance thereof.

The Risk Management Unit of the Parent Bank defines integrated methodologies of analysis for the measurement of overall risks in order to accurately and steadily monitor risks and quantify economic capital. The Unit produces daily and periodic reports for monitoring compliance with the operating limits set by the Board of Directors, on the basis of the internal models developed for the measurement of VaR and the sensitivity of the economic value of exposures to the various risk factors being examined.

During 2006, the internal programme of compliance with the new Basle 2 Accord on Capital Adequacy to obtain the approval of the Supervisory Authorities of the advanced internal models for credit risks, operating risks and market risks was carried on.

In particular, the aims of the several programmes are: as to the AIRB model, to directly involve the four commercial banks of the Group (Banca MPS, Banca Toscana, Banca Agricola Mantovana and Banca per l'Impresa); as to the AMA model on operating risks, to involve 14 companies of the Group starting from the first stage, including the above-mentioned commercial banks, thus implying a huge organizational work; finally, as to the internal model on market risks, to involve, from the very beginning, the Risk-Taking Centres (i.e Banca MPS, MPS Finance BM and MP Ireland Ltd) of the Group with remarkable accounts as far as the Held-for-Trading portfolio is concerned which is the new trading supervisory portfolio framework (i.e. Banca MPS, MPS Finance BM and MP Ireland Ltd), in compliance with the new provisions.

CURRENT RISK KINDS

MPS Group risks can be summarized as follows: credit risks, market risks on the trading book, interest rate risks as registered in the Banking Book (Asset & Liability Management), liquidity risks, equity risks, counterpart and issuer risks, operating risks, insurance risks related to the Group insurance companies, business risks, i.e. the risks of losses resulting from the volatility of cost and income structure, image risks differing from the operating risks, i.e. the worsening of the trust relationship between the customers and the bank.

The Risk Management Unit of the Parent Bank defined integrated methodologies for the measurement and the monitoring of the overall risks and produces daily reports for monitoring compliance with the operating limits set by the Board of Directors concerning market risks, as well as periodic reports for the Risk Committee of the Parent Bank and therefore for the Board of Directors.

As far as the image risks are concerned, in particular those regarding products and portfolios of Group customers and therefore indirectly impacting on the Group total assets, the latest organizational restructuring assigned to the Wealth Risk Management Unit, depending on the Private Banking/Wealth Management Area, the task of measuring and monitoring such risk.

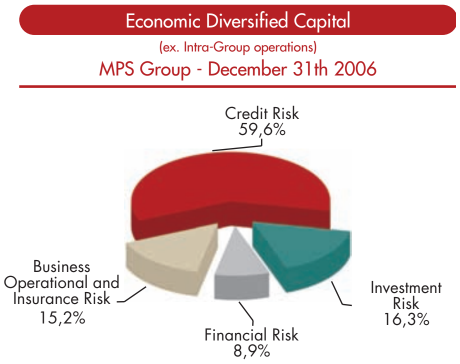
ECONOMIC CAPITAL DEFINITION

The MPS Group adopted common measurement methodologies of the economic capital meant as minimum asset resources necessary to cover economic losses resulting from unexpected risks events for all legal entities.

The relevant risks within the assessment framework concern: a) **credit risk** (including counterpart risk), b) **market risk on trading book**, c) **rate risk registered on the Banking Book (ALM)**, d) **operating risk**, e) **equity risk**, meant as the risk for losses resulting from the Investment portfolio.

VaR measurements - while keeping their individual value according to the ruling provisions and to the international best practices - are determined with holding periods and confidence intervals diversified by risk factors in compliance with the guidelines of the latest Supervisory Provisions for Banks issued by the Bank of Italy. However, in order to express an overall economic capital, risk measurements were standardized as far as both the time period (yearly holding period) and the selected confidence interval (99.93% in line with the rating level assigned to the MPS Group by the rating agencies). They are then diversified in “intra-risks” and “inter-risks” . The final output shows the overall internal capital diversified by Legal Entities, Business Units, Responsibility Areas, and is periodically reported in the Risk Management Report published by the Risk Management Unit of the Parent Bank. Moreover, the same measurement is carried out – at centralised level – for each Legal Entity, is shared with the corporate bodies of each entity while preparing the adequate reporting which is adjusted to the specific lines of business within the consolidation framework.

The above-mentioned risk measurements use, as input, the risk parameters provided for by the New Supervisory Regulations for Banks (Default Probability, Loss Given Default, Exposure at Default, Credit Risk Mitigation) and therefore follow their metrics, evolutions and updating according to the programmes of the Basle 2 Committee for the validation approach with the domestic Supervisory Authorities. The outputs of the Credit Portfolio internal Model developed and used by the Risk Management Unit of the Parent Company, on the one hand, are essential to monitor credit risks, both as to space and time, and, on the other hand, are also used according to different analysis guidelines such as a) evolution analysis of risk and overall internal capital resulting from the application of Business Plan/Budget guidelines b) definition of reference values aimed at underlying the consistency of accounting provisions in compliance with IAS regulations; c) the “active” risk management through risk profile/performance optimization techniques by customer kinds, legal entities and exposures; d) the use of internal management processes which are consistent with the policies of the operating credit units; e) the use of the same credit risk in monitoring.



As of 31 December 2006, the economic capital of the MPS Group is attributable for about 59.6% to the credit risk, for 16.3% to the equity risk, for 15.2% to the business, operating and insurance risks. The operating capital against the financial risks (including the trading portfolio, the ALM-Banking Book and the ALM in life insurance) amounts to 8.9% of the overall economic capital.

In this regard, the incidence of the economic capital on insurance risk is decreasing because of Banking Group equity investment restructuring. Moreover, interest rate risk measuring is also undergoing major reorganization linked with the sight items modelling which is carried out in the first months of 2007 and which, in the light of better understanding and measuring risks, will produce effects on sensitivity measures of interest margin and economic value, which cannot be valued now given the absence of any simulation.

■ CREDIT RISK

Also in 2006, the MPS Group credit risk was analysed and monitored through the use of a

Loan Portfolio Model internally developed by the Risk Management Unit of the Parent Bank including items of the most important legal entities of the Group.

The Loan Portfolio Model methodologically is in line with the quantity techniques mostly spread at international level and incorporates: a) probability defaults (PD) stemming from the internal rating systems which are subdivided by kinds of customers (Large Corporate, Small and Medium Enterprises, Small Business and Retail) but expressed according to a corporate and a retail masterscales which however will be mapped on a single masterscale, in 2007 b) economic loss rates in case of default (LGD) resulting from the analysis of each multiyear set of direct and indirect recoveries and costs of positions closed in default; c) the default exposure ratios to calculate the EAD; d) the factors mitigating risks such as collaterals, financial collaterals and personal securities.

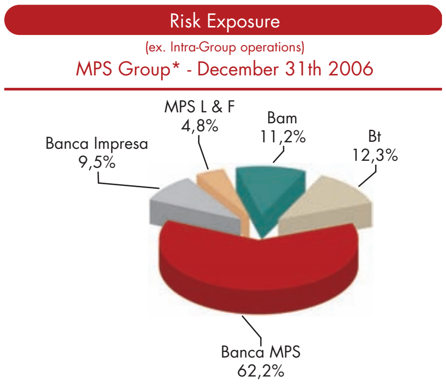
The Model also calculates the effect of diversification through a sophisticated matrix of structural and dynamic correlation which is sensitive to the effect of risk concentration/diversification and consequently re-distribute the Unexpected Loss to each unit/company. This gives the Group the opportunity to aggregate and represent risks in accordance with the requirements of the MPS Group.

Main summarizing measurements are represented by a) the expected loss, representing the expected yearly average loss; b) the unexpected loss, representing the difference between the loss measured at the 99.93% confidence level – in a solar year – and the expected loss; c) risk measurements concerning default portfolio (i.e. bad debts, watchlist credit, restructured loans, past due loans, etc.; d) the economic capital actually representing capital absorption ratios resulting from each positions. Special stress testing analysis on certain variables such as default probability increase, loss ratio increase, guarantee value decrease, increase of margins available on revocation technical kinds is added, aimed at verifying the expected loss and the economic capital levels which would be achieved on the basis of extreme but possible backgrounds. However, as already mentioned, the relative measurements will be remarkably modified in 2007 within the Pillar II project.

Internal rating models were specifically developed on the basis of the Banking Group data within the validation area, as for EAD and LGD parameters, which were assessed using the work-out method: loss ratios was calculated on the basis of recoveries and historical costs which Banca MPS collected on bad debts during several years, properly discounted and amended through the cure-rate method to comply with the same default definition used by internal rating systems.

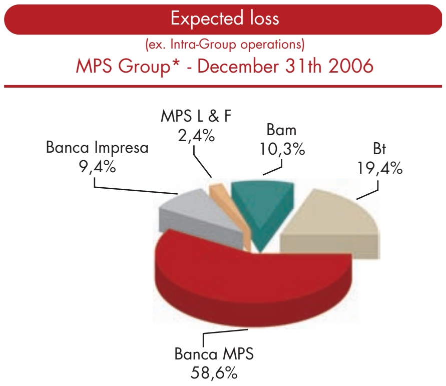
The above-mentioned input parameters, which are substantially the same as those used to determine the Statutory Capital in compliance with the new Basle 2 Accord, will be further improved in 2007 as to method and implementation, in view of the Workshops provided for by the Basle 2 Programme implemented by the MPS Group to reach, already in 2008, the validation goal of the Advanced approach. In particular, the EAD ratio estimates and the implementation procedures of the Credit Risk Management are being examined again, subject to a better identification of the guarantee framework.

As of 31 December 2006, the breakdown of risk exposures recorded by the MPS Group slightly *increased, with respect to the records at the end of December 2005, brought about by more loans to Retail customers, Banks and Financial Institutions, and above all to Corporate Customers. The decrease in Expected Loss and Economic Capital, compared to 2005, is due to the widespread rating improvement of the borrowers, in particular, SMEs and Small Businesses.*

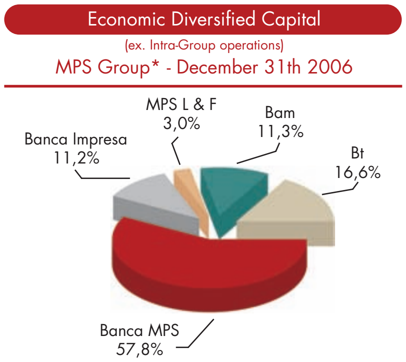


* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per l'Impresa

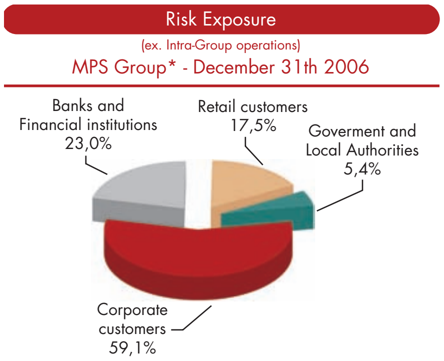
The graphs confirm the marginal contribution – in terms of exposure, of expected loss and economic capital – relating exclusively to the credit risk of the three commercial banks (MPS, BT and BAM), to MP Banca per l'Impresa (Bimp and to MP Leasing & Factoring (MP L&F), weighting more than 80% of the MPS Group total lending. The economic capital with respect to credit risk is attributable for about 57.8% to BMPS, with Banca Toscana accounting for 16.6%; Banca per l'Impresa and Banca Agricola Mantovana for 11.2% and 11.3%, respectively and MP Leasing and Factoring for the rest.



* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per l'Impresa



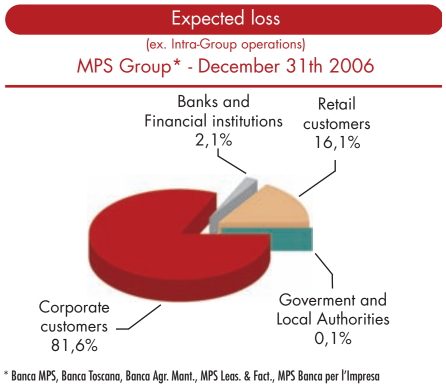
* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per l'Impresa

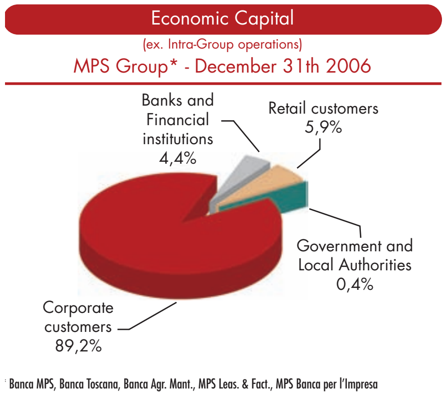


Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per l'Impresa

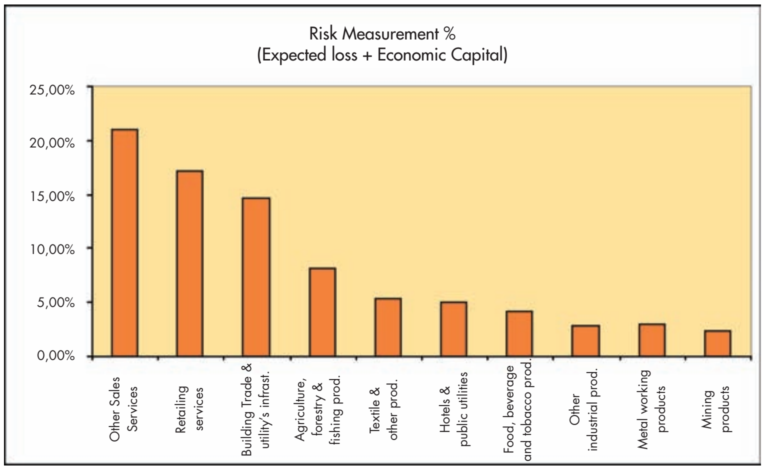
In view of the MPS Group geographical distribution and domestic vocation, it is clear that lending operations are mainly oriented to Corporate Customers (above all SMEs) (59.1 %), to Banks and Financial Institutions (23%) and to Retail Customers (17.5%). Risk exposures to "Governments and Local Authorities" amounted to 5.4%.

The graph also shows that Corporate Customers absorb more than 89% of the total economic capital, whereas Retail Customers are near to 6%. 4.4% of the total capital is given to Banks and Financial Institutions.





The exposure analysis of the top 10 fields by economic activity, representing abt. 83% of overall lending, according to the Bank of Italy classification, shows that "other sale services" and "retailing services" absorb 21.1% and 17.2%, respectively, of total risk measures. Then the building, agriculture and textile sectors follow, thus representing a further 28% of the total Expected Loss and Economic Capital.



EQUITY INVESTMENT RISKS

The MPS Group equity investment portfolio includes all equity investments (abt. 260) owned by all MPS Group companies in external companies, i.e. in companies which do not consolidate and the overall shareholding is lower than the capital absolute majority. Its value is concentrated (62%) in 5 investments. The value of each other investment is rather small (170 equity investments valued less than € 1 million, representing 2.5% of the overall value). The Banca per l'Impresa portfolio investments, which are mere financial ones, are 28 i.e. 3.5% of the overall portfolio value.

The risk is calculated with a Value-at-Risk (VaR) market approach measuring the loss, if any, resulting from negative fair value changes in the equity investments, in compliance with the provisions of the new Accounting IAS Standards.

The VaR model is specifically based on parameters and expresses the loss which the equity investments, at fair value, might incur in one month or, as an alternative in one quarter holding period, with a confidence interval of 99%. The Var model used is a parameter based on the traditional approach of the variance-covariance matrix. Volatility is calculated through historical series of both market performances for the quoted companies and industry indexes for the unquoted ones.

The portfolio VaR (99%, 1 month of holding period) amounts to ca. 14% of the portfolio fair value at year end with a high risk concentration in the first 8 investments.

INTEREST-RATE RISK ON THE CONSOLIDATED BANKING BOOK

The term “Banking Book” refers, in compliance with international best-practices, to all of the non-trading operations in relation to the transformation of maturities with respect to balance-sheet assets and liabilities, Treasury, foreign branches, and derivative instruments providing for risk hedging.

The objectives underlying the Banking Book strategies, which are adopted by the Finance and Capital Management Committee and monitored by the Risk Committee of the Parent Bank are based on a measurement of interest rate risk, in a logic of total return, in order to minimize the volatility of the interest margin expected in the ruling financial year (12 months) or to minimize the volatility of the total economic value in accordance with the change of interest rates.

The analysis of the change of the risk interest margin and of the economic value of the banking book assets and liabilities is carried out by applying deterministic shifts of 25 bp, 100 bp and 200 bp, the latter in compliance with the provisions of the second fundamental aspect of the Basle 2 Accord, with reference both to Tier 1 capital and to the consolidated capital computed for regulatory purposes.

The MPS Group, and therefore the Banca MPS, manages the interest rate risk by portfolio. Usually, hedging derivatives are underwritten inside the Group with MPS Finance BM, which in turn manages by aggregates the overall exposure to the market. Therefore, such approach doesn’t enable the keeping of a link between the underwritten derivative of each company of the Group and the one in the market.

Such management can be loyally represented by the adoption of the Fair Value Option (introduced by the new international accounting standards – IAS 39) while designating a group of financial assets or of financial liabilities at fair value having an impact on the profit and loss account. Such approach is adopted by the MPS Bank for the financial liabilities fair-value covered for standardized portfolios. The Fair Value Option used concerns the cancellation of the accounting mismatch between an item assessed at Fair Value and an item assessed according to other accounting criteria.

For some portfolio and activities the use of the Fair Value Option increases the complexity in the management or in the assessment of the items, in particular for assets items coverage. In this case, the Banca MPS has adopted formal IAS-compliant coverage accounts.

The Group sensitivity for a +25bp of the parallel shift of the interest-rate curve amounts, on average, during the year, to €6,64 mln which is therefore a loss estimate in case of rate change.

■ **MPS GROUP**	**31/12/06**	
Risk indicators for shift of 200 basis point	**+ 100 bp**	**-100 bp**
Net interest income at risk / Net interest income	1.46%	1.79%
Economic Value at risk / Tier 1 capital	0.73%	1.01%
Economic Value at risk / Capital computed for regulatory purposes	0.54%	0.75%

The Group sensitivity for a +25bp of the parallel shift of the interest-rate curve amounts, on average, during the year, to €6,64 mln which is therefore a loss estimate in case of rate change.

MARKET RISKS

Market risks on MPS Group trading portfolio

In 2006, the MPG Banking Group was present on the domestic and international financial markets through many players. The risk taking centres which are most important in terms of positions taken in the Trading Portfolio were the Parent Bank (Banca MPS), MPS Finance BM and Monte Paschi Ireland. These three banks operated on their own account managing trading positions on the basis of specific authorizations and operating limits fixed by the Board of Directors.

The commercial Banks, such as Banca Toscana, Banca Agricola Mantovana and MPS Banca Personale are not authorized, in compliance with specific Group regulations, to run trading position, since they can only trade securities on the account of retail customers and guarantee an OTC market of their issued bonds. Theses banks cleared small past positions. Further to the launch of the 2006-2009 Group Business Plan, activities and goals of some banks within the market risk framework were redefined to improve overall efficiency and to reach the Plan objectives.

In particular, Monte dei Paschi Ireland is expected to move towards activities more in line with funding requirements and Group Capital Management instead of own trading.

A change of corporate mission is also expected for MPS Finance BM and MPS Banca per l'Impresa.

The MPS Group trading portfolio is the aggregate of each portfolio managed by the above-mentioned Group entities. The aggregate is monitored and daily reported by the Risk Management Unit of the Parent Bank on the basis of own systems. Periodically, the reporting flow on the market risk is transmitted to the Risk Committee and to the Board of

Directors of the Parent Bank within the Risk Management Report, through which the Senior Management is informed about the overall MPS Group risk profile.

Each single bank operates with its own trading portfolio, simultaneously and in an integrated way, managing interest rate positions on interest rates, shares, goods, exchange rates and loans, within the delegated authority established by the Board of Directors.

Operating limits to trading activities, which are established by the Board of Directors of BMPS, are expressed by level of delegated authority in terms of VaR, which is diversified and not diversified by risk factors. Limits of Maximum Acceptable Loss (MAL) by level of delegated authority are also set on a monthly and yearly basis. Such limits consider both actual or potential earnings results (P&L) and the measure of risk on open positions (VaR) at the same time.

Measurements of income components were adjusted for the AFS (Available-For-Sale) positions from a management point of view so that they can be compared with the Held-For-Trading positions.

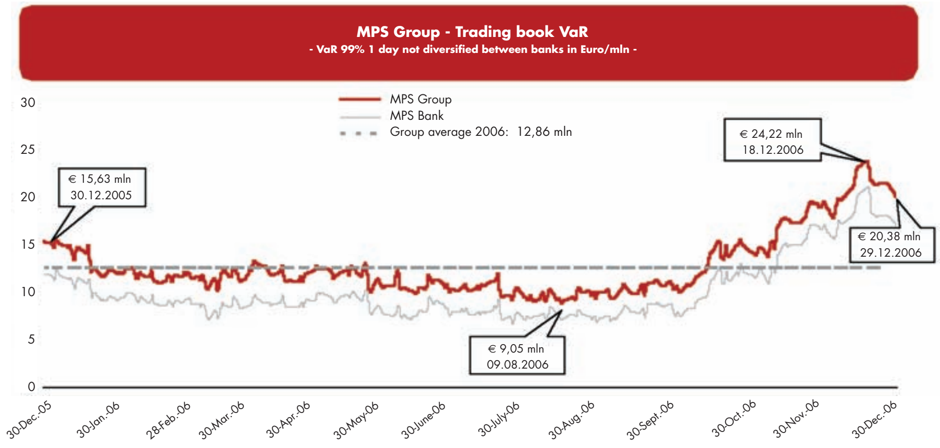
Credit risk related to the trading portfolio is measured and monitored through credit spread sensitivity metrics, whereas operating limits of issuing risk and stock and bonds concentrations are established providing for ceilings by counterparts and rating categories. Market risks are mainly monitored in terms of Value-at- Risk as to management both as to the Parent Bank and the other entities of the Group.

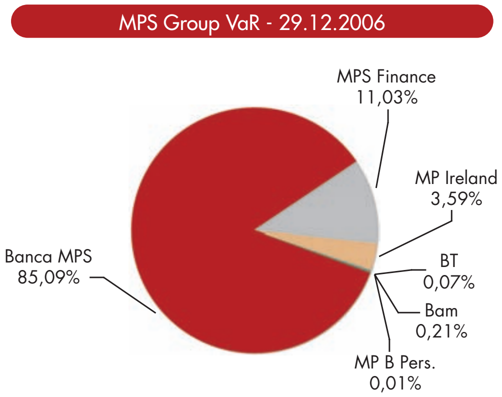
VaR is autonomously calculated by the Risk Management Unit of the Corporate Center by using the Integrated System of Group Risk Management developed by the Unit itself, on the basis of a confidence interval of 99% with a holding period of one business day. The historical simulation with full revaluation of all basic positions method contemplates a two-year historical report (500 historical records) with a daily scrolling. As a result, the VaR calculated in this way considers all the effects of diversification among risk factors, portfolios and type of traded instruments. It is not necessary to previously assume any functional form of income distribution and also the correlations between different financial instruments are implicitly taken into account by the VaR model on the basis of the historical trend of risk factors.

Risk factor kinds which are taken into account are the following:

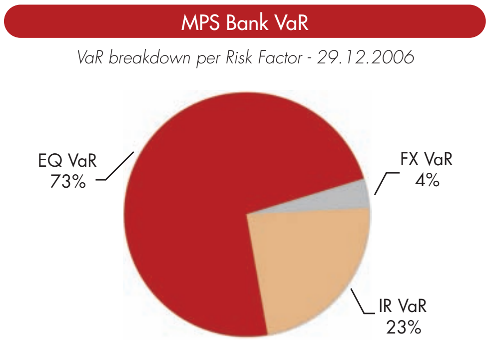
- interest rates on all relevant curves and volatilities;
- share prices, indexes, baskets and relative volatilities;
- commodities prices and relative volatilities;
- exchange rates and relative volatilities;
- credit spread (only for Market Value calculation and sensitivity measurements)

Also in 2006 the Group risks are managed on the basis of prudential and strict criteria aiming at optimizing the overall risk/performance profile. The overall trend of the Group's risk in 2006 was remarkably influenced by the VaR dynamics of BMPS.





The MPS Group market risks are mostly concentrated on Banca MPS. At year end the Parent Bank held 85% of the overall risk, MPS Finance BM 11% and the remaining 4% is attributable to the risk taken by Monte dei Paschi Ireland and by the portfolios of the two commercial banks.



During the year, the Group VaR ranged between EUR 9,05 mln (minimum) of 9 August and EUR 24,22 mln of 18 December (maximum).

The average 2006 VaR amounts to EUR 12.8 and at year end EUR 20.38 mln.

■ **Trading Book VaR: MPS Group**

	VaR (EUR mln)	Date
Min 2006	9.05	09-08-2006
Max 2006	24.22	18-12-2006
Average 2006	12.86	

With reference to the Parent Company, the VaR, diversified among risk factors and portfolios, was substantially stable in the first quarter of the year and bounced progressively in the last quarter of 2006. This trend mirrors a progressive increase in VaR Equity further to an increase in equity exposures aimed at exploiting the favourable economic situation of the main international market

■ **Trading Book VaR: MPS Bank**

	VaR (EUR mln)	Date
Min 2006	6.86	19-07-2006
Max 2006	21.47	19-12-2006
Average 2006	10.25	

The BMPS VaR yearly average reached EUR 10.25 mln. At year end amounted to EUR 17,34 mln.

As to breakdown by risk factors as of 29.12.2006 (last working day of the year) the Parent Company's portfolio showed 73% for equity risk factors (EQ VaR), 23% for interest rate risks (IR VaR) and the remaining 4% for forex risks (FX VaR).

OPERATING RISKS

The MPS Group has implemented an integrated system of operating risk management based on a governance model involving all MPS Group banks and financial companies. This approach defines the standards, methods and instruments for evaluating risk exposure and the effects of mitigation by business area.

Roles and procedures are defined by the internal guidelines concerning "operating risk governance and management" adopted by the Board of Directors on 26 October 2006. The regulations were defined in compliance with the conditions of statutory qualification to adopt the advanced approach as provided for by the supervisory regulations in force.

The advanced approach is designed to homogenously match all major qualitative and quantitative information sources (information or data).

The quantitative component is based on collecting, analysing and statistically modelling historical data of loss. The companies within the area take part in the data collecting and validating, create internal reporting for monitoring purposes, adopt risk capital results produced by the Parent Bank, transfer the culture of correct management of operating risks to the internal staff.

The qualitative component is focused on the evaluation of the risk profile of each unit and is based on the identification of significant scenarios. In this context, the companies are involved in the stage of process and own risk identification, in the self- evaluation- through the staff in charge of the process - of the operating context and of the monitoring system, as well as in the assessment of any potential loss linked with risk scenarios by the top management.

The process ends with the identification of priorities and of technical and economic feasibilities of mitigating actions.

At Group level, events occurred before 2003 were recorded in 2006; moreover, the trend of decrease in such events continues.

The decrease is concentrated in risk events linked with the incorrect sale of investment services, thus proving the efficacy of organizational measures adopted in the last few years: restructuring of product making and distribution, development of retail risk management systems and network training about how to correctly sell products.

Risk profile is in line with the profile of other Banking Groups as it is confirmed by the benchmark results with the DIPO[4] Association data, established within the ABI.

From the "forward looking" point of view, main potential risks linked with evolution of both operating and regulatory contexts and with the mitigation procedure of risks related to the increased technological complexity were also identified.

Main critical issue as to risk exposure were identified on the basis of the analysis of quantitative data, of losses and of assessments expressed by the managers of companies' businesses and shared with all Head Offices of the subsidiaries. The results were summarized in the 2007 Business Plan.

The BMPS Risk Committee approved the plan, in particular, authorising the main measures to be taken regarding operating risks of each critical area.

Such organizational and IT projects are linked, for instance, with the operating risk decrease in credit recovery or document management (in total 11 group projects and 3 local projects).

However, the Group's aim is to adopt, starting from 1 January 2008, the advanced approach to determine the capital (the so-called AMA). The estimates of the internal model report a lower exposure than the standard method.

In 2007 formal activity to acknowledge the advanced approach will be start with the Bank of Italy.

❍ INSURANCE COMPANIES RISKS

INSURANCE COMPANIES RISKS – FINANCIAL RISKS

The operating limits of investment risks/financial risks management which is consistent with the Company's specific and strategic goals are approved by the Board of Directors.

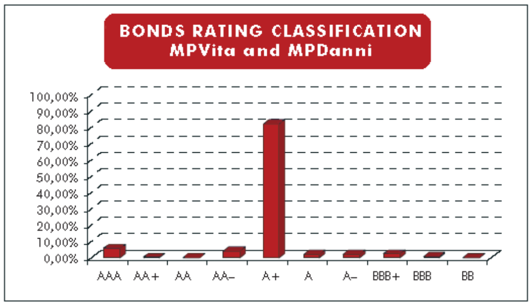
Such operating limits are then delegated to the Chief Executive Officer. The Company's organizational structure then provides for some interdepartmental committees.

As far as market risk is concerned, the Board of Directors:

- establishes the Value-At-Risks limits on circulating assets;
- defines the investment portfolio assets;
- identifies the utilization criteria of derivatives and the specific levels of risks to be taken.

As to credit risk the Board of Directors:

- establishes the minimum level of average overall portfolio rating;
- calculates the total percentage of credit risk investments against the total investment amount of the Company;
- determines the maximum exposure towards one single issuer within limits diversified by ratings (concentration risk).



The Company monitors the compliance with these limits through adequate models. The operating activity has steadily expressed values consistent with these limits during the year.
As to credit risk, cautious investment policies both in plain and complex credit instruments were adopted.

Hereunder the breakdown by rating of the whole MP Vita and MP Danni bond portfolio is reported, with a market value of EUR 11.6 bn at the end of December 2006.

The average portfolio rating was A+ at the end of 2006.

The company's overall market risks, which are related to a portfolio of financial assets with a value dependent on market conditions (interest rates, share prices) and to the corresponding financial income guaranteed to the insured parties according to the agreements of Branch I and Branch V policies (minimum yearly performance, total or partial redemption with capital and income guaranteed), are monitored through an integrated asset/liabilities risk measurement model implemented in co-operation with the Risk Management Service of the Parent Bank.

The model is based on a representation of the assets portfolio and of the redemption options resulting from the policies and managed in the liabilities.
The risk measures are calculated on monthly basis (VaR 99% 1day and 1 month, duration and interest rate sensitivity) concerning mark-to-market of asset and liabilities and therefore able to quantify the maximum risk levels linked with rational behaviours of the customers (redemption arbitrages, no stickiness).

In 2006 the Value-At-Risk (VaR) reported an average value of abt. EUR 84.6mln with a monthly holding period (in 2005 EUR 89.5 mln). The overall risk monitoring of the Insurance Companies is regularly submitted to the attention of the Risk Committee of the Parent Bank and is included in the determination process of the Value Based Management and Capital Allocation for the MPS Group insurance sector in full compliance therefore with the provisions concerning the financial groups issued by the Basle Committee and adopted by the Bank of Italy.

Beside this general representation of the market risks the Insurance Companies have a specific VaR limit on the circulating portfolio for which, anyway, the operating activity has always reported values compliant with these limits during the year.

INSURANCE COMPANIES RISKS – INSURANCE RISKS

The Risk Management Unit of the company works out the measurement methods and the relative monitoring techniques of insurance/demographic risks.

In particular, as to the risk of occasional gaps between the death number and the expected value, a stochastic simulation of risk capital was carried out without taking into account the benefits resulting from the re-insurance. Risk capital amounts to EUR 5.6bn and were computed for each contract calculating the difference between the insured capital in case of death and the actuarial reserve.

The computed risk measurement is the amount which the company must hold to meet the death risk in a year and was computed as 99° percentile: maximum loss which the company can meet in the 99% of the cases in a year. It was assumed that the deaths are spread according to the Poission breakdown, the drawing of the insured capitals is carried out for any single trajectory according to a sampling without repetition of the population of the insured persons. The risk measurement thus calculated amounts to abt. EUR 18 mln. Then a scenario analysis was carried out assuming a 100% - death increasing shock. The resulting risk measurement amounts to abt. EU R 32 mln, Finally, a 50%- death decreasing shock with a resulting risk measurement of abt. EUR 9 mln.

From the point of view of the introduction of the Solvency 2 regulations, the Company took part in the preliminary QIS1 and QIS2 analyses of Ceiops and also intends to participate in the following sessions of such analysis; to this purpose, a consistent internal model of stochastic EV is being implemented also in co-operation with the competent offices of the Parent Bank; such model will also allow to monitor company's risks more efficiently.

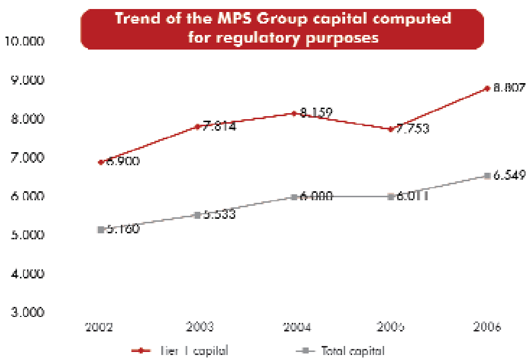
CAPITAL COMPUTED FOR REGULATORY PURPOSES AND PRUDENTIAL REQUIREMENTS

At year end 2006 the Capital computed for Regulatory purposes amounted to EUR 8,806.9 mln showing an increase of EUR 1,054.4 mln (+13.60%) if compared with the end of previous financial year.

■ TOTAL CAPITAL FOR REGULATORY PURPOSES

(in EUR million)	MPS GROUP as of		BANCA MPS as of	
	31/12/06	31/12/05	31/12/06	31/12/05*
Tier I capital	6,549.5	6,010.7	6,641.1	6,183.0
Tier II capital	3,622.0	3,093.8	3,690.8	3,143.7
	10,171.5	9,104.5	10,331.8	9,326.7
Deductions	1,364.6	1,352.0	762.7	1,361.2
Total capital for regulatory purposes	**8,806.9**	**7,752.5**	**9,569.2**	**7,965.5**

* Figure don't incorporate the effects of the application of the IAS/IFRS international accounting principles and the measures provided for by the Regulatory Authorities.



The **Tier I capital** increase (EUR 538.8 mln) was positively affected by the capitalization of part of the period profit and by the higher share of computable preferred securities. **Tier II Capital** increased by EUR 528.2 mln mainly because of new subordinated Upper Tier II loans computed among the mixed capitalization instruments, issued by the Parent Bank in the first half year of 2006. The elements to be deducted were stable as a whole: against an increase in value of the insurance companies deducted from the Capital computed for Regulatory Purposes there was a decrease in deductions for financial investments, since Santorini (EUR 328 mln) is no longer included and is wholly consolidated starting from 31 December 2006 after the acquisition of the majority stake.

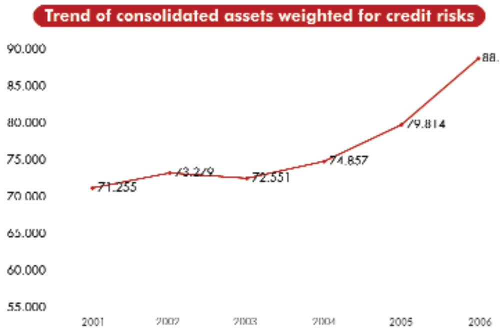
The **Capital computed for Regulatory Purposes** was calculated taking into account the effects resulting from the application of the IAS/IFRS international accounting principles and of the measures provided for by the Supervisory Authorities, amounted to EUR 9,569.2 mln increasing by EUR 1,604 mln (+20.13%) y.o.y. Tier I Capital and its components were positively affected by the capitalized profit share and by the net capital gain of EUR

987.8mln resulting from the sale of the Group insurance investments. Tier II Capital was positively affected by the increase in subordinated Upper Tier II loans issued in the first half year of 2006; the elements to be deducted have remarkably decreased mainly because of the transfer of the Group insurance investments (abt. EUR 477.0 mln) and the acquisition of the majority stake in the Santorini financial investment.

The Group total risk-weighted assets as of 31 December 2006 computed according to the criteria provided for by the Supervisory Authorities amounted to EUR 100.237 bn showing an increase against year end 2005. The total net Group absorptions of capital amounted to EUR 7,323.9 mln (+ 9.65% y.o.y.) taking also into account market risks, other capital requirements and the third-level subordinated loans covering market risks showing **a surplus in capital position amounting to EUR 1.483.0 mln, increased by EUR 410 mln (+38.20%) compared to 31 December 2005**.

■ **MPS GROUP CAPITAL POSITION**	**MPS GROUP**		**BANCA MPS**	
(in EUR million)	as of:		as of:	
	31/12/06	31/12/05	31/12/06	31/12/05*
Credit risks				
on balance-sheet assets	6,698.0	6,032.1	3,945.0	3,277.5
on off balance-sheet assets	615.0	526.5	336.0	312.6
Doubtful Outcomes	-208.8	-173.4	-91.7	-68.6
Total credit risks	**7,104.2**	**6,385.1**	**4,189.3**	**3,521.5**
Market risks				
on trading securities portfolio	**681.9**	**692.9**	**266.4**	**274.2**
of which:				
- generic risks on debt securities	*282.8*	*312.2*	*51.6*	*53.2*
- specific risks on debt securities	*184.7*	*199.8*	*125.6*	*134.7*
- generic risks on equity securities	*505.5*	*43.8*	*12.4*	*18.5*
- specific risks on equity securities	*49.2*	*30.4*	*23.4*	*16.3*
- delta-plus option: gamma factor	*9.1*	*5.7*	*4.4*	*1.9*
- delta-plus option: vega factor	*0.4*	*0.2*	*0.1*	*0.1*
- risk on quotas in mutual funfs	*29.2*	*32.9*	*8.1*	*13.6*
- settlement risk				
- counterparty risk	*76.0*	*67.9*	*40.7*	*35.9*
on concentration				
on foreign exchange	13.0	18.4	-	14.6
Total market risks	**695.0**	**711.2**	**266.4**	**288.8**
Subordinate loans available to cover market risks	**695.0**	**711.2**	**266.4**	**288.8**
Net market risks	**-**	**-**	**-**	**-**
Other requirements	**219.7**	**294.3**	**181.7**	**244.0**
Total capital required for regulatory purposes	**7,323.9**	**6,679.5**	**4,370.9**	**3,765.5**
Total capital regulatory purposes	**8,806.9**	**7,752.5**	**9,569.2**	**7,965.5**
CAPITAL POSITION: SURPLUS	**1,483.0**	**1,073.0**	**5,198.2**	**4,200.0**

* Figures don't incorporate the effects of the application of the IAS/IFRS international accounting principles and the measures provided for by the Regulatory Authorities.



The increase was fully registered in the assets weighted for credit risks, which increased as a whole by EUR 8.988.3 mln reaching EUR 88.802.7 mln, while both market risk capital and other capital requirements decreased compared to the end of the previous financial year.

Loans to private sector most remarkably increased, in particular residential housing mortgages (+ EUR 1.5 bn), non-residential housing mortgages (+ EUR 2.3 bn) and other loans to the private sector (+ EUR 5.1 bn). Guarantees and commitments to the private sector (+1.1bn) also increased whereas equity investments decreased mainly because of the sale of Assicurazioni Generali, BNL, Fiat and Farmafactoring **in compliance with the strategic plan aims**.

■ **MPS GROUP RISK ASSETS** *(in EUR million)*	**GROUP**		**BANCA MPS**	
	Weighted value as of:		Weighted value as of:	
	31/12/06	31/12/05	31/12/06	31/12/05*
- Balance-sheet assets:				
Cash risk assets backed by real property guarantees	0.0	0.0		
Loans to governments, central banks and multilateral banks	639.8	660.5	481.6	548.7
Due from banks	1,777.3	1,588.7	4,441.1	4,437.9
Due from investment companies	29.9	27.5	30.3	26.2
Loans to private sector:				
Residential housing mortgages - private sector	9,062.0	7,563.3	5,100.3	4,187.4
Non-residential housing mortgages - private sector	6,209.6	3,891.0	656.1	589.7
Otherloans to the private sector	61,466.8	56,401.6	35,360.8	29,906.1
Equity investments weighted at 200%	155.4	43.5	59.9	126.7
Shares, equity investments and subordinated assets	1,062.8	1,807.1	9,500.3	6,412.5
Fixed assets	2,294.6	2,435.4	108.2	108.8
Negotiable instruments for collection, accrued income and other assets	1,026.1	982.0	619.0	477.4
	83,724.4	**75,400.7**	**56,357.6**	**46,821.4**
- Off-balance sheet assets:				
Guarantees released, commitments and derivative contracts	**7,687.7**	**6,581.2**	**4,799.5**	**4,666.1**
Doubtful outcomes and capital losses	**-2,609.5**	**-2,167.5**	**-1,310.5**	**979.5**
Total risk-weighted assets	**88,802.7**	**79,814.4**	**59,846.6**	**50,308.1**

For Banca MPS the total risk-weighted assets as of 31 December 2006 amounted to EUR 66,247.5 mln reporting a remarkable growth (+14.38%) compared to the end of the previous financial year. The increase was fully registered in the risk-weighted assets amounting to EUR 59.8 bln (+9.5 bln; +18.96%) whereas the market risks and the securitized assets were slightly decreasing. In particular, cash loans to private sector remarkably increased (+6,434.1mln, + 18.55%) and particularly other loans for housing mortgages. The investments grew by EUR 3,088 mln (despite the sale of Generali) because of the acquisition of the majority stake in the Santorini investment and above all of the MPS Finance capital increase, which also took advantage of the granting of two subordinated loans of the Parent Bank.

The BMPS capital for regulatory purposes (net of market risks, covered by specific third-level subordinated loans) totally amounted to EUR 4,370.9 mln increasing by EUR 605 mln compared y.o.y. **The capital surplus amounted to EUR 5,198.2 mln showing an increase of EUR 998 mln compared to 31 December 2005**.

■ MPS GROUP CAPITAL ADEQUACY RATIOS

	MPS GROUP		BANCA MPS	
	as of:		as of:	
	31/12/06	31/12/05	31/12/06	31/12/05*
Tier I ratio	6.53%	6.51%	10.02%	10.68%
Total Risk ratio	9.48%	9.16%	14.85%	14.25%

* Figures don't incorporate the effects of the application of the IAS/IFRS international accounting principles and the measures provided for by the Regulatory Authorities.

As far the Group capital adequacy ratios are concerned, total risk ratio improved reaching 9.48% (9.16% in the previous financial year). Tier I ratio amounted to 6.53% compared to 6.51% of end 2005.

As to BMPS capital ratios, Total Risk Ratio was 14.85% (against 14.25% of the previous financial year) and Tier I ratio 10.02% (10.68% at end 2005).

THE OPERATING STRUCTURE AND OTHER INFORMATION

THE OPERATING STRUCTURE

The **research and development initiatives** have been outlined in the chapter concerning the development of operations by business area. This section of the report on operations provides information on the development of the operating structure, with particular regard to **distribution channels, payment systems and human resources**.

DOMESTIC DISTRIBUTION CHANNELS

In 2006, the MPS Group continued its activity geared toward **developing and streamlining its distribution channels**, with **1,903** domestic outlets of the commercial banks plus 139 financial promoters of MPS Banca Personale.

MPS GROUP DISTRIBUTION NETWORK

Channel	31/12/06	31/12/05
Domestic branches*	1,903	1,862
Financial promoter offices	139	139
Total domestic sales outlets	*2,042*	*2,001*
Foreign branches	36	30
ATMs	2,233	2,179

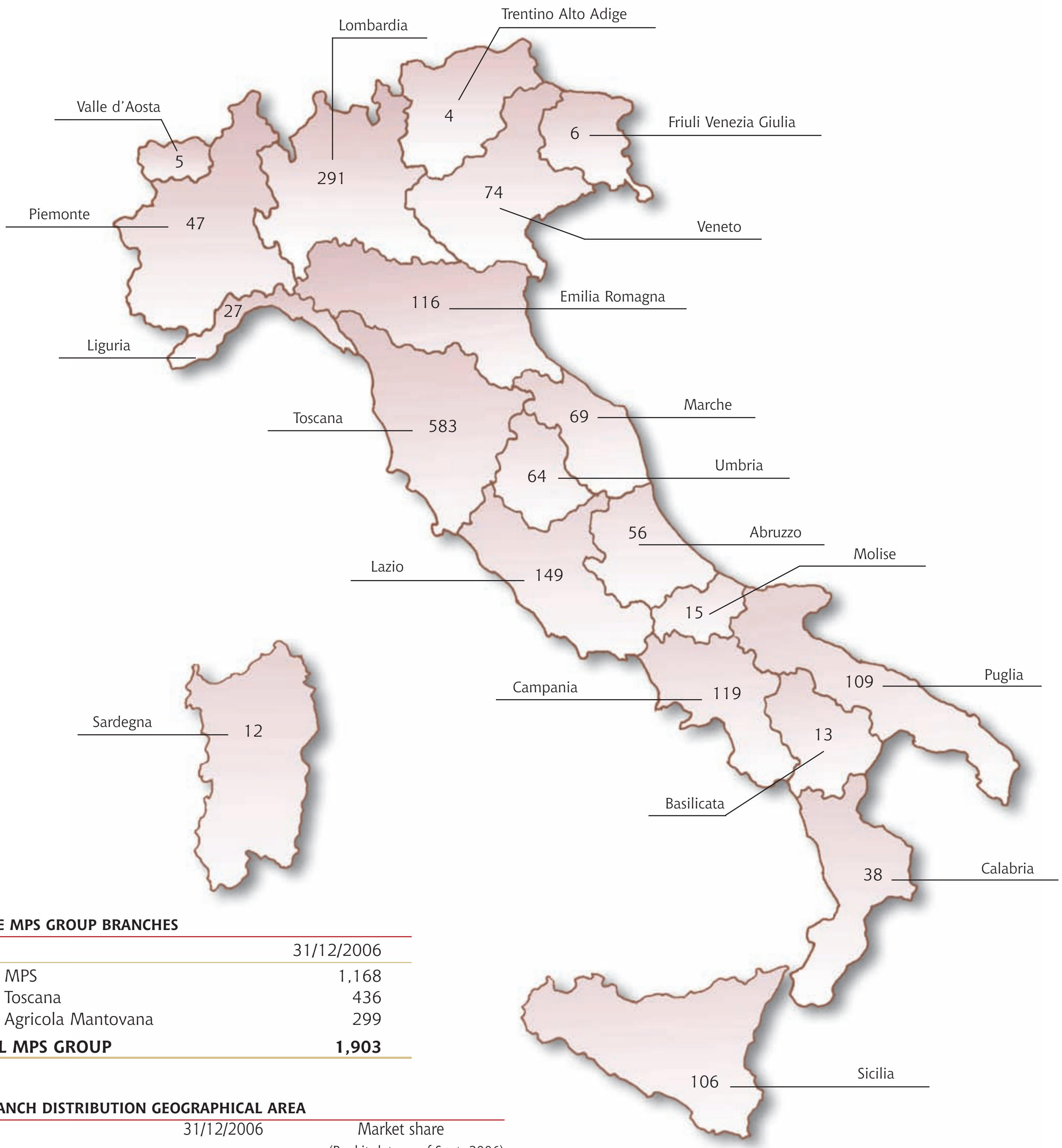
** The specialized units of MPS Banca per l'Impresa are not included.*

On 30 November 2006, in line with the strategies of the new Business Plan, the Board of Directors approved the **2007/2009 Branch Expansion Programme** with 153 new branches opened and 50 branch transfers by 2009, with the objective of matching geographical potential with the Group's presence and fostering small branches with high potential.

Meanwhile, the process of transforming the branch from a traditional outlet into a **new hub carefully attending customers** was launched, perfectly in line with the multi-channel trend; a review of the branch layout is also expected. In this regard, an **agreement with Microsoft** was underwritten to create a platform fostering multi-channel access of MPS Group customers and the development of new high-tech services.

In line with the steady **improvement of the service level provided to the customers**, the 100-Employee Plan has to be underlined, i.e. for the strengthening of smaller branches while increasing the staff from 2 to 3. The Plan was already implemented in 23 branches and is expected to be completed by 30 June 2007.

MPS GROUP DOMESTIC BRANCHES NETWORK



■ **THE MPS GROUP BRANCHES**

	31/12/2006
Banca MPS	1,168
Banca Toscana	436
Banca Agricola Mantovana	299
TOTAL MPS GROUP	**1,903**

■ **BRANCH DISTRIBUTION GEOGRAPHICAL AREA**

	31/12/2006		Market share (Bankit data as of Sept. 2006)
Northern Italy	570	pari al **30.0%** del totale	3.0%
Central Italy	865	pari al **45.4%** del totale	13.2%
Southern Italy and Islands	468	pari al **24.6%** del totale	6.7%
TOTAL	**1,903**		5.9%

With reference to ATM activities, besides the migration plans to microcircuit, a pilot project was started to supply the **payment service through cash-in equipment** in 50 pilot branches.

As far as **remote channels** are concerned, the contracts signed with corporate and retail customers confirmed a buoyant trend:

- **Internet retail home and mobile banking contracts** (including Small Business and the customers of MPS Banca Personale) and private contracts topped 573,000, with a 9.2% increase compared to December 2005.

- **Internet corporate banking contracts** (UNI EN ISO 9001/2000 certified in relation to Banca MPS) came to 150,700, with a 28% increase compared to December 2005;

- **Internet corporate banking contracts in relation to Local Authorities and the Public Administration** stood at 1,089 with a growth of roughly 10% in comparison with 31.12.2005. The new innovative management of orders of payment and orders of collection through electronic flows with **digital signature** is gradually becoming more and more widespread within this application.

REMOTE CHANNELS (*)

Contract executed

Channel	Retail	Private	Corporate	Local Authorities	**TOTAL**
31.12.2006	567,717	5,991	150,099	1,089	724,896
%	78.3	0.8	20.7	0.2	100

(*) *Internet e mobile baning contracts, not including telephone banking contracts.*

In compliance with the guidelines of the Business Plan, the Group concentrated the **call center activity of its commercial banks in a single unit**. The operating volumes in relation to such activity follow:

- Total outgoing calls: 543,666
- Total incoming calls: 1,303,566

FOREIGN DIRECT NETWORK

In compliance with the development and operating guidelines of the new Business Plan, the **MPS Group rearranged its direct foreign network** and several foreign units (branches, representative offices, customer desks and Italian desks with other correspondent banks with reference to commercial co-operation agreements) while focusing on customers' needs all over the world.

The reorganization of the branch network was carried out in accordance with the following criteria:

- **Geographical positioning in a logic of enhancement of the value of the Group's presence in emerging countries with high growth rates**. This is the case of the **transformation of the Shanghai Representative Office into a Branch**, with operations expected to start in 2007;

- **Re-direction of the branch operations with special emphasis placed on commercial operations**, to be carried out in synergy with the Group domestic network in support of Italian customers operating in the markets where the foreign branches are established. To this end, the Group consolidated the operating customer desks at the Frankfurt, Hong Kong, London and New York branches.

Foreign Representative Offices located in the Group's target areas have the same operating purposes. In particular, **the Group continued to consolidate its presence in south-eastern Europe**. The representative offices in Istanbul, Moscow and Bratislava are now flanked by the new office in Prague, Czech Republic.

The MPS Group operates offices in the Mediterranean countries of northern Africa (Algiers, Tunis, Cairo and Casablanca). Central Asia, and in particular the People's Republic of China, is of great interest to the Group which has established offices in Beijing, Shanghai and Guangzhou. **The Group also set up a representative office in Mumbai early in 2006**, thereby confirming its focus on the area.

On the front of **commercial co-operation** with foreign correspondents, the Group entered into an agreement with **Banca Transilvania in Rumania**, which is flanked by the following existing agreements:

- **Eastern Europe** – the agreement with Citigroup contemplates the secondment of MPS personnel to Citigroup's Polish subsidiary, Citibankhandlowy in Warsaw. Another agreement was signed with CSOB, a subsidiary of the Belgian Banking Group KBC, which hosts the Group's representative offices of Bratislava and Prague.

- **North and South America** – the agreement with Branch Banking and TRUST CO, North Carolina, USA, is in support of the domestic network and gives further momentum to the operations of our New York branch; Banco do Brasil, Brasilia, Brazil;

- **Iberian area** – Bancaja banking group with BMPS personnel seconded to Valencia, Spain; and Caja Geral de Depositos, Lisbon, Portugal;

- **Central Asia** – Industrial and Commercial Bank of China (ICBC), China Merchants Bank (CMB) and China Construction Bank (CCB) in China, in addition to the existing representative offices in Beijing, Shanghai and Guangzhou; HDFC Bank in India – second private bank in India in addition to the Mumbai office;

- **Maghreb and Egypt** – C.I.B (Commercial International Bank) in Egypt; Banque de l'Agriculture et du Development Rural in Algeria, in support and integration of the offices in Algiers and Cairo.

PAYMENT SYSTEMS

Payment systems services are aimed at **enhancing functionality and improving quality** to meet requirements of retail and corporate customers.

With reference to implemented projects, the **"Deleghe F24 online" functions on Internet Banking and Internet Corporate Banking** were issued thus enabling the Group to offer an essential service after the latest regulations. The issue of the **collection service** on the table of terms and conditions was also analysed and the review of service pricing policies started also on the basis of unit cost definition.

The **new GECO** (Commercial Communication Management) **platform** was extended to improve the circulation of messages on Internet banking, to provide for by a basic information section and the possibility for the Customer to further analyse them. The final issue of this new platform on the three Commercial Banks was launched. **Its integration in the Branch of the Future projects** will increase contacts with Customers and decrease their costs; the network will be also able to finalize sales in the multi-channel system towards customers targeted by commercial campaigns.

Within the standardization process of the Area Euro payment systems, impacts and **expected adjustments in view of future SEPA (Single Europe Payment Area)** services were analysed and assessed. As a matter of fact, the Group has signed a commitment letter for the offer of European collection service in compliance with the ECB terms.

In relation to **retail customers** following services are reported:

- **the expansion of the online documents facility**, with the objective of online forwarding of securities maturity notices and information sheets;
- the possibility of using an operating instrument **to open an online current account** without the Customer's visit to the branch;
- the launch, within an e-banking initiative of the Italian Bankers' Association of a new system service (**Bankpass Bollette**=Utility Bills) targeted at retail customers who can receive payment notices – in dematerialized form - directly in their home banking facility from several contract issuers, and pay with direct A/C debit.

In relation to **corporate customers**, the following points merit attention:

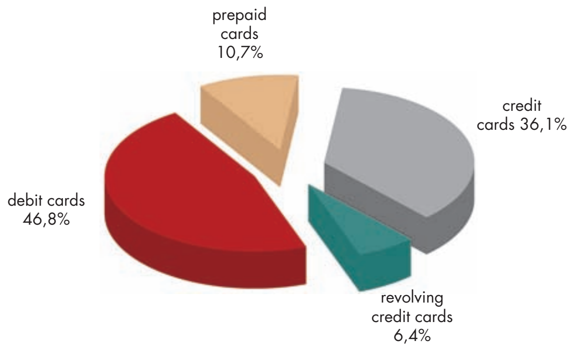
- the new **the "incassipiù" facility** which is targeted at companies (especially the utilities) and at local authorities which need full collection management. This innovative product is increasingly popular also among **medium-size/small customers**.
- the **I.B. PaschiRiscossione** product aimed at the collection of local taxes, such ICI[5], Tarsu[6], etc.

[5] Local property tax
[6] Tax on household waste

CREDIT AND DEBIT CARDS

The **MPS Group credit and debit cards** at the end of 2006 numbered about 2,137,601, with a 6.7% increase in comparison with the end of 2005.

PAYMENT CARDS



In particular, the **fastest growing segments are those of rechargeable (+ 98% compared to 2005) and revolving cards** (+21% for the M'honey cards issued by Consum.it). The payments of the latter have also remarkably increased (+33% yearly for the Group) **with a market share growing from 3.23% to 3.81% at the end of 2005**.

As to research and development the Group has enhanced the line of rechargeable and prepaid products launching the **multifunction card KrystalBest**, operating on the Bancomat/Pagobancomat domestic networks and on the international Visa network. The product has **innovative characteristics (such as multifunction) if compared to prepaid cards currently on the market**; the result show that the product **is appreciated by the customers and is contributing to the growth in the Group customer portfolio**, as already noticed for the other rechargeable cards.

Moreover, **co-branded products** were implemented still in the framework of prepaid cards aimed at supporting charities/sport activities; in particular:

Carta Sport Gazzetta Running;
Carta Operation Smile;
Carta ATT (Associazione Tumori Toscana[7]) and "Tutti i Cuori di Rossana"

At the end of 2006, the Group added the co-branded credit card **CartasìQuattroruote**, specifically developed for car drivers, to the range of portfolio products.

[7] Tuscan Association to fight Cancer

HUMAN RESOURCES

During 2006 the operating management of human resources was oriented to enhancing the value of the Group's human resources, intensifying the efforts of consolidation of staff motivations and professional skills, reducing/reorganizing the total workforce, containing costs at structural levels. From this point of view, the new Group Business Plan 2006-2209 has intensified the renewal of policies and of development instruments in a planning logic to achieve the strategy of leadership in the service to the customer and follow the planned commercial, operating and income growth path with efficacy and efficiency.

In particular, such management policies are aimed at:

- improving professional skills of front office human resources with special attention to the capacity of dealing with customers with a proactive approach;
- covering key roles for businesses through professional, training and career paths, taking into special account young people via systems of identification, follow up and growth support;
- planning the management turnover through the definition of a new set of behaviours in view of the Plan targets and through the related system mapping of managerial skills;
- implementing specific programmes of re-conversion and re-qualification of the human resources available after the projects of organizational restructuring to remarkably improve the relationships between front end and back office.

STAFFING

As of the end of 2006, the MPS Group[8] had a total of 24,348 employees **(24,262 in terms of workforce)** with a decrease in staffing of 2,194 year on year (-2,084 staff units)[9] largely due to the termination of tax collection activity and the transfer to the Inland Revenue on 1 October 2006.

MPS GROUP STAFFING

		31/12/2002	31/12/05	31/12/06
Banking activity staff		***25,087***	***24,386***	***24,348***
Tax collection activity staff		***2,952***	***2,156***	***0***
	Total	**28,029**	**26,542**	**24,348**
MPS Group workforce				
Banking activity staff			***24,303***	***24,262***

[8] Employees on the payroll of the Group companies consolidated on a line-by-line basis, in compliance with the new IAS standards.
[9] At the beginning of the year the tax collection activity staff amounted to 2,156, of which 72 seconded to Banca MPS in compliance with the agreements with the trade unions.

Not only the overall staffing decreased but was also internally redistributed in favour of the front office network[10], which grew by 960 units during the year through a parallel decrease of the Head Office and of the back office/front office ratio, which decreased to 32% against 42% of 31 December 2005. This result was achieved through the following measures:

- remarkable **number of retirements of staff with high seniority and high hierarchical level** (abt 550 units against 930, of which 130 executives), through Early Retirement Plans and Solidarity Fund and mostly in the Head Office[11];

- **new entries** of high-potential young recruits (abt. 820 units) almost all in the front office network in compliance with the geographical expansion programme (Outlet Plan) and the strengthening of other commercial units (SME Centres and Private Centres above all):

- **transfer to the front office of abt. 350 units from the Head Office** thanks to restructuring processes in line with the Business Plan and also thanks to training courses supported by operating experiences. Other transfers are scheduled for 2007.

The tables below show the **distribution of the MPS Group's workforce**[12] **by job category** and, as far as the domestic network, by **operating location**, according to the new organization implemented in the II half-year.

Breakdown of staff by job category	Actual number	% of Total workforce
Executives	528	2.2%
Managers	6,835	28.2%
Other Professional Areas	16,899	69.7%
TOTAL	**24,262**	**100%**

[10] Branches, SME Centres, Private Centres and Institutional Centres.
[11] Parent Bank, Head Offices, Geographical Areas, Product and Service Companies.
[12] The figures incorporate all MPS Group personnel, excluding staff assigned to other companies (minority interests) and cleaning staff.

		Actual workforce (*)	%
		31/12/06	
	H.O. (CORPORATE CENTER AND BACK OFFICE)	1,612	13.0%
BANCA MONTE DEI PASCHI DI SIENA	GEOGRAPHICAL AREA	2,332	18.8%
	FRONT OFFICE & CALL CENTER	8,462	68.2%
TOTAL		**12,406**	**100%**
	H.O.	412	11.1%
BANCA TOSCANA	GEOGRAPHICAL AREA	395	10.6%
	FRONT OFFICE	2,919	78.3%
TOTAL		**3,052**	**100%**
	H.O.	395	12.9%
BANCA AGRICOLA MANTOVANA	GEOGRAPHICAL AREA	299	9.8%
	FRONT OFFICE	2,358	77.3%
TOTAL		**3,726**	**100%**
	H.O.	2,419	12.6%
TOTAL COMMERCIAL BANKS	GEOGRAPHICAL AREA	3,026	15.8%
	FRONT OFFICE	13,739	71.6%
GRAND TOTAL		**19,184**	**100%**

(*) Comprese strutture di Call Center (133 risorse).

The average age of the Group personnel is around 41,6 year, gradually decreasing (at the end of 2005 amounted to 42.7); in particular, **38.6% of the BMPS staff is under 40** with a relatively low seniority and **with an increasingly growing women percentage** (40.7% from 39.5% at the end of 2005 and 38.9% at the end of 2004):

■ BMPS PERSONNEL: MIX OF CREDENTIAL

Age	% female	% male	% of total
Up to 30 years	5.4%	5.0%	10.4%
31 to 40 years	15.3%	12.9%	28.2%
41 to 50 years	15.1%	19.9%	35.0%
Over 50 yars	4.8%	21.5%	26.4%
TOTAL	**40.7%**	**59.3%**	**100.0%**

■ PERSONALE BMPS: COMPOSIZIONE PER CLASSI DI ANZIANITÀ

Years of service	% female	% male	% of total
Up to 10 years	16.1%	20.4%	36.4%
11 to 20 years	13.2%	13.3%	26.5%
21 to 30 years	8.6%	12.1%	20.7%
Over 30 years	2.9%	13.6%	16.4%
TOTAL	**40.7%**	**59.3%**	**100.0%**

In particular, following is the distribution of the Parent Company's workforce by job category:

		Category	Total	%
		Executives	162	10.5%
VORPORATE CENTER		Managers	690	44.9%
		Other Professional Areas	685	44.6%
	TOTAL		**1,537**	**100%**
		Executives	96	0.9%
BANCA MPS DIVISION		Managers	2,533	23.3%
		Other Professional Areas	8,240	75.8%
	TOTAL		**10,869**	**100%**
		Executives	4	2.7%
INTERNATIONAL BANKING*		Managers	52	34.9%
		Other Professional Areas	93	62.4%
	TOTAL		**149**	**100%**
		Executives	262	2.1%
TOTAL BANCA MPS S.P.A.		Managers	3,275	26.1%
		Other Professional Areas	9,018	71.8%
	GRAND TOTAL		**12,555**	**100%**

(*) Foreign branches and representative offices.

In terms of academic credentials, **the percentage of personnel with degrees is significant**, particularly in the case of Executives:

■ BMPS PERSONNEL: MIX OF CREDENTIALS

Job grade	% of university graduates	% of other diplomas
Executives	47.7%	52.3%
Managers 4/3 level	33.8%	66.2%
Managers 2/1 level	23.7%	76.3%
Other Professional Areas	29.1%	70.9%
TOTAL	**29.4%**	**70.6%**

■ OPERATIONAL STRATEGIES

In the framework of the above-mentioned strategies, following point should be underlined:

◆ **the new model of human resources development** aimed at ensuring growth in programmed and centrally monitored professional skills while enhancing and innovating traditional qualities such as sense of belonging, ethics of the customer service in the meaning of the quality of service, ethics of responsibility which is the base of behavioural-managerial models and strong sensibility to human resources growth.

From this point of view, following measures were taken:

- implementation of **professional paths**, vertically ruling the growth towards target roles such as role sequences, line operating experiences and training courses and horizontally fostering competence integration on equal roles within the Retail and Corporate structure. As basic instrument of planning and follow up both paths use the

PaschiRisorse system to define the specific competences of each role and the verification of adequacy levels of each employee with the planned profiles;

- the implementation of a system to **structurally map managerial qualities** consistently with the skills necessary to carry out the Business Plan and the following working out of continuity plan to ensure the background supply of top manager roles;

- the **new selection process** aimed at more efficiently include young recruits[13] while reviewing admission and pre-screening mechanisms, integrating selections with systems to survey inclinations/attitudes of the candidates above all in terms of relationships with the customers and with final lists by geographical areas, to allocate resources more rationally;

- the development of a **HR management & intelligence system** supporting human resource planning and decision-making;

- the **new organizational structure of the human resources of the Parent Bank** by expertise centres, management and administration centres; in this framework a unit dealing with planning, carrying out and monitoring the re-conversion of staff from the Head Office to front office network is to be found.

Also **the strengthening of the training activity** should be underlined; it is carried out according to the following guidelines:

- for the technical-professional staff: **consolidation of skills of human resources** operating in commercial activities such as active management of the relationship with customer and service quality; in this regard, a course called "Active management of affluent customers" was planned and actually started on February for the staff concerned;

- for the managerial staff: **growth of strategic capacities focusing on leadership and vision** with priority given to front office roles. At the end of the year, within the Manager Training Plan, a training course for top managers on innovation and operating vision took place; moreover, starting from the first quarter of 2007, two new courses will be addressed to the managers "Development of managerial behaviours: leadership and team management" and "Development of individual capacities" financed by the Fondo For.Te.

In 2006, training hours totalled **about 705,000 hours**, including classes and online courses. The Group also organized 480 Basic Courses for 2007 based on 4 professional topics (e.g. Finance, Lending, International Banking, Human Resources), with different in-depth levels and the participation of about **7,000 employees**.

Training programmes for the next three years were included in a document, the **2007-2009 Training Plan**, in compliance with the development guidelines of professional skills and management outlined in the new Business Plan and submitted to the Board of Directors in December.

[13] With professional training apprenticeship contracts.

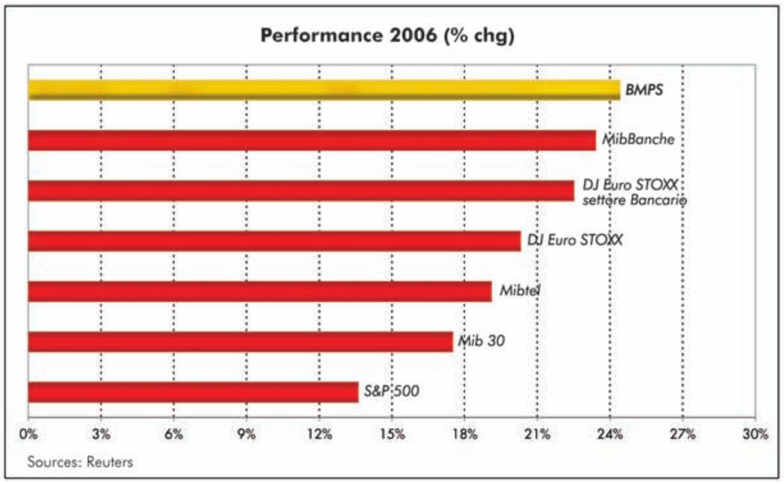
Finally, as far as **labour relations** are concerned, in 2006 Supplementary Labour Agreements of the three commercial banks and of the other major entities of the Group were renewed. In the light of standardization, the agreements balanced costs with improved flexibility of human resources management.

Still as to labour relations, during the year the **Bank and Trade Unions often met**, according to the Protocol on labour organization, to discuss the 2007-2009 Business Plan and its strong impact on human resources, particularly on re-qualification processes. The agreements signed allowed the prompt and efficient implementation of organizational review as per Plan (H.O. and network) matching bank's needs and professional aims of the staff concerned.

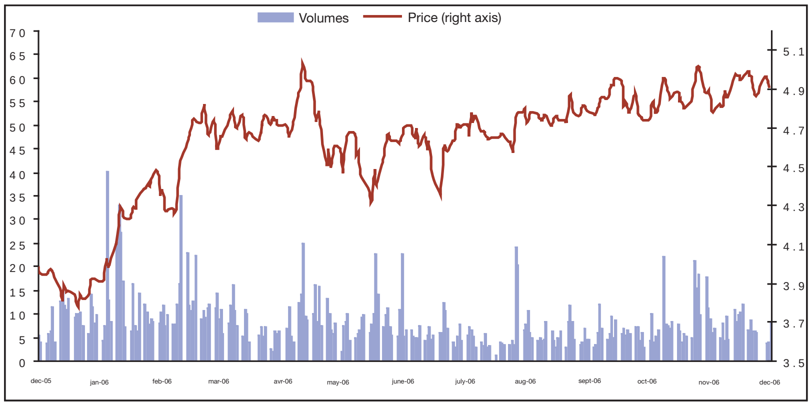
TREND OF BMPS SHARES, SHAREHOLDERS' BASE AND DEBIT RATING

PRICES

The major share indices posted positive performances (DJ Euro Stoxx + 20.3%, S&P 500 +13.6%, Mibtel + 19.1% and Mib30 +17.5%) for the period, and in particular the MibBanks index progressed by 23.4%.



The Bank's shares closed the period as of 31 December 2006 at EUR 4.91 with a 24.41% increase compared to the beginning of 2006 (+ 86.7% compared to the beginning of 2005) . The Bank's shares hit a low at EUR 3.72 on 18 January 2006 and a high at EUR 5.08 on 27 November 2006. Therefore, the performance of BMPS shares was higher than the market and the banking industry in 2006.



BMPS Share price: Statistical Summary (dall' 01/01/06 al 31/12/06)

Average	4.61
Low	3.72
High	5.08

CAPITALIZATION AND SHAREHOLDERS' BASE

As of 31 December 2006, the market value of BMPS computed on the basis of 3,029,509,006 (ordinary and preferred) shares outstanding amounted to EUR 14.85 billion approx.

SUMMARY OF REFERENCE PRICES AND CAPITALIZATION

	31.12.05	31.12.06
• Price (euro)	3,95	4,91
N° ordinary shares	2,448,491,901	2,454,137,107
N° preferred shares	565,939,729	565,939,729
N° saving shares	9,432,170	9,432,170
Capitalization (ord + pref) (Eur million)	11,892	14,828

With reference to the Bank's shareholders' base, on the basis of the reporting to BMPS and the Italian Securities Commission (CONSOB) in compliance with art.120 of Legislative Decree no.58/98, as of 31 March 2006 the major shareholders were: the MPS Foundation (the majority shareholder holding 49% of the ordinary share capital); Caltagirone Francesco Gaetano (4.71%); Hopa S.p.A. (3.00%); Unicoop Firenze (2.98%):

MAIN SHAREHOLDERS (in compliance with art. 120 D.Lgs. n. 58/98)

Fondazione MPS	49%
Caltagirone Francesco Gaetano	4.71%
Hopa S.p.A.	3.00%
Unicoop Firenze – Società cooperativa	2.98%

VOLUMES

The number of BMPS shares traded on a daily basis averaged around 8.7 million in 2006, with a low of 1 million in August and a peak of 40 million in February

MONTHLY VOLUMES OF SHARE TRADED *(mln)*

January	202
February	287
March	292
April	131
May	216
June	202
July	127
August	139
September	116
October	136
November	210
December	139

MAIN MARKET MULTIPLES

Turning to market multiples, the Bank's shares were trading at the end of December 2006 at a multiple 15.5 times projected earnings for 2006 and the ratio of price to book value was around 2.0 for 2006.

MARKET MULTIPLES (in euro)

	Dec 2006
P/E per share	15,5
P/BV	2,0

DEBT RATING

Following are debt ratings, unchanged in comparison with 31 December 2006:

Agenzie	Short-term rating as of 12.31.2006	Medium/Long term rating as of 12.31.2006
Moody's Investors Service	P-1	A-1
Standard & Poor's	A-1	A
Fitch Ratings	F-1	A+

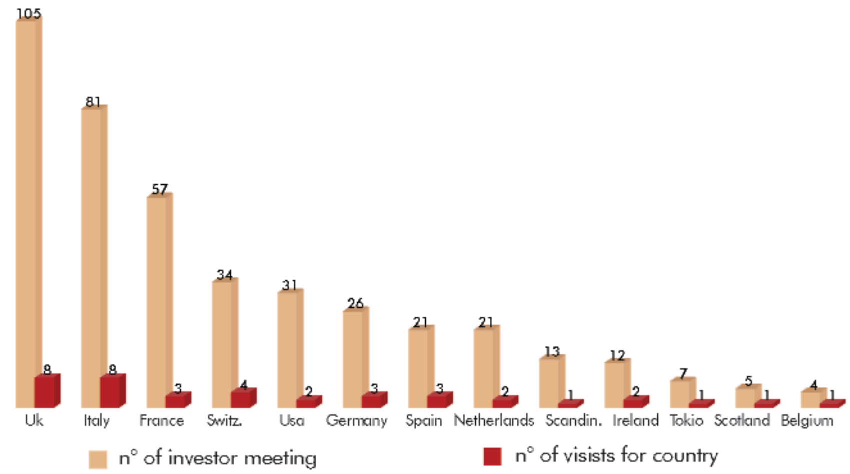
On 16 January 2007 the rating agency Standard & Poor's upgraded the outlook of Banca Monte dei Paschi di Siena, Banca Toscana and Banca Agricola Mantovana from "positive" to "stable" confirming the progressive improvement of profitability for the whole MPS Group. The long- and short-term ratings were confirmed.

INVESTOR RELATIONS

In 2006, the investor relations team intensively operated in the financial market further accelerating market disclosure. The most significant initiatives were the following:

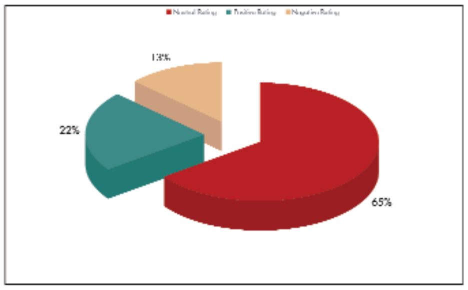
- participation in 8 conferences organized by the most important international brokers;
- 24 road shows in the major financial places
- 61 initiatives with analysts (road shows, conference calls and one-to-one).

As a result of said communications efforts, the Group's representatives met a total of 421 investors (the number also includes investors met more then once in 2006) during the period, in 13 different countries. Hereunder the details by geographical area



MPS SHARE RATINGS

As far as the MPS share ratings as of 31 December 2006, 22% of analysts expressed a positive rating, 65% a neutral rating and 13% a negative rating; the actual average market price amounted to € 4.9 at year end.



2007 FINANCIAL CALENDAR

Main corporate events scheduled for 2007 are listed below:

Calendario finanziario 2007

22 March 2007	BoD meeting - Review of draft 2006 annual report - accounts
27 April 2007	Shareholder's meeting (on first call) for approval of 2006 annual report - account
15 May 2007	BoD meeting - Interim report for 1st quarter 2007
10 September 2007	BoD meeting - Interim report for 1st half 2007
8 November 2007	BoD meeting - Interim report for 3rd quarter 2007

COMMUNICATIONS

In addition to financial market reporting, as illustrated in the section covering "Investor Relations", in 2006 the MPS Group's efforts went to intensifying **media relations, institutional communications and the relations with the different customers' segments and the public** at large with important awards at domestic level, such as the Oscar di Bilancio in the category "Major and large banking and financial instititutions" (see chapter "MPS Group social responsibility").

The **advertising campaigns in support of marketing activity include the "no expense" campaign on the closing of current accounts or securities deposits**. This campaign was very important from the viewpoint of image, because the MPS Group was **one of the first banking groups** which complied with market requirements and, subsequently, credit regulations. The Group also conducted (i) a campaign for the **Private Banking service model** and (ii) an important press promotion for **PaschiPrevidenza** and the innovative **Conto Giovani+**.

On the front of e-banking, **Banca MPS re-designed and restyled its web site**. The major initiatives undertaken include the **best access to the facilities for the handicapped** in accordance with the most recent regulations and this will enable the Bank to achieve all requested certifications. Afterwards, the site will be reviewed from the viewpoint of graphics and access requirements will be re-examined in closer co-operation with the other sites of the Group's companies.

In principle, the MPS Group also re-designed its new personnel communications with the termination of the paper house organ and the activation of an **online newsletter addressed to all MPS Group staff**. Three versions of this newsletter have been devised:
(i) **FiloDiretto7** was the first version activated already at the beginning of the second half-year on a weekly basis;
(ii) **FiloDiretto30**, on a monthly basis, will cope with in-depth issues;
(iii) the Group will also assess the opportunity of managing a daily version (**FiloDiretto1**) only as a diary of daily events.

In 2006, several activities were sponsored as well as meetings were organized aimed at consolidating and developing commercial and business relationships with leading dealers in the fields of reference.

Following are the major **cultural**, scientific, economic and sports initiatives sponsored by the MPS Group:

- with respect to **cultural activity**, the initiatives in support of the 63rd Music Week within the sponsorship programme of Accademia Musicale Chigiana, Fondazione Teatro Maggio

Musicale Fiorentino and the International Centre of Art and Culture of Palazzo Té in Mantua for the exhibition concerning Andrea Mantegna;

- on the front of **sports**, the pursuit and consolidation of previously-started relations with A.C.Siena football club and Mens Sana Basket were flanked by the sponsorship in favour of (i) the Orbetello Tennis Club for the European Tennis Championship (boys under 16), (ii) UISP for the organization of Sport Europa 2006 (iii) Punta Ala Yacht Club for the 2006 sailing programme, and (iv) Milan City Marathon;

- with reference to the **economic and scientific field,** the sponsorship in favour of the (i) Chamber of Commerce of Siena and Enoteca Italiana for their 2006 activities, (ii) Fondazione Rosselli (Turin) for the report on the Italian financial system, (iii) the Management Committee of the Valdelsa Trade Fair for the 19th Trade Fair, (iv) the Institute of Corporate Values (ISVI, Istituto per i Valori d'Impresa) for the Social Report Observatory and (v) SME Forum Confindustria[14] in Prato.

High-profile initiatives were undertaken in the **social area** in favour of the Robert Kennedy Foundation of Europe, Legaambiente Onlus (Rome) and the Unicef Committee. **Cultural initiatives** incorporate the exhibition of sculptures owned by Banca MPS in the premises of the major branch of Milan. The Group continued to publish the **"Economic Studies and Notes" Review** and the relative series of Books, with the issue of the **comments on the new investment law**.

[14] Italian Manufacturers' Association.

CORPORATE GOVERNANCE AND OTHER INFORMATION: NEW INVESTMENT LAW

After having examined the internal organizational model of the Bank, the Board of Directors of Banca Monte dei Paschi di Siena S.p.A. joined the Self-Discipline Code for Quoted Companies (the "**Code**") as a reference for an efficient Corporate Governance (Resolution of the Board of Directors of 5 April 2007) approved in March 2006 by the "Committee for the Corporate Governance for Quoted Companies".

In particular, the Board reckons that ***any assessment on size, composition and operating activities of the Board and of its Committees*** as well as the procedures of autonomous implementation of the Directors' duties have to be inserted in this yearly Report on Corporate Governance, which was written out following the framework of the same code.

1. THE ROLE OF THE BOARD OF DIRECTORS

According to ***the Charter*** of the Bank, the Board of Directors is made up of a number of members established by the ordinary shareholders' meeting and which, however, is between nine and seventeen. The directors hold the office for three consecutive years and may be re-elected. The elections take place with list voting, as further better detailed in the paragraph 6 concerning appointment procedures.

The directors must not have other qualifications than those required by the current legal provisions; in particular, they have to comply with the provisions as per Legislative Decree no. 385/1993 and the Regulation no. 161 of 18/3/1998 of the Ministry of Treasury, Budget and Economic Planning.

Meetings The Bank's Charter provides that the Board of Directors meets "usually once a month". The meetings, however, actually take place more often: during 2006, for example, the Board held 36 meetings and the Executive Committee 14 meeting until 27 April 2006, since, afterwards, a new Board of Directors took office which did not appoint any Executive Committee. The Charter establishes procedures and times to call the Board with special reference to urgent business and the participation through remote conference or videoconference is allowed.

The Bank has also adopted the practice of sending the directors all the documentation and information to be reviewed and approved by the Board of Directors for each meeting as of the date on which the meeting agenda is communicated, or as soon as possible thereafter

Powers The Charter assigns to the Board of Directors all powers of ordinary and extraordinary administration for the achievement of the corporate purpose other than those powers specifically vested with the shareholders pursuant to the law or the Charter. More specifically, the Charter exclusively empowers the Board of Directors:

- to formulate the strategy for the Bank and the banking group over which the Bank is head and to approve the plans in relation thereto;
- to oversee the correct and consistent implementation of the aforementioned strategies and plans within the operations of the Bank and of the banking group;
- to determine the principles for the general organization of the Bank and to approve the organizational structure for the same;
- to set forth the general guidelines for the structure and operations of the banking group determining the criteria for the coordination and management of the subsidiary companies belonging to the group, and for the execution of the directives handed down by the Bank of Italy;
- to draw up the financial statements and to submit them to the shareholders' meeting;
- to pass resolutions on the establishment of consulting committees having also proposing tasks towards the Board;
- to appoint the Chief Executive Officer.

Transactions with related parties. The Board of Directors promptly informs the Board of Statutory Auditors about the activities carried out and the transactions of major economic, financial and patrimonial importance implemented by the company and by the subsidiaries; in particular, informs about any potential conflict of interest. Moreover, the Board of Directors approved, with resolution of 16 February 2006, the "Code of Behaviour for transaction with Related Parties" which is detailed under Paragraph 9.

Current Composition of the Board. The directors currently serving on the Board were appointed by the shareholders' meeting held on 29 April 2006 which provided that the number of the directors is ten and appointed, for the 2006-2007-2008 financial years and until the day of the shareholders' meeting called to approve of the financial statements for the year ending 31 December 2008, Giuseppe Mussari, Ernesto Rabizzi, Fabio Borghi, Lucia Coccheri, Andrea Pisaneschi, Francesco Gaetano Caltagirone, Carlo Querci, Turiddo Campaini, Lorenzo Gorgoni and Pierluigi Stefanini. Five directors are appointed on the basis of a proposal of the Fondazione Monte dei Paschi di Siena; the other five directors are proposed by two groups of shareholders of the Bank who are members of two distinct shareholders' agreements expiring on the date of the aforementioned meeting.

The Board of Directors therefore currently consists of following members:

Giuseppe Mussari	Chairman
Francesco Gaetano Caltagirone	Deputy Chairman
Ernesto Rabizzi (*)	Deputy Chairman
Fabio Borghi	Director
Turiddo Campaini	Director
Lucia Cocchieri	Director
Lorenzo Gorgoni	Director
Andrea Pisaneschi	Director
Carlo Querci	Director
Pierluigi Stefanini	Director

Positions held by members of the Board of Directors in other financial, banking and insurance companies, or in other large companies listed in regulated markets, also abroad, are indicated as follows:

Francesco Gaetano Caltagirone Chairman of Caltagirone Spa, Chairman of Caltagirone Editore Spa, Chairman of Messaggero Spa, Chairman of Eurostazioni Spa, Director of Cimentas Spa (Istanbul), Director of Grandi Stazioni Spa, Director of Aaborg Portland a/s.

Fabio Borghi Chairman of MPS Gestione Crediti Banca Spa, Director of Banca Monte Parma Spa

Turiddo Campaini Chairman of Unicoop – Firenze Scarl, Chairman and Managing Director of FINSOE Spa, Director of MPS Banca per l'Impresa spa.

Lucia Coccheri Chairman of Siena Ambiente S.p.A., Chairman of Paschi Gestioni Immobiliari S.p.A.

Lorenzo Gorgoni Deputy Chairman of Monte Paschi Asset Management SGR Spa, Director of Banca Agricola Mantovana Spa

Andrea Pisaneschi Deputy Chairman of Monte Paschi Vita Spa, Director of MPS Asset Management SGR

Carlo Querci Director of Banca Toscana Spa, Director of Monte Paschi Banque s.a., Paris.

Pierluigi Stefanini Director of Finsoe Spa, Director of Holmo SpA, Chairman of Unipol Spa, Chairman of Unipol SpA, Director of Fondazione Cassa di Risparmio di Bologna, Director of Unipol Banca Spa, Director of the Aeroporto Guglielmo Marconi, Director of Banca Nazionale del Lavoro S.p.A.

Offices as directors or auditors which are compatible with the director office of the Bank. The Board of Directors, while joining the above-mentioned Code and after having taken into account that (i) the current directors were appointed by the shareholders' meeting on 29 April 2006 and on that occasion the shareholders' meeting had assessed the

compatibility of the offices held in other companies with the office of director of the Bank; (ii) the directors had not substantially changed, in 2006, the offices held on the appointment and then assessed by the shareholders' meeting; (iii) on the subject the authorities are taking special measures and carrying out specific studies, reserves the right to express its own opinion later on about the maximum number of offices as director or auditor held in other companies listed in regulated markets (also abroad), in financial, banking, insurance companies or of remarkable size which may be considered compatible with efficiently holding the office of director of the same bank.
In 2006, the shareholders' meeting of the Bank did not issue any resolution generally and previously authorizing any exception to the competition ban provided for by art. 2390 of the Civil Code.
Moreover, no director has informed the Board of having undertaken, in the same period, any business activity in competition with the Bank.

2. COMPOSITION OF THE BOARD OF DIRECTORS

All members of the Bank's Board of Directors are to be considered as "non-executive directors" since (i) the position of managing director, though contemplated by the Bank's Charter (s. articles 18 and 19 of the Charter), has not been filled; (ii) the Executive Committee, which was provided for by articles 18 and 19 of the Charter, has not been established; (ii) no director of the Bank holds executive office.

3. INDEPENDENT DIRECTORS

In the light of the provisions of art. 3 of the Code, the Board of Directors must assess (i) the independence of the non-executive directors, taking into account more the substance than the form; (ii) the relationships which could jeopardize or could seem to jeopardize the independence of non-executive directors, on the basis of information supplied by the people concerned or anyway available to the Bank.

The Board has reckoned that the qualification of a non-executive director as independent is not a value judgment, but rather a fact, i.e. the directors do not maintain – either directly or indirectly – any significant economic relationships with the Bank or with its subsidiaries, or any investment relationships of a magnitude which would currently affect their independence of judgment and the assessment of the management activity.

Therefore, the Board has evaluated the position of each director on the basis of information supplied by the people concerned or anyway available to the Bank and after having ascertained that the directors (i.e. following directors: Francesco Gaetano Caltagirone, Ernesto Rabizzi, Fabio Borghi, Turiddo Campaini, Lucia Coccheri, Lorenzo Gorgoni, Andrea Pisaneschi, Carlo Querci and Pierluigi Stefanini) do not maintain any current or past relationships with the Bank or with its subsidiaries, has decided to acknowledge that an adequate number of non-executive directors are qualified as to independence in compliance with the Code provisions.

4. MANAGEMENT OF SENSITIVE INFORMATION

On 12 October 2006, the Board of Directors approved the Group Directive on Market Abuse ("Directive") providing for guidelines to identify adequate procedures to manage sensitive information.

The Directive refers to activities and documents aimed at closely complying with the regulations concerning Market Abuse, defines guidelines and identifies, in compliance with internal and external regulations, behaviour criteria, organization rules, procedures and measures to be taken, responsibilities and tasks of the organization structures involved in relation to the relevant issues also for MPS Group entities.

In this regard, the Directive summarizes the provisions as per "Internal Dealing Rules" approved by the Board of Directors of BMPS on 29 March 2006 and published on its web site and on the corporate intranet to create a standard document about Market Abuse regulations; such regulations are the reference rules on the issue and fully include the Group Directive "Register of persons qualified to access to sensitive information" approved by the Board of Directors of BMPS on 13 April 2006.

The Directive deals with following issues:

I) Internal Dealing: obligations of disclosure to the public and to Consob of transactions carried out by relevant persons, also through third parties, concerning shares of the Bank or other related financial tools.
The Directive only summarizes the main issues and may only be applied to BMPS, whereas the issue is dealt with as a whole in the "Internal Dealing Regulations" approved on 29 March 2006 by the Board of Directors of BMPS.

II) Buying of own shares: definition of buying procedures of shares and obligation of disclosure of the programme to the market

III) Recommendations: regulations on correctness and transparency of studies and researches dealing with quoted financial tools.

IV) Sensitive information: introduction of the concept of sensitive information as subject of disclosure and of the obligation of creation of the "Register of persons qualified to access to sensitive information".
The Directive defines principles and methodological references for the Companies of the Group concerned.

V) "Register of persons qualified to access to sensitive information": obligation for issuers and their controlling entities to create and manage the register of the persons who, because of their job or professional activity or of their tasks may access to sensitive information. In this context frameworks and application rules are defined.

VI) Abuse of sensitive information and market manipulation:
- introduction of new administrative offences in the issue;
- provision of specific "safe harbour" and of allowed market policies;
- introduction of the obligation of monitoring and reporting to the Consob of transactions which, on the basis of sensible grounds, can result in market

manipulation and/or sensitive information abuse, the so-called "suspicious transactions" (art. 187-nonies of the Financial Consolidation Act)

The obligations provided for by art. 187-nonies of the Financial Consolidation Act, of monitoring and reporting the so-called suspicious transactions are dealt with in the above-mentioned directive specifically defining their principles and method references for the Companies of the Group concerned by the issue. To comply with this directive the companies shall prepare and issue specific internal operating regulations defining functions, tasks and responsibilities of the network and the H.O.

5. THE CREATION AND WORKING OF INTERNAL COMMITTEES TO THE BOARD OF DIRECTORS

The Committees created inside the Board of Directors, their composition and the date of the approval of their regulations and amendments, if any, are listed as follows:

INTERNAL CONTROL COMMITTEE

- The Committee was established pursuant to a resolution of the Board of Directors passed on 1 March 2001.

- The regulations were approved by the Board of Directors with a resolution passed on 6 September 2001 and latest amended on 13 January 2005.

- The committee consists of three members, one of them, acting as a coordinator.

- The Chairman of the Board of Statutory Auditors or his substitute participates in the committee's work.

The committee carries out the duties and tasks provided for by its Regulations towards the Board of Directors with respect to initiatives for setting up a suitable system of internal controls.

The committee is charged with:

- assisting the Board of Directors in the execution of its responsibility with regard to establishing an adequate internal control systems. In this regard the following point 8 - Internal Control System – should be referred to;

- upon request of the Board, giving opinions on specific aspects concerning the identification of main company's risks as well as the planning, implementation and management of the internal control system;

- monitoring the efficacy of the auditing process;

- evaluating the work plan prepared by the Responsible for Internal Controls and reviewing the periodic reports generated by the same;

- evaluating, together with the executive responsible for drafting the company's accounting documents and with the independent auditors, the adequacy of the Bank's accounting principles and the congruity for the purpose of the preparation of the consolidated financial statements;

- referring to the Board of Directors, at least every six months (at the time of the approval of the annual and semi-annual financial statements), regarding the activity carried out and the adequacy of the internal controls system;

- overseeing the observance and periodic update of the corporate governance rules, reporting thereon to the Board of Directors and formulating the relative proposals needed, if any;

- carrying out other assignments mandated by the Board of Directors, and in particular, with regard to the relationships between the Bank and the independent auditors.

Other tasks are also here included:

(i) monitoring if the Board deems it advisable to assign it to the Committee;

(ii) relationships with external auditors as to the financial statements auditing.

The Committee is also charged with monitoring the working and compliance with the organization and management model provided for by art. 6., par. 1, letter a) of the Legislative Decree of 8 June 2001 no. 231 – "Rules governing the administrative responsibility of legal entities, of companies and of associations without legal status" (the "Model").

To comply with the above-mentioned task the Committee:

- supervises the Model effectiveness, while verifying the consistency between behaviours and the established Model and reports any violation of the Model provisions to the bodies responsible for inflicting penalties to those not complying with said provisions;

- assesses the adequacy of the Model, i.e. its actual capacity of preventing undesired behaviours, in general;

- analyses the soundness and functionality of the Model for a while, with particular reference to environmental changes and to new risk categories;

- updates the Model (i) submitting adjustment proposals to the Board and (ii) verifying the implementation and actual functionality of the adopted solutions.

To this purpose the Committee has autonomous powers of initiative and control including the power of requiring and obtaining information from any level and operating unit of the bank; the Committee is supported by the Internal Control Area as to verification and operating control aspects and finally the Committee must receive the information provided for by the Model, according to art. 6, par. 2, letter d) of the Legislative Decree no.231/2001.

The Committee, upon approval of the financial statements and of the half-year report, reports to the Board on the duties carried out as Supervisory Authority in compliance with art. 6. par. 1, point b) of the Legislative Decree no. 231/2001.

The Committee guides the implementation of models for the MPS Group companies and co-ordinates the relative Supervisory Bodies.

* * *

During 2006 the Committee held 13 meetings, with an 87% average participation of the effective member, analyzing specific issues related to its own activities both in compliance with the provisions of the Self-Discipline Code concerning Internal Controls and as a Supervisory Body, as per Legislative Decree no. 231/2001.

In addition to the ordinary control tasks provided for by its regulations the Committee carried out a whole set of specific activities:

a) examined the 2006 audit plan with which the Internal Control Area programmed the 2006 control activity based on the internal and external reference variables;

b) analyzed the activities carried out by the Structures of the Bank and of the Group in terms of organization/rules, operating activity/procedures and monitoring, to verify reliability and consistency with the provisions currently in force as to money laundering (Law no. 197/91);

c) followed the evolution lines of the compliance function;

d) examined the reports drawn up by the Internal Control Area on the inspections carried out in the Bank's foreign branches and in the subsidiaries, expressing his opinion before the remarks of the Board of Directors and the Board of Statutory Auditors were added to the reports and then were forwarded, in compliance with the rules, to the Supervisory Authorities;

e) carried out the evaluation of the inspection reports coming from the Internal Control Area preparing the related documents with its summarizing remarks, which are submitted to the Board of Directors' attention on a quarterly basis;

f) examined the report concerning the Bank's claims on the Investment Service performance, adding its remarks before the forwarding to the Board of Directors and to the Board of Statutory Auditors;

g) analysed implementation procedures linked with the positioning and mission of the Internal Audit inside the Bank and the Group;

h) verified the project " Assurance Quality of the Internal Auditing" which resulted in the issuing of Audit Standards for the Audit of the Parent Bank and for all subsidiaries as well as to the ethic code for everyone working in the community of the Internal Audit;

i) examined the documents concerning the quality of commercial activity of networks fro the sale of financial products to customers;

j) held several meetings with the Auditing Company KPMG to previously verify the progress of the financial statements auditing programme.

COMPENSATION COMMITTEE

- The Committee was established pursuant to a resolution of the Board of Directors passed on 1 March 2001.
- The regulations were approved by the Board of Directors with a resolution passed on 6 September 2001 and amended on 6 March 2003.
- The committee consists of four members, one of them, acting as a coordinator.
- The Chairman of the Board of Statutory Auditors or his substitute participate in the committee's work.

Task of the Committee is to submit to the Board of Directors, in the absence of the persons involved, proposals regarding compensation to directors vested with special powers and compensation to senior executives (i.e.the Chief Executive Officer and the Deputy C.E.Os), including compensation by means of stock options plans or other assignment of shares.

CORPORATE RESPONSIBILITY COMMITTEE

- The Committee was established pursuant to a resolution of the Board of Directors passed on 28 October 2004.
- The regulations were approved by the Board of Directors with a resolution passed on 26 May 2005.
- The committee consists of four members, one of them, acting as a coordinator.

This Committee carries out advising and proposing activities for the Board of Directors, particularly as to environmental issues, customers satisfaction, staff professional skills and all stakeholders' interests.

The Chairman of the Board of Auditors (or another auditor appointed by him) and the Chief Executive Officer (or a delegate) take part in the meetings. If deemed appropriate, also with relation to the issues discussed, also the Deputy Chief Executive Officers, Senior Executives, other bank's employees and also third parties may be invited to take part in the meetings.

The Advertisement and Communication Unit acts as secretary to the Committee.

Moreover, the Communication Committee has to be mentioned since it is made up of directors even if not established inside the Committee.

THE COMMUNICATION COMMITTEE

- The Committee was provided for by the "Regulation no. 1 – Organization of Banca MPS " latest published on 1° September 2006
- The Committee consists of two members of the Board of Directors, of the Chief Executive Officer and of Manager in charge of the Communication Area.

The Communication Committee has the task of preparing communication strategies and budgets at Group level to be proposed to the Board, later on monitoring their implementation. In particular, the Committee has the task of

- defining the communication steps to be taken in critical situations or extraordinary events, integrating and coordinating them with the activities already taking place;
- of analysing and approving the guideline proposals of the Group communication in view of strategic marketing;
- of redefining the guidelines and the market positioning of the Bank's economic magazines.

In relation with the issues discussed the Deputy Chief Executive Officers, Senior Executives, other bank's employees and also third parties may be invited to take part in the meetings.

The Committee meets quarterly, before submitting key reports on the economic trend of the Bank; it also meets summoned by the Chairman to approve the Communication Plan or in other particular cases.

During 2006 the issues discussed mainly concerned the current and future communication strategies, the Communication Master Plan, the structure of the Communication Area, the activities carried out and the 2007 strategies.

6. APPOINTMENTS OF DIRECTORS

Further to the provisions of the Charter appointments to the Board of Directors are currently based on lists submitted by the shareholders; each of them may submit or participate in submitting one list only and each candidate may come up for election only in one list otherwise is subject to ineligibility. The lists submitted by the shareholders must be deposited with the Bank's head office and published, at their expense, on at least three Italian newspapers, two of which economic, with nationwide circulation, at least *ten days before* the date fixed for the shareholders' meeting on first call.

In this regard, the Board of Directors resolved to reserve the right to submit to the shareholders' meeting the amendment to art. 15 , first paragraph, (1.2) of the Charter to raise the limit to submit the lists of candidates from ten to fifteen days before the date fixed for the shareholders' meeting on first call.

Only shareholders holding alone, or together with other shareholders. shares totally representing 1.5% at least of the share capital with voting right in the ordinary shareholders' meeting are entitled to submit lists.
Together with the lists also the statements of each candidate accepting the candidacy and stating, under their responsibility, that, on one hand, there are neither ineligibility nor incompatibility and, on the other hand, that they own the qualifications necessary for each position must be deposited.
Each shareholder having voting right may vote one list only. The procedure to nominate the directors is the following:

- a) from the list which has obtained the majority of the shareholders' votes the directors representing half of those to be elected are chosen in the progressive order of the same list rounding off to the lowest figure, in case of fractional number;
- b) the remaining directors are chosen from the other lists; to this purpose the votes obtained by the same lists are then divided by one, two, three, four, etc. according to the number of directors to be elected. These quotients are progressively assigned to candidates of each list according to the order respectively provided for. The quotients assigned to the candidates of the various lists are listed in a single decreasing classification. Those obtaining the highest quotients shall be elected.

If more than one candidate has obtained the same quotient the candidate of the list which has not yet elected any director or the smallest number of directors shall be elected.

If none of such lists has elected yet any director or all have elected the same number of directors, within these lists the candidate of the list with the highest number of votes shall be elected. In case of parity of list votes and of quotients the shareholders' meeting as a whole shall vote again and the candidate obtaining the simple majority of vote shall be elected.

* * *

The Board resolved not to establish any committee for the appointment from its very midst.

7. COMPENSATION OF THE DIRECTORS

The compensation of the directors for the 2006, 2007 and 2008 financial years was determined by the shareholders' meeting of 29 April 2006 as follows:

- EUR eighty thousand; additional compensation for the members of the Executive Committee: EUR twenty thousand;
- EUR five hundred for each meeting as attendance fee for the directors for taking part in the meetings of the Board and of the Executive Committee without cumulative fees in the same day;
- Repayment to the directors of any travel and lodging expense paid up to exercise their functions.

No variable compensation linked to the economic results of the company and/or to the achievement of specific targets is provided for not even as stock option.
Art. 27 of the Charter provides for that the Board of Directors, subject to the previous opinion of the Board of Statutory Auditors, establishes the compensation of directors appointed to particular offices in compliance with the Charter and as well as of directors who are members of committees with advising and proposing functions to the Board, such as the Internal Control Committee, the Compensation Committee.

8. INTERNAL CONTROLS SYSTEM

On 18 April 2002 the Board of Directors reviewed the "Rules of Control at a Group level" (Rules no.16 – System of controls of the MPS Group) previously adopted with resolution of 4 May 2000, in order to: (i) define roles and tasks of the Bodies and of structures of the Parent Bank and of companies of the Group as well as dictate the criteria inspiring the evolution of an efficient control system in compliance with the Code provisions; (ii) integrate methods, processes and control as well as management of the relationships between the Head Office of the Parent Bank and the various companies of the group; (iii) codify the roles of functions being part of the internal control system – I.C.S. (Board of Directors, Internal Control Committee, Senior Management, Internal Auditing, Risk Management, Line Controls); (iv) identify, measure, control and manage each kind of quantifiable risk. Moreover, the Board of Directors defined the establishment of the Strategic Committee and of the Steering Committee, through which it transmits guidelines to the I.C.S.
Within this framework the Board has the task of:

- approving of strategic guidelines, policies of risk management and the organizational structure;
- verifying that the Senior Management defines the internal control structure in compliance with the selected risk propensity;
- assessing, at least yearly, the adequacy, the efficacy and the effective working of the internal control system;
- describing, in the report on corporate governance, key elements of the internal control system while expressing its own assessment of the overall adequacy of the system;
- adopting and updating the organization and management model provided for by art. 6, paragraph 1, letter a) of Legislative Decree of 8 June 2001 no. 231 "Discipline of administrative responsibility of legal entities, of companies and of associations without legal status";
- appointing and revoking, upon proposal of the Chairman and with the previous opinion of the Committee, one or more persons in charge of the internal control and define their compensation consistently with the corporate policies.

Moreover, the "Rules of the Internal Control Committee" (as per above-mentioned point 5) provided for that the same Committee has the tasks, inter alia, of monitoring and assessing the adequacy of the I.C.S. while reporting to the Board.
As already stated, the above Committee was assigned the role of Supervisory Authority as

per Legislative Decree no. 231/2001 "Discipline of administrative responsibility of legal entities, of companies and of associations also without legal status".

The Board of Directors exercises its functions concerning the I.C.S. complying with the administrative regulations of the Supervisory Instructions of the Bank of Italy and with Consob Regulations.

In line with the provisions of the A.I.I.A.[15] Professional Standards and with the general trend of the banking industry, on 14 December 2006, the Bank, with the authorization of the Internal Control Committee, defined a specific programme of Assurance and Improvement in quality of the MPS Group Internal Auditing and set up an audit standard for the Group companies and for the Parent Bank as well as an Ethical Code for the Internal Auditing function.
Audit standards define operating mechanisms and rules standardized at group level aimed at supplying the auditors with the instructions concerning the implementation of auditing.
The Ethical Code outlines and dictates the principles with which any Auditor must comply and is aimed at fostering an ethical culture while carrying out the activity.
The adoption of the Assurance and Improvement in quality of the Internal Auditing Programme will also produce an external certification stating the consistency of the activity with the standards.
Inside the Bank no director in charge of supervising the internal control system was appointed.
To strengthen the autonomy and the functional link with the Corporate Bodies the Internal Audit and the Board of Directors as well as the Internal Control Committee were *strictly related through linking mechanisms*, in particular through the:

– appointment, on 12 October 2006 by the Board, of the Manager of the Parent Bank Internal Control, upon proposal of the Chairman, subject to the previous opinion of the Internal Control Committee ("ICC");
– appointment of the Managers in charge of the Internal Control bodies of the Subsidiaries by the respective Boards of Directors with the previous opinion of their Internal Control Committee, if any, upon proposal of the Chairman of the Subsidiary after having consulted the Chairman of the Parent Bank supported by the Human Resources Area and by the Manager of the Internal Control Area;
– definition of the audit plan by the Board on the basis of the report of the Internal Control Area, after having consulted the Chief Executive Officer and the ICC;
– reporting on the most important control activity to the Chairman of the Board and to ICC;
– half-yearly report on the auditing carried out to the Chairman, the ICC and the whole Board;
– approval by the Board of the Parent Bank of the guidelines at Group level, which will be then adopted by the Boards of other Companies, according to which management (selection, training and rewarding system) of the human resources assigned to the Internal Auditing on the basis of the report of the Internal Control Area after having consulted the Human Resources Area and the ICC must be carried out.

[15] Italian Association of Internal Auditors.

The person in charge with the internal control is the manager in charge with the Internal Control Area.
The Internal Control Area was assigned the internal audit task of the Parent Company Banca BMPS.
The Internal Controls Area supports the corporate governance of the Board of Directors and of Senior Management and is not directly under the authority of any operating area but reports directly to the Chief Executive Officer, providing periodic feed back on its activity to the Board of Directors and to the Internal Controls Committee.

Its mission is to independently and objectively assure and advise aiming, on the one hand, at monitoring the operating reliability and risk trends, also through on the spot checks, on the other hand, at assessing the functions of the overall system of internal controls to improve efficacy and efficiency of the organization.

The Board is able to express its own evaluation on overall adequacy after having assessed the adequacy, efficacy and effective working of the internal control system and after having described the key elements of the internal control system, *taking into account and acknowledging* that the internal control system adopted by the MPS Group is in line with the Code provisions, as far as the framework outlined by the above-mentioned Regulations no. 16 – System of MPS Group controls as well as in the operating policy pursued by the Bodies and by the Parent Company structures are concerned.

9. INTERESTS OF THE DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES

The Board of Directors of the Bank examined, on several occasions (13 November 2002, 19 February 2004 and 15 May 2006), the issues concerning the obligations of banking representatives and the interests of the directors in the light of the current provisions (art. 2391 of the Civil Code, art. 136 of the Legislative Decree no. 385 of 1 September 1993 – Banking Consolidation Act – as amended by Law no. 262/2005 – Banking Consolidation Act). According to the above-mentioned article 136 of the Banking Consolidation Act representatives of banks and companies belonging to banking groups, such as directors, auditors, also substitute ones, and chief executive officers are prohibited from underwriting any kind of obligations or directly or indirectly trading with the bank or the company or from setting up financing transactions with another company or bank of the Group, *subject* to previous unanimous authorization of the Board of Directors with the favourable vote of all member of the Control Body and subject to the authorization of the Parent Bank in case of transactions carried out with the same bank or with other company of the Group. The Law no. 262/2005 introduced, in art. 136 of the Banking Consolidation Act, a new **paragraph 2-bis** extending the above-mentioned procedure also to the obligations with:

(a) companies controlled by the representatives of the bank or of another company of the banking group;
(b) companies in which the same representatives carry out administrative, management and controlling tasks;

(c) subsidiaries or parent companies of the above-mentioned companies

With the above-mentioned resolution of 15 May 2006 the Board has therefore resolved to request to each company's executive the issue of a statement reporting :

i) the companies of which the representative is a partner with unlimited liability;
ii) the companies in which has significant interests also indirectly;
iii) the subsidiaries;
iv) the companies in which the representative carries out administrative, management or control tasks;
v) the subsidiaries, controlling or linked with the companies as per point iii) or iv).

In order to apply the said procedure according to article 136 of the Banking Consolidation Act in case of obligations undertaken by the company's executive with the bank administered, managed or controlled by him or with banks of the Group:

- directly, as personal commitment or as a partner with unlimited responsibility of third party's obligations;
- indirectly, through third parties with legal status or individual person of real or unreal nature.

In accordance with the provisions of the Code, lately the Board of Directors changed the Code of Conduct for transactions with related parties, on the basis of the changed reference regulations framework. As a matter of fact, Consob modified the Issuer Regulation in light of the adoption of the EC Regulation no. 2238/2004 of 19 December 2004 concerning International Accounting Principles, referring, as far as the *related parties definition* is concerned, to the EC regulations no. 1606/2002 of the Parliament and the European Council (hereunder principle IAS 24). The provisions concerning the *"link" and the "significant influence" definitions* of the international accounting principle dealing with investments in related companies as per EC regulations no. 1606/2002 of the Parliament and of the European Council (hereunder principle IAS 28) and by the article 2359 paragraph 3 of the Civil Code as well as the provisions concerning *the kinds of transactions concerned and of information integrating the financial statements about transactions and balances outstanding with related parties* according to IAS 24 were also taken into account.

In general, in the above-mentioned Code, the concept of "related parties" is based on the following criteria:

a) *Group correlation*, which regards relationships of control, interconnecting relationships and relationships of significant influence which directly affect the Bank and the MPS Group;

b) *Direct correlation*, which involves corporate officers (directors and statutory auditors), the Chief Executive Officer, and Executives vested with powers conferred by the Board of Directors (Deputy Chief Executive Officers, the General Manager of the bank division, the Heads of the areas of the Corporate Centre and of bank division business units who have independent authority for credit approval, as well as shareholders joining shareholders' agreements as per art.122, paragraph 1 of the Legislative Decree no. 58/98, referring to exercising the voting rights in the BMPS shareholders' meetings, if these agreements allow a significant influence on BMPS);

c) *Indirect correlation*, which involves the family members of the physical persons included under points a) and b) meaning family members which may potentially influence or be influenced by the physical person in relationship with BMPS as well as the controlled entities, or the jointly controlled entities by the physical persons joining the above-mentioned shareholders' agreements or on which these physical persons exercise a significant influence or directly or indirectly hold a significant share of voting rights.

In addition, transactions with related parties (i.e. transactions carried out by the Bank – including through subsidiary companies – with related parties) have been subdivided as follows: *Ordinary Transactions* (transactions without any particular elements). *Significant Transactions* (transactions which require public disclosure in accordance with Article 71 bis of the CONSOB Resolution n. 11971), *Material Transactions* (transactions which, though they cannot be considered as "Significant Transactions", have atypical and/or unusual elements).

The Ordinary Transactions are approved in accordance with the limits of authority established by the current system of the delegation of authority within the Bank. Significant Transactions and Material Transactions must instead be approved by the Board of Directors (without prejudice, however, to the powers provided by the Bank's Charter for exercising authority in urgent situations). Depending on the nature, the value or other features of the transactions the Board may order that its assessment must be supported by opinions issued by one or more independent Advisors, on economic conditions and/or technical structure and/or legal aspects of the transactions.
Subsidiary companies must adopt the Rules approved by the parent company in relation to any transactions effected by the subsidiaries with "related parties" of the Bank. Subsidiary companies are to adopt such Rules with regard to their respective structures of approval authority. Any such transactions are to be communicated expressly to the parent company in a timely manner.
The obligations of banking representatives set forth in Article 136 of Legislative Decree n. 385 of 1 September 1993 (Italy's Banking Consolidation Act) remain unchanged.

* * *

All transactions with related parties within the Banking Group are settled on the basis of mutual economic advantage and anyway of market conditions, as the transactions with other related Parties within the Code application framework.

None of these transactions implied disclosure obligations to the market according to art. 71 bis if the Consob regulation n. 11971.

10. BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors is made up of:

Tommaso Di Tanno – Chairman
Pietro Fabretti – Effective Auditor
Leonardo Pizzichi – Effective Auditor
Carlo Schiavone – Alternate Auditor
Marco Turillazzi – Alternate Auditor

BOARD OF STATUTORY AUDITORS UNTIL 29 APRIL 2006

Office	Auditors	Participation percentage in the Board meetings	Number of other offices**
Chairman	GIUSEPPE VITTIMBERGA	100%	=
Effective Auditor*	PIETRO FABRETTI	100%	=
Effective Auditor*	LEONARDO PIZZICHI	100%	=
Alternate Auditor	STEFANO MENDICINO	=	=
Alternate Auditor	MARCO TURILLAZZI	=	=

Number of meetings during the reference year: 12

Report the quorum required for the submission of lists by minorities to elect one or more effective auditor/s in compliance with art. 148 Banking Consolidation Act: 1.5%

REMARKS:

- The asterisk shows that the auditor was elected through lists submitted by the minority.

** In this column the number of offices as director or auditor of the person involved in other companies listed on Italian regulated markets is reported.

BOARD OF STATUTORY AUDITORS UNTIL 29 APRIL 2006

Office	Auditors	Participation percentage in the Board meetings	Number of other offices**
Chairman	TOMMASO DI TANNO	100%	2#
Effective Auditor*	PIETRO FABRETTI	97%	=
Effective Auditor*	LEONARDO PIZZICHI	94%	=
Alternate Auditor	CARLO SCHIAVONE	=	=
Alternate Auditor	MARCO TURILLAZZI	=	=

Number of meetings during the reference year: 35

Report the quorum required for the submission of lists by minorities to elect one or more effective auditor/s in compliance with art. 148 Banking Consolidation Act: 1.5%

REMARKS:

- The asterisk shows that the auditor was elected through lists submitted by the minority.

** In this column the number of offices as director or auditor of the person involved in other companies listed on Italian regulated markets is reported.

#Chairman of the Board of Auditors of Caltagirone S.p.A., effective Auditor of Autostrade S.p.A.

Current auditors mandates last for the 2006-2007-2008 financial years and expire at the date of the shareholders' meeting called to approve the financial statements as at 31 December 2008.

The Bank's Charter provides that the members of the Board of Auditors are not allowed to work as effective auditor in more than five companies not belonging to the MPS Banking Group and quoted on the Italian official markets as well as in other banks other than those of MPS Banking Group and subsidiaries jointly controlled, subject to other current legal provisions.

The Auditors must have all professional requirements and the reliability provided for by the current regulations. Moreover, in compliance with the provisions of the above-mentioned Self-Discipline Code of listed companies aimed at ensuring the presence of independence requirements of the Auditors after their appointment also on the base of the criteria provided for by the same Code with reference to the Directors, the Board of Statutory Auditors has verified, in the meeting of 5 April 2007, for each auditors, the absence of situations which may currently condition their judgement autonomy while confirming the independence of all auditors.

The Appointments to the Board of Auditors is based on lists submitted by the shareholders. The lists submitted by the shareholders must be deposited with the Bank's head office and published, at their expense, on at least three Italian newspapers two of which economic, with nationwide circulation, at least ten days before the date fixed for the shareholders' meeting on first call. Each of them may submit or participate in submitting one list only and each candidate may come up for election only in one list otherwise is subject to ineligibility.

In this regard, the Board of Directors resolved to reserve the right to submit to the shareholders' meeting the amendment to art. 26 , third paragraph, (3.1) of the Charter to raise the limit to submit the lists of candidates from ten to fifteen days before the date fixed for the shareholders' meeting on first call.

Only shareholders holding, alone or together with other shareholders, shares totally representing 1.5% at least of the share capital with voting right in the ordinary shareholders' meeting are entitled to submit lists. Together with the lists also the statements of each candidate accepting the candidacy and stating, under their responsibility, that, on one hand, there are neither ineligibility nor incompatibility and, on the other hand, that they own the qualifications necessary for each position must be deposited.
Each shareholder having voting right may vote one list only. The procedure to nominate the auditors is the following:

a) the votes obtained by each list are divided by one, two, three, four, five. The quotients are progressively assigned to the candidates of each list according to the order respectively provided for;

b) the first two candidates of the majority list shall be elected as effective auditors whereas the third candidate of the same list shall be the alternate auditor;
c) the candidates of the minority lists are listed in a single decreasing classification based on the obtained quotients; the candidate with the highest quotient shall be the third effective auditor, whereas the second, the alternate auditor;
d) in case of parity of quotient for the last auditor to be elected, in the minority list the candidate with the highest number of votes shall be elected and, in case of parity of votes, the oldest candidate. If an elected candidate cannot accept the position, the first candidate of the non-elected ones in the list of the candidate who has not accepted shall be elected;
e) the first candidate of the list which has obtained most votes shall be the Chairman; in case of parity of votes among two or more lists the Chairman shall be the oldest auditor.

At least one of the effective auditors and at least one of the alternate auditors must be registered in the Chartered Accountants' Register and have exercised the legal control of accounts for not less than three years.

Maximum two effective auditors and one alternate auditor may be appointed even if they are not qualified as aforementioned but have an overall working experience of at least three years in:

a) management or control or executive tasks in companies with share capital not lower than euros two million, or
b) professional activities or university permanent teaching in legal, economic, financial, credit, insurance, technical and scientific subject matters, strictly linked with the company's activities, or
c) in executive tasks with government agencies or public bodies working in credit, financial and insurance fields or anyhow in sectors strictly related with the Company's activity, while with "strictly related" subject matters are meant those referred to the Company's activities as provided for by the Charter.

If the list is made up of three or more candidates, the third candidate and at least one of the first two must have the aforementioned qualifications; if the list is made up of less than three candidates, at least the first of them must have the same qualifications.

* * *

As provided for by art. 3 paragraph 3 of the Regulations of the Internal Control Committee, the Chairman of the Board of Statutory Auditors (or another Auditor appointed by him) take part in the meetings of said Committee.

11. INVESTORS RELATIONS

Since the public listing of shares, the Bank has taken steps to build a well-balanced relationship with the shareholder base. Two specific units have been established in this regard:

- Investor Relations, directly reporting to the Chief Executive Officer (investor.relations@banca.mps.it - tel.: 0577296477-299798-296476-293038, fax 0577294075), dealing with the main institutional investors and businessmen of the domestic and international financial community while arranging for the related financial communication
- Corporate Relations, which is part of the General Secretary's Office (segreteria.societario@banca.mps.it - tel.: 0577294577, fax 0577296396).

In order to facilitate the access to the information which may be relevant to the shareholders there is a web site providing on-line information, in Italian and in English, regarding the Corporate Governance, financial statements, key data, ratings, press releases, corporate events, etc.

In particular, to foster the relationship with shareholders and institutional investors inside the Bank's internet site a section (http://www.mps.it/investor Relations/Corporate Governance/Assemblee) was inserted in which the whole documentation regarding the next shareholders' meeting as well as the past meetings can be found.

The Chairman accepts the Regulations of the shareholders meetings, which were approved by the Board on the basis of the model jointly drafted by Assonime[16] and ABI, as a deed previously ruling the procedure of exercising the managing and monitoring powers which were assigned to him by the Charter (art.12, paragraph 3 and 4).

The Regulations are therefore a Chairman's deed concerning the behaviour rules he will comply with during the meetings while exercising his functions and are disclosed by depositing them with the registered office and with Borsa Italiana S.p.A. as well as through adequate disclosure in the notice calling the shareholders' meeting.

12. ADMINISTRATION SYSTEMS AND DUALISTIC AND MONISTIC CONTROL

The administration and control systems of the Bank is ruled by paragraphs 2 and 3 of Book V, Chapter, V, Section Vi bis of the Civil Code, as provided for by Art. 10 of the Charter, providing for a Board of Directors and a Board of Statutory Auditors. The provisions of art. 12 of the Code are not applied within the Bank.

[16] Association of Italian joint stock companies.

SAVING REFORM: THE NEW FIGURE OF THE EXECUTIVE IN CHARGE OF THE DRAFTING OF CORPORATE ACCOUNTING DOCUMENTS

The new ruling framework

Law no.262 of 28 December 2005, (as amended by Legislative Decree of 29 December 2006, no. 303), "Provisions for savings protection and financial market discipline" while adding art.154bis to the Financial Consolidation Act, introduced, in the organization chart of the companies listed in Italy, the figure of the Executive in charge of drafting corporate accounting documents

In particular, according to art. 5 the Executive must certify, jointly with the delegated administrative Bodies, with adequate reports, enclosed to the financial statements (to the half-yearly report and, where provided for, the consolidated financial statements), the adequacy and actual application of administrative and accounting procedures during the financial year to which the accounting documents are referring as well as that the documents correspond to accounting books and registers.

Moreover, according to paragraph 2 only the Executive in charge of the drafting must certify, with special written statement, that the documents, the books and the other accounting items correspond to all deeds and communications of the Company disclosed to the market concerning accounting information also half-yearly.

It should be added that the rule definition process has not yet ended. In particular, Consob should issue the implementing regulations with the certification model after the amendments of the Legislative Decree no. 303 of 2006.

The consequences

Art. 154 bis of the Financial Consolidation Act aims at increasing corporate information transparency and at improving internal control systems in order to guarantee real investor protection.

The Monte dei Paschi Group must comply with the new rules both as to consolidated financial statements and bank's financial statements. The assessment and verification of the internal control system is inserted in a wider operating framework of integrated compliance in which specific targets must be adequately formalized to underline the adequacy and the actual application of the controls of the accounting administrative procedures.

Moreover since par. 1 of the Law provides for that the procedures of appointment of the above-mentioned Executive and the professional requirements must be reported in the

Charter with the previous compulsory opinion of the Controlling Entity, the Charter must necessarily be amended.

Further to the approval of Legislative Decree no. 303 art. 8 the Executive must be appointed by 30 June 2007.

Civil and penal responsibilities of the directors also apply to the Executive.

262 Project in MPS Group

Although awaiting the completion of the ruling framework the Monte dei Paschi Group has started several projects concerning various Organization Units and Subsidiaries.

Main targets are:
- formalizing a full and adequate monitoring system for accounting and administrative procedures;
- developing an integrated organization structure able to manage and keep the system;
- defining a company's framework supporting the Executive to carry out the necessary coordinating and verifying activities.

The projects for 2007 within the corporate governance model mainly concern the analysis of processes and controls to verify and assess their reliability extending assessments also to aspects related to IT systems and to the whole corporate control system.

THE MPS GROUP'S COMMITMENT TO SOCIAL RESPONSIBILITY

Corporate Social Responsibility is the set of policies through which companies voluntarily insert social and environmental issues in their commercial transactions in order to foster a sustainable development.

In the MPS Group **Corporate Social Responsibility** (Csr) **means to pass resolutions and to behave meeting expectations and interest of the stakeholders**[17] to win their trust, while assuming that company's success depends not only on products and service quality but above all on how they are implemented and distributed.

For this reason, MPS Group has been involved since long in informing the stakeholders also through regular social reporting. To this purpose, the **socio-environmental report** is aimed at underling its positive and negative impacts on the stakeholders, the society and the environment reporting the intangible (i. e. non-economic) commitments and assets to manage Csr in the best way, to increase and protect its image.

The major projects carried out in 2006 in compliance are hereunder reported while more details can be found in the socio-environmental report and in the web site:

❑ REFERENCE CONTEXT

The MPS Group action developed inside a fluid internal context: during the year the **new Board of Directors** was appointed bringing about a substantial organizational change to implement the 2006-2009 Business Plan.

The change has not however blurred the focus of the **corporate governance for Csr** thanks to:

- the **Board of Directors of the Parent Bank** defining and ensuring the implementation of MPS Group;
- the **Csr Committee** supporting its action;

[17] Stakeholders are:
- those contributing to the implementation of corporate mission;
- those able to influence the reaching the corporate targets through their various decisions concerning expenses, investment, co-operation, ruling and monitoring;
- those influenced by the decisions taken by the company and by its activity.

Even if a single list of stakeholder does not exist which is valid for each company usually the stakeholders are: shareholders/partners, employees, customers, suppliers and other commercial partners, institutions such the supervisory authorities and public administration, local communities as well as future generations.

- the **operating co-ordination** which was assigned for the first time to the Communication Area, which is the only unit directly reporting to the Chairman and to the Chief General Manager, thus having a key role in the management;
- a **corporate governance model** in line with the provisions of the new self-discipline code of listed companies;
- an **ethical code** for the insurance sector which is added to the behaviour code prepared last year to manage savings assets within the project of the group ethical code which is now being completed.

Also **redundancies resulting from the reorganization** were managed with sense of responsibility in agreement with trade unions organizations, through:

- enhancement of commercial network competences;
- professional development and re-conversion paths;
- retirement plans

The new Supplementary Labour Contract was also underwritten creating special joint entities to examine and improve Group Csr policies in compliance with the "Protocol on sustainable development of the banking system".

❑ 2006 ACTIVITIES

The activities followed the lines of the **2005-2007 Social responsibility plan** taking into account the new proposals of the European Commission together with the Alliance for Csr – Communication no. 136 dated 22 March 2006.

Main issues were:

- the relationships with the customers;
- the financial inclusion;
- energy and climate;
- the commitment to the community

◆ THE RELATIONSHIPS WITH THE CUSTOMERS

The MPS Group succeeded in understanding the **various needs and preferences of its customers** through a multi-channel offer specialized by kind of relationships and focused on direct contact.

Fair practices and transparency of products sale conditions are key goals. The staff in charge of the commercial activity is trained to comply with the rules governing the relationships with the customers and to make the customer better understand the offer. Thus, the customer is invited to **consciously manage his savings from a medium- and long-term point of view**.

In order to manage the relationships with the customers in the best way, in 2006 a special

■ THE "CONSUMER-LAB" PROGRAMME

In 2006 the activities concerned:

- training of commercial network staff to improve their knowledge of consumer issues. The Consumers' Associations took part in corporate course involving 2,700 employees.
- Drafting of guidelines for customer-oriented contractual rules and conditions to improve the management of the bank-consumer relation through more transparency in the economic and legal conditions, preparation of proper forms for claims, extension of times to submit the documents required after the signing of the contract, etc. The products which were taken into account until now were: current accounts, credit and debit cards, mortgage loans.
- The design of products and services for particular customer brackets (the elderly, the handicapped, immigrants, etc.). Following products were implemented: Braille card to access to the phone banking services, the offer to the immigrants called "Paschi senza frontiere".
- The definition of guidelines for customer-oriented reporting on financial products and services. Communications to customers were reviewed to make them clearer and more understandable and two guidelines were prepared: on current accounts and on mortgage loans.

organizational unit was set up directly reporting to the Chief Executive Officer with remarkable investments in technology, training and operating activity.

For the second consecutive year, a wide **customer-satisfaction survey** was carried out with the retail customers (s. Retail banking chapter) and the results confirm the positive impacts of the MPS Group activity aimed at improving service quality and creating profitable and lasting relationships.

The **Consumer Lab** activity went on, i.e. the round table with the Consumers Associations to share solutions to communication and relationship problems between the bank and its customers. The agreement which was signed in 2004 with 13 associations was renewed for two other years and with 15 associations.

Huge amounts were invested in training, above all of financial promoters, as to fair practices and ethics in the relationships with customers.

◆ FINANCIAL INCLUSION

To meet the needs of particular customer brackets and to ensure them the access to banking services, specific offerss were addressed to temporary workers, students, young couples, the elderly, immigrants, non-profit organisations and micro-businesses.

- **Micro-credit**

■ MICROCREDITO DI SOLIDARIETÀ SPA

Features of Microcredito di Solidarietà SpA are:

- no material guarantee: loans are granted on the basis of morality and responsibility judgement of the borrower;
- average amount of loans: EUR 5-10,000;
- interest rate: 4.50 fixed with no charges except tax;
- customer-tailored instalment: the customer proposes the monthly amount and the company the sustainable period;
- modular repayment: the customer pays interest monthly and decides whether and how to reduce the debt as to capital complying with the deadline.

Key governance point of the model is the role of the voluntary associations with their highly important value added, while directly mapping poverty and malaise in the territory and certifying the morality, the fairness and the real need of the borrower.

Because of its novelty in the traditional banking scenario the initiative was selected among the 120 business case studies submitted to the II European MarketPlace, the fair of Csr organized under the auspices of the European Commission and turned out to be one of the finalists of the IV Edition of Sodalitas Social Award.

The MPS Group has a 10 year-standing experience of solidarity micro-credit; since 1996, the Group has co-operated with a leading voluntary association in Siena (**Arciconfraternita di Misericordia ed Istituzioni Riunite di Siena**) in granting small loans to people in need. Loans amounted to more than EUR 15 mln and were 50% guaranteed.

In line with this experience **Microcredito di Solidarietà SpA** was established, a company specialized in micro-credit, 40% owned by Banca MPS and for the rest by public, religious and charitable institutions. The company was registered in June 2006 with the Register of the Italian Exchange Office and is now working in the province of Siena and has already granted tens of loans.

The **assistance to micro-businesses** was also enhanced through both the specific offer called "Prs Micro-businesses" and the participation in Smoat (oriented and supported Tuscan micro-credit system), a risk fund of the Region of Tuscany to offer financial services to entrepreneurs who wish to start a new business without having adequate guarantees to access to the ordinary banking credit.

- **Banca Senza Frontiere**

The MPS Group proposes a **structured offer of products and services** for immigrants to contribute to their integration in the social and economic Italian life (*s. also Retail banking*).

This offer aims at **meeting the needs of the immigrants** in co-operation with representatives of their communities and with the institutions protecting their rights and interests, such as religious and humanitarian institutions, embassies and consulates, ethnic associations, charities, etc. to become their reliable banking counterpart.

The packet is called **Banca Senza Frontiere** and offers facilitated conditions to several basic services such as current account, mortgage loans, personal loans, insurance policies including accident policies and job loss policies, remittances to the country of origin free of charge, etc. as well as following products:

- free of charge **prepaid-rechargeable cards**, *as underlined in the chapter " Payment Systems"*;
- **guarantees for home-renting** (as an alternative to guarantee deposit);
- **financial savings plans** with threshold access lower than the standard;
- **insurance policies** also covering health charges or the transfer of a relative.

The innovative factor of the product, however, is the **opportunity for the customers to make remittances** to their country of origin free of charge and, thanks to special agreement with leading correspondent foreign banks (in Albania, Morocco, Senegal, etc.) the extension of these conditions to the families of the immigrants.

The success of the programme in favour of the immigrants is underlined by the customer portfolio reaching 265,000 customers, 141,000 current accounts and 26,000 mortgage loans; thanks to these figures, the **MPS Group ranks second in Italy for services to the immigrants**.

❑ ENERGY AND CLIMATE

In 2006 the MPS Group started a specific study concerning the opportunities and risks related to the coming into force of the **Kyoto Protocol** on environmental changes.

In the framework of the environmental policy which has inspired the activity of Banca MPS since long towards a progressive reduction of its own direct environmental impacts (Banca MPS is certified Iso 14001 and its subsidiary Mps Banca per l'Impresa is also registered in compliance with the European model Emas), **the MPS Group intends to increasingly support the investments of retail customers, institutions and companies wishing to improve their energy saving**.

Therefore, while the Group is committed to a more rational use of electricity (the new branches and more than 150 old offices were equipped with the best lighting standards, 90% of electricity is produced using renewable sources) **the commercial offer has further improved also in 2006**.

MPS Banca per l'Impresa granted loans amounting to EUR 656 mln for renewable energy sources

Through specific agreements with **Energia Spa (today Sorgenia)** MPS Group finances the implementation of energy savings measures and the installations of renewable energy plants.

To foster the diffusion of above-mentioned policies also among **retail customers, Welcome Energy** and **Prs Ambiente** are proposed: the former encourages photovoltaic energy in agreement with Enel Si, the latter is valid also to install highly efficient boiler, bio-building projects, energy savings measures.

As far as **risks** are concerned, MPS Group has applied, since long, an environmental filter to the financing requests of main projects and prefers, in the framework of investment funds management through its subsidiary MP Asset Management, companies with sound management and control policies of their environmental impacts.
In this regard, in 2006 climate changes were monitored with particular concern and responsibility, taking also part, for the second consecutive year, in **Carbon disclosure project**, the initiative fostered by the United Nations supplying steady updating about the commitments and strategies of large companies on this subject.

❑ COMMITMENT TO THE COMMUNITY

Also in 2006, the MPS Group confirmed its own commitment in taking part in the economic welfare and in the improvement of social environment. The Group did so **supporting several protection and development programmes** of the communities through:

- donations to persons and associations operating in solidarity and voluntary initiatives;
- financial contributions to cultural, scientific, sport, social and environmental initiatives;

- products and services in favour of the underprivileged and the needy;
- co-operation with local institutions for the sustainable growth of production projects;
- partnership in the community for social aims.

■ WATER – PRECIOUS LIQUIDITY

In 2006, the Group MPS implemented, in co-operation with "Cittadinanzattiva" a consumers' association, a campaign of information and awareness on the responsible use of water addressed to private citizens and to young students.
The campaign was launched in the "world day of water", on 22 March 2006, to underline its consistency with world-wide programmes: "water for everybody" is one of the most urgent development aims of our time.
The campaign reached 8 cities (Bari, Mantua, Turin, Palermo, Florence, Siena, Bologna and Salerno) where 18 workshops in total took place aiming at:

- developing awareness of individual behaviours to protect water as an universal and limited good;
- nforming the citizens about uses and cycles of water, reading of the bill, simple measures to save it, etc. so that they can be more aware of the importance of using water responsibly;
- fostering the dialogue among citizens and local institutions in charge of managing water use and distribution.

The workshops took place in our branches and in schools with about 2,000 people attending. It is estimated that the information campaign reached about 10,000 people.

Several **cause-related marketing projects** were implemented. Through the placement of financial products the Mps Group has already promoted the raising of funds to be assigned to sustainable development projects such as:

- **Dialogos – solidarity items**: part of the management fees of Fix and Geo ethical funds is assigned to social utility projects through a specific call of bids. In 2006, EUR 225,000 were assigned to:
  - Associazione Viale K in Ferrara for the Giano project aimed at fighting malaise and social exclusion of the poor;
  - Movimento di Cooperazione Educativa for the Berimbau Co-operation network aimed at giving opportunities of job and income to 25 young people in favelas in Brasil;
  - Associazione Italiana Donne per lo sviluppo (Aidos) to set up two reproductive health advisory units addressed to Palestinians women of refugee camps in the Gaza Strip.

- **"Sostegno" policy**; part of sale profits of a simple insurance product is assigned to the Comunità di Sant'Egidio. The initiative raised EUR 50,000 used to build a "protected house" to assist elderly people partially or seriously not self-sufficient, as an alternative to institutions.

- **Prepaid card "Operation Smile"**: the humanitarian mission of Operation Smile, onlus Foundation of voluntary doctors working in the poorest countries in the world to cure serious face malformations through reconstructive surgery was supported. Banca MPS issued a special prepaid and rechargeable card costing EUR 6 for three years, of which EUR 4 are assigned to Operation Smile. Employees of the bank and customers bought 6,420 cards thus raising EUR 25,680.

- **M'Honey Card**: the consumer credit card which has been proposed for a few year at Christmas to support charities. In 2006, assigning EUR 0.50 for every transaction with M'Honey Card EUR 100,000 were raised to contribute to organizations working in the medical-scientific research and in charities.

RATING AND ASSESSMENTS

In 2006 important acknowledgements confirmed that "good behaviour" is nowadays not only a necessary choice, but also a profitable one:

- **Oscar di Bilancio**

Monte dei Paschi di Siena was awarded the prize for best economic, social and environmental communication to every reference public in the category " Major and large banking and financial companies" . The prize was awarded by Ferpi (Federazione Relazioni Pubbliche Italiana)[18] with the following reasons:

"*Financial statements are complete and exhaustive from every point of view. The report on operations is clear and accurate, as well as disclosures concerning the impacts of the first adoption of international accounting principles- both those related to Basle II process and the environmental ones - and risk assessment are detailed. The Csr governance is further strengthened through the creation of the special Committee and by improving the organization of management and of underlying systems*".

The award confirms how transparency and information accuracy are appreciated by the stakeholders and should therefore be adequately supported in the light of continuous improvement.

- **Among the top 20 companies with the best image**

According to the research carried out by Cohn & Wolfe and by Research International Banca MPS is among the top 20 companies with the best image in Italy thanks to relationship capacities, image value and ethical management

- **Sustainability ratings**

In the light of the assessment by some of the main ethical rating agencies the Banca MPS shares were confirmed as a component of the **FTSE4Good**, Europe and Global sustainability indexes, which are produced by the Financial Times and by the London Stock Exchange, (the world leader in the supply of investors' global indexes) and of **Ethibel** (world index produced by the homonymous Belgian rating agency.

Also the assessments of the various **financial analysts**, such as SiRi Company, Oekom Research, Agenzia Europea di Investimenti, Avanzi SRI Research, Axia) carefully following the Csr Group policies are positive: these analysts also produce reference benchmarks for the socially responsible choices of a growing number of investors and not only institutional ones.

After 4 consecutive years in the **Dow Jones Sustainability World Index**, in 2006 MPS shares was excluded from it, even if it had obtained a positive rating in line with the previous ones. To recover the lost position a specific, action plan was designed, which is consistent with and integrated in the more general Csr MPS Group strategy.

MATERIAL EVENTS SUBSEQUENT TO YEAR-END

Material events subsequent to 31 December 2006 are hereunder detailed:

– **on 16 January 2007**: Standard & Poor's upgraded the outlook of Banca Monte dei Paschi di Siena, Banca Toscana and Banca Agricola Mantovana from "stable" to "positive". "A" and "A-1" short-term and long-term ratings of Banca MPS, respectively, were confirmed.

– **On 13 February 2007**: Holmo, a company controlling Unipol Assicurazione through Finsoe, and Banca MPS underwrote an agreement for the sale from Banca MPS to Holmo of a Finsoe share package amounting to 14.839% of the overall share capital, counter-value of EUR 350.4 mln. The sale aims at balancing respective investments and at confirming the relationship. After the sale the investment of Banca MPS in Finsoe will amount to 13% and the investment in Holmo to 71.074%.

– **On 13 February 2007**: the Board of Directors of Banca MPs Spa instructed its subsidiary Mps Finance- holding the investment in Hopa – to give notice to cancel the shareholders' pact ruling the Hopa Management; the pact expires on 1 September 2007, subject to tacit agreement;

– **On 5 March 2007**, Banca Monte dei Paschi di Siena resolved to start talks with Axa on a exclusive basis to create a joint venture in the insurance field with the French company and its own subsidiaries Monte Paschi Vita e Montepaschi Assicurazioni Danni;

– **On 9 March 2007**, Banca Agricola Mantovana gave Unipol Spa the official notice to leave the framework communication of bancassurance and of the existing commercial agreement concerning the partnership Quadrifoglio Vita Spa.

OUTLOOK FOR THE FUTURE

In 2007, the operating background should confirm the recovery signals of the economic situation of 2006. MPS Group will follow a management development consistent with the 2006-2009 Business Plan targets.

CONSOLIDATED FINANCIAL STATEMENTS
NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET
GUARANTEES AND COMMITMENTS
CONSOLIDATED PROFIT AND LOSS STATEMENT

BALANCE SHEET

	Assets	31 12 2006	(in EURO units) 31 12 2005
10	Cash and cash equivalents	611,979,063	562,812,708
20	Financial assets held for trading	26,430,327,508	37,473,143,080
30	Financial assets carried at fair value	-	2,660,106,469
40	Financial assets available for sale	4,147,809,464	5,685,269,704
50	Financial assets held to maturity	2,932	4,301,728,699
60	Due from banks	11,991,033,451	9,993,556,196
70	Customer loans and advances	91,941,018,880	83,526,120,669
80	Hedging derivatives	17,229,111	9,830,126
90	Change in value of financial assets recorded as part of a macrohedge (+/-)	32,620,933	64,774,083
100	Equity investments	744,118,419	702,846,774
110	Technical reserves attributable to reinsurers	-	11,896,939
120	Tangible assets	2,564,184,239	2,639,537,844
130	Intangible assets	754,720,891	877,809,993
	of which: goodwill	*641,277,464*	*740,171,604*
140	Tax assets	1,108,459,898	1,326,389,200
	a) current	*462,391,776*	*436,842,099*
	b) deferred	*646,068,122*	*889,547,101*
150	Non current assets and disposal groups held for sale and discontinued operations	15,410,976,247	6,231,061
160	Other assets	2,801,185,378	3,925,156,090
	Total assets	**158,555,666,414**	**153,767,209,635**

BALANCE SHEET

(in EURO units)

	Liabilities and Shareholders' Equity	31 12 2006	31 12 2005
10	Due to banks	15,877,618,333	16,207,174,683
20	Customer deposits	54,086,618,528	53,186,400,157
30	Securities issued	29,243,771,906	23,449,053,450
40	Financial liabilities held for trading	16,714,577,238	17,106,230,396
50	*Financial liabilities carried at fair value*	10,645,899,057	17,643,053,930
60	Hedging derivatives	94,328,491	64,922,237
70	Change in value of financial liabilities part of a macrohedge	-	-
80	Tax liabilities	324,346,534	387,107,337
	a) current	253,723,121	*116,324,980*
	b) deferred	70,623,413	*270,782,357*
90	Liabilities related to discontinued operations	18,429,282,283	-
100	Other liabilities	3,930,145,680	4,936,050,545
110	Staff severance indemnity reserve	386,150,815	403,412,702
120	Reserves for risks and charges	1,010,150,877	1,184,612,076
	a) pension fund and similar obligations	426,672,926	*598,520,768*
	b) other reserves	583,477,951	*586,091,308*
130	Insurancel reserves	-	11,921,798,715
140	Valuation reserves	650,254,345	617,981,590
150	Reimbursable shares	-	-
160	Equity instruments	71,487,643	46,077,325
170	Reserves	3,597,754,535	3,346,183,133
180	Additional paid-in capital	560,788,041	539,460,728
190	Share capital	2,029,771,034	2,025,988,746
200	Own shares	(45,123,155)	(97,466,808)
210	Minority interests	37,752,028	45,754,868
220	Profit (loss) for the year	910,092,201	753,413,825
	Total liabilities and shareholders' equity	**158,555,666,414**	**153,767,209,635**

PROFIT AND LOSS STATEMENT

(in EURO units)

	Account	31 12 2006	31 12 2005
10	Interest and similar income	5,877,237,837	4,802,901,067
20	Interest and similar expense	(3,110,937,360)	(2,216,567,797)
30	**Interest margin**	**2,766,300,477**	**2,586,333,270**
40	Commission earned	1,597,945,753	1,578,763,616
50	Commission expense	(178,711,488)	(163,282,758)
60	**Net commission income**	**1,419,234,265**	**1,415,480,858**
70	Dividend and similar income	458,887,933	462,304,361
80	Net result from trading	(189,637,860)	(324,469,415)
90	Net result from hedging activities	(7,169,972)	(13,385,945)
100	Profit (loss) on disposal or on repurchase of	323,448,749	91,001,701
	a) loans	*1,798,235*	*(3,777,000)*
	b) financial assets available for sale	*334,579,049*	*103,559,701*
	c) financial assets held to maturity	-	-
	d) financial liabilities	*(12,928,535)*	*(8,781,000)*
110	*Net result on financial assets and liabilities carried at fair value*	(10,959,752)	33,537,338
120	**Net interest and other banking income**	**4,760,103,840**	**4,250,802,168**
130	Net value adjustments /recoveries on impairment of	(633,878,246)	(599,541,642)
	a) loans	*(508,436,506)*	*(460,985,642)*
	b) financial assets available for sale	*(129,794,891)*	*(135,343,000)*
	c) financial assets held to maturity	-	-
	d) other financial operations	*4,353,151*	*(3,213,000)*
140	**Net income from financial activities**	**4,126,225,594**	**3,651,260,526**
150	Net premiums	-	-
160	Other income/expenses (net) from insurance activities	-	-
170	**Net income from financial and insurance activities**	**4,126,225,594**	**3,651,260,526**
180	Administrative expenses:	(2,954,475,091)	(2,886,643,830)
	a) personnel expenses	*(1,861,573,041)*	*(1,828,855,766)*
	b) other administrative expenses	*(1,092,902,050)*	*(1,057,788,064)*
190	Net provisions for risks and charges	(30,489,854)	(44,236,569)
200	Net adjustments/recoveries on tangible assets	(68,270,734)	(67,517,002)
210	Net adjustments/recoveries on intangible assets	(66,463,869)	(77,273,708)
220	Other operating income/expenses	264,465,983	243,584,669
230	**Operating Costs**	**(2,855,233,565)**	**(2,832,086,440)**
240	Profit (loss) on equity investments	15,332,385	33,126,025
250	Net result of the tangible and intangible assets carried at fair value	-	-
260	Adjustments to goodwill	(598,810)	(29,021,026)
270	Profit (loss) on disposal of investments	2,912,953	502,880
280	**Profit (loss) before tax from continuing operations**	**1,288,638,557**	**823,781,965**
290	Taxes on income from continuing operations	(501,441,279)	(245,881,626)
300	**Profit (loss) after tax from continuing operations**	**787,197,278**	**577,900,339**
310	Profit (loss) after tax from discontinued operations	142,732,928	198,977,915
320	**Net profit (loss) for the year**	**929,930,206**	**776,878,254**
330	Net profit (loss) attributable to minority interests	19,838,005	23,464,429
340	**Parent company's net profit (loss)**	**910,092,201**	**753,413,825**

	31 12 2006	31 12 2005
Basic earnings per share	**0.301**	**0.249**
of continuing operations	0.254	0.183
Of discontinued operations	0.047	0.066
Diluted earnings per share	**0.282**	**0.231**
Of continuing shares	0.239	0.171
Of discontinued operations	0.043	0.060

CONSOLIDATED CASH FLOW STATEMENT INDIRECT METHOD

A. OPERATING ACTIVITIES	31 12 2006	31 12 2005
		(EUR '000)
1. Cash flow from operations	**2,229,530**	**1,599,364**
net income (+/-)	929,930	776,878
gains/losses on financial assets held for trading and on assets/liabilities carried at fair value (-/+)	(56,492)	(192,036)
gains/losses on hedging activities (-/+)	7,170	13,386
net value adjustments/recoveries on impairment (+/-)	709,402	606,039
net adjustments/recoveries on fixed assets and intangible assets (+/-)	134,734	150,427
net provisions for risks and charges and other costs/revenues (+/-)	203,533	46,846
not cashed net premiums	(10,295)	-
other not collected incomes/expenses from insurance activities (+/-)	-	-
tax and duties to be settled (+)	501,441	281,544
net value adjustments/recoveries on discontinued operations net of tax effect (+/-)	33,545	
other adjustments	(223,438)	(83,720)
2. Cash flow from/used in the reduction of the financial assets	**(5,609,408)**	**(17,354,669)**
financial assets held for trading	3,447,902	(5,791,261)
financial assets carried at fair value	52,972	(2,628,106)
financial assets available for sale	604,605	86,846
due from banks: sight	-	(206,728)
due from banks: other credits	(2,107,970)	(2,775,959)
customer loans	(8,801,841)	(7,348,070)
other assets	1,194,924	1,308,609
3. Cash flow from/used in financial liabilities	**4,110,762**	**16,497,474**
due to banks: sight	-	28,054
due to banks: other debts	(329,556)	5,968,373
customer deposits	1,332,038	3,781,377
securities issued	5,864,785	3,287,416
financial liabilities held for trading	(395,176)	3,927,861
financial liabilities carried at fair value	(515,327)	(1,893,253)
other liabilities	(1,846,002)	1,397,646
Net cash flow generated/absorbed by operating activities	**730,884**	**742,169**

B. INVESTMENT ACTIVITIES		
1. Cash flow generated by:	**20,758**	**86,311**
sales of equity investments	1,153	52,331
collected dividends on equity investments	16,976	
sales/repayment of financial assets held to maturity	-	
sales of tangible assets	2,370	33,612
sales of intangible assets	259	368
sales of subsidiaries and divisions	-	-
2. Cash flow absorbed by:	**(357,070)**	**(328,210)**
purchases of equity investments	(46)	(216,777)
purchases of financial assets held to maturity	-	
purchases of tangible assets	(291,202)	(69,177)
purchases of intangible assets	(65,822)	(42,256)
purchases of subsidiaries and divisions		
Net cash flow generated/absorbed by investment activities	**(336,312)**	**(241,899)**

C. FUNDING ACTIVITIES		
issue/purchases of own shares	77,453	(244,596)
issue/purchases of equity instruments		
dividend distribution and other scopes	(422,818)	(263,735)
Net cash flow generated/absorbed by funding activities	**(345,365)**	**(508,331)**
NET CASH FLOW GENERATED/ABSORBED DURING THE YEAR	**49,207**	**(8,061)**

RECONCILIATION

Accounts	31 12 2006	31 12 2005
Cash and cash equivalents at beginning of the year	562,813	617,802
Net cash flow generated/absorbed during the year	49,207	(54,989)
Cash and cash equivalents: effect of exchange rate variations		
Cash and Cash equivalents at the end of the year	612,020	562,813

Cash and cash equivalents (EUR 612,020,000) also incorporates the liquid assets (EUR 41,000) of the subsidiaries Montepaschi Vita, Montepaschi Assicurazione Danni and Montepaschi Life, which have been reclassified in the balance-sheet under account 150 - "Assets being sold", sub-account "other assets".

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

							Allocation of profit from prior year				
		Balance as at 31.12.05		Change in opening balance	Balance as at 01.01.06		Reserves		Dividends	Changes in reserves	
		group	minorities		group	minorities	group	minorities		group	minorities
Share Capital:	a) ordinary shares	1,640,489	8,354		1,640,489	8,354				-	(114)
	b) other shares	385,499	-		385,499					-	
Additional paid-in-capital		539,461	6,915		539,461	6,915					(248)
Reserves	a) retained earnings	3,346,183	5,797		3,346,183	5,797	753,414	23,464	(280,318)		(1,316)
	b) other	-	-			-				(104,885)	(378)
Valuation Reserves	a) available for sale	520,443	13	-	520,443	13				(137,207)	4
	b) hedging of financial flows	(20,105)	-	-	(20,105)					36,687	
	c) other	117,645	1,212	-	117,645	1,212				132,791	72
Equity instruments		46,077	-	-	46,077						
Own shares	a) of the parent company	(97,467)	-	-	(97,467)						
	b) of the subsidiaries	-	-		-						
Net profit (loss) for the period		790,196	23,464	(36,782)	753,414	23,464	(753,414)	(23,464)			
Shareholders' Equity		7,268,421	45,755	(36,782)	7,231,639	45,755	-	-	(280,318)	(72,614)	(1,980)

In 2006 the Group's net equity, inclusive of profits for the year, increased by EUR 498.6 mln at EUR 7,812.7 mln (EUR 7,314.1 mln at the end of 2005). The movements for the year are mainly attributable to the distribution of 2005 profits and own shares trading which directly increase and decrease net equity for IAS/IFRS purposes.

The column of "change in the opening balance" includes, as required by IAS8 par.49, the effects on initial net equity as of 1/1/2006, resulting from the review of the estimated commitment to the pension fund with definite contribution (about EUR 36.8 mln), re-determined by a subsidiary.

In addition, under the column of "changes in reserves" the net decrease of profit reserves (EUR 104.9 mln) includes a reduction of EUR 107.0 mln attributable to the allocation to the specific revaluation reserve of the effect due to the re-determination of deferred taxes after the realignment of the real estate book values and tax values, in compliance with law no. 266 of 23 December 2005, pursuant to the instructions from the Bank of Italy, net of EUR 47.9 mln distributed by the subsidiary MPS Immobiliare.

Valuation reserves "c) other" include the reclassification (in the amount of EUR 25.7 million) from valuation reserves "a) available for sale" to reserves for assets being sold, in relation to the subsidiaries Montepaschi Vita and Montepaschi Assicurazione Danni considered as "discontinued operations" as of 31/12/2006.

Profit reserves include unavailable reserves (EUR 45.1 million) corresponding to the amount of own shares.

(EUR '000)

Changes during the year										Shareholders' equity as at 31.12.2006	
Shareholders' Equity transactions								Net profit (loss) of year 2006			
Issue of new shares		Acquisition of own shares		Extraordinary distribution of dividends	Change in equity instruments	Own share derivatives	Stock option				
group	minorities	group	minorities					group	minorities	group	minorities
3,783										1,644,272	8,240
										385,499	-
21,327										560,788	6,667
				(142,500)			-			3,702,640	2,084
										(104,885)	(378)
										383,236	17
										16,582	-
										250,436	1,284
					25,411					71,488	-
194,864		(142,520)								(45,123)	-
										-	-
								910,092	19,838	910,092	19,838
219,974	-	(142,520)	-	(142,500)	25,411	-	-	910,092	19,838	7,775,025	37,752

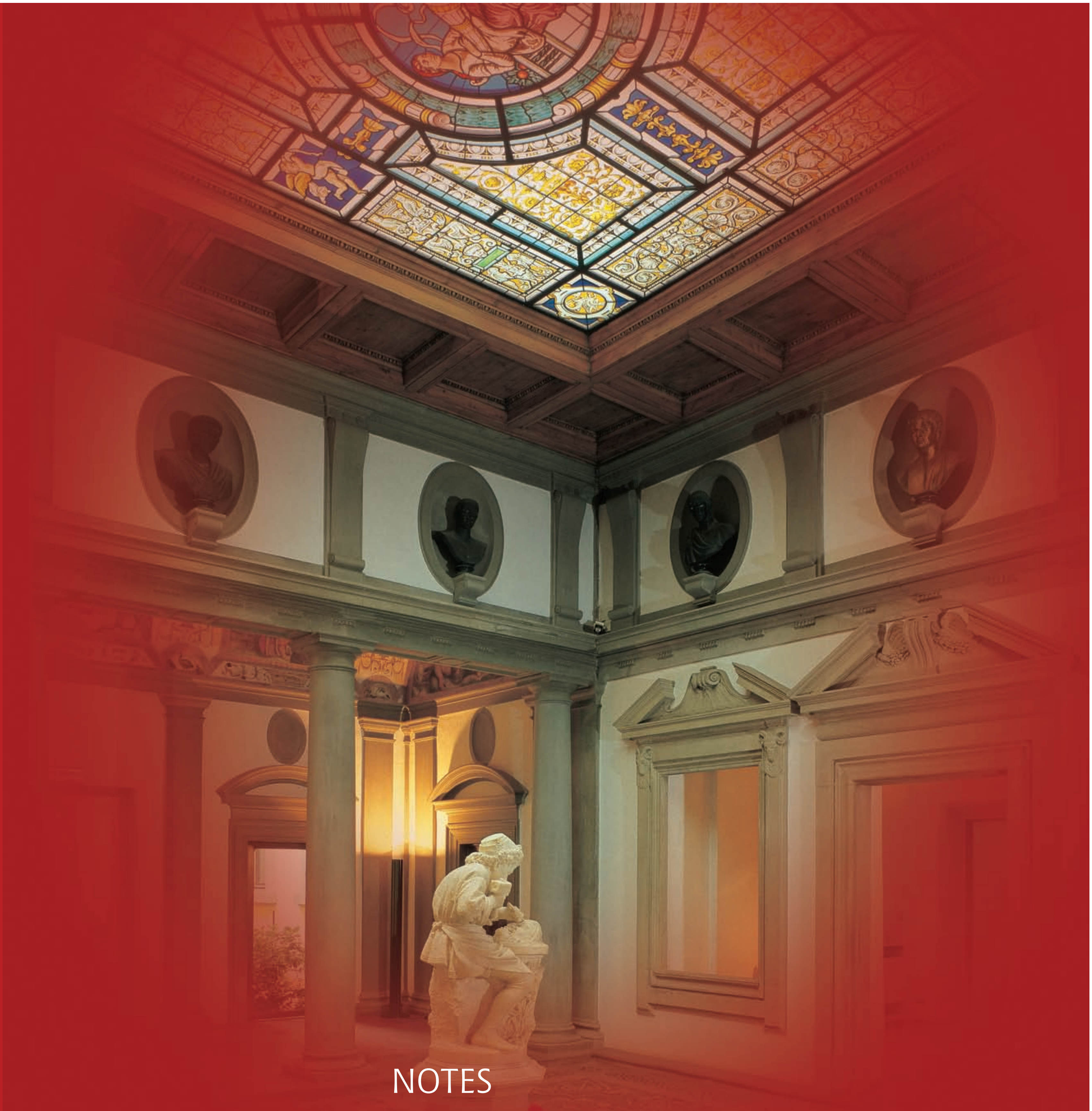
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

		Balance as at 31.12.04		Change in opening balance IAS 32 39	Balance as at 01.01.05		Allocation of profit from prior year: Reserves		Allocation of profit from prior year: Dividends	Changes in reserves	
		group	minorities		group	minorities	group	minorities		group	minorities
Share Capital:	a) ordinary shares	1,567,035	-		1,567,035					73,454	
	b) other shares	368,238	-		368,238					17,261	
Additional paid-in-capital		522,925	-		522,925						
Reserves	a) retained earnings	3,731,285	21,632	(674,544)	3,043,723	34,650			(263,735)	607,233	(12,359)
	b) other					-					
Valuation Reserves	a) available for sale	(2,564)	-	420,017	417,453					102,990	
	b) hedging of financial flows	-	-	(41,087)	(41,087)					20,982	
	c) other	464,022	-	559	464,581					(346,937)	
Equity instruments		-	-	46,077	46,077						
Own shares	a) of the parent company	-	-	(1,134)	(1,134)						
	b) of the subsidiaries	-	-		-						
Net profit (loss) for the period		599,415	13,112	(612,527)							
Shareholders' Equity		7,250,356	34,744	(862,639)	6,387,811	34,650	-	-	(263,735)	474,983	(12,359)

The balances as of 1/1/2005 have been reclassified to give a better view of the BAM put option case.

(euro '000)

Changes during the year										Shareholders' equity as at 31.12.2005	
Shareholders' Equity transactions								Net profit (loss) of year 2005			
Issue of new shares		Acquisition of own shares		Extraordinary distribution of dividends	Change in equity instruments	Own share derivatives	Stock option				
group	minorities	group	minorities					group	minorities	group	minorities
										1,640,489	-
										385,499	-
16,536										539,461	-
							(41,038)			3,346,183	22,291
										-	-
										520,443	-
										(20,105)	-
										117,644	-
										46,077	-
331,573		(427,906)								(97,467)	-
										-	-
								790,196	23,464	790,196	23,464
348,109		(427,906)					(41,038)	790,196	23,464	7,268,420	45,755



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

PART A
ACCOUNTING POLICIES

A1 – GENERALITIES

SECTION **1** – DECLARATION OF COMPLIANCE WITH THE INTERNATIONAL ACCOUNTING PRINCIPLES

These consolidated financial statements are prepared – in enforcement of Legislative Decree no.38 of 28 February 2005 - in accordance with the international accounting principles issued by the International Accounting Standards Board (IASB) and their construction by the International Financial Reporting Interpretations Committee (IFRIC), as approved by the European Commission, as contemplated by the EU Regulation no.1606 of 19 July 2002.
The international accounting principles were applied with reference to the "Framework for the drafting and presentation of financial statements" (*Framework*).
Failing a principle or an interpretation specifically applicable to a transaction, an event or circumstance, the Bank's Management developed and applied its own accounting principles for the purpose of providing a reporting which is:

- Relevant for the purposes of the economic decisions made by the users;
- Reliable so as the balance-sheet:
  - faithfully represents the economic-financial situation of the Bank, its results and financial flows;
  - reflects the economic substance of the transactions, other events and circumstances and not merely their legal form;
  - is neutral, that is with no prejudices;
  - is conservative;
  - is complete with reference to all relevant aspects.

As a result, the Bank's Management made reference to and took account of the enforceability of the following sources, listed in a hierarchically decreasing order:

- the provisions and application guidebooks contained in the Principles and Interpretations which deal with similar or related cases;
- the definitions, and criteria of measurement for the accounting of assets, liabilities, income and expenses contained in the Framework.

The Bank's Management can also take into account:

- the most recent provisions issued by other entities in charge of establishing the accounting principles which use a similar Framework for the purpose of developing the accounting principles,
- other accounting literature;
- consolidated practices in the banking industry.

In compliance with art.5 of Legislative Decree no.38 of 28 February 2005, if - in exceptional cases – the application of a provision contained in the international accounting principles turned out to be non compliant with the true and faithful representation of the balance-sheet, the financial situation, and the profit and loss statement, the provision was not applied. The reasons for derogation and its impact on the representation of the balance-sheet and financial situation, and the profit and loss statement, have been accounted for in the notes to the financial statements.
Any profits resulting from the derogation are posted under a non-distributable reserve in the balance-sheet if their amount does not correspond to the value recovered.

SECTION **2** - GENERAL PRINCIPLES OF DRAFTING

For the purpose of the presentation and measurement of the consolidated financial statements, the MPS Group adopted the IAS/IFRS international accounting principles issued by the *International Accounting Standard Board (IASB)* and their interpretations issued by the *International Financial Reporting Interpretations Committee (IFRIC)* validated by the European Union and the provisions contained in the Circular Letter no.262 of 22 December 2005 issued by the Bank of Italy and concerning the schemes and rules for preparing bank financial statements and consolidated financial statements.

The consolidated financial statements consist of:

- the consolidated balance-sheet;
- the consolidated profit and loss statement;
- the statement of changes in consolidated shareholders' equity;
- the statement of changes in consolidated financial position;
- the notes to the consolidated financial statements.

The consolidated financial statements are completed with the directors' report on the Group's trends situation by business sector.

The consolidated financial statements are prepared with transparency and give a true and faithful view of the consolidated balance-sheet, financial position and profit and loss statement.

If the information required by the international accounting principles and the provisions contained in the Circular Letter no.262 of 22 December 2005 issued by the Bank of Italy do not suffice to give a true and faithful, relevant, reliable, comparable and intelligible view of the operations, the notes to the consolidated financial statements provide the necessary supplementary information.

The consolidated balance-sheet and profit and loss statement consist of accounts – marked with numbers -, sub-accounts - marked with letters – and further details, under "including" in the accounts and sub-accounts. Accounts, sub-accounts and their details are part of the balance-sheet.

Each account of the balance-sheet and the profit and loss statement also indicates prior year's amounts. If the accounts cannot be compared, the accounts in relation to the prior year are reclassifed; non-comparativeness and reclassification or impossible reclassification are reported and commented in the notes to the financial statements.

In particular, prior year's balance-sheet and the profit and loss statement data have been re-stated to take account of the re-computation of the definite contribution pension fund of a subsidiary.
With reference to such data, net profit and opening net equity were reduced by about EUR 37 million. This amount was deducted from net equity as of 1 January 2006, as regulated by IAS8 And shown in the statement of changes in consolidated net equity under the column of "change in opening balances".

In addition, prior year's profit and loss statement data concerning the tax-collection business within the Parent Bank, BMPS, and the following subsidiaries:
- Serit SpA;
- Sorit SpA;
- Gerit SpA;
- Seit SpA;
- Padana Riscossioni SpA, which were sold during the third quarter of the year

and profit and loss statement data in relation to the subsidiaries:
- Montepaschi Vita;
- Montepaschi Assicurazione Danni;
- Montepaschi Life,

considered as being sold as of 31 December 2006 have been reclassified under the specific account of charges/income from discontinued operations (profit and loss statement – account 310).

Assets and liabilities, expenses and income cannot be offset, unless this is permitted or required by the international accounting principles or the provisions of Circular no.262 of 22 December 2005 issued by the Bank of Italy.
The consolidated balance-sheet and profit and loss statement do not indicate the accounts which do not show any amount for the year of reference of the balance-sheet or prior year. If a component of the assets or liabilities is part of several accounts of the balance-sheet, the notes to the financial statements indicate – whenever this is necessary for the purpose of intelligibility – that this component may be also referred to accounts other than the one where it is posted. Income shall be posted with no sign in the profit and loss statement and the respective section of the notes, whereas expenses shall be indicated in brackets.

In compliance with the provisions of art.5 of Legislative Decree no.38 of 28 February 2005, the consolidated financial statements have been prepared using the Euro as the currency of account. In particular, amounts in the financial statements are denominated in units of Euro, except for the consolidated notes which are denominated in thousands of Euro.

The financial statements have been prepared on an ongoing concern basis, on an accrual basis, in compliance with the principle of importance and meaningfulness of information, the predominance of substance with respect to form and in light of encouraging consistency with future statements. Items of a different nature or with different allocation were shown in a different way, unless they were not considered to be irrelevant. All amounts shown in the consolidated financial statement were adjusted so as to reflect any events following the date of reference which, according to IAS 10, involve an obligation to make an adjustment. Subsequent events which do not imply an adjustment and therefore reflect any circumstances which occurred after the date of reference are subject to reporting in the notes to the financial statements, in the following section 3 when they are relevant and therefore have an impact on the users' economic decisions.

OTHER INFORMATION

The consolidated financial statements incorporate the financial and economic results of the MPS Group and its direct and indirect susbisidiaries. In particular, the consolidation area includes all subsidiaries, irrespective of their legal status, their status of ongoing concern or company being wound up, or whether the equity investment consists of a merchant banking transaction, including the companies which had been previously excluded on the basis of different businesses, in compliance with the domestic accounting principles. Some minor entities are excluded from the area of consolidation, since their consolidation would turn out to be uninfluential with respect to the consolidated financial statements.

During the year some changes occurred in the area of consolidation in comparison with the area of consolidation as of 31 December 2005, on IAS-compliant basis, in relation to investment reorganization, outflows and new investments:

With reference to the Parent Bank:
- The deconsolidation of the subsidiaries (Italriscossioni, G.I.Profidi, CDO Net, Ulisse 3) and the tax collection susbidiaries (Serit, Sorit, Gerit, Padana Riscossioni, Seit, including the tax collection business within the Parent Bank), considered as being sold as of 30 June 2006.

In the third quarter of 2006, the following sale agreements were executed with Riscossione S.p.A.:
- the Parent Bank sold the whole investment it held in GERIT S.p.A. and Sorit S.p.A., and the whole in-house tax collection business;
- BAM (subsidiary) sold its investment in Padana Riscossioni S.p.A.;
- Banca del Monte di Parma (subsidiary) sold its stake in SEIT S.p.A. and its interest in Padana Riscossioni S.p.A.;
- Banca Popolare di Spoleto (subsidiary) sold its interest in Sorit S.p.A.

In addition, the Parent Bank executed the sale agreement of a 60% investment in SERIT with Riscossione Sicilia S.p.A.

Profit and loss results of such companies have been included in the consolidated financial statements until the date of termination of control.

The following extraordinary transactions were carried out within the MPS Group:

With reference to the Parent Bank:
- The merger by incorporation of the subsidiaries, MPS Professional S.p.A. and Mps Net S.p.A.;
- The sale of the subsidiaries MPS Finance S.p.A., Montepaschi Vita S.p.A. and Montepaschi Assicurazioni Danni S.p.A. and the investments in Hopa S.p.A. and Borsa Italiana S.p.A.;
- The disposal of Montepaschi Life S.p.A. to Montepaschi Vita S.p.A.;

With reference to the subsidiary, Banca Toscana S.p.A.:
- The sale to MPS Finance S.p.A. of the interest in Montepaschi Vita S.p.A.;

With reference to the subsidiary, MPS Tenimenti Fontanafredda:
- The transfer of the Fontanafredda unit to the special purpose vehicle Fontanafredda S.r.l.

For entirety of information, following are the main highlights:

With reference to the Parent Bank:
- The consolidation of the subsidiary Santorini S.p.A.;
- The winding-up of the subsidiary Ulisse 3 S.p.A.;

With reference to the subsidiary Intermonte S.p.A.:
- The consolidation of the subsidiary JPP Euro Securities Inc.;

With reference to the subsidiary Consumit S.p.A.:
- The proportional consolidation of the investment in Integra;

With reference to the subsidiary MPS Leasing e Factoring S.p.A.:
- The consolidation of the subsidiary MPS Commerciale Leasing S.p.A.;

With reference to the subsidiary Valorizzazioni Immobiliari S.p.A.:
- The partial split of Valorizzazioni Immobiliari S.p.A., with the transfer of a business unit consisting of investment real estate to Sansedoni S.p.A.

As a result of business in progress as of 31 December 2006 resulting into the loss of control in the subsidiaries (i.e.Montepaschi Vita, Montepaschi Assicurazione Danni and Montepaschi Life) wholly owned by MPS Finance, the Group deemed it proper to consider these companies as discontinuing operations. Therefore, balance-sheet and profit and loss statement data were reclassified under account 150-assets, account 90-liabilities and account 310 in the profit and loss statement.

As a result of the classification as "discontinuing operations", it was necessary to restate the corresponding comparative data of the profit and loss statement.

The breakdown of the area of line-by-line consolidation and the companies valued with the net equity method is shown under Section 10 of the Notes to the consolidated financial statements.

With reference to consolidation methods, the subsidiaries[1] are consolidated on a line-by-line basis, jointly controlled companies are consolidated with the proportional method and the companies subject to the Group's "dominant influence" are valued with the net equity method.

Line-by-line consolidation consists of the line-by-line acquisition of the balance-sheet and profit and loss statement aggregates of the subsidiaries. After the assignment to third parties, under a separate account, of their portions of net equity and profits/losses, the value of the investment is contra-entered with respect to the value of the subsidiary's net equity.
Assets, liabilities, income and expenses posted among consolidated companies are eliminated.

The profits and losses of a subsidiary purchased during the period are included in the consolidated financial statements as of the date of purchase. Profits and losses of a subsidiary sold are included in the consolidated financial statements until the date of termination of control. The difference of the selling amount and the book value as of the date of disposal (including the foreign exchange differences measured from time to time in net equity during consolidation) is posted to the profit and loss statement.

Investments held in jointly controlled companies are managed with the method of proportional consolidation.
Joint control means the shared control, as established by contract, over a business. In this case, the unanimous agreement of all parties sharing control is required in order to make strategic financial and management decisions.

The net equity method contemplates the initial posting of the investment at cost and its subsequent adjustment on the basis of the stake held in the subsidiary's net equity.
The profit/loss for the year f the subsidiary is posted to account 240 in the consolidated profit and loss statement, "Profits, losses from equity investments".

The financial statements processed for line-by-line and proportional consolidation include the financial statements as of 31 December 2006 approved by the Boards of Directors of the respective companies. The companies subject to the Group's dominant influence are valued with the net equity method on the basis of the latest financial statements or situations available.

SECTION **3** – EVENTS SUBSEQUENT TO THE DATE OF REFERENCE OF THE FINANCIAL STATEMENTS

See the specific section in the Directors' report on operations.

[1] The concept of "control" goes beyond the percentage interest held in the share capital of a subsidiary and is to be defined as the power of deciding the management and financial policies of an entity for the purpose of obtaining benefits from its activity.

SECTION **4** - OTHER ASPECTS

In compliance with the provisions of IAS8, par.49 and the instructions of Circular Letter no.262 of 22 December 2005 issued by the Bank of Italy, prior year's data in relation to the balance-sheet and the profit and loss statement have been restated in view of the reassessment of the commitment with respect to the definite contribution pension fund of a subsidiary (See accounting principles).

A2 – SECTION CONCERNING THE MAJOR BALANCE-SHEET ACCOUNTS

ACCOUNTING PRINCIPLES

Following are the accounting principles which were adopted with reference to the principal accounts of assets and liabilities for the purpose of preparing the consolidated financial statements as of 31 December 2006.

1. FINANCIAL ASSETS HELD FOR TRADING

a) accounting criteria

Financial assets are initially posted on the date of settlement with reference to debt instruments and equities, and on the date of subscription with reference to derivatives.
Upon the initial valuation, financial assets held for trading purposes are valued at *fair value* which usually corresponds to the amount paid, excluding any expenses or income from the transaction directly attributable to the instrument itself, which are directly posted to the profit and loss statement.
This account also incorporates any implicit derivatives existing in sophisticated contracts not closely associated with the same and having the characteristics of derivatives, which are separated from the host contract and valued at fair value.
The accounting criteria of reference are applied to the primary contract.

b) criteria of classification

This category includes (i) debt instruments, (ii) equities purchased mainly for the purpose of obtaining profits in the short-term and (iii) the positive value of derivative contracts excluding the contracts designed as hedging instruments. Derivative contracts incorporate the derivatives included in sophisticated financial instruments which were subject to separate valuation.

c) criteria of valuation

Following the initial valuation, financial asstes held for trading purposes are valued at *fair value, with the changes being posted as a contra-entry to the profit and loss statement.*
Market quotations are used for determining the *fair value* of the financial instruments listed in an active market. Failing an active market, the MPS Group used generally accepted valuation methods and models which are based on data measurable in the market such as: (i) methods based on the valuation of listed instruments which have similar characteristics, (ii) updating of future cash flows, (iii) models of determination of the prices of options, (iv) values measured in similar recent transactions.
Equities and related derivative instruments, with a fair value which cannot be determined in a reliable way in accordance with the above-mentioned guidelines, are posted at cost, adjusted for any value reduction losses. Such losses are not reinstated.

d) elimination criteria

Financial assets are eliminated upon maturity of the contractual rights on the financial flows resulting from the assets or when the financial assets are sold and all related risks/benefits are transferred.

e) criteria of measurement of income components

Profits and losses resulting from any changes in the *fair value* of the financial assets are posted under account 80 Net profit/loss from trading in the profit and loss statement, except for the profits and losses concerning receivable derivatives linked with the *fair value option* which are classified under account 110 Net profits/losses from financial assets and liabilities valued at *fair value*.

2. FINANCIAL ASSETS AVAILABLE FOR SALE

a) accounting criteria

Financial assets are initially posted on the date of settlement with reference to debt instruments and equities, and on the date of disbursement with reference to loans.
Upon the initial valuation, financial assets are valued at fair value which usually corresponds to the amount paid, inclusive of any expenses or income from the transaction directly attributable to the instrument itself. If the entry results from a reclassification of Assets held upon maturity, the book value is represented by the fair value upon reclassification. In the case of debt instruments, any difference of the initial value and the value of repayment is spread out over the life of the debt instrument in accordance with the method of amortized cost.

b) criteria of classification

This category includes (i) non-derivative financial assets which are not classified as Loans, (ii) Financial assets at fair value indicated in the profit and loss statement or (iii) Financial assets held upon maturity.
In particular, this category embraces the equity investments which are not managed for trading purposes and cannot be defined as controlling interest, connection and joint control, and bonds which are not subject to trading.

c) criteria of valuation

Following the initial valuation, financial assets available for sale are still valued at fair value, with interest being posted to the profit and loss statement as resulting from the application of the amortized cost and the relative foreign exchange effect, and with appropriation to a specific net equity reserve of the profits/losses resulting from the change in *fair value*, excluding value reduction losses. Foreign exchange fluctuations in relation to equities are posted to the specific net equity reserve.
Equities, with a *fair value* which cannot be determined in a reliable way, are valued at cost, adjusted for any value reduction losses. Any objective existing evidence of value reduction is reviewed at the close of the year or in the mid-year reports. Valuation recoveries are made, if the reasons for the loss of value are removed as a result of an event which occurred after the measurement of the value reduction.

d) elimination criteria

Financial assets are eliminated upon maturity of the contractual rights on the financial flows resulting from the assets or when the financial assets are sold and all related risks/benefits are transferred.

e) criteria of measurement of income components

Upon the disposal or the measurement of a loss of value following an *impairment test*, the effects of the valuation accrued in the reserve concerning the assets available for sale are transferred to the profit and loss statement under:

- account 100 – Profit/loss from purchase/sale of: b) financial assets available for sale, in case of a disposal;
- account 130 - Net value adjustments/recoveries for losses on: b) financial assets available for sale, in case of measurement of a loss of value.

Valuation recoveries are made, if the reasons for the loss of value are removed as a result of an event which occurred after the measurement of the value reduction. Such recoveries are posted to the profit and loss statement in the case of loans or debt instruments, and to net equity with respect to equities.

3. FINANCIAL ASSETS HELD TO MATURITY

a) accounting criteria

Financial assets are initially posted on the date of settlement.

Upon the initial valuation, financial assets are valued at fair value which usually corresponds to the amount paid, inclusive of any expenses or income from transactions directly attributable to the instrument itself.

If the entry under this category results from a reclassification from Assets available for sale, the fair value of the assets on the date of reclassification is considered as the new amortized cost of the assets.

b) criteria of classification

This category includes non-derivative financial assets with fixed or determinable payments and fixed maturity, which the Group objectively intends and is able to hold upon maturity.

If it is no longer appropriate to keep an investment as held upon maturity as a result of a change in will or faculty, the investment is reclassified among assets available for sale.

Whenever the sales or reclassifications are irrelevant from the viewpoint of quality and quantity, any investment held upon residual maturity shall be reclassified as available for sale.

c) criteria of valuation and measurement of income components

Following the initial valuation, the valuation of financial assets held upon maturity is adjusted to the amortized cost using the method of the actual interest rate, adjusted so as to take account of the effects resulting from any writedowns.

The result of the application of this method is posted to the profit and loss statement under account 10 Interest income and similar income.

Profits/losses from the sale of these assets are posted to the profit and loss statement under account 100 Profits/losses from the sale or repurchase of: c) financial assets held upon maturity.

The impairment test is conducted at year-end or on the closing date of mid-year reports.
If there is any evidence of loss of value, the amount of the loss is measured as the difference of the book value of the assets and the current value of estimated future financial flows discounted at the original actual interest rate. The amount of the loss is indicated in the profit and loss statement under account 130 Net value adjustments/recoveries for losses on: c) financial assets held upon maturity.
Valuation recoveries are made and posted under account 130 in the profit and loss statement, if the reasons for the loss of value are removed as a result of an event which occurred after the measurement of the value reduction.

d) elimination criteria
Financial assets are eliminated upon maturity of the contractual rights on the financial flows resulting from the assets or when the financial assets are sold and all related risks/benefits are transferred.

4. LOANS

a). accounting criteria
Loans are posted in the balance-sheet:
- Upon the date of disbursement;
- When the creditor acquires the right to the payment of the amounts contractually agreed upon;

Debt instruments are posted
- on the date of settlement.

The initial value is quantified on the basis of the fair value of the financial instrument, which is usually the amount disbursed, or the price of subscription, including the expenses/income directly attributable to the instrument and determinable since the beginning of the transaction, even though they are settled later. This does not include the costs which have said characteristics, but are subject to repayment by the debtor or can be encompassed in the usual internal administrative expenses.
Contango contracts and repurchase agreements under agreement to resell are posted as lending transactions. In particular, spot forward purchase and sale agreements are reported as loans with respect to the spot amount paid.

b) criteria of classification
Loans include loans and advances to customers and banks, both disbursed directly and purchased from third parties, with fixed or determinable payments, which are not listed in an active market and were not initially classified among financial assets available for sale and financial assets valued at *fair value* with effects posted to the profit and loss statement. Loans also incorporate commercial credit, repurchase agreements, loans originated by financial leasing transactions and securities purchased in a subscription or private placement, with fixed or determinable payments, not listed in active markets.

c) criteria of valuation and measurement of income components
After an initial valuation, loans are valued at the amortized cost, which is the initial book value decreased/increased by capital paying-off, value adjustments/recoveries and the

amortization – calculated with the method of the actual interest rate – the difference of the amount disbursed and the amount repayable upon maturity, typically attributable to the expenses/income directly charged to each loan. The actual interest rate is the rate which is equal to the current value of future loan flows, in principal and interest, and the amount disbursed, inclusive of any expenses/income attributable to the loan.
Therefore, the economic effect of expenses and income is spread over the residual expected life of the loan.
The method of amortized cost is not used in relation to short-term loans, since the effect of the application of the updating logic is negligible. Similar valuation criteria are adopted in relation to the loans with no specific maturity or subject to revocation.
Non-performing loans (e.g. NPLs, watchlist credits, restructured loans and past due loans) are classified in accordance with the regulations issued by the Bank of Italy, supplemented with the Bank’s internal provisions which sets automatic criteria and rules for the transfer of loans between different risk categories.
The loans are classified by the units independently, except for past due loans and/or loans exceeding the limits for more than 180 days, which are recorded through the use of automated procedures. In order to determine the adjustments to be made to loan book values, the Bank takes account of the different impairment levels before making an analytical or collective evaluation, as outlined hereunder.
NPLs, watchlist credits and restructured loans are subject to a process of analytical valuation; past due loans and/or loans exceeding the limits for more than 180 days, loans subject to country risk and good loans are subject to collective valuation.
With reference to the loans subject to analytical valuation, the amount of the value adjustment of each loan is equal to the difference of the book value of the loan upon valuation (amortized cost) and the current value of expected future financial flows, calculated using the original actual interest rate.
Expected cash flows take account of the expected time of recovery, the presumable scrap value of any guarantees and the costs which are deemed to be incurred for credit collection.
The value adjustment is posted to the profit and loss statement. The component of the adjustment attributable to the updating of financial flows is calculated ??? on an accrual basis in accordance with the method of the actual interest rate and posted under valuation recoveries.
The original value of the loans is reinstated in the following years to the extent that the reasons determining the adjustment disappear, provided that such valuation can be objectively linked with an event which occurred after the adjustment. The valuation recovery is posted to the profit and loss statement and in any case cannot exceed the amortized cost the loan would have had failing prior adjustments.
The loans with no objective evidence of loss are subject to a valuation of collective loss of value. Such valuation, developed on the basis of a Risk management model, is made by homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated in view of time series, based on elements noticeable on the date of valuation which allow an estimate of the value of latent loss in each loan category.
Valuation adjustments determined collectively are posted to the profit and loss statement. Any additional valuation adjustments or recoveries are recalculated at year-end or on the dates of mid-year reports in a differential manner with reference to the whole portfolio of performing loans as of the same date.

d) criteria of elimination

Any loans transferred are eliminated from the assets in the balance-sheet only if their disposal implied the transfer of all risks and benefits associated with the loans. However, if the risks and benefits associated with the loans transferred have been maintained, they continue to be posted among the assets in the balance-sheet, even though the title to the loan has been actually and legally transferred.

If it is not possible to ascertain the actual transfer of risks and benefits, the loans are eliminated from the balance-sheet when no kind of control has been maintained on such loans. Otherwise, if such control has been kept also partly, the loans should continue to be posted to the balance-sheet to the extent of their residual portion, as measured by the exposure to the changes in value of the transferred loans and the changes in their financial flows.

Finally, the loans transferred are eliminated from the balance-sheet if the contractual rights to receive the relative cash flows are maintained and an obligation to pay only said flows to third parties is simultaneously undertaken.

5. FINANCIAL ASSETS VALUED AT FAIR VALUE

a) accounting criteria

Financial assets are initially posted on the date of settlement with reference to debt instruments and equities, and on the date of disbursement with reference to loans.

Upon the initial valuation, financial assets valued at fair value are valued at fair value which usually corresponds to the amount paid, without considering any expenses or income from the transaction directly attributable to the instrument itself, which are posted to the profit and loss statement.

The *Fair Value Option (FVO)* applies to all financial assets and liabilities which would have originated a misrepresentation - if classified otherwise - in the reporting of the profit and loss statement and balance-sheet results, and all instruments which are managed and measured in a fair value logic.

b) criteria of classification

This category includes the financial assets which the MPS Group intends to value at fair value with an impact on the profit and loss statement (except for equities which have no reliable fair value) when:

a) the valuation at fair value allows for the elimination or reduction of significant misrepresentations in the accounting reporting of the profit and loss statement and balance-sheet results of the financial instruments; or
b) the management and/or valuation of a group of financial instruments at fair value with an impact on the profit and loss statement is compliant with a strategy of risk management or investment also evidenced by the Bank's Management; or
c) there is an instrument containing an implicit derivative which amends the cash flows of the host instrument and otherwise should be separated.

c) criteria of valuation

Following the initial valuation, the assets are valued at fair value.

Market quotations are used for determining the fair value of the financial instruments listed in an active market. Failing an active market, the MPS Group uses generally accepted valuation methods and models which are based on data measurable in the market such as: (i) methods based on the valuation of listed instruments which have similar characteristics, (ii) updating of future cash flows, (iii) models of determination of the prices of options, (iv) values measured in similar recent transactions.

d) elimination criteria

Financial assets are eliminated upon maturity of the contractual rights on the financial flows resulting from the assets or when the financial assets are sold and all related risks/benefits are transferred.

e) criteria of measurement of income components

Profits and losses resulting from any changes in the fair value of the financial assets are posted under account 110 - Net profit/loss from financial assets and liabilities valued at fair value in the profit and loss statement.

Receivable derivative instruments associated with the *fair value option* are posted accordingly, with the economic effect classified under account 110 – Net profit/loss from financial assets and liabilities valued at *fair value*.

6. HEDGING TRANSACTIONS

a) accounting criteria – purposes

Risk hedging transactions are targeted at neutralizing any potential losses detectable in a specific element or group of elements, and attributable to a specific risk, with the profits detectable in a different element or group of elements, should that particular risk really occur.

b) criteria of classification – types of hedging

IAS 39 contemplates the following types of hedging:

fair value hedging, with the objective of covering the exposure to the changes in the fair value of a balance-sheet account, attributable to a specific risk;

- hedging of financial flows, with the objective of covering the exposure to the changes in the future financial flows attributable to specific risks associated with balance-sheet accounts;
- hedging of a foreign currency investment, which refers to risk hedging of an investment in a foreign enterprise denominated in a foreign currency.

c) criteria of valuation and measurement of income components

Hedging derivatives are valued at *fair value*. In particular:

- in the case of *fair value* hedging, the change in the fair value of the element hedged is offset by the change in the fair value of the hedging instrument. Such set-off is recognized and posted to the profit and loss statement under Account 90 "Net profit/loss from hedging transactions" on value changes, with reference both to the hedged instrument (as regards the changes produced by the underlying risk factor) and the hedging instrument. Any difference which represents the partial ineffectiveness of hedging, consequently represents the net economic effect;

- in the case of hedging of financial flows, the changes in the fair value of the derivative are posted to a specific net equity reserve with reference to the effective portion of hedging and are posted to the profit and loss statement under account 90 - Net profit/loss from hedging transactions - only when the change in the fair value of the hedging instrument doe not offset the change in the financial flows of the hedged transaction.
- The hedging of a foreign currency investment is posted similarly to the hedging of financial flows.

A hedging transaction should be attributable to a pre-established risk management strategy and should be compliant with the risk management policies adopted. In addition, the derivative instrument is indicated as a hedging instrument if there is a formal documentation of the relation between the hedged instrument and the hedging instrument and if it is effective when the hedging starts and during its expected life.

The effectivenees of hedging depends on the extent that the changes in the fair value of the hedged instrument or the relative expected financial flows are offset by the changes of the hedging instrument. Therefore, the effectiveness is measured by the comparison of said changes, in view of the purpose pursued by the company when the hedging was activated. The hedging is effective (in the range of 80-125%) when the changes in the fair value (or in the cash flows) of the hedging instrument neutralize the changes in the hedged instrument almost totally, with reference to the risk element subject to hedging.

Effectiveness is assessed at year end by using:

- Perspective tests which account for the application of hedging accounting, since they prove its expected effectiveness;
- Retrospective tests which prove the degree of hedging effectiveness achieved during the period of reference.

Derivative instruments which are considered as hedging instruments from an economic viewpoint because they are linked with financial assets or liabilities valued at fair value (fair value option) are classified among trading derivatives and – in accordance with their hedging purpose – the respective positive and negative differences or margins accrued until the date of reference of the financial statements are registered as interest income and interest expense. Valuation profits and losses are posted in the P&L statement under account 110 – Net profit/loss from financial assets and liabilities valued at *fair value*.

d) criteria of elimination – ineffectiveness

If the controls do not confirm the effectiveness of hedging both retrospectively and perspectively, hedging transactions are no longer reported in accordance with the above criteria and the hedging derivative contract is reclassified under trading instruments. The financial instrument subject to hedging is valued again in accordance with the principle of the original category of classification. In case of cash flow hedge, any reserve is posted to the profit and loss statement with the method of amortized cost over the residual life of the instrument.

Any hedging links cease to exist also when the derivative expires or is sold or exercised, and the hedged element is sold or expires or is repaid.

7. EQUITY INVESTMENTS

a) accounting criteria

This account embraces equity investments held in subsidiaries, affiliated companies and joint ventures. Upon their initial valuation, such investments were posted at purchase cost, plus any directly attributable costs.

b) criteria of classification

For the purpose of classification, the MPS Group classifies the companies where it has the power of determining the financial and management policies, for the purpose of obtaining benefits from its business, as subsidiaries. This occurs when more than half of the voting rights are held directly and/or indirectly or in the presence of other conditions of de facto control, such as the appointment of the majority of the directors.

The companies with contractual agreements, shareholders' pacts or agreements of a different nature for the joint management of business and the appointment of the directors are considered as jointly-controlled companies.

Affiliated companies include (i) the companies where a 20% stake or a higher percentage of voting rights is held, and (ii) the companies which – owing to specific legal relations such as the participation in shareholders' pacts – have to be considered as companies subject to significant influence.

These classifications are made irrespective of the legal status. Any potential voting rights which can be currently exercised are considered in the calculation of voting rights.

c) criteria of valuation and measurement of income components

Equity investments in subsidiaries, affiliated companies and jointly-controlled companies are posted at cost. Any objective evidence that the value of the equity investment might have been reduced is ascertained at year-end or in mid-year reports. If it is proved that the value of an equity investment might have been reduced, the recoverable value of the equity investment is estimated in view of the present value of the future financial flows the investment might produce, including the final value of disposal of the equity investment.

If the scrap value is lower than book value, the difference is posted in the P&L statement under account 210 – Profits/losses from equity investments.

If the reasons for the loss of value are removed as a result of an event which occurred after the measurement of the reduction of value, valuation recoveries are made and registered in the profit and loss statement under account 210.

Any income in relation to such investments is posted in the P&L statement only to the extent that the affiliated company pays dividends generated after the date of acquisition. Any dividends paid in excess of the profits generated after the date of acquisition are considered as profits on sale of equity investments and deducted from its cost.

d) 8. criteria of elimination

Financial assets are eliminated upon maturity of the contractual rights on the financial flows resulting from the assets or when the financial assets are sold and all related risks/benefits are transferred.

8. TANGIBLE ASSETS

a) accounting criteria

Tangible assets are originally posted at cost which includes the purchase price and any additional charges directly attributable to the purchase and operations of the assets.
Extraordinary maintenance expenses which involve an increase in future economic benefits are posted as an increase in the value of the assets. The other ordinary maintenance expenses are posted to the profit and loss statement. Financial charges are posted in compliance with the accounting method established by IAS 23 and considered as costs in the year during which they were incurred.

b) criteria of classification

Tangible assets include land, capital real estate, real estate investments, fixtures and fittings and equipment of any kind. Capital real estate incorporate real estate owned by the Bank and used for the production or supply of services, or for administrative purposes. Real estate investments include real estate owned by the Bank for the purpose of collecting rents and/or held due to the appreciation of capital invested.
This account also includes the assets used in financial lease contracts, although their possessory title rests with the leasing company and any improvements and incremental expenses incurred in relation to third parties' assets when they refer to identifiable and separable tangible assets. As regards real estate, the components in relation to land and buildings are separate assets for accounting purposes and are posted separately upon acquisition.

c) criteria of evaluation and measurement of income components

Tangible fixed assets, including non-capital real estate, are valued at cost, less any accrued depreciation and losses of value.
Fixed assets are depreciated over their useful life on a straight line basis, except for land and works of art which have an indefinite useful life and cannot be depreciated.
The useful life of tangible assets subject to depreciation is periodically subject to review. In case of an adjustment of initial estimates, the relative depreciation allowance is amended accordingly.
The presence of any signs of impairment, or indications proving that the assets might have been deteriorated, shall be checked at year end or on the dates of mid-year reports.
The presence of such signs originates a comparison between the book value of the assets and their scrap value, which is the lower of the fair value, net of any selling costs, and the use value of the assets, as the current value of the future flows produced by the assets. Any adjustments are posted to the profit and loss statement.
Failing the reasons which caused the measurement of a loss, a valuation recovery – which shall not exceed the value the assets would have had, net of the depreciation calculated excluding prior losses of value - is made.

d) criteria of elimination

Tangible fixed assets are eliminated from the balance-sheet upon their disposal or when the assets are permanently retired from use and no future economic benefits are expected as a result of their disposal.

9. INTANGIBLE ASSETS

a) accounting criteria

Intangible assets incorporate non-monetary, identifiable and non-material assets held to be used for a multiannual or indefinite period. They are posted at cost, adjusted by any additional charges only if the future economic benefits attributable to the assets are expected to be realized and if the cost of the assets can be determined in a reliable way. The cost of intangible assets is otherwise posted to the profit and loss statement in the year it was incurred. Goodwill is posted in the assets side when it results from a merger in accordance with the principles of determination indicated by IFRS 3, as a residual surplus of the global cost incurred for the transaction and the net fair value of the assets and liabilities purchased (i.e. companies or business units).

If the cost incurred is lower than the fair value of the assets and liabilities purchased, badwill is posted directly to the profit and loss statement.

b) criteria of classification, evaluation and measurement of income components

The cost of intangible fixed assets is amortized on a straight line basis according to their useful life. If the useful life is indefinite, the amortization is not calculated, but the adequacy of the book value of fixed assets is checked periodically. Intangible fixed assets originated by an internally developed software purchased by third parties are amortized on a straight line basis starting from the completion and start of operations of the applications according to their useful life. In light of any proved losses of value, the scrap value of the assets is estimated at year end. The amount of the loss shown in the profit and loss statement is equal to the difference of the book value of the assets and the recoverable value.

Posted goodwill is not subject to amortization, but its book value is checked periodically on an annual basis (or at shorter intervals) in light of any impairment of value. To this end, the units producing the financial flows which goodwill is attributable to are identified.

The amount of any reduction of value is determined on the basis of the difference of the book value of goodwill and its scrap value, if lower. Said scrap value is the higher of the fair value of the unit producing the financial flows, net of any selling costs, and the respective use value, represented by the present value of estimated cash flows for the years of operations of the unit producing the financial flows and resulting from its disposal at the end of useful life. The following value adjustments are shown in the profit and loss statement. No following value recoveries are posted, since this is not admitted.

c) criteria of elimination

Intangible fixed assets are eliminated from the balance-sheet upon their disposal and if no future economic benefits are expected.

10. NON CURRENT ASSETS BEING SOLD

a) accounting criteria

Upon initial valuation, non current assets and groups of non current assets being sold are initially valued at the lower of the book value and the fair value net of any selling costs.

b) **criteria of classification**

This account includes non current assets and groups of non current assets being sold when the book value is recovered mainly through a very likely sale transaction and not through permanent use.

c) criteria of evaluation and measurement of income components

After an initial evaluation, non current assets and groups of non current assets being sold are valued at the lower of book value and fair value, net of any selling costs. The relative income and expenses (net of the tax effect) are posted to the profit and loss statement under a separate account when they refer to sold operating units. In this case (discontinued operations), the same reporting shall be submitted again under a separate account, also in relation to prior periods shown in the balance-sheet, reclassifying the P&L statements accordingly.

Any process of amortization is stopped when non current assets are classified under non current assets being sold.

d) criteria of elimination

Non current assets and groups of non current assets being sold are eliminated from the balance-sheet upon their disposal.

11. CURRENT AND DEFERRED TAXATION

a) accounting criteria

The effects of current and deferred taxation calculated in compliance with the Italian tax legislation are posted on an accrual basis, in accordance with the modes of evaluation of the income and expenses which generated them, by applying the ruling tax rates.

Income taxes are posted to the profit and loss statement excluding the taxes in relation to accounts directly credited or charged to net equity.

Income tax provisions are determined on the basis of a prudential estimate of current, anticipated and deferred fiscal charges.

In particular, current taxation includes the net balance of current liabilities for the year and current fiscal assets, as represented by tax advances and other tax credits for any advance withholding taxes incurred.

Advanced and deferred taxation are determined on the basis of the temporary differences – with no time limits – of the value assigned to the assets or liabilities in accordance with statutory principles and the corresponding values for fiscal purposes.

Assets for advanced taxation are shown in the balance-sheet to the extent that they are likely to be recovered on the basis of the capacity of the company involved and all of the participating companies – as a result of the option concerning “fiscal consolidation” – to generate a positive taxable income on an ongoing basis. Liabilities for deferred taxation are shown in the balance-sheet with the sole exception of tax suspension reserves, since the volume of available reserves already subject to taxation reasonably implies that no transactions involving taxation will be executed.

Advanced and deferred taxes are posted to the balance-sheet by offsetting each tax for each year, taking account of the expected time repayment profile. Advanced taxes for the years in which deductible temporary differences are higher than temporary taxable differences are posted to the assets side of the balance-sheet under deferred fiscal assets. Deferred taxes for the years in which taxable temporary differences are higher than deductible temporary differences are posted to the liabilities side of the balance-sheet under deferred fiscal liabilities.

b) criteria of classification and evaluation

Assets and liabilities for advanced and deferred taxes are valued in view of any changes in the regulations or tax rates, and of any different objective situations of the Group companies.

In addition, the tax reserve is adjusted to cover the charges which might result from already notified tax assessments or litigation pending with the Tax Authorities.

With reference to fiscal consolidation of the Bank and the participating subsidiaries, the MPS Group executed agreements regulating off-setting flows in relation to the transfers of fiscal profits and losses. Such flows are determined by applying the ruling IRES tax rate to the taxable income of participating companies. The off-setting flow in relation to the companies with fiscal losses – calculated in compliance with the above – is recognized by the consolidating company to the consolidated company, provided that and to the extent that the consolidated company might have used the losses within the five-year period established by law, in case of non-participation in fiscal consolidation. Off-setting flows so determined are posted as assets and liabilities with respect to the companies participating in fiscal consolidation, classified under Other Assets and Other Liabilities, as a contra-entry of Income tax.

c) criteria of measurement of income components

If deferred fiscal assets and liabilities refer to components which affected the profit and loss statement, the contra-entry is represented by income taxes. When anticipated and deferred taxes refer to transactions which directly influenced net equity without impacting on the profit and loss statement (i.e. valuations of financial instruments available for sale or hedging derivatives of financial flows), they are posted as a contra-entry in the balance-sheet, involving the specific reserves, if necessary.

12. RESERVES FOR RISKS AND OTHER CHARGES

The provisions to the reserve for risks and other charges are set up only when:

- There is a current (legal or implicit) obligation resulting from a past event;
- The use of resources producing economic benefits is likely to be necessary in order to fulfil the obligation; and
- The amount of the obligation can be estimated in a reliable manner.

Whenever time is important, the provisions are brought up-to-date.

The provisions to the reserve are posted to the profit and loss statement, in addition to interest expense on the reserves which were subject to updating.

In view of potential and unlikely liabilities, no provision is shown, but the nature of the liabilities is outlined in the Notes to the financial statements, when this is deemed to be of importance.

Sub-account "Pension funds and similar obligations" includes the appropriations in compliance with IAS 19 "Employee benefits" for the purpose of balancing the technical deficit of supplementary social security funds with definite benefits. A breakdown of pension funds encompasses (i) funds with definite benefits and (ii) funds with definite contribution. The charges borne by the employer are pre-established in relation to the funds with definite contribution, whereas the charges in relation to the funds with definite benefits are estimated and shall take account of any inadequate contributions or insufficient performance of the assets where the contributions are invested.

With reference to the funds with definite benefits, the actuarial values required by the application of the above principle are determined by an independent actuarial consultant in accordance with the Projected Unit Credit Method. In particular, the obligation is calculated as the algebraic sum of the following values:

- Average current value of pension benefits determined on the basis of the years of service already completed by active employees and taking account of any future salary increases;
- Less the current value of any assets servicing the fund;
- (less or plus) any actuarial loss or profit not shown in the balance-sheet, on the basis of the so-called "corridor" method.

According to the corridor method, the actuarial profits and/or losses - defined as the difference of the book value of the liabilities and the current value of the Bank's commitments at the end of the period - shall be posted to the balance-sheet only when they exceed the higher of 10% of the average current value of pension benefits and 10% of the current value of the assets of the pension fund. The surplus with respect to 10% is posted to the profit and loss statement in line with the residual average working life of active employees or during the year, in case of retired employees.
The provision for the year posted to the profit and loss statement equals the sum of annual interest accrued on the average current value of pension benefits at the beginning of the year, the average current value of benefits due to active employees during the year, actuarial profits and losses in compliance with the corridor method, net of the expected performance for the year of the assets invested by the fund.

"Other funds" include any appropriations to cover expected losses for actions filed against the Bank, including actions for revocation, estimated expenses in relation to customers' claims for securities brokerage, other estimated expenses in relation to legal or implicit obligations existing at the end of the period.

13. OUTSTANDING LIABILITIES AND SECURITIES

a) accounting criteria

Such financial liabilities are first posted upon receipt of the sums raised or upon the issue of bonds.

This is done on the basis of the *fair value* of the liabilities, which is usually equal to the amount collected or the issue price, increased by any additional costs/income directly attributable to each funding or issue transaction and not repaid by the creditor. Internal administrative costs are excluded. The *fair value* of financial liabilities issued (if any) on terms and conditions other than market terms is subject to specific estimate and the difference in comparison with the amount collected is directly posted to the profit and loss statement, only if the requirements of IAS 39 are met.

b) criteria of classification

Due to banks, Customers loans and advances and Oustanding securities include different types of funding (both interbank funding and funding from customers), funding through certificates of deposit and outstanding bonds, net of any repurchase.

The account also incorporates the lessee's liabilities in relation to any financial lease transactions.

c) criteria of valuation and measurement of income components

After the initial posting, financial liabilities are valued at amortized cost with the method of the actual interest rate, with the exception of short-term liabilities which are posted at collected value, whenever time turns out to be a negligible factor.

If the requirements of IAS 39 are met, any derivative incorporated in structured instruments is separated from the host contract and valued at fair value as trading liabilities. In this case, the host contract is posted at amortized cost.

d) criteria of elimination

Financial liabilities are eliminated from the balance-sheet when they expire or are paid off. They are eliminated also in the case of repurchase of previously issued securities. The difference of the book value of the liabilities and the amount paid to repurchase is booked in the profit and loss statement.

A new placement in the market of own securities after their repurchase is considered as a new issue and posted at the new price of placement, with no impact on the profit and loss statement.

In compliance with the provisions of IAS 32, any potential commitment to buy own shares as a result of the issue of put options is shown in the balance-sheet under financial liabilities, with the reduction of net equity in the amount of the current value of the repayment sum established by contract, as a contra-entry.

14. FINANCIAL LIABILITIES HELD FOR TRADING

a) accounting criteria

Financial liabilities are initially posted on the date of issue with reference to debt instruments, and on the date of subscription with reference to derivatives.

Upon the initial valuation, financial liabilities held for trading purposes are valued at *fair value* which usually corresponds to the amount collected, excluding any expenses or income from the transaction directly attributable to the instrument itself, which are directly posted to the profit and loss statement. This account also incorporates any implicit derivatives existing in sophisticated contracts - not closely associated with the same - which are separated from the host contract and valued at fair value, since they have the characteristics of derivatives. The accounting criteria of reference are applied to the primary contract.

b) criteria of classification

This category includes (i) debt instruments, and (ii) the negative value of derivative contracts excluding the contracts designed as hedging instruments. Derivative contracts incorporate the derivatives included in sophisticated financial instruments which were subject to separate valuation.

Sub-accounts "Due to banks" and "Customers' loans and advances" also incorporate "technical overdrafts" on securities.

c) criteria of valuation

Following the initial valuation, financial liabilities held for trading purposes are valued at *fair value*, *with the changes being posted as a contra-entry in the profit and loss statement.* Market quotations are used for determining the *fair value* of the financial instruments listed in an active market. Failing an active market, the MPS Group used generally accepted valuation methods and models which are based on data measurable in the market such as: (i) methods based on the valuation of listed instruments which have similar characteristics, (ii) updating of future cash flows, (iii) models of determination of the prices of options, (iv) values measured in similar recent transactions.

d) elimination criteria

Financial liabilities are eliminated when they expire or are paid off. They are eliminated also in the case of repurchase of previously issued securities. The difference of the book value of the liabilities and the amount paid to repurchase is booked in the profit and loss statement.

e) criteria of measurement of income components

Profits and losses resulting from any changes in the *fair value* of financial liabilities are posted under account 80 - Net profit/loss from trading in the profit and loss statement, except for the profits and losses concerning payable derivatives linked with the *fair value option* which are classified under account 110 - Net profits/losses from financial assets and liabilities valued at *fair value*.

15. FINANCIAL LIABILITIES VALUED AT FAIR VALUE

a) accounting criteria

Financial liabilities are initially posted on the date of issue with reference to debt instruments. Upon valuation, financial liabilities valued at *fair value* are valued at *fair value* which usually corresponds to the amount collected, regardless of any expenses or income from the transaction directly attributable to the instrument itself, which are posted to the profit and loss statement.

The *Fair Value Option* (FVO) applies to all financial assets and liabilities which would have originated a misrepresentation in the reporting of the profit and loss statement and balance-sheet results, and in all instruments which are managed and measured in a *fair value* logic, if they had been classified otherwise. In particular, liabilities valued at *fair value* include fixed-income and structured funding instruments with a market risk subject to hedging through derivative contracts. The *fair value* of the financial liabilities issued (if any) on terms and conditions other than market conditions is subject to specific estimate and the difference with respect to the amount collected is directly posted to the profit and loss statement, only when the requirements of IAS 39 are met.

b) criteria of classification

This category includes the financial liabilities which the MPS Group intends to value at *fair value* with an impact on the profit and loss statement when:

- the determination of the *fair value* allows for the elimination or reduction of significant misrepresentations in the reporting of the profit and loss statement and balance-sheet results of the financial instruments; or
- the management and/or valuation of a group of financial instruments at *fair value* with an impact on the profit and loss statement is compliant with a strategy of risk management or investment also evidenced by the Bank's Management; or
- there is an instrument containing an implicit derivative which amends the cash flows of the host instrument considerably and shall be separated.

In particular, this account embraces financial liabilities subject to "natural hedging" through derivative instruments.

c) **criteria of valuation**

Following the initial valuation, financial liabilities are valued at *fair value*.
Market quotations are used for determining the *fair value* of the financial instruments listed in an active market.
Failing an active market, the MPS Group uses generally accepted valuation methods and models which are based on data measurable in the market such as: (i) methods based on the valuation of listed instruments which have similar characteristics, (ii) updating of future cash flows, (iii) models of determination of the prices of options, (iv) values measured in similar recent transactions.

d) elimination criteria

Financial liabilities are eliminated when they expire or are paid off. They are eliminated also in the case of repurchase of previously issued securities. The difference of the book value of the liabilities and the amount paid to purchase is booked in the profit and loss statement under account 110 – Net profit/loss from financial assets and liabilities valued at *fair value*.

e)**criteria of measurement of income components**

Profits and losses resulting from any changes in the *fair value* of the financial liabilities are posted under account 110 - Net profit/loss from financial assets and liabilities valued at *fair* *value* in the profit and loss statement. Payable derivative instruments linked with the *fair value option* are classified under account 110 - Net profits/losses from financial assets and liabilities valued at *fair value*.

16. TRANSACTIONS DENOMINATED IN FOREIGN CURRENCIES

a) accounting criteria

Upon the initial valuation, foreign currency transactions are denominated in the foreign currency using the exchange rates prevailing on the date of the transaction.

b) criteria of classification, valuation, elimination and measurement of income components

Balance-sheet accounts denominated in foreign currencies are valued at year-end or on the dates of mid-year reports as follows:

- monetary accounts are converted using the exchange rate prevailing on the closing date;
- non-monetary accounts valued at historical cost are converted using the exchange rate prevailing on the date of the transaction;
- non-monetary accounts valued at *fair value* are converted using the exchange rate prevailing on the closing date.

Any differences resulting from the settlement of monetary elements or the conversion of monetary elements at exchange rates other than the initial exchange rates, or the exchange rates adopted in prior financial statements, are posted to the profit and loss statement when they arise.

When a profit or a loss in relation to a non-monetary element are shown under net equity, the exchange rate difference in relation to such element is also posted under net equity.

However, when a profit or a loss are posted to the profit and loss statement, the exchange rate difference in relation to such element is also posted to the profit and loss statement.

The accounting position of the foreign branches having different units of account is converted into euros by using the exchange rates prevailing on the date of reference of the balance-sheet.

Any exchange rate differences attributable to investments in such foreign branches and the differences resulting from the conversion into euros of their accounting position are posted under net equity reserves and transferred to the profit and loss statement only in the year when the investment is disposed of or reduced.

17. INSURANCE ASSETS AND LIABILITIES

The following assessment criteria, which are specific of insurance companies, were applied to determine the value in the financial statements items: as to exposure, the items of the balance sheet and of the profit and loss account of the insurance subsidiaries were reclassified under item 150 of the balance sheet and 310 of the income statement respectively, since they were considered assets being sold.

Reinsurers' technical reserves

This account includes the reinsurers' obligations resulting from reinsurance transactions based on contracts regulated by IFRS 4. The account does not include the deposits of Reinsurance companies with the transferring companies. Reinsurers' technical reserves are determined on the basis of the existing agreements in accordance with the principles concerning actuarial reserves, subject to different valuation in relation to credit collection.

Technical reserves in relation to life insurance

In compliance with the provisions of IFRS 4, any contracts issued are subject to prior analysis for the purpose of identifying the accounting principle of reference for each one of them. To this end, the breakdown of each life insurance contract incorporates the tariff components (so-called "coverage") which have been classified as insurance forms or investment forms on the basis of the extent of the underlying insurance risk borne by the Companies.

As a result, the MPS Group decided to choose the following options:

a) Insurance products: include branch-one temporary death policies, life annuity policies and comprehensive policies pursuant to IFRS 4.2 with ratios of annuity conversion guaranteed upon the issue. As already mentioned, IFRS 4 confirms the enforceability of the Italian insurance principles to these products. In accordance with these principles:
   - Gross premiums are posted to income in the profit and loss statement. They include all amounts accrued during the year as a result of the execution of insurance contracts, net of redemptions. Similarly, the premiums assigned to reinsurers are posted as costs for the year;
   - With respect to income for gross premiums, the amount of the obligations in relation to the insured parties – calculated for each contract with the perspective method on the basis of the demographic/financial hypotheses currently adopted by the market - is appropriated to actuarial reserves.

b) Financial products under separate management: such products, which include most branch-one life insurance policies and comprehensive policies, branch-five capitalization policies, are characterized by discretional profit sharing. Therefore, they are posted to compliance with the following provisions of IFRS 4:
   - The products are shown in the balance-sheet in a manner virtually similar to the provisions of the local accounting principles. This means that the premiums, payments and changes in technical reserves are posted to the profit and loss statement;
   - The products are valued in compliance with shadow accounting. This means that the differences of the book value and market value – with reference to securities available for sale, and the component pertaining to the insured parties, are allocated to technical reserves. The difference of the book value and market value in relation to the component pertaining to the insurance companies is allocated to net equity. However, if the securities are valued according to the fair value option, the difference of the book value and the market value is shown in the profit and loss statement with a change in technical reserves in relation to the portion pertaining to the insured parties.

c) Financial products not included in a separate management, which entail no discretional profit sharing: such products, which include index- and unit-linked policies, and insurance policies with specific assets not included in a separate management are posted to accordance with the provisions of IAS 39. Any insurance component concerning index- and unit-linked products is subject to independent valuation (so-called "unbundling").

Technical reserves incorporate only the liabilities arising from (i) insurance contracts issued as per point a), (ii) financial instruments as per point b) (Financial liabilities with discretional profit sharing) and (iii) the insurance component of unit- and index-linked contracts. Additional information on the accounting system of the instruments as per point c) is provided in the section covering financial liabilities valued at fair value.

Insurance contracts and financial contracts with discretional profit sharing are valued in accordance with the existing practices, pursuant to IFRS 4.25.

The liabilities of Montepaschi Vita are determined in compliance with the provisions of Legislative Decree no.174 of 17 March 1995 and Legislative Decree no.173 of 26 May 1997.

Such liabilities are posted including any reinsurance assignments.

The macro-account also embraces the reserves set up resulting from the Liability Adequacy Test (IFRS 4.15), deferred liabilities with respect to insured parties (IFRS 4.30 and IFRS 4.34: shadow accounting) and the reserve for sums to be paid.

Actuarial reserves and reserves for operating expenses

Actuarial reserves for pure premiums and the reserves for operating expenses, in relation to insurance products and financial products with discretional profit sharing, are determined on a contract-by-contract basis in accordance with the actuarial calculation principles pursuant to art.25 of Legislative Decree no.174/1995 and using the demographic, financial and premium loading criteria adopted for the calculation of the premiums. Actuarial reserves of pure premiums include the portions of premium accrued during the year and any revaluations made in enforcement of contractual clauses.

In any case, the amount of actuarial reserves is not lower than the amount calculated according to the conditions of guaranteed minimum or at surrender value, if contemplated.

Additional reserves as per art.25, par.12 of Legislative Decree 174/1995 are determined on the basis of ISVAP Regulations no.1380 of 21 December 1999 and no.1801 of 21 February 2001.

Additional reserves as per art.30, par.4 of Legislative Decree 174/1995 in relation to the insurance component of index- and unit-linked contracts (as represented by the additional Temporary death, Long term care, Dread disease and Incapacity coverage) are set up on the basis of the actuarial calculation principles pursuant to art.25 of said Decree.

Shadow accounting

The current practice has been modified in accordance with the provisions of IFRS 4.30 for the purpose of taking account of any capital gains and capital losses identified but not realized on the assets which have a direct impact on the measurement of insurance liabilities, by the same standards as realized capital gains and capital losses. In case of identified, but no realized capital losses, they are taken into account up to the minimum amount guaranteed to the insured parties for the purpose of decreasing insurance liabilities. The adjustments to insurance liabilities are shown under net equity if unrealized capital gains are posted under net equity; if not, they are posted to the profit and loss statement under "amounts paid and changes in technical reserves".

Technical reserves are eliminated when the obligation indicated in the contract has been fulfilled, eliminated or has expired.

Property casualty technical reserves

In accordance with IFRS 4, property casualty reserves are determined on the basis of the existing principles, except for some supplementary reserves and equalization reserves. From this viewpoint, the principle of ultimate cost underlying the existing method is compliant with the Liability Adequacy Test (LAT) required by IFRS 4 for the purpose of ensuring the adequacy of reserves.

Property casualty reserves include premium reserves, claims reserves and other reserves.

Premium reserve

The premium reserve on the risks of direct insurance policies as contemplated by Legislative Decree 173/1997 includes the portions of premium pertaining to following years, calculated for each contract on an accrual basis in accordance with posted gross premiums, less acquisition commissions and other directly chargeable acquisition costs pursuant to art.32 of the above Decree.

The premium reserve also incorporates the premium reserve for pending risks.

The premium reserve consists of the amount to be allocated to cover business risks after the end of the year for the purpose of paying all damages and expenses resulting from insurance contracts executed before that date.

Such risks are estimated on a case-by-case basis by class of insurance coverage with reference to the ratio of claims to premiums pertaining to the current generation. The reserve is calculated applying the loss ratio so determined to the reserve for portions of premium. The reserve for pending risks - as contemplated by the empirical method indicated by ISVAP circular no.360/D of 21 January 1999 – consists of the surplus of the amount so determined and the sum of the reserve for portions of premium plus the premiums which shall be due in compliance with the contracts executed (expiring instalments), net of acquisition commissions and other acquisition costs, limited to directly chargeable costs.

The premium reserve of the surety line of business is calculated in compliance with the method as per art.2 paragraph 1 of ISVAP Regulation no.1978 G of 4 December 2001.

Claims reserve

Claims reserves are determined in an analytical manner through the examination of all claims existing at the end of the year, using statistical methods of evaluation with reference to objective elements. As a result, pursuant to art.33 of Legislative Decree 173/1997, the amount allocated – which is equal to the ultimate cost – shall meet all future expected charges concerning the settlement of claims, including liquidation expenses.

The claims presumably occurred during the year and not yet reported as of the date of closing of the year are charged to the claims reserve in compliance with the provisions of art.26 of Legislative Decree 175/1995 and art.5 of ISVAP Regulation no.1059/G of 4 December 1998.

Any profits and losses resulting from any changes in the value of technical reserves are shown in the profit and loss statement under “balance of other income and charges of the insurance business”.

Liability Adequacy Test

For the purpose of the IAS/IFRS, insurance liabilities adequacy is measured using current estimates of future financial flows resulting from insurance contracts and financial instruments as per IFRS 4.2. If, as a result of such evaluation, the book value of insurance liabilities is inadequate, the inadequacy is shown in the profit and loss statement under "balance of other income and charges of the insurance business" in compliance with the provisions of IFRS 4.15.

18. OTHER INFORMATION

- Own shares

Own shares held (if any) are shown in the balance-sheet under a specific account and deducted directly from net equity. No profits or losses are posted to the profit and loss statement upon the purchase, sale, issue or write-off of the documents of title to the Bank's capital. Any amount paid or received is posted directly to net equity.

- Payments based on shares

The existing stock granting plan contemplates the purchase and assignment on an annual basis of a certain number of shares of Banca Monte dei Paschi di Siena S.p.A., with a value corresponding to the amount recognized as part of the Production Bonus, to the Bank's employees. Such value is posted as personnel expenses on an accrual basis.

- Dividends and income/cost recognition

Income is recognized when collected or, in the case of sales of goods or products, when future benefits are likely to be received and such benefits can be quantified in a reliable way and, in the case of services, when they are rendered.

In particular:

– Interest is recognized on a pro rata temporis basis, in accordance with the contractual interest rate or the actual interest rate in case of application of the amortized cost;
– Interest on arrears is posted to the profit and loss statement only upon actual collection;
– Dividends are shown in the profit and loss statement upon resolution of their distribution, when their payment became due;
– Commissions for income from services are posted in the period when the services were rendered, on the basis of existing contractual agreements;
– Income resulting from the brokerage or issue of financial instruments, as determined by the difference of the price of the transaction and the *fair value* of the instrument, is posted to the profit and loss statement when the transaction is recorded, if the *fair value* can be determined with reference to recent parameters or transactions existing in the market where the instrument is traded. Income is otherwise spread over a period of time taking account of the maturity and the nature of the instrument;
  Income in relation to financial instruments which cannot be measured as above mentioned is posted to the profit and loss statement over the life of the transaction;
– Costs are shown in the profit and loss statement in the periods during which the respective income is posted. Any costs which cannot be associated with income are promptly shown in the P&L statement.

■ Staff severance indemnity fund

The staff severance indemnity fund is posted on the basis of its actuarial value, since it can be considered as an employees' benefit due on the basis of a definite contribution plan. For the purpose of updating, the Bank adopts the method of Unit loan projection, which estimates future disbursements on the basis of statistical time analyses and the demographic curve, and the financial updating of such flows according to the market interest rates.

The costs of servicing the plan are posted under personnel expenses as the net amount of contributions paid, contributions pertaining to prior years not yet posted, expected income resulting from the assets servicing the plan, financial charges and actuarial profits/losses. Actuarial profits and losses are computed on the basis of the "corridor" method, which means the excess of accrued actuarial profits/losses, resulting from prior year's closing, with respect to the higher of 10% of the current value of the benefits generated by the plan and 10% of the *fair value* of the assets servicing the plan. Such excess is also in relation to the expected average working life of the participants in the plan.

■ Expenses for improvements to third parties' assets

Renovation costs for non-owned buildings are posted to other assets, since the user company exercises control of the assets for the term of the tenancy agreement and can obtain future economic benefits from them. Such costs, classified under other assets in compliance with the recommendations of the Bank of Italy, are posted to the profit and loss statement under account 190 – Other operating income/charges in a period corresponding to the term of the tenancy agreement.

PART B
INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

Section 1

Cash and cash equivalents -Account 10

1.1 CASH AND CASH EQUIVALENTS: COMPOSITION

(euro '000)

	Banking group	Insurance companies	Other companies	Total as at 31 12 2006	Total as at 31 12 2005
a) Cash	554,122	-	37	554,159	513,112
b) Demand deposits with Central Banks	57,820	-		57,820	49,701
Total	**611,942**	**-**	**37**	**611,979**	**562,813**

Section 2

Financial assets held for trading - Account 20

2.1 FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION

(euro '000)

items/values	Banking group		Insurance companies		Other companies		31 12 2006	31 12 2005
	quoted	unquoted	quoted	unquoted	quoted	unquoted	Total	Total
A. Cash assets								
1. Debt securities	4,596,575	1,884,698	-	-	-	-	6,481,273	20,105,921
1.1 Structured securities	911,365	489,306	-	-	-	-	1,400,671	1,231,356
1.2 Other debt securities	3,685,210	1,395,392	-	-	-	-	5,080,602	18,874,565
2. Equities	519,547	5,565	-	-	-	-	525,112	520,829
of which measured at cost								
3. Quotas of UCITS	429,397	337,639	-	-	-	-	767,036	1,088,280
4. Loans	10,866,935	-	-	-	-	-	10,866,935	7,653,542
4.1 REPOS	9,534,224	-	-	-	-	-	9,534,224	6,467,456
4.2 Other	1,332,711	-	-	-	-	-	1,332,711	1,186,086
5. Non performing assets	-	9,386	-	-	-	-	9,386	9,049
6. Assets sold not derecognised	2,062,979	143,198	-	-	-	-	2,206,177	-
Total (A)	**18,475,433**	**2,380,486**	**-**	**-**	**-**	**-**	**20,855,919**	**29,377,621**
B. Derivatives instruments								
1. Financial Derivatives:	225,698	5,142,673	-	-	-	-	5,368,371	7,977,888
1.1 trading	225,698	4,851,000	-	-	-	-	5,076,698	7,481,758
1.2 fair value option	-	85,376	-	-	-	-	85,376	496,130
1.3 other	-	206,297	-	-	-	-	206,297	-
2. Credit Derivatives:	-	206,037	-	-	-	-	206,037	117,634
2.1 trading	-	206,037	-	-	-	-	206,037	117,634
2.2 fair value option	-	-	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-	-	-
Total (B)	**225,698**	**5,348,710**	**-**	**-**	**-**	**-**	**5,574,408**	**8,095,522**
Total (A+B)	**18,701,131**	**7,729,196**	**-**	**-**	**-**	**-**	**26,430,327**	**37,473,143**

The trading portfolio includes cash financial instruments, mainly purchased with the objective of obtaining profits in the short term, and derivative contracts other than the contracts officially designed as hedging instruments.
The trading portfolio also embraces the derivatives associated with the instruments which adopted the fair value option; they cover risks inherent in funding valued at fair value, resulting from any possible fluctuations of the interest rates and any existing optional components implicit in the structured securities issued. The fair value of such derivatives is shown under "B.1.2 - associated with the fair value option ".

The trading portfolio also includes derivative contracts separate from other Banking Book financial instruments or the derivatives which are related to them.
All financial instruments posted under financial assets for trading purposes are valued at fair value, including equities.
Sub-account "A.6 - Assets sold, not derecognised, shows securities held, securing payable repurchase agreements.

The column concerning insurance companies does not show any value due to the classification of Montepaschi Vita, Montepaschi Assicurazione Danni and Montepaschi Life as assets being sold. Therefore, the data as of 31/12/2006 have been reclassified under account 150 of the balance-sheet, "non-current assets and groups of assets being sold", sub-account "financial assets for trading purposes".

2.1.A DEBT SECURITIES BREAKDOWN: STRUCTURED SECURITIES

(euro '000)

Structured debt securities	Banking group	Insurance companies	Other companies	Total as at 31 12 2006
Index Linked	263,717			263,717
Reverse convertible				
Convertibili	5,051			5,051
Credit linked notes	915,225			915,225
Equity Linked	21,727			21,727
Step - up, Step down				
Dual Currency				
Drop Lock				
Target redemption note				
Cap Floater				
Reverse Floater				
Corridor				
Fund Linked	51,610			51,610
other	143,341			143,341
Total	1,400,671	-	-	1,400,671

The table gives details about previous Table 2.1 and illustrates the main kinds of structured securities existing in the trading portfolio.
Such securities, valued at fair value with value changes directly posted to the profit and loss statement, were not separated from implicit derivatives.

The column in relation to the insurance companies does not show any value due to their classification as assets being sold.

2.1.B DERIVATIVES INSTRUMENTS - USE OF FAIR VALUE OPTION

2.1.B.1 OF THE BANKING GROUP

(euro '000)

Account	31 12 2006		
	natural hedges	other cases of accounting mismatch	Portfolio of financial assets internally managed on the basis of fair value
Financial derivatives	85,376	x	-
Credit Derivatives	-	x	-
Total	**85,376**	**x**	**-**

(in migliaia di euro)

Account	31 12 2005		
	natural hedges	other cases of accounting mismatch	Portfolio of financial assets internally managed on the basis of fair value
Financial derivatives	496,130	x	-
Credit Derivatives	-	x	-
Total	**496,130**	**x**	**-**

This table provides a breakdown of previous table 2.1 and shows the book value (fair value) of the hedging derivatives of instruments which adopted the fair value option, with different modes of use.
As of 31 December 2006 and 31 December 2005 all derivatives linked with the fair value option, included in the trading portfolio, are attributable to the natural and systematic hedging of fixed-rate structured bonds issued by the Group.

These derivative contracts are classified in the trading portfolio by convention. For the purpose of profit and loss statement reporting, they comply with regulations similar to the regulations contemplated in relation to hedging derivatives. Positive and negative differentials or margins paid or accrued until the date of reference of the financial statements are posted under interest income and expense. Profits and losses from valuation are indicated under account "110 - Net profit/loss of financial assets and liabilities valued at fair value" in the profit and loss statement, in compliance with the reporting in relation to funding instruments which adopted the fair value option.

2.1.B.2 OF INSURANCE COMPANIES

2.1.B.3 OF OTHER COMPANIES

2.2 FINANCIAL ASSETS HELD FOR TRADING: BORROWER/ISSUER COMPOSITION

(euro '000)

Account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
A. Financial assets					
1. Debt securities	6,481,273	-	-	6,481,273	20,105,921
a) Government and Central Banks	2,071,913	-	-	2,071,913	9,830,464
b) other public entities	84,804	-	-	84,804	104,270
c) Banks	1,292,493	-	-	1,292,493	5,736,315
d) other issuers	3,032,063	-	-	3,032,063	4,434,872
2. Equities	525,112	-	-	525,112	520,829
a) Banks	53,462	-	-	53,462	22,203
b) Other issuers:	471,650	-	-	471,650	498,626
- insurance companies	6,339	-	-	6,339	36,995
- finance companies	134,940	-	-	134,940	111,321
- non finance companies	296,596	-	-	296,596	310,193
- other	33,775	-	-	33,775	40,117
3. Quotas of UCITS	767,036	-	-	767,036	1,088,280
4. Loans	10,866,934	-	-	10,866,934	7,653,542
a) Governments and Central Banks	-	-	-	-	-
b) other public entities	-	-	-	-	-
c) Banks	7,864,483			7,864,483	5,413,367
d) other	3,002,451			3,002,451	2,240,175
5. Non performing assets	9,386	-	-	9,386	9,049
a) Governments and Central banks	-	-	-	-	-
b) other public entities	-	-	-	-	-
c) Banks				-	-
d) other	9,386			9,386	9,049
6. Assets sold not derecognised	2,206,177	-	-	2,206,177	-
a) Governments and Central Banks	735,638			735,638	-
b) Other public entities	689			689	-
c) Banks	1,307,181			1,307,181	-
d) other issuers	162,669			162,669	-
Total (A)	**20,855,918**	**-**	**-**	**20,855,918**	**29,377,621**
B. Derivatives instruments					
a) Banks	4,410,527	-		4,410,527	6,897,229
b) Customers	1,163,882			1,163,882	1,198,293
Total (B)	**5,574,409**	**-**	**-**	**5,574,409**	**8,095,522**
Total (A+B)	**26,430,327**	**-**	**-**	**26,430,327**	**37,473,143**

The breakdown by debtors/issuers complies with the criteria of classification by sectors and groups of business, as provided for by the Bank of Italy .

The column in relation to insurance companies does not show any value due to the classification of these companies as assets being sold.

2.2.A QUOTAS OF UCITS: COMPOSITION OF MAIN CATEGORIES

(euro '000)

Categories	banking group	insurance companies	other companies	Total as at 31 12 2006	Total as at 31 12 2005
Share	307,376			307,376	417,884
bond	70,156			70,156	71,733
balanced	296,655			296,655	247,659
liquidity	9,236			9,236	258,758
floating	26,701			26,701	25,393
reserved				-	-
Speculative	7,044			7,044	17,537
real estate				-	2,252
other	49,868			49,868	47,064
Total	**767,036**	**-**	**-**	**767,036**	**1,088,280**

This table provides a breakdown of previous table 2.2 and illustrates the major kinds of investments in mutual funds, held in the trading portfolio, in a logic of short-term return.

The column in relation to insurance companies does not show any value due to their reclassification as assets being sold.

2.3 FINANCIAL ASSETS HELD FOR TRADING: TRADING DERIVATIVES

2.3.1 OF THE BANKING GROUP

(euro '000)

type of derivatives/underlying assets	interest rate	foreign exchange and gold	equities	loans	other	Total as at 31 12 2006	Total as at 31 12 2005
A. quoted derivatives							
1) financial derivatives:	6,301	-	219,397	-	-	225,698	217,702
with underlying asset exchange	18	-	20,015	-	-	20,033	34,420
- purchased options	-	-	20,006	-	-	20,006	34,420
- other derivatives	18	-	9	-	-	27	-
without underlying asset exchange	6,283	-	199,382	-	-	205,665	183,282
- purchased options	6,283	-	199,382	-	-	205,665	183,282
- other derivatives	-	-	-	-	-	-	-
2) credit Derivatives:	-	-	-	-	-	-	-
with underlying asset exchange	-	-	-	-	-	-	-
without underlying asset exchange	-	-	-	-	-	-	-
Total (A)	**6,301**	**-**	**219,397**	**-**	**-**	**225,698**	**217,702**
B. unquoted derivatives							
1) financial derivatives:	3,629,904	251,773	1,260,995	-	-	5,142,672	7,757,722
with underlying asset exchange	9,307	163,128	1,017,529	-	-	1,189,964	367,890
- purchased options	529	80,442	1,017,529	-	-	1,098,500	349,489
- other derivatives	8,778	82,686	-	-	-	91,464	18,401
without underlying asset exchange	3,620,597	88,645	243,466	-	-	3,952,708	7,389,832
- purchased options	513,189	81,286	243,136	-	-	837,611	1,150,402
- other derivatives	3,107,408	7,359	330	-	-	3,115,097	6,239,430
2) credit Derivatives:	-	-	-	206,038	-	206,038	117,634
with underlying asset exchange	-	-	-	195,218	-	195,218	114,703
without underlying asset exchange		-	-	10,820	-	10,820	2,931
Total (B)	**3,629,904**	**251,773**	**1,260,995**	**206,038**	**-**	**5,348,710**	**7,875,356**
Total (A+B)	**3,636,205**	**251,773**	**1,480,392**	**206,038**	**-**	**5,574,408**	**8,093,058**

This table shows that the Group's operations are mainly oriented to non-listed derivative instruments in active markets. The column of interest rates incorporates, by convention, the financial derivatives with underlying debt securities.

2.3.2 OF THE INSURANCE COMPANIES

(euro '000)

type of derivatives/underlying assets	interest rate	foreign exchange and gold	equities	loans	other	Total as at 31 12 2006	Total as at 31 12 2005
A. quoted derivatives							
1) financial derivatives:	-	-	-	-	-	-	-
with underlying asset exchange	-	-	-	-	-	-	-
- purchased options	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-
without underlying asset exchange	-	-	-	-	-	-	-
- purchased options	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-
2) credit Derivatives:	-	-	-	-	-	-	-
with underlying asset exchange	-	-	-	-	-	-	-
without underlying asset exchange	-	-	-	-	-	-	-
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. unquoted derivatives							
1) financial derivatives:	-	-	-	-	-	-	2,464
with underlying asset exchange	-	-	-	-	-	-	-
- purchased options	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-
without underlying asset exchange	-	-	-	-	-	-	2,464
- purchased options	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	2,464
2) credit Derivatives:	-	-	-	-	-	-	-
with underlying asset exchange	-	-	-	-	-	-	-
without underlying asset exchange		-	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**	**2,464**
Total (A+B)	**-**	**-**	**-**	**-**	**-**	**-**	**2,464**

The table does not show any value as of 31 December 2006 due to the classification of the insurance subsidiaries as groups of assets being sold.

2.3.3 OF OTHER COMPANIES

2.4 CASH ASSETS FOR TRADING (DIFFERENT FROM THOSE SOLD AND NOT DERECOGNISED AND FROM THE NON PERFORMING): ANNUAL CHANGES

2.4.1 OF THE BANKING GROUP

31 12 2006
(euro '000)

changes/underlying assets	debt securities	equities	Quotas of UCITS	loans	Total
A. opening balance	12,935,464	506,792	750,459	7,653,542	21,846,257
B. increases	112,748,314	11,708,607	320,386	452,410,355	577,187,662
B1. purchases	110,883,912	11,567,058	265,441	451,975,683	574,692,094
B2. positive changes of fair value	58,191	18,683	48,013	-	124,887
B3. other changes	1,806,211	122,866	6,932	434,672	2,370,681
C. decreases	119,202,505	11,690,287	303,810	449,196,962	580,393,564
C1. disposals	105,385,303	11,343,786	222,299	449,196,962	566,148,350
C2. reimbursements	10,054,328	46	-	-	10,054,374
C3. negative changesof fair value	77,209	11,563	1,151	-	89,923
C4. other changes	3,685,665	334,892	80,360		4,100,917
D. Final balance	6,481,273	525,112	767,035	10,866,935	18,640,355

2.4.2 OF THE INSURANCE COMPANIES

31 12 2005
(euro '000)

changes/underlying assets	debt securities	equities	Quotas of UCITS	loans	Total
A. opening balance	7,170,457	14,038	337,821	-	7,522,316
B. increases	13,424	147	11,109	-	24,680
B1. purchases					-
B2. positive changes of fair value					-
B3. other changes	13,424	147	11,109		24,680
C. decreases	200,328	10,217	-	-	210,545
C1. disposals					-
C2. reimbursements					-
C3. negative changesof fair value					-
C4. other changes	200,328	10,217			210,545
IFRS 5 “discontinuing operations”	(6,983,553)	(3,968)	(348,930)		(7,336,451)
D. Final balance	-	-	-	-	-

The flow of assets being sold "discontinued operations" includes the closing values in relation to the insurance companies, considered as of 31/12/2006 as being sold.

2.4.3 OF OTHER COMPANIES

Section 3

Financial assets valued at fair value - Account 30

3.1 FINANCIAL ASSETS VALUED AT FAIR VALUE: COMPOSITION

(euro '000)

Account	Banking group		Insurance companies		othercompanies		Total	Total
	quoted	unquoted	quoted	unquoted	quoted	unquoted	31 12 2006	31 12 2005
1. Debt securities	-	-	-	-	-	-	-	493,343
1.1 structured securities		-	-	-			-	493,145
1.2 other debt securities	-						-	198
2. Equities	-	-	-	-	-	-	-	9,177
of which measured at cost								
3. Quotas of UCITS	-	-	-	-	-	-	-	2,157,586
4. Loans	-	-	-	-	-	-	-	-
4.1 structured								
4.2 other								
5. Non performing assets								
6. Assets sold not	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,660,106**
Cost								**8,833**

In 2006 the equity investment held in Dada was sold and, accordingly, the remaining portfolio of equities classified under assets valued at fair value by the Banking Group was written off. The sale of Dada implied profits in the amount of EUR 1.9 mln recorded under account 100 in the profit and loss statement.

The column in relation to the insurance companies does not show any value due to the classification of Montepaschi Vita, Montepaschi Assicurazione Danni and Montepaschi Life as assets being sold. Therefore, the data as of 31/12/2006 have been reclassified under account 150 in the balance-sheet, "non-current assets and groups of assets being sold", sub-account of "financial assets valued at fair value".

3.1.A BREAKDOWN OF THE COMPANIES SUBJECT TO CONSIDERABLE INFLUENCE OR JVS CLASSIFIED AS EQUITIES VALUED AT FAIR VALUE (VENTURE CAPITAL ORGANISATIONS)

3.1.A.1 OF THE BANKING GROUP

3.1.A.1 OF THE INSURANCE COMPANIES

3.1.A.1 OF OTHER COMPANIES

3.1.B ASSETS CARRIED AT FAIR VALUE: METHOD OF USE OF THE FAIR VALUE OPTION

3.1.B.1 OF THE BANKING GROUP

(euro '000)

Accounts	31 12 2006					
	Debt securities	Equities	Quotas of UCITS	Loans	Non performing assets	Assets sold not derecognised
Natural hedges with derivatives	x	x	x	x	x	x
Natural hedges with other financial instruments	x	x	x	x	x	x
Other accounting skewness	x	x	x	x	x	x
Financial assets portfolio based on fair value	-	-	-	x	x	x
Structured financial instruments	-	-	-	x	x	x
Total	**-**	**-**	**-**	**x**	**x**	**x**

(euro '000)

Accounts	31 12 2006					
	Debt securities	Equities	Quotas of UCITS	Loans	Non performing assets	Assets sold not derecognised
Natural hedges with derivatives	x	x	x	x	x	x
Natural hedges with other financial instruments	x	x	x	x	x	x
Other accounting skewness	x	x	x	x	x	x
Financial assets portfolio based on fair value	198	8,535		x	x	x
Structured financial instruments	2,669		-	x	x	x
Total	**2,867**	**8,535**	**-**	**x**	**x**	**x**

3.1.B.2 OF THE INSURANCE COMPANIES

(euro '000)

Accounts	31 12 2006					
	Debt securities	Equities	Quotas of UCITS	Loans	Non performing assets	Assets sold not derecognised
Natural hedges with derivatives	x	x	x	x	x	x
Natural hedges with other financial instruments	x	x	x	x	x	x
Other accounting skewness	x	x	x	x	x	x
Financial assets portfolio based on fair value	-	-	-	x	x	x
Structured financial instruments	-	-	-	x	x	x
Total	**-**	**-**	**-**	**x**	**x**	**x**

The table as of 31/12/2006 does not show any value due to the classification of the insurance subsidiaries as groups of assets being sold.

(euro '000)

Accounts	31 12 2006					
	Debt securities	Equities	Quotas of UCITS	Loans	Non performing assets	Assets sold not derecognised
Natural hedges with derivatives	x	x	x	x	x	x
Natural hedges with other financial instruments	x	x	x	x	x	x
Other accounting skewness	x	x	x	x	x	x
Financial assets portfolio based on fair value	-	-	2,157,586	x	x	x
Structured financial instruments	490,476	642	-	x	x	x
Total	**490,476**	**642**	**2,157,186**	**x**	**x**	**x**

3.1.B.3 OF OTHER COMPANIES

3.2 FINANCIAL ASSETS CARRIED AT FAIR VALUE: BORROWER/ISSUER COMPOSITION

(euro '000)

Accounts	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1. debt securities	**-**	**-**	**-**	**-**	**493,343**
a) Governments and Central banks					
b) other public entities					
c) Banks	-	-		-	493,145
d) other issuers	-			-	198
2. equities	**-**	**-**	**-**	**-**	**9,177**
a) Banks		-		-	642
b) other issuers:	-	-	-	-	8,535
- insurance companies				-	-
- finance companies				-	-
- non financial companies	-			-	8,535
- other					
3. Quotas of UCITS	**-**	**-**	**-**	**-**	**2,157,586**
4. loans	**-**	**-**	**-**	**-**	**-**
a) Governments and Central banks					
b) other public entities					
c) Banks					
d) others					
5. non performing assets	**-**	**-**	**-**	**-**	**-**
a) Governments and Central banks					
b) other public entities					
c) Banks					
d) others					
6. assets sold not derecognised	**-**	**-**	**-**	**-**	**-**
a) Governments and Central banks					
b) other public entities					
c) Banks					
d) others					
Total	**-**	**-**	**-**	**-**	**2,660,106**

The column in relation to the year of 2006 - Banking Group does not show any value as a result of the sale during the year of the equity investment held in Dada.
The column in relation to the insurance companies does not show any value due to their classification as assets being sold.

3.2.A QUOTAS OF UCITS: MAIN CATEGORIES COMPOSITION

(euro '000)

Accounts	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
shares				-	1,162,468
bond				-	854,378
balanced				-	-
liquidity				-	140,740
floating				-	-
reserved				-	-
speculative				-	-
real estate				-	-
other				-	-
Total				**-**	**2,157,586**

The table does not show any value as of 31/12/2006 due to the classification of the insurance subsidiaries as assets being sold.

3.3 ASSETS VALUED AT FAIR VALUE (DIFFERENT FROM THOSE SOLD AND NOT DERECOGNISED AND FROM THOSE NON PERFORMING): ANNUAL CHANGES

3.3.1 OF THE BANKING GROUP

31/12/2006
(euro '000)

	debt securities	equities	Quotas of UCITS	loans	Total
A. opening balance	2,867	8,535			11,402
B. increases	3,227	1,900	-	-	5,127
B1. purchases	2,112	-	-	-	2,112
B2. positive changes of fair value	-	-	-	-	-
B3. other changes	1,115	1,900	-	-	3,015
C. decreases	6,094	10,435	-	-	16,529
C1. disposals	6,089	-	-	-	6,089
C2. reimbursements	-	-	-	-	-
C3. negative changesof fair value	-		-	-	-
C4. other changes	5	10,435	-	-	10,440
D. Final balance	-	-	-	-	-

In 2006 the equity investment held in Dada s.p.a. was sold with a gain of EUR 1.9 million.

3.3.2 OF THE INSURANCE COMPANIES

31 12 2005
(euro '000)

changes/underlying assets	debt securities	equities	Quotas of UCITS	loans	Total
A. opening balance	490,476	642	2,157,586		2,648,704
B. increases	91,029	1,657	-	-	92,686
B1. purchases	-	-	-	-	-
B2. positive changes of fair value	-	-	-	-	-
B3. other changes	91,029	1,657	-		92,686
C. decreases	-	-	134,256	-	134,256
C1. disposals	-	-	-	-	-
C2. reimbursements	-	-	-	-	-
C3. negative changesof fair value	-	-	-	-	-
C4. other changes	-	-	134,256	-	134,256
IFRS 5 “discontinuing operations”	(581,505)	(2,299)	(2,023,330)		(2,607,134)
D. Final balance	-	-	-	-	-

The flow of assets being sold "discontinued operations" includes the closing values in relation to the insurance companies, considered as of 31/12/2006 as being sold.

3.3.3 OF OTHER COMPANIES

Section 4

Financial assets available for sale - Account 40

4.1 FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION

(euro '000)

Accounts	banking group		insurance companies		other companies		Total 31 12 2006		Total 31 12 2005	
	quoted	unquoted	quoted	unquoted	quoted	unquoted	quoted	unquoted	quoted	unquoted
1. debt securities	1,748,429	1,066,060	-	-	-	-	1,748,429	1,066,060	2,255,624	549,767
1.1 structured	138,688	533,665					138,688	533,665	173,116	-
1.2 other debt securities	1,609,741	532,395	-	-			1,609,741	532,395	2,082,508	549,767
2. equities	212,792	925,638	-	-	56,464	82	269,256	925,720	1,422,710	1,180,565
2.1 Valued at fair value	212,792	620,800		-	56,464	82	269,256	620,882	1,422,710	1,173,827
2.2 measured at cost		304,838		-		-	-	304,838		6,738
3. Quotas of UCITS	1,752	136,592	-	-	-	-	1,752	136,592	162,831	113,773
4. loans	-	-	-	-	-	-	-	-	-	-
5. non performing assets									-	-
6. assets sold not derecognised	-	-	-	-	-	-	-	-	-	-
Total	1,962,973	2,128,290	-	-	56,464	82	2,019,437	2,128,372	3,841,165	1,844,105

The portfolio of financial assets available for sale incorporates:

• the portion of bond portfolio and UCITS which are not held for trading purposes (banking book);
• minority equity investments.

All assets are valued at fair value, except for a modest (from the quantitative viewpoint) portion of equities. Such equities are held at cost, since their fair value cannot be determined in a reliable way.

Account "1.1 Debt securities - structured" includes the value of the "host" securities after separating the implicit derivative on credit risks, classified separately among trading derivative instruments.

The reduction of equities with respect to 2005 is mainly due to:

'- the sale of the investments held in Generali, Fiat, Farmafactoring and Banca Nazionale del Lavoro, in compliance with the objectives of the strategic plan.

The equity investment in Generali was first sold - as an intermediate step - to the subsidiary MPS Finance, which in turn sold it outside the Group in the last days of the financial year. This transaction consisted of a spot sale with deferred delivery (June 2010) of 20,200,000 shares, with the counterparty being paid the dividends collected from time to time.
The capital gain before taxes in relation to this transaction amounted to EUR 223 mln, including EUR 142 mln in relation to the re-transfer of the valuation reserve of equities available for sale. This capital gain was posted under account 100 of the profit and loss statement in compliance with the provisions of IAS 39 in relation to financial instruments available for sale.

For entirety of information, the subsidiary MPS Finance has purchased a call option which entitles the company to benefit from 40% of the appreciation of Generali up to a maximum of 60% with respect to the sale price, with the opportunity of partially benefitting from the future appreciation of the shares for 3 years and a half, limiting the risks of any possible fall in the share quotation to the amount of the premium paid, in addition to freezing the implicit capital gain at the price levels ruling at the end of 2006.

The reduction of the account of Equities is also due to the writeoff of the stake held in Hopa in a total amount of EUR 104 mln, as a result of the updating of the unit valuation from EUR 1.8 to EUR 1, posted under account 130 of the profit and loss statement, with the value of the investment totalling EUR 130.9 mln with respect to EUR 235.6 mln in 2005. The current valuation of Hopa is influenced by the revocation of the Shareholders' Pact.

The column in relation to the insurance companies does not show any value due to the classification of Montepaschi Vita, Montepaschi Assicurazione Danni and Montepaschi Life as assets being sold. Therefore, the data as of 31/12/2006 have been reclassified under account 150 in the balance-sheet, "non-current assets and groups of assets being sold", sub-account of "financial assets available for sale".

4.2 FINANCIAL ASSETS AVAILABLE FOR SALE: BORROWER/ISSUER COMPOSITION

(euro '000)

Accounts	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1. debt securities	**2,814,489**	**-**	**-**	**2,814,489**	**2,805,391**
a) Governments and Central banks	244,050	-		244,050	579,780
b) other public entities				-	-
c) Banks	1,054,618	-		1,054,618	800,448
d) other issuers	1,515,821			1,515,821	1,425,163
2. equities	**1,138,429**	**-**	**56,547**	**1,194,976**	**2,603,275**
a) Banks	506,999			506,999	862,674
b) other issuers:	631,430	-	56,547	687,977	1,740,601
- insurance companies	-			-	632,033
- finance companies	64,869			64,869	491,702
- non financial companies	565,929			565,929	557,987
- other	632	-	56,547	57,179	58,879
3. Quotas of UCITS	**138,344**	**-**	**-**	**138,344**	**276,604**
4. loans	**-**	**-**	**-**	**-**	**-**
a) Governments and Central banks					
b) other public entities					
c) Banks					
d) others					
5. non performing assets	**-**	**-**	**-**	**-**	-
a) Governments and Central banks					
b) other public entities					
c) Banks					
d) others					
6. assets sold not derecognised	-	**-**	**-**	-	-
a) Governments and Central banks					
b) other public entities					
c) Banks					
d) others					
Total	**4,091.262**	**-**	**-**	**4,147,809**	**5,685,270**

The breakdown by debtor/issuer was made in compliance with the criteria of classification by sectors and groups of business contemplated by the Bank of Italy.

The column in relation to the insurance companies does not show any value due to their classification as assets being sold.

4.2.A QUOTAS OF UCITS: MAIN CATEGORIES COMPOSITION

(euro '000)

Accounts	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
share	107,482			107,482	257,072
bond	12,684			12,684	15,489
balanced	16,255			16,255	2,464
liquidity				-	
floating				-	
reserved	1,604			1,604	1,269
speculative				-	
real estate				-	
other	319			319	310
Total	**138,344**			**138,344**	**276,604**

The table gives details in relation to previous table 4.2 and illustrates the main kinds of investments in UCITS held in the Group's portfolio available for sale (banking book). These investments mainly consist of portions of private equity funds, with the objective of a medium-term economic return.

The column in relation to the insurance companies does not show any value due to their classification as assets being sold.

4.3 FINANCIAL ASSETS AVAILABLE FOR SALE: HEDGED ASSETS

4.3.1 OF THE BANKING GROUP

31 12 2006

(euro '000)

Assets/hedging	Hedged assets			
	specific hedge		generic hedge	
	Fair value	cash flow	Fair value	cash flow
1. debt securities	751,839	-	x	x
2. equities	-	-	x	x
3. Quotas of UCITS	-	-	x	x
4. loans	-	-	x	x
5. Portfolio	x	x	-	-
Total	**751,839**	**-**	**-**	**-**

The table shows the portion of the portfolio of assets available for sale which, at the end of the financial year, was subject to hedging transactions, and in particular specific hedging.
Fixed-income debt securities, with a book value (fair value) as indicated in the table, are subject to hedging - with respect to the risk of interest rate fluctuations- through derivative contracts (asset swap).

The portfolio mainly stems from the former investment portfolio which, upon the first application of the international accounting principles, was classified under assets available for sale, thus ensuring continuity of classification within the Bank's banking book.

As of 31/12/2005, the account of equities concerned the stake in BNL, subject to fair value hedge covering price risk through OTC derivatives with no exchange of capital. This stake, as already mentioned in the report on operations, was sold in Q1 2006.

31 12 2005
(euro '000)

Assets/hedging	Hedged assets			
	specific hedge		generic hedge	
	Fair value	cash flow	Fair value	cash flow
1. debt securities	423,812	-	x	x
2. equities	368,602	-	x	x
3. Quotas of UCITS	-	-	x	x
4. loans	-	-	x	x
5. Portfolio	x	x	-	-
Total	**792,414**	**-**	**-**	**-**

4.3.2 OF THE INSURANCE COMPANIES

4.3.3 OF OTHER COMPANIES

4.4 FINANCIAL ASSETS AVAILABLE FOR SALE: ASSETS WITH SPECIFIC HEDGES

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1. financial assets with specific hedges of the fair value	751,839			751,839	792,414
a) interest rate risk	751,839			751,839	423,812
b) price risk	-			-	368,602
c) foreign exchange risk					
d)credit risk					
e) various risks					
2. financial assets with specific hedges of cash flow					
a) interest rate risk					
b) foreign exchange risk					
c) other					
Total	**751,839**	**-**	**-**	**751,839**	**792,414**

The column in relation to the insurance companies does not show any value due to their classification as assets being sold.

4.5 FINANCIAL ASSETS AVAILABLE FOR SALE (OTHER THAN ASSETS SOLD AND NOT DERECOGNISED OR IMPAIRED ASSETS): ANNUAL CHANGES

4.5.1 OF THE BANKING GROUP

31 12 2006
(euro '000)

account	debt securities	equity securities	UCITS Quotas	loans	Total
A. Opening balance	2,500,231	2,544,629	125,961	-	5,170,821
B. Increases	1,370,085	488,178	172,910	-	2,031,173
B1. purchases	1,369,063	222,155	141,122		1,732,340
B2. positive variations of FV	66	116,032	5,200		121,298
B3. write-backs	956	3,302	22,461		26,719
- through profit and loss	956			x	956
- in equity		3,302	22,461		25,763
B4. transfers from other portfolios		9,679			9,679
B5. other changes		137,010	4,127		141,137
C. Reductions	1,055,827	1,894,377	160,529	-	3,110,733
C1. sales	183,249	1,476,303	104,063		1,763,615
C2. redemptions	752,471		3,379		755,850
C3. negative variations of FV	40,120	12,803	28,326		81,249
C4. impairment	751	108,266	22,461	-	131,478
- through profit and loss	751	108,266	22,461		131,478
- imputate al patrimonio netto					-
C5. transfers to other portfolios		282,857			282,857
C6. other changes	79,236	14,148	2,300		95,684
D. closing balance	2,814,489	1,138,430	138,342	-	4,091,261

The account of "sales" under the column of "equities" indicates the amounts resulting from the sale of the investments held in Generali s.p.a. (EUR 677 mln), Fiat s.p.a (EUR 279.7 mln), Farmafactoring s.p.a. (EUR 16.5 mln) and Banca Nazionale del Lavoro (EUR 354.6 mln).

The account of "other changes - increases" mostly incorporates profits from the sale of the same investments, in relation to the portion not resulting from the re-transfer of the reserve.

The account of "transfers to other portfolios" incorporates the equity investments which have been transferred during the year to account 100 "equity investments" due to the purchase of controlling or connection interests.
The major transfers involved the interests in Santorini Ltd (EUR 241.5 mln), Si Holding s.p.a. (EUR 29.6 mln) and Uno a Erre (EUR 11.7 mln) di euro, with Santorini being consolidated totally and Si Holding and Uno a Erre both valued with the net equity method.

With particular reference to Santorini, due to the withdrawal of its partner (Deutsche Bank), the Parent Bank de facto acquired the total ownership of the company, with no additional investment and no change in the nature and riskiness with respect to the investment prior the withdrawal.

The relative AFS reserve calculated as of the date of reference is posted to net equity and is adjusted in case of lasting losses, or retransferred to the profit and loss statement upon sale (if any). Additional information about the amount and breakdown of the reserves on financial instruments available for sale existing at the end of the year is provided under section 15 of liabilities in relation to net equity.

For entirety of information, the subsidiary MPS Finance purchased a call option which entitles the company to benefit from 40% of the appreciation of Generali shares up to a maximum of 60% with respect to the sale price, with the opportunity of partially benefitting from the future appreciation of the shares for 3 years and a half, limiting the risks of any fall in the share quotations to the amount of the premium paid, in addition to freezing the implicit capital gain to the price levels reached at the end of 2006.

The reduction of the account of "equities" is also due to the writedown of the investment in Hopa, in a total amount of EUR 104 mln, as a result of the updating of the unit valuation from EUR 1.8 to EUR 1, posted under account 100 of the profit and loss statement, with the value of the investment at EUR 130.9 mln with respect to EUR 235.6 mln in 2006. The current valuation of Hopa is influenced by the revocation of the Shareholders' Pact.

The column in relation to the insurance companies does not show any value due to the classification of Montepaschi Vita, Montepaschi Assicurazioni Danni and Montepaschi Life as assets being sold. Therefore, the data as of 31/12/2006 have been reclassified under account 150 of the balance-sheet, "non-current assets and groups of assets being sold", sub-account of "financial assets available for sale".

4.5.2 OF THE INSURANCE COMPANIES

31 12 2005
(euro '000)

account	debt securities	equity securities	UCITS Quotas	loans	Total
A. Opening balance	305,160	48	150,643	-	455,851
B. Increases	153,558	8,542	65,915	-	228,015
B1. purchases					-
B2. positive variations of FV					-
B3. write-backs	-	-	-		-
- through profit and loss				x	-
- in equity					-
B4. transfers from other portfolios					-
B5. other changes	153,558	8,542	65,915		228,015
C. Reductions	-	36	-	-	36
C1. sales		36			36
C2. redemptions					-
C3. negative variations of FV					-
C4. impairment	-	-	-	-	-
- through profit and loss					-
- imputate al patrimonio netto					-
C5. transfers to other portfolios					-
C6. other changes	-				-
IFRS 5 "Discontinuing operations"	(458,718)	(8,554)	(216,558)		(683,830)
D. closing balance	-	-	-	-	-

The flow of assets being sold "discontinued operations" incorporates the closing values in relation to the insurance companies, consiered as of 31/12/2006 as being sold.

4.5.3 OF OTHER COMPANIES

31 12 2006
(euro '000)

account	debt securities	equity securities	UCITS Quotas	loans	Total
A. Opening balance		58,598		-	58,598
B. Increases	-	494	-	-	494
B1. purchases		5			5
B2. positive variations of FV					-
B3. write-backs	-	-	-		-
- through profit and loss				x	-
- in equity					-
B4. transfers from other portfolios					-
B5. other changes		489			489
C. Reductions	-	2,546	-	-	2,546
C1. sales					-
C2. redemptions					-
C3. negative variations of FV		2,546			2,546
C4. impairment	-	-	-	-	-
- through profit and loss					-
- imputate al patrimonio netto					-
C5. transfers to other portfolios					-
C6. other changes					-
D. closing balance	-	56,546	-	-	56,546

Section 5

Financial assets held to maturity - Account 50

5.1 FINANCIAL ASSETS HELD TO MATURITY: COMPOSITION

(euro '000)

Type of operations/Components of the group	banking group		insurance companies		other companies		Total 31 12 2006		Total 31 12 2005	
	book value	Fair value	book value	Fair value	book value	Fair value	book value	Fair value	book value	Fair value
1. debt securities	3	3	-	-	-	-	3	3	4,301,729	4,508,129
1.1 structured securities							-	-	-	-
1.2 other debt securities	3	3	-	-			3	3	4,301,729	4,508,129
2. loans										
3. non performing assets										
4. assets sold not derecognised										
Total	3	3	-	-	-	-	3	3	4,301,729	4,508,129

The column in relation to the insurance companies does not show any value due to their classification as assets being sold.

5.2 FINANCIAL ASSETS HELD TO MATURITY: BORROWER/ISSUER

(euro '000)

type of operations	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1. debt securities	**3**	**-**	**-**	**3**	**4,301,729**
a) Governments and Central banks	3	-		3	3,591,852
b) other public entities	-			-	3
c) Banks		-		-	254,674
d) other issuers		-		-	455,200
2. loans					
a) Governments and Central banks					
b) other public entities					
c) Banks					
d) others					
3. non performing assets					
a) Governments and Central banks					
b) other public entities					
c) Banks					
d) others					
4. assets sold not derecognised					
a) Governments and Central banks					
b) other public entities					
c) Banks					
d) others					
Total	**3**	**-**		**3**	**4,301,729**

The column in relation to the insurance companies does not show any value due to their classification as assets being sold.

5.3 FINANCIAL ASSETS HELD TO MATURITY: HEDGED

5.3.A FINANCIAL ASSETS HELD TO MATURITY: HEDGED

5.3.A.1 OF THE BANKING GROUP

(euro '000)

assets/hedging	31 12 2006		31 12 2005	
	specific hedge		generic hedge	
	Fair value	cash flow	Fair value	cash flow
debt securities				
loans				
Total				

5.3.A.2 OF THE INSURANCE COMPANIES

5.3.A.3 OF OTHER COMPANIES

5.3.B FINANCIAL ASSETS HELD TO MATURITY: ASSETS WITH SPECIFIC ASSETS

5.3.B.1 OF THE BANKING GROUP

(euro '000)

accounts	31 12 2006	31 12 2005
1. financial assets with specific hedges of the fair value		
foreign exchange risk		
credit risk		
various risks		
2. financial assets with specific hedges of cash flow		
foreign exchange risk		
various risks		
Total		

5.3.B.2 OF THE INSURANCE COMPANIES

5.3.B.3 OF OTHER COMPANIES

5.4.1 FINANCIAL ASSETS HELD TO MATURITY (DIFFERENT FROM THOSE SOLD AND NOT DERECOGNISED AND FROM THOSE NON PERFORMING): ANNUAL CHANGES

The Banking Group reports a moderate amount (EUR 3,000) of assets held upon maturity.

5.4.2 OF THE INSURANCE COMPANIES

31 12 2006
(euro '000)

	debt securities	loans	Total
A. Opening balance	**4,301,726**	**-**	**4,301,726**
B.increases	**23,846**	**-**	**23,846**
B1 purchases			
B2 value recoveries			
B3 transfers from other portfolios			
B4 other changes	23,846		23,846
C. decreases	**-**	**-**	**-**
C1 disposals			
C2 reimbursements			
C3 value changes			
C4 transfers from other portfolios			
C5 other changes			
Discontinuing operations	4,325,572		4,325,572
D. Final balance	**-**	**-**	**-**

The flow of assets being sold "discontinued operations" incorporates the closing values in relation to the insurance companies, considered as of 31/12/2006 as being sold.

5.4.3 OF OTHER COMPANIES

Section 6

Due from banks - Account 60

6.1 DUE FROM BANKS: COMPOSITION

6.1.1 OF THE BANKING GROUP

(euro '000)

type of operations/value	Total 31 12 2006	Total 31 12 2005
A. Due from central banks	**756,363**	**733,446**
1. time deposits	15,000	15,000
2. compulsory reserve	740,972	715,492
3. repos	-	-
4. other	391	2,954
B. Due from banks	**11,234,670**	**9,139,994**
1. current accounts and deposits	656,651	533,290
2. time deposits	3,181,683	3,815,712
3. other loans:	7,391,813	4,786,662
3.1 repos	6,018,254	3,872,196
3.2 finance lease	-	-
3.3 other	1,373,559	914,466
4. debt securities	2,654	2,599
4.1 structured securities	-	-
4.2 other debt securities	2,654	2,599
5. non performing assets	1,869	1,731
6. assets sold not derecognised	-	-
Total (book value)	**11,991,033**	**9,873,440**
Total (fair value)	**12,001,953**	**10,755,456**

The "due from banks" portfolio only includes loans and deposits, in addition to the mobilizable portion of the Compulsory Reserve with the Bank of Italy.

6.1.2 OF THE INSURANCE COMPANIES

(euro '000)

type of operations/value	Total 31 12 2006	Total 31 12 2005
A. Due from central banks	**-**	**-**
1. time deposits		
2. compulsory reserve		
3. repos		
4. other		
B. Due from banks	**-**	**119,958**
1. current accounts and deposits	-	55,009
2. time deposits	-	64,752
3. other loans:	-	197
3.1 repos	-	197
3.2 finance lease		
3.3 other		
4. debt securities	-	-
4.1 structured securities		
4.2 other debt securities		
5. non performing assets		
6. assets sold not derecognised	-	-
Total (book value)	**-**	**119,958**
Total (fair value)	**-**	**119,958**

The table in relation to the insurance companies does not show any value due to their classification as assets being sold.

6.1.3 OF OTHER COMPANIES

(euro '000)

type of operations/value	Total 31 12 2006	Total 31 12 2005
A. Due from central banks	**-**	**-**
1. time deposits		
2. compulsory reserve		
3. repos		
4. other		
B. Due from banks	**-**	**158**
1. current accounts and deposits	-	158
2. time deposits		
3. other loans:		
3.1 repos	-	-
3.2 finance lease		
3.3 other		
4. debt securities		
4.1 structured securities	-	-
4.2 other debt securities		
5. non performing assets		
6. assets sold not derecognised	-	-
Total (book value)	**-**	**158**
Total (fair value)	**-**	**158**

6.2 DUE FROM BANKS: ASSETS WITH SPECIFIC HEDGE

6.2.1 OF THE BANKING GROUP

(euro '000)

type of operations/value	Total 31 12 2006	Total 31 12 2005
1. Credits with specific hedge of the fair value		
a) interest rate risk	300,000	
b) foreign exchange risk		
c) credit risk		
d) various risks		
2. Credits with specific hedge of cash flow		
a) interest rate		
b) foreign exchange		
c) other		
Total	**300,000**	

6.2.2 OF THE INSURANCE COMPANIES

6.2.3 OF OTHER COMPANIES

6.3 DUE FROM BANKS: RECONCILIATION OF FUTURE MINIMUM LEASE PAYMENTS (FINANCIAL LEASING)

6.3.1 OF THE BANKING GROUP

(euro '000)

account	Total 31 12 2006		Total 31 12 2005	
	minimum future lease payments	present value of minimum future lease payments	minimum future lease payments	present value of minimum future lease payments
up to 12 mths				
from 1 to 5 yrs				
later than 5 yrs				
Total				
unearned finance income		x		x
allowance for doubtful receivables				
loans in report				

6.3.2 OF THE INSURANCE COMPANIES

6.3.3 OF OTHER COMPANIES

6.3.A DUE FROM BANKS:UNSECURED RESIDUAL VALUES OF ASSETS LEASED UNDER FINANCE LEASES

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
unsecured residual values of assets leased under finance leases	3				

Section 7

Customer loans: Account 70

7.1 CUSTOMER LOANS: COMPOSITION

7.1.1 OF THE BANKING GROUP

(euro '000)

type of operations	Total 31 12 2006	Total 31 12 2005
1. current accounts	13,650,083	12,189,673
2. repos	774,853	241,884
3. mortgages	45,887,822	40,787,868
4. credit cards, personal loans and loans guaranteed by salary	1,829,217	1,615,488
5. finance leases	3,337,388	3,120,674
6. Factoring	869,830	871,667
7. other operations	21,492,098	19,949,659
8. debt securities	260,928	306,741
7.1 structured securities		
7.2 other debt securities	260,928	306,741
9. impaired assets	3,838,800	4,442,207
10. assets sold not derecognised	-	-
Total (book value)	**91,941,019**	**83,525,861**
Total (fair value)	**93,423,350**	**83,830,014**

The customer loans portfolio includes all loans to ordinary customers and a portion of the banking book securities portfolio. With particular reference to the securities portfolio, this account includes ABS underwritten resulting from own securitization transactions and other bonds issued by local government authorities (i.e. B.O.C.). The account of "other transactions" incorporates the amounts due to the Group by Riscossione Spa, with respect to the sum resulting from the sale of the interests held in the tax-collection companies (Serit, Gerit, Sorit, Padana Riscossioni and Seit) and the tax-collection business unit, which contemplate a deferred settlement with respect to year-end.

The account of "impaired assets" includes NPLs, watchlist credits, restructured loans and past due loans (over 180 days), in accordance with the definitions of the Bank of Italy. The breakdown of these exposures is detailed in Part E of the Notes to the Consolidated Financial Statements - credit quality.

7.1.2 OF THE INSURANCE COMPANIES

(euro '000)

type of operations	Total 31 12 2006	Total 31 12 2005
1. current accounts		
2. repos		
3. mortgages		
4. credit cards, personal loans and loans guaranteed by salary		
5. finance leases		
6. Factoring		
7. other operations	-	260
8. debt securities		
7.1 structured securities		
7.2 other debt securities		
9. impaired assets		
10. assets sold not derecognised		
Total (book value)	**-**	**260**
Total (fair value)	**-**	**260**

The table in relation to the insurance companies does not show any value due to their classification as assets being sold.

7.1.3 OF OTHER COMPANIES

7.2 CUSTOMER LOANS: BORROWER/ISSUER COMPOSITION

7.02.01 OF THE BANKING GROUP

(euro '000)

tyoe of operations	Total 31 12 2006	Total 31 12 2005
1. debt securities:	**260,928**	**306,741**
a) Governments	-	-
b) other public entities	54,163	43,271
c) other issuers	206,765	263,470
- non financial companies	5,263	-
-financial companies	201,502	257,470
- insurance companies	-	-
- other	-	6,000
2. loans to:	**87,868,143**	**78,776,913**
a) Governments	1,549,541	1,626,878
b) other public entities	2,489,991	2,877,413
c) other issuers	83,828,611	74,272,622
- non financial companies	56,312,172	44,866,347
-financial companies	4,355,074	3,364,822
- insurance companies	53,635	53,790
- other	23,107,730	25,987,663
3. impaired assets:	**3,811,948**	**4,442,207**
a) Governments	37	481
b) other public entities	3,559	4,416
c) other issuers	3,808,352	4,437,310
- non financial companies	3,069,333	3,098,531
-financial companies	24,081	17,457
- insurance companies	26	607
- other	714,912	1,320,715
4. : assets sold not derecognised:	**-**	**-**
a) Governments	-	-
b) other public entities	-	-
c) other issuers	-	-
- non financial companies	-	-
-financial companies	-	-
- insurance companies	-	-
- other	-	-
Total	**91,941,019**	**83,525,861**

The breakdown by debtor/issuer was made in compliance with the Bank of Italy's standards of classification by sectors and groups of business.

7.2.2 OF THE INSURANCE COMPANIES

(euro '000)

tyoe of operations	Total 31 12 2006	Total 31 12 2005
1. debt securities:	**-**	**-**
a) Governments	-	-
b) other public entities		
c) other issuers	-	-
- non financial companies	-	-
-financial companies		
- insurance companies		
- other		
2. loans to:	**-**	**260**
a) Governments		
b) other public entities		
c) other issuers	-	260
- non financial companies		
-financial companies		
- insurance companies	-	171
- other	-	89
3. impaired assets:	**-**	**-**
a) Governments		
b) other public entities		
c) other issuers	-	-
- non financial companies		
-financial companies		
- insurance companies		
- other		
4. : assets sold not derecognised:	**-**	**-**
a) Governments	-	-
b) other public entities	-	-
c) other issuers	-	-
- non financial companies	-	-
-financial companies	-	-
- insurance companies	-	-
- other	-	-
Total	**-**	**260**

The table in relation to the insurance companies does not show any value due to their classification as assets being sold.

7.2.3 OF OTHER COMPANIES

7.3 CUSTOMER LOANS: ASSETS WITH SPECIFIC HEDGES

7.3.1 OF THE BANKING GROUP

(euro '000)

Type of operation	Total 31 12 2006	Total 31 12 2005
1. Credits with specific hedges of fair value	465,560	536,137
a) interest rate risk	465,560	536,137
b) foreign exchange risck		
c) credit risk		
d) various risks		
2. Credits with specific hedges of cash flow	-	-
a) interest rate risk		
b) foreign exchange risck		
c) other		
Total	**465,560**	**536,137**

7.3.2 OF INSURANCE COMPANIES

7.3.3 OF OTHER COMPANIES

7.4 CUSTOMER LOANS: RECONCILIATION FUTURE MINIMUM LEASE PAYMENTS

7.4.1 OF THE BANKING GROUP

(euro '000)

account	Total 31 12 2006		Total 31 12 2005	
	minimum future payments	present value of minimum future payments	minimum future payments	present value of minimum future payments
within 1 yr	850,812	719,458	863,965	732,194
between 1 and 5 yrs	2,225,970	1,883,420	1,903,017	1,627,531
Over 5 yrs	964,857	837,402	1,010,329	891,862
Total	**4,041,639**	**3,440,280**	**3,777,311**	**3,251,587**
unearned finance income	(601,504)	x	(525,724)	x
allowance for doubtful accounts	63,720	63,720	53,835	53,835
loans in report	**3,376,415**	**3,376,560**	**3,197,752**	**3,197,752**

7.4.2 OF THE INSURANCE COMPANIES

7.4.3 OF OTHER COMPANIES

7.4.A CUSTOMER LOANS: UNGUARANTEED RESIDUAL VALUE OF LEASE PAYMENTS

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
unsecured residual values of assets leased under finance leases	584,762			**584,762**	**505,744**

Section 8

Hedging Derivatives - account 80

8.1 HEDGING DERIVATIVES: COMPOSITION BY CONTRACT AND UNDERLYING ASSETS

8.1.1 OF THE BANKING GROUP

(euro '000)

Type of derivatives	interest rate	currency and gold	equity investments	loans	other	Total 31 12 2006	Total 31 12 2005
A. Quoted							
1) financial Derivatives:							
- with underlying asset exchange							
- purchased options							
- other derivatives							
- without underlying asset exchange							
- purchased options							
- other derivatives							
2) credit Derivatives:							
- with underlying asset exchange							
- without underlying asset exchange							
Total A							
B. unquoted							
1) financial Derivatives:	**17,229**	**-**	**-**	**-**	**-**	**17,229**	**9,425**
- with underlying asset exchange	-	-	-	-	-	-	8,415
- purchased options			-			-	8,415
- other derivatives					-	-	-
- without underlying asset exchange	17,229	-	-	-	-	17,229	1,010
- purchased options						-	-
- other derivatives	17,229					17,229	1,010
2) credit Derivatives:							
- with underlying asset exchange	-	-	-	-	-	-	-
- without underlying asset exchange							
Total B	**17,229**	**-**	**-**	**-**	**-**	**17,229**	**9,425**
Total (A+B) (31/12/2006)	**17,229**	**-**	**-**	**-**	**-**	**17,229**	
Total (A+B) (31/12/2005)	**1,010**	**-**	**8,415**	**-**	**-**		**9,425**

In general, with reference to the hedging policies adopted by the Group, the major accounting instrument which better represent the actual operations and management strategies adopted by Risk Management is the fair value option. In particular, the fair value option was systematically adopted in relation to the classification of fixed-income and structured instruments of bond funding, where the risk of interest rate fluctuations is subject to hedging with derivatives by the Group. The whole funding subject to hedging with derivatives is valued at fair value, in compliance with all the relative hedging derivatives which, for balance-sheet purposes, are classified under the specific breakdown of the trading portfolio.

"Hedge accounting" was regularly used with reference to specific kinds of transactions mainly oriented to hedge the financial instruments posted under the assets side of the balance-sheet. The table shows the book value (fair value) with respect to hedging derivative contracts, in relation to hedging operated through "hedge accounting".

8.1.2 OF THE INSURANCE COMPANIES

(euro '000)

Type of derivatives	interest rate	currency and gold	equity investments	loans	other	Total 31 12 2006	Total 31 12 2005
A. Quoted							
1) financial Derivatives:							
- with underlying asset exchange							
- purchased options							
- other derivatives							
- without underlying asset exchange							
- purchased options							
- other derivatives							
2) credit Derivatives:							
- with underlying asset exchange							
- without underlying asset exchange							
Total A							
B. unquoted							
1) financial Derivatives:	**-**	**-**	**-**	**-**	**-**	**-**	**405**
- with underlying asset exchange	-	-	-	-	-	-	-
- purchased options			-			-	-
- other derivatives					-	-	-
- without underlying asset exchange	-	-	-	-	-	-	405
- purchased options						-	-
- other derivatives	-					-	405
2) credit Derivatives:							
- with underlying asset exchange							
- without underlying asset exchange							
Total B	**-**	**-**	**-**	**-**	**-**	**-**	**405**
Total (A+B) (31/12/2006)	**-**	**-**	**-**	**-**	**-**	**-**	
Total (A+B) (31/12/2005)	**405**	**-**	**-**	**-**	**-**		**405**

The table in relation to the insurance companies does not show any value due to their classification as assets being sold.

8.1.3 OF OTHER COMPANIES

8.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED ASSETS AND RISK (VALORI DI BILANCIO)

8.2.1 OF THE BANKING GROUP

31/12/2006
(euro '000)

Operations	Fair Value						cash flow	
	Specific					Generic	Specific	Generic
	interest rate risk	currency risk	credit risk	price risk	various risks			
1. Available for sale financial assets				-		x		x
2. loans	6,238			x		x		x
3. held to maturity financial assets	x			x		x		x
4. Portfolio	x	x	x	x	x		x	
Total assets	**6,238**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. financial liabilities	1,360			x		x	9632	x
2. Portfolio	x	x	x	x	x		x	
Total liabilities	**1,360**	**-**	**-**		**-**	**-**	**9,632**	**-**

The table shows the positive fair values of hedging derivatives, classified by hedged assets or liabilities and on the basis of the kind of hedging implemented. In particular, the fair value hedge was used to hedge the risk of interest rate fluctuations of fixed-rate mortgage loans, for the purpose of protecting them from any possible adverse changes in the trend of interest rates. Interest rate swaps hedging fixed-rate borrowings were executed as a protection from interest rate risk.
Cash flow hedge was made in relation to some specific indexed bond issues, with the objective of stabilizing their flows through interest rate swaps.

31/12/2005
(euro '000)

Operations	Fair Value						cash flow	
	Specific					Generic	Specific	Generic
	interest rate risk	currency risk	credit risk	price risk	various risks			
1. Available for sale financial assets				8,415		x		x
2. loans				x		x		x
3. held to maturity financial assets	x			x		x		x
4. Portfolio	x	x	x	x	x		x	
Total assets	**-**	**-**	**-**	**8,415**	**-**	**-**	**-**	**-**
1. financial liabilities	1,010			x		x		x
2. Portfolio	x	x	x	x	x		x	
Total liabilities	**1,010**	**-**	**-**		**-**	**-**	**-**	**-**

8.2.2 OF THE INSURANCE COMPANIES

31/12/2006
(euro '000)

Operations	Fair Value						cash flow	
	Specific					Generic	Specific	Generic
	interest rate risk	currency risk	credit risk	price risk	various risks			
1. Available for sale financial assets				-		x		x
2. loans				x		x		x
3. held to maturity financial assets	x			x		x		x
4. Portfolio	x	x	x	x	x	-	x	
Total assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. financial liabilities				x		x		x
2. Portfolio	x	x	x	x	x		x	
Total liabilities	**-**	**-**	**-**		**-**	**-**	**-**	**-**

The table in relation to the insurance companies does not show any value due to their classification as assets being sold.

31/12/2005
(euro '000)

Operations	Fair Value						cash flow	
	Specific					Generic	Specific	Generic
	interest rate risk	currency risk	credit risk	price risk	various risks			
1. Available for sale financial assets				-		x		x
2. loans				x		x		x
3. held to maturity financial assets	x			x		x		x
4. Portfolio	x	x	x	x	x	405	x	
Total assets	**-**	**-**	**-**	**-**	**-**	**405**	**-**	**-**
1. financial liabilities				x		x		x
2. Portfolio	x	x	x	x	x		x	
Total liabilities	**-**	**-**	**-**		**-**	**-**	**-**	**-**

Section 9

Change in value of financial assets recorded as part of a macrohedge - Account 90

9.1 CHANGE IN VALUE OF HEDGED FINANCIAL ASSETS: BRESKDOWN BY HEDGED PORTFOLIO

(euro '000)

Change in value of hedged financial assets	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1. positive changes	**32,867**	**-**	**-**	**32,867**	**64,774**
1.1 of specific portfolio:	32,867			32,867	64,774
a) loans	32,867			32,867	64,774
b) available for sale assets				-	-
1.2 overall				-	-
2. negative changes	**246**	**-**	**-**	**246**	**-**
1.1 of specific portfolio:	246			246	-
a) loans	246			246	-
b) available for sale assets				-	-
1.2 overall				-	-
Total	**32,621**	**-**	**-**	**32,621**	**64,774**

Value adjustments are in relation to a fixed-rate mortgage loan portfolio which was subject to fair value general hedging with derivative contracts (interest rate swaps), in order to protect it from any possible value fluctuations with respect to interest rate risk. Since hedging is general, profits on the hedged element attributable to the hedged risk cannot directly adjust the value of the hedged element (as in the case of specific hedging), but shall be shown in this separate account of the assets side. The amounts included in this account shall be removed from the balance-sheet when the assets or liabilities of reference are eliminated from the accounting viewpoint.

9.2 BANKING GROUP ASSETS SUBJECT TO MACRO HEDGING OF INTEREST RATE RISK: COMPOSITION

(euro '000)

hedged assets	Total 31 12 2006	Total 31 12 2005
1. loans	361,920	416,238
2. available for sale assets		
3. Portfolio		
Total	**361,920**	**416,238**

The table shows the book value (amortized cost) of a group of fixed-rate mortgage loans in the amount of EUR 155.8 mln. - disbursed by the Parent Bank and included in account 70 "customer loans" subject to general hedging of interest rate risk as per table 9.1 - and the mortgage loans underlying the financial plans of the subsidiary Banca Personale included in a macro fair value hedge (EUR 206 million).
The sum of this amount and the amount indicated in table 9.1 shows the book value of such loans, adjusted for the profit or loss attributable to the hedged risk.

Section 10

Equity investments - Account 100

CONSOLIDATION AREA

EQUITY INVESTMENTS IN JOINTLY CONTROLLED COMPANIES (PROPORTIONALLY CONSOLIDATED)

31 12 2006

		NAME	Main office	Type of relationship (*)	ownership relationship		voting rights % (**)
					held by	holding %	
		companies included in consolidation					
		A.1 companies totally consolidated					
A.0		BANCA MONTE DEI PASCHI DI SIENA S.P.A.	Siena				
A.1		BANCA TOSCANA S.P.A.	Florence	1	A.0	100.000	100.000
A.2		MPS BANCA PER L'IMPRESA S.p.A.	Florence	1	A.0	83.060	99.864
					A.1	16.799	
					A.31	0.005	
	2.1	MPS VENTURE SGR S.P.A.	Florence	1	A.2	70.000	100.000
					A.10	30.000	
A.3		MPS BANCA PERSONALE S.p.A.	Lecce	1	A.0	100.000	100.000
A.4		MPS GESTIONE CREDITI S.p.A.	Siena	1	A.0	99.500	100.000
					A.1	0.500	
A.5		MPS LEASING E FACTORING S.p.A.	Siena	1	A.0	86.916	100.000
					A.1	6.647	
					A.7	6.437	
	5.1	MPS COMMERCIALE LEASING SPA	Siena	1	A.5	100.000	100.000
A.6		MPS FINANCE BANCA MOBILIARE S.P.A.	Siena	1	A.0	100.000	100.000
	6.1	MONTEPASCHI VITA	Rome	1	A.6	100.000	100.000
	6.2	MONTEPASCHI LIFE LTD	Dublin	1	A.6.1	100.000	100.000
	6.3	MONTEPASCHI ASSICURAZIONE DANNI	Rome	1	A.6	100.000	100.000
	6.4	FONTANAFREDDA SRL	Siena	1	A.6	100.000	100.000
A.7		GRUPPO BANCA AGRICOLA MANTOVANA	Mantova	1	A.0	100.000	100.000
	7.1	BANCA AGRICOLA MANTOVANA S.p.A.	Mantova	1	A.0	100.000	100.000
	7.2	BANCA AGRICOLA MANTOVANA RISCOSSIONI S.p.A.	Mantova		A.7	100.000	100.000
	7.3	AGRISVILUPPO S.p.A.	Mantova		A.7	98.224	99.068
					A.2	0.844	
	7.4	MAGAZZINI GENERALI FIDUCIARI MANTOVA	Mantova		A.7	100.00	100.00
A.8		MPS ASSET MANAGEMENT SGR S.P.A.	Milan	1	A.0	79.430	100.000
					A.1	6.192	
					A.7	10.550	
					A.3	3.828	

NAME			Main office	Type of relationship (*)	ownership relationship		voting rights % (**)
					held by	holding %	
	8.1	MPS ALTERNATIVE INVESTMENTS SGR S.P.A.	Milan	1	A.8	100.000	100.000
	8.2	MPS ASSET MANAGEMENT IRELAND LTD	Dublin	1	A.8	100.000	100.000
A.9		MONTE PASCHI IRELAND LTD	Dublin	1	A.0	100.000	100.000
A.10		INTERMONTE SIM S.p.A.	Milan	1	A.6	33.954	67.907
					A.7	33.953	
	10.1	JPP EURO SECURITIES	Delaware	1	A.10	100.000	100.000
A.11		MONTE PASCHI FIDUCIARIA S.P.A.	Siena	1	A.0	86.000	100.000
					A.1	14.000	
A.12		ULISSE S.p.A.	Milan	1	A.0	60.000	60.000
A.13		ULISSE 2 S.p.A.	Milan	1	A.0	60.000	60.000
A.14		CONSUM.IT S.P.A.	Florence	1	A.0	70.000	100.000
					A.1	30.000	
	14.1	INTEGRA SPA	Florence	1	A.14	50.000	50.000
A.15		MPS TENIMENTI FONTANAFREDDA E CHIGI SARACINI S.p.A.	Siena	1	A.0	100.000	100.000
	15.1	AGRICOLA POGGIO BONELLI	Siena	1	A.15	100.000	100.000
A.16		MPS IMMOBILIARE S.p.A.	Siena	1	A.0	100.000	100.000
A.17		MARINELLA S.p.A.	La Spezia	1	A.0	100.000	100.000
A.18		G.IMM.ASTOR Srl	Lecce	1	A.0	52.000	52.000
A.19		PASCHI GESTIONI IMMOBILIARI S.p.A.	Siena	1	A.0	100.000	100.000
A.20		CONSORZIO OPERATIVO GRUPPO MPS	Siena	1	A.0	99.760	100.000
					A.1	0.030	
					A.2	0.060	
					A.3	0.030	
					A.4	0.030	
					A.5	0.030	
					A.6	0.030	
					A.7	0.030	

		NAME	Main office	Type of relationship (*)	ownership relationship		voting rights % (**)
					held by	holding %	
A.21		BANCA MONTE PASCHI BELGIO S.A.	Bruxelles	1	A.0	77.531	100.000
					A.1	22.469	
A.22		MPS PREFERRED CAPITAL I LLC	Delaware	1	A.0	100.000	100.000
A.23		MPS PREFERRED CAPITAL II LLC	Delaware	1	A.0	100.000	100.000
A.24		MONTE PASCHI BANQUE S.A.	Paris	1	A.0	70.175	100.000
					A.1	29.825	
	24.1	MONTE PASCHI CONSEIL FRANCE	Paris		A.24	100.000	100.000
	24.2	MONTE PASCHI INVEST FRANCE S.A.	Paris		A.24	100.000	100.000
	24.3	M.P. ASSURANCE S.A.	Paris		A.24	99.400	99.400
	24.4	IMMOBILIARE VICTOR HUGO	Parigi		A.24	100.000	100.000
A25		MONTEPASCHI LUXEMBOURG S.P.A.	Bruxelles	1	A.0	99.200	100.000
					A.24	0.800	
A.26		DIPRAS S.p.A.	Rome	1	A.0	100.000	100.000
A.27		SAN PAOLO ACQUE S.r.l.	Lecce	1	A.0	100.000	100.000
A.28		BIOS MPS S.p.A.	Milan	1	A.0	100.000	100.000
A.29		VALORIZZAZIONI IMMOBILIARI SPA	Siena	1	A.0	100.000	100.000
A.30		SANTORINI INVESTMENTS LTD	Dublin	1	A.0	100.000	100.000
		A.2 Imprese consolidate proporzionalmente					
A.31		BANCA POPOLARE DI SPOLETO S.P.A.	Spoleto	1	A.0	19.983	25.930
		(valori di bilancio al 25.930% del valore nominale)			A.6.1	5.947	
A.32		BANCA MONTE PARMA S.p.A.	Parma	1	A.0	41.000	49.266
		(valori di bilancio al 49.266% del valore nominale)			A.6.1	8.266	

(*) Type of relationship:
1 majority of voting rights in the ordinary shareholders' meeting
2 dominant influence in the ordinary shareholders' meeting
3 agreements with other partners
4 other types of control
5 unit Management as per art. 26, par.1, Legisl.Decree 87/92
6 unit Management as per art. 26, par.2, Legisl.Decree 87/92
7 joint control
(**) Votes available in the Ordinary Shareholders' Meeting (actual and potential votes)

10.1 EQUITY INVESTMENTS IN JOINTLY CONTROLLED COMPANIES (VALUED AT EQUITY) AND COMPANIES UNDER SIGNIFICANT INFLUENCE: INFORMATION ON SHAREHOLDERS' EQUITY

31 12 2006

Name	Main office	Type of relationship (*)	ownership relationship		voting rights %
			held by	holding %	
Aeroporto di Siena S.p.A.	Siena	8	Banca Monte dei Paschi di Siena	10.050	10.050
Beta Prima S.r.l	Siena	8	Banca Monte dei Paschi di Siena	34.069	34.069
Bio Found S.p.A.	Siena	8	Banca Monte dei Paschi di Siena	40.000	40.000
Cestud S.p.a. - Centro Studi per lo Sviluppo e l'Innovazione	Rome	8	Banca Monte dei Paschi di Siena	46.281	46.281
Crossing Europe GEIE	Siena	8	Banca Monte dei Paschi di Siena	9.000	30.500
			MPS Banca per l'Impresa	18.000	
			Banca Monte Paschi Belgio	3.500	
Fidi Toscana S.p.a.	Florence	8	Banca Monte dei Paschi di Siena	13.530	29.179
			Banca Toscana	10.468	
			MPS Banca per l'Impresa	5.181	
Microcredito di Solidarietà	Siena	8	Banca Monte dei Paschi di Siena	40.000	40.000
Finsoe S.p.a.	Bologna	8	Banca Monte dei Paschi di Siena	27.839	27.839
SI Holding (Carta Si)	Milan	8	Banca Monte dei Paschi di Siena	24.470	24.470
Società Italiana di Monitoraggio	Rome	8	Banca Monte dei Paschi di Siena	33.333	33.333
S.I.T. - Finanz.di Sviluppo per l'Innovaz. Tecnologica S.p.a.	Rome	8	Banca Monte dei Paschi di Siena	20.000	20.000
Uno a Erre S.p.A.	Arezzo	8	Banca Monte dei Paschi di Siena	23.820	23.820
Quadrifoglio Vita S.p.a.	Bologna	8	Banca Agricola Mantovana	50.000	50.000
Le Robinie S.r.l.	Reggio Emilia	8	Banca Agricola Mantovana	20.000	20.000
Fabrica Immobiliare SGR S.p.a.	Rome	8	Monte Paschi Asset Management SGR	45.000	45.000
Immobiliare Ve-Ga S.p.a.	Milan	8	MPS Banca per l'Impresa	20.030	20.030
Interporto Toscano Amerigo Vespucci S.p.a.	Livorno	8	MPS Banca per l'Impresa	36.303	36.303
Newco S.p.a.	Naples	8	MPS Banca per l'Impresa	20.000	20.000
NewColle S.r.l.	Colle V.Elsa (SI)	8	MPS Banca per l'Impresa	34.001	34.001
Marina Blu S.p.a.	Rimini	8	MPS Banca per l'Impresa	30.001	30.001
S.I.C.I.- Sviluppo Imprese Centro Italia SGR S.p.a.	Florence	8	MPS Banca per l'Impresa	29.000	29.000
Società Incremento Chianciano Terme S.p.a.	Chianciano T. (SI)	8	MPS Banca per l'Impresa	45.000	45.000

10.2 EQUITY INVESTMENTS IN JOINTLY CONTROLLED COMPANIES AND COMPANIES UNDER SIGNIFICANT INFLUENCE: ACCOUNTING INFORMATION

(euro '000)

	Name	Total assets	total revenue	net profit (losss)	net equity	consolidated carrying value 31 12 2006	consolidated carrying value 31 12 2005
	A. equity method - jointly controlled						
A.1	Quadrifoglio Vita S.p.a.			14,400	110,956	55,911	53,432
	A. equity method - under significant influence						
A.1	Aeroporto di Siena S.p.A.			(168)	17	2	-
A.2	Beta Prima S.r.l			(2)	905	354	309
A.3	Bio Found S.p.A.			(7)	1,993	797	
A.4	Cestud S.p.a. - Centro Studi per lo Sviluppo e l'Innovazione			6	1,008	453	463
A.5	Crossing Europe GEIE			(49)	62	39	18
A.6	Fidi Toscana S.p.a.			1,652	82,869	24,180	21,545
A.7	Microcredito di Solidarietà			-	1,000	400	-
A.8	Finsoe S.p.a.			81,400	1,702,967	608,272	598,672
A.9	SI Holding (Carta Si)			-	52,882	29,625	-
A.10	Società Italiana di Monitoraggio S.p.A.			(915)	-	-	305
A.11	S.I.T. - Finanz.di Sviluppo per l'Innovaz. Tecnologica S.p.a.			(79)	912	190	198
A.12	Uno a Erre Italia S.p.A.			(49,253)	-	-	-
A.13	Le Robinie S.r.l.			(69)	3,967	793	807
A.14	Fabrica Immobiliare SGR S.p.a.			(596)	7.,232	3,254	1,723
A.15	Immobiliare Ve-Ga S.p.a.			1	121	25	24
A.16	Interporto Toscano Amerigo Vespucci S.p.a.			(2,125)	12,866	7,717	8,735
A.17	Newco S.p.a.			(10)	9,962	1,992	1,995
A.18	NewColle S.r.l.			(89)	5,110	1,698	1,768
A.19	Marina Blu S.p.a.			151	3,487	4,097	4,025
A.20	S.I.C.I.- Sviluppo Imprese Centro Italia SGR S.p.a.			427	7,069	2,133	1,926
A.21	Società Incremento Chianciano Terme S.p.a.			(18)	4.,870	2,185	921
	B. proportional method						
	Banca del Monte di Parma S.p.A.	2,023,662	125,894	11,060	185,067	x	x
	Banca Popolare di Spoleto S.p.A.	2.,277,159	143,445	12,512	167,187	x	x
	Integra S.p.A.	4.,754	237	(340)	1,660	x	x
		4,305,575	269,576	23,232	353,914	744,117	696,866

The Fair Value of equity investments in the companies subject to significant influence must be indicated only in the case of listed companies.

10.3 EQUITY INVESTMENTS: ANNUAL CHANGES

(euro '000)

	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
A. opening balance	**629,847**	**53,432**	**19,567**	**702,846**	**593,258**
B. increases					
B.1 purchases	3,999	-	2,216	6,215	216,777
B.2 write backs				-	-
B.3 Revaluation	-	-	-	-	28,264
B.4 other changes	32,944	7,204	47,121	87,269	93,762
C. Decreases					
C.1 sales	1,153	-	-	1,153	52,331
C.2 write downs	1,437	-	-	1,437	1,700
C.4 other changes	25,961	4,725	18,936	49,622	175,184
D. final balance	**638,239**	**55,911**	**49,968**	**744,118**	**702,846**
E. total Revaluation				-	-
F. total adjustments	**(7,038)**			**(7,038)**	**(1,584)**

The movements are in relation to investments in affiliated companies or in companies subject to significant influence valued with the net equity method. The other changes (increases and decreases) incorporate profits and losses resulting from such valuation, respectively.

10.4 COMMITMENTS RELATING TO JOINT EQUITY INVESTMENTS

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
issued warranties	59,411			59,411	36
commitments	31,945			31,945	27,450

10.5 COMMITMENTS RELATING TO EQUITY INVESTMENTS IN COMPANIES UNDER SIGNIFICANT INFLUENCE

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
issued warranties	38,272			38,272	26,111
commitments	7,831			7,831	688

With reference to the transactions in relation to interests in jointly-controlled companies, a PUT option was underwritten with Fondazione Monte di Parma.
On 25 May 2005 BMPS updated the Shareholders' Pact with Fondazione Monte di Parma in relation to the governance of Banca Monte di Parma S.p.a., with BMPS and Fondazione Monte di Parma holding a share of 49.27% and 50.47% in the Bank's capital, respectively.
The agreements contemplate that Fondazione Monte di Parma is entitled to sell - and BMPS is obliged to buy - 1,413,200 ordinary shares of Banca Monte di Parma S.p.A. held by Fondazione Monte di Parma, totally or partially, and also on several occasions.

The right to sell can be exercised prior at least four months' notice and is enforceable, together with the shareholders' pact, until 30 June 2010, subject to tacit renewal every 5 years. As a result of this transaction, the amount corresponding to the strike price was posted under the Bank's "commitments in relation to put options issued". The option was classified in the portfolio held for trading purposes and is subject to fair value valuation with any value changes posted to the profit and loss statement.

Section 11

Technical reserves attributable to reinsurers - Account 110

11.1 TECHNICAL RESERVES ATTRIBUTABLE TO REINSURERS: COMPOSITION

(euro '000)

account	Total 31 12 2006	Total 31 12 2005
A. non life business	-	8,922
A1. reserve for unearned premium	-	2,053
A2. reserve for outstanding claims	-	6,869
A3. other claims		
B. life business	-	2,975
B1. actuarial reserve	-	1,009
B2.reserve for outstanding claims	-	396
B3. other claims	-	1,570
C. Insurance Reserves where the investment risk is borne by the insured	-	-
C1. relating to investment fund and index linked contracts		
C2. reserves for pension funds		
D. Total technical reserves attributable to reinsurers	**-**	**11,897**

The table in relation to the insurance companies does not show any value due to their classification as assets being sold.

11.2 CHANGES OF ACCOUNT 110 "TECHNICAL RESERVES ATTRIBUTABLE TO REINSURERS "

31 12 2006
(euro '000)

		non life business		
		Reserve for unearned premium	Reserve for outstanding claims	other reserves
opening balance	(+)	**-**	**6,869**	**x**
Contributions	(+)	x	x	
pure Premiums	(+)	x	x	
gross Premiums	(+)	5,523	x	
premium Ascertainment	(+)		x	
reversal for commission	(-)		x	
due pro rata	(-)	5,225	x	
Integration for existing risks	(+)		x	
reported claims	(+)	x	-	
claims without following	(-)	x		
reopened claim	(-)	x		
payments		-	2,257	-
of which:		x	x	x
- *claims*	(-)	x	x	
- *redemption*	(-)	x	x	
- *advances*	(-)	x	x	
- *transfers*	(-)	x	x	
- *terms*	(-)	x	x	
- *coupons*	(-)	x	x	
operating income	(+)	x	x	
operating expenses	(-)	x	x	
Reserve for settled claims	(-)	x	1,998	
Revaluations	(+)	x		
Reserves for IBNR	(+)	x		
other changes	(+/-)	x	4,410	
changes for Shadow Accounting	(+/-)	x	x	
changes for LAT	(+)	x	x	
IFRS5 "Discontinuing operations"		298	5,072	
final balance 31 12 2006		**-**	**-**	
final balance 31 12 2005		**-**	**6,869**	

The flow of assets being sold "discontinued transactions" incorporates the closing values in relation to the insurance companies, considered as of 31/12/2006 as being sold.

life business			insurance reserves where the investment risk is borne by the insured		
actuarial reserves	Reserve for outstanding claims	other reserves	relating to investment fund and index linked contracts	reserves for pension funds	Total
1,009	**396**	**1,570**			**9,844**
x			x		-
-				x	-
x			x	x	5,523
x			x	x	-
x			x	x	-
x			x	x	5,225
x			x	x	-
x			x	x	-
x			x	x	-
x			x	x	-
-	-	-	-	-	2,257
x			x	x	-
				x	-
	-				-
x			x		-
x			x		-
				x	-
				x	-
x			x		-
x			x		-
x			x	x	1,998
x			x	x	-
x			x	x	-
1,414	355	345			6,524
			x	x	-
				x	-
2,423	751	1,225			9,769
-	-	-			-
1,009	**396**	**1,570**			**11,897**

Section 12

Tangible assets - Account 120

12.1 TANGIBLE ASSETS: COMPOSITION OF ASSETS VALUED AT COST

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
A. Assets for operational use					
1.1 owned	**2,358,126**	**-**	**86,156**	**2,444,282**	**2,476,838**
a) land	873,311	-	50,608	923,919	930,901
b) buildings	938,107	-	30,391	968,498	993,512
c) equipment	47,466	-	35	47,501	43,677
d)electronic systems	13,882	-	19	13,901	14,602
e) other	485,360	-	5,103	490,463	494,146
1.2 leased	**27**	**-**	**680**	**707**	**22,081**
a) land		-		-	8,300
b) buildings		-		-	8,525
c) equipment	-			-	11
d)electronic systems				-	-
e) other	27		680	707	5,245
Total A	**2,358,153**	**-**	**86,836**	**2,444,989**	**2,498,919**
B. held for investment					
2.1 owned	111,618	-	7,577	119,195	140,619
a) land	50,702	-	2,552	53,254	60,247
b) buildings	60,916	-	5,025	65,941	80,372
2.2 leased					
a) land					
b) buildings					
Total B	**111,618**	**-**	**7,577**	**119,195**	**140,619**
Total (A+B)	**2,469,771**	**-**	**94,413**	**2,564,184**	**2,639,538**

The Group's tangible assets are all valued at cost. After the completion of the streamlining process of the Group's real assets, the buildings still belonging to the commercial banks - and almost all the real assets of the subsidiary MPS Immobiliare - are for functional use. The buildings held for investment purposes have been concentrated almost exclusively in the subsidiary Valorizzazioni Immobiliari, through a split transaction from MPS Immobiliare, and were partly sold to an affiliated company, Sansedoni S.p.A.
The data in relation to the insurance companies have been reclassified under account 150 of the balance-sheet, Non-current assets and groups of assets being sold, sub-account "tangible assets".
The line of "land" also indicates the value of land subject to be separated from the value of buildings.

12.1.A TANGIBLE ASSETS: RENTED INVESTMENT PROPERTY

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
rented investment property	2,598			2,598	8,324

12.3 TANGIBLE ASSETS FOR OPERATIONAL USE: ANNUAL CHANGES

12.3.1 OF THE BANKING GROUP

(euro '000)

	land	buildings	equipment	electronic systems	other	Total 31 12 2006	Total 31 12 2005
A. Gross opening balance	900,917	1,110,713	254,390	367,668	781,565	3,415,253	3,130,219
A.1 net decreases	(5,790)	(130,120)	(211,678)	(353,554)	(287,934)	(989,076)	(1,005,436)
A.2 Net opening balance	895,127	980,593	42,712	14,114	493,631	2,426,177	2,124,783
B. Increases							
B.1 purchases	16	2,580	16,836	7,630	225,566	252,628	56,544
B.2 capitalised expenditure on improvements		5,410				5,410	10,571
B.3 write-backs	-			5	3	8	40
B.4 positive changes in fair value	x	x	x	x	x	x	x
attributable to:							
a) equity	x	x	x	x	x	x	x
b) profit and loss	x	x	x	x	x	x	x
B.5 positive exchange differences			153	38	3	194	-
B.6 Transfer from investment properties	5,831	9,221				15,052	1,842
B.7 other changes	1,863	3,407	5,840	9,220	15,219	35,549	374,580
C. Reductions							
C.1 disposals	615	455	154	170	207,745	209,139	16,446
C.2 depreciation		33,540	9,489	7,958	14,413	65,400	65,539
C.3 impairment losses					1	1	-
attributable to							
a) patrimonio netto	x	x	x	x	x	x	x
b) conto economico					1		
C.4 Variazioni negative di fair value	x	x	x	x	x	x	x
imputate a:							
a) equity	x	x	x	x	x	x	x
b) profit and loss	x	x	x	x	x	x	x
C.5 negative exchange differences	460	641	150	20	2	1,273	-
C.6 Transfers to:							
a) investment properties	7,776	3,350			-	11,126	17,693
b) held for sale					20	20	-
C.7 other changes	20,675	25,119	8,282	8,977	26,853	89,906	42,505
D. Net final balance	873,311	938,106	47,466	13,882	485,387	2,358,153	2,426,177
D.1 total net reductions	-	155,596	211,184	334,822	266,107	967,709	989,286
D.2 Gross closing balance	873,311	1,093,702	258,650	348,704	751,494	3,325,862	3,415,463

The amounts in relation to depreciation are indicated under A.1 and D.1 - net value reductions.
As of 31 December 2006 there were no tangible assets of a significant amount, purchased with financial lease contracts or leased in operating leasing.

The other changes (decreases) of the Banking Group incorporate the outflow of a portion of the real assets held by the subsidiary MPS Tenimenti Fontanafredda, as a result of the transfer of the business unit of Fontanafredda to the new company Fontanafredda SrL, belonging to other companies, in the amount of EUR 47 million approx.

12.3.2 OF THE INSURANCE COMPANIES

(euro '000)

	land	buildings	equipment	electronic systems	other	Total 31 12 2006	Total 31 12 2005
A. Gross opening balance	9,801	11,407	928	1,243	2,344	25,723	25,724
A.1 net decreases	-	(880)	(241)	(1,167)	(1,501)	(3,789)	(3,083)
A.2 Net opening balance	9,801	10,527	687	76	843	21,934	22,641
B. Increases							
B.1 purchases	-	-	553	492	-	1,045	48
B.2 capitalised expenditure on improvements		-				-	-
B.3 write-backs	-				-	-	-
B.4 positive changes in fair value	x	x	x	x	x	x	x
attributable to:							
a) equity	x	x	x	x	x	x	x
b) profit and loss	x	x	x	x	x	x	x
B.5 positive exchange differences						-	-
B.6 Transfer from investment properties	-	-				-	-
B.7 other changes	-	-	2,366	490	570	3,426	-
C. Reductions							
C.1 disposals	-	-	-	-	-	-	2
C.2 depreciation		336	384	314	-	1,034	754
C.3 impairment losses						-	-
attributable to							
a) patrimonio netto	x	x	x	x	x	x	x
b) conto economico							
C.4 Variazioni negative di fair value	x	x	x	x	x	x	x
imputate a:							
a) equity	x	x	x	x	x	x	x
b) profit and loss	x	x	x	x	x	x	x
C.5 negative exchange differences						-	-
C.6 Transfers to:							
a) investment proporties	-	-			-	-	-
b) held for sale						-	-
C.7 other changes	-	-	1,782	231	1,413	3,426	-
IFRS5 “Discontinuing operations”	9,801	10,191	1,440	513		21,945	-
D. Net final balance	-	-	-	-	-	-	21,933
D.1 total net reductions	-	-	-	-	-	-	3,789
D.2 Gross closing balance	-	-	-	-	-	-	

The flow of assets being sold "discontinued transactions" includes the closing values in relation to the insurance companies, considered as of 31/12/2006 as being sold.

12.3.3 OF OTHER COMPANIES

(euro '000)

	land	buildings	equipment	electronic systems	other	Total 31 12 2006	Total 31 12 2005
A. Gross opening balance	34,272	11,052	571	1,452	7,953	55,300	56,784
A.1 net decreases	-	(134)	(282)	(1,039)	(3,036)	(4,491)	(3,780)
A.2 Net opening balance	34,272	10,918	289	413	4,917	50,809	53,004
B. Increases							
B.1 purchases	346	-	21	9	592	968	1,984
B.2 capitalised expenditure on improvements		756				756	-
B.3 write-backs	-				-	-	-
B.4 positive changes in fair value	x	x	x	x	x	x	x
attributable to:							
a) equity	x	x	x	x	x	x	x
b) profit and loss	x	x	x	x	x	x	x
B.5 positive exchange differences						-	-
B.6 Transfer from investment properties	-	-				-	-
B.7 other changes	16,250	23,904	-	-	6,800	46,954	760
C. Reductions							
C.1 disposals	1	-	-	-	103	104	-
C.2 depreciation		103	4	7	283	397	742
C.3 impairment losses						-	-
attributable to							
a) patrimonio netto	x	x	x	x	x	x	x
b) conto economico							
C.4 Variazioni negative di fair value	x	x	x	x	x	x	x
imputate a:							
a) equity	x	x	x	x	x	x	x
b) profit and loss	x	x	x	x	x	x	x
C.5 negative exchange differences						-	-
C.6 Transfers to:							
a) investment proporties	-	-			-	-	-
b) held for sale						-	-
C.7 other changes	259	5,085	271	396	6,139	12,150	4,197
D. Net final balance	50,608	30,390	35	19	5,784	86,836	50,809
D.1 total net reductions	-	(9,277)	(11)	(22)	(13,924)	(23,234)	4,491
D.2 Gross closing balance	50,608	39,667	46	41	19,708	110,070	55,300

The other changes (increases) of the other companies include a portion of the real estate held by the subsidiary MPS Tenimenti Fontanafredda, belonging to the Banking Group, as a result of the transfer of the business unit of Fontanafredda to the new company Fontanafredda Srl, in the amount of EUR 47 million approx.

12.4 INVESTMENT PROPERTIES: ANNUAL CHANGES

(euro '000)

	banking group		insurance companies		other companies		Total 31 12 2006		Total 31 12 2005	
	land	buildings	land	buildings	land	buildings	land	buildings	land	buildings
A. Gross opening balance	55,223	78,855	2,630	1,990	2,552	5,262	60,405	86,107	59,830	88,338
A.1 net decreases	(158)	(5,459)		(119)		(158)	(158)	(5,736)	158	3,880
A.2 Net opening balance	55,065	73,396	2,630	1,871	2,552	5,104	60,247	80,371	59,672	84,458
B. Increases										
B.1 purchases	2,155	9,424					2,155	9,424	13	17
B.2 capitalised expenditure on improvements		126					-	126	-	-
B.3 increase in fair value							-	-	-	-
B.4 write backs	x	x	x	x	x	x	x	x	x	x
B.5 positive exchange differences							-	-	-	-
B.6 Transfer from properties used in the business	7,776	3,350					7,776	3,350	6,809	10,864
B.7 other changes	-	60					-	60	20	-
C. Reductions										
C.1 disposals	157	378					157	378	5,531	11,631
C.2 depreciation		2,402		60		79	-	2,541	-	2,229
C.3 reductions of fair value	x	x	x	x	x	x	x	x	x	x
C.4 impairment losses							-	-	-	-
C.5 negative exchange differences							-	-	-	-
C.6 Transfesr to other asset portfolios	5,831	9,221	-	-	-	-	5,831	9,221	736	1,107
a) properties used in the business	5,831	9,221					5,831	9,221	736	1,107
b) non current assets held for sale							-	-	-	-
C.7 other changes	8,307	13,439	2,630	1,811			10,937	15,250	-	-
D. Closing balance	50,701	60,916	-	-	2,552	5,025	53,253	65,941	60,247	80,372
D.1 total net reductions	-	(6,542)		-		(237)	-	(6,779)	158	5,736
D.2 gross closing balance	50,701	67,458	-	-	2,552	5,262	53,253	72,720	60,405	86,108
E. Valuation at fair value	60,075	81,635	-	-	2,552	5,104	62,627	86,739	64,705	98,447

The other changes (decreases) include the split of a portion of the real estate held by the subsidiary Valorizzazioni Immobiliari in favour of the affiliated company Sansedoni SpA, in the amount of about EUR 21 million.

12.5 COMMITMENTS TO PURCHASE TANGIBLE ASSETS

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
Commitments to purchase tangible assets	1,962			1,962	3,708

12.6 TANGIBLE ASSETS: DEPRECIATION

tangible assets	%
lands and works of art	0.00%
buildings	3.00%
furniture	10-12%
alarm and video system	30.00%
electronic machines	20.00%
data processing Machine	50.00%
motorvehicles	20-25%
Telephones	25.00%

The table indicates the percentages used for calculating depreciation with reference to the main categories of tangible assets. Land and works of art are not subject to depreciation since they represent assets with an indefinite useful life.

Section 13

Intangible assets - Account 130

13.1 INTANGIBLE ASSETS: COMPOSITION

(euro '000)

	banking group		insurance companies		other companies		Total 31 12 2006		Total 31 12 2005	
values	finite life	indefinite life	finite life	indefinite life	finite life	indefinite life	finite life	indefinite life	finite life	indefinite life
A.1 Goodwill	x	641,277	x		x		x	641,277	x	740,172
A.1.1 of the group	x	641,277	x	-	x	-	x	641,277	x	740,172
A.1.2 of minorities	x		x		x		x	-	x	-
A.2 other Intangible assets	112,785	16	-	-	-	643	112,785	659	137,623	15
A.2.1 Assets valued at cost:										
a) Intangible assets generated internally	138				-		138	-	988	-
b) other assets	112,647	16	-		-	643	112,647	659	136,635	15
A.2.1 Assets valued at fair value:	x	x	x	x	x	x	x	x	x	x
a) Intangible assets generated internally	x	x	x	x	x	x	x	x	x	x
b) other assets	x	x	x	x	x	x	x	x	x	x
Total	**112,785**	**641,293**	**-**	**-**	**-**	**643**	**112,785**	**641,936**	**137,623**	**740,187**

All the Group's intangible assets are valued at cost.
Goodwill posted on the assets side of the Balance-sheet (EUR 740 million, including intangible assets for EUR 641 million and EUR 97 million in relation to the subsidiaries Montepaschi Vita and Montepaschi Assicurazione Danni, reclassified under account 150 Assets being sold, sub-account intangible assets) is not subject to systematic amortization, but is subject to a year-end review of the steadiness of the accounting value.
Such process of review (impairment) is carried out on a yearly basis and determines the salvage value, as represented by the use value, that is the current value of expected financial flows resulting from the assets subject to review. The use value is therefore indicative of the estimated financial flows expected from the assets, the estimated possible changes in the amount and/or timing of the financial flows, the financial value of time, the appropriate price in return for the riskiness of the assets and other factors.

In particular, the use value is determined with the updating method of future cash flows (DDM – Dividend Discount Model).
Since goodwill cannot generate financial flows irrespective of other assets or groups of assets, the steadiness of the book value was checked by identifying the CGUs (cash generating units) which goodwill was allocated to, quantifying the flows expected for the CGUs and comparing their updated value with posted book value, inclusive of goodwill.

The main goodwill posted in the balance-sheet is attributable to the acquisitions executed in prior years, in relation to the subsidiaries Banca Agricola Mantovana, Banca del Monte di Parma, Banca Popolare di Spoleto and Finsoe.

The other intangible assets are posted in relation to software being amortized.

13.2 INTANGIBLE ASSETS: ANNUAL CHANGES

13.2.1 OF THE BANKING GROUP

(euro '000)

	goodwill	other intangible assets generated internally		other intangible assets		Total 31 12 2006	Total 31 12 2005
		finite life	indefinite life	finite life	indefinite life		
A. opening balance	591,168	4,267		548,075	16	1,143,526	1,372,378
A.1 net decreases	50,684	(3,399)		(424,012)	-	(376,727)	412,416
A.2 Net opening balance	641,852	868	-	124,063	16	766,799	959,962
B. Increases							
B.1 purchases		88		57,904		57,992	40,185
B.2 Increases in intangible assets generated internally	x					-	-
B.3 write backs	x					-	-
B.4 positive changes in fair value	x	x	x	x	x	x	x
- equity	x	x	x	x	x	x	x
-profit and loss	x	x	x	x	x	x	x
B.5 positive exchange differences						-	-
B.6 other changes	98,320	-		4,806	-	103,126	3,910
C. Reductions							
C.1 disposals				89		89	368
C.2 write downs							
- Ammortizations	x	152		61,428		61,580	77,915
- write downs				4,813		4,813	
- equity	x					-	-
- profit and loss	-			4,813		4,813	30,113
C.3 negative changes in fair value	x	x	x	x	x	x	x
- equity	x	x	x	x	x	x	x
-profit and loss	x	x	x	x	x	x	x
C.4 Transfers to non current assets held for sale						-	-
C.5 negative exchange differences						-	-
C.6 other changes	672	666		7,728	-	9,066	46,746
Scissioni IFRS5 discontinuing operations	98,223					98,223	
D. Net closing balance	641,277	138	-	112,647	16	754,078	848,915
D.1 total net reductions	51,356	(3,207)		(472,810)		(424,661)	505,402
E. Gross closing balance	692,633	3,345	-	585,457	16	1,178,739	1,354,317
F. Cost							

Sub-account F – valuation at cost - contains no value since, as per the Bank of Italy's instructions, it must indicate only tangible assets valued at fair value.
As of 31 December 2006 there were no intangible assets of a significant amount purchased in financial lease or granted in operating leasing.

The flow of "discontinuing operations" incorporates goodwill in relation to the subsidiaries Montepaschi Vita and Montepaschi Assicurazione Danni, reclassified under account 150 - Assets being sold, sub-account intangible assets.

13.2.2 OF THE INSURANCE COMPANIES

(euro '000)

	goodwill	other intangible assets generated internally		other intangible assets		Total 31 12 2006	Total 31 12 2005
		finite life	indefinite life	finite life	indefinite life		
A. opening balance	108,853			24,041		132,894	9,931
A.1 net decreases	(10,630)			(12,792)		(23,422)	5,260
A.2 Net opening balance	98,223	-	-	11,249	-	109,472	4,671
B. Increases							
B.1 purchases				3,792		3,792	1,613
B.2 Increases in intangible assets generated internally	x					-	
B.3 write backs	x					-	
B.4 positive changes in fair value	x	x	x	x	x	x	
- equity	x	x	x	x	x	x	
-profit and loss	x	x	x	x	x	x	
B.5 positive exchange differences						-	
B.6 other changes				54,675		54,675	22,178
C. Reductions							
C.1 disposals						-	
C.2 write downs							
- Ammortizations	-			6,344		6,344	1,009
- write downs						-	
- equity	x					-	
- profit and loss	-					-	
C.3 negative changes in fair value	x	x	x	x	x	x	
- equity	x	x	x	x	x	x	
-profit and loss	x	x	x	x	x	x	
C.4 Transfers to non current assets held for sale						-	
C.5 negative exchange differences						-	
C.6 other changes	98,223			-		98,223	
IFRS5 discontinuing operations				63.,372		63.,372	
D. Net closing balance	-	-	-	-	-	-	27,453
D.1 total net reductions	-	-	-	-	-	-	12,791
E. Gross closing balance	-	-	-	-	-	-	40,244
F. Cost							

The flow of discontinuing transactions incorporates the closing values in relation to the insurance companies, considered as of 31/12/2006 as being sold.

13.2.3 OF OTHER COMPANIES

(euro '000)

	goodwill	other intangible assets generated internally		other intangible assets		Total 31 12 2006	Total 31 12 2005
		finite life	indefinite life	finite life	indefinite life		
A. opening balance	96	340		9,197		9,633	11,967
A.1 net decreases		(337)		(7,757)		(8,094)	9,947
A.2 Net opening balance	96	3	-	1,440	-	1,539	2,020
B. Increases							
B.1 purchases				246		246	458
B.2 Increases in intangible assets generated internally	x					-	
B.3 write backs	x					-	
B.4 positive changes in fair value	x	x	x	x	x	x	
- equity	x	x	x	x	x	x	
-profit and loss	x	x	x	x	x	x	
B.5 positive exchange differences						-	
B.6 other changes				120		120	2,574
C. Reductions							
C.1 disposals				170		170	
C.2 write downs							
- Ammortizations	x	-		71		71	1,052
- write downs						-	
- equity	x					-	
- profit and loss	-			-		-	25
C.3 negative changes in fair value	x	x	x	x	x	x	
- equity	x	x	x	x	x	x	
-profit and loss	x	x	x	x	x	x	
C.4 Transfers to non current assets held for sale						-	
C.5 negative exchange differences						-	
C.6 other changes	96	3		990		1,089	2,533
Scissioni				(68)		(68)	
D. Net closing balance	-	-	-	643	-	643	1,442
D.1 total net reductions	-	-	-	(239)		(239)	8,094
E. Gross closing balance	-	-	-	882-	-	882	9,536
F. Cost							

13.3 INTANGIBLE ASSETS: AMORTIZATION SHARE

Intangible assets	%
industrial patent rights	-
Marks	-
Software	20.00%
authorities and other licenses	20.00%

Section 14

Tax assets and tax liabilities - Account 140 (assets) and account 80 (liabilities)

14.1 DEFERRED TAX ASSETS: COMPOSITION

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
Credits (included securitizations)	264,182	-	73	264,255	298,871
other financial instruments	346,898			346,898	491,841
goodwill	401			401	315
deferred charges	7,935		17	7,952	13,900
tangible assets	5,225		191	5,416	13,956
entertainment expenses	1,666	-	1	1,667	1,828
personnel expenses	79,881	-	15	79,896	73,975
tax losses	83		138	221	68,267
other	274,826		25,244	300,070	221,899
valuation reserves	865			865	
Gross deferred tax assets	**981,962**	**-**	**25,679**	**1,007,641**	**1,184,852**
set-off with deferred tax liabilities	361,573			361,573	295,305
net deferred tax assets	**620,389**	**-**	**25,679**	**646,068**	**889,547**

Comparative data have been re-determined on the basis of the adjustments made in application of IAS 8 (see notes to the financial statements Part A – Accounting Policies Section 2 – General Drafting Principles).

Advance tax assets, under the line of credits, include tax assets for credit value adjustments which were not deducted in prior years since they topped the limit indicated by art.106 of the Income Tax Act (TUIR). Such adjustments will be deductible in the next financial years on the basis of the straight-line (1/9th) method. The line of "other financial instruments" mostly shows tax assets of the valuation income/loss recorded in relation to payable bonds valued at fair value and hedging derivatives. The relative capital gains generated tax liabilities as shown in table 13.2 under the line of "financial instruments".

The account of "others" includes the consolidated accounting of advance taxes in relation to the mismatching between the statutory financial statements and the fiscal financial statements, resulting from the reversal of the accounting effects in relation to the sale of the subsidiary MPS Finance, the insurance subsidiaries, (by the Parent Bank) and the subsidiary Fontanafredda (by MPS Tenimenti).
Fiscal income, as required by IAS 12, par.65, was posted to the profit and loss statement and determined on the basis of the theoretical tax rate which would have been paid by the Group in 2007, as the year of actual sale,rinstead of the full tax rate, as required by the accounting principle, which is deemed to be less representative of actual taxation discounted for such transaction. If the Group had applied this tax rate, consolidated profits and net equity would have been higher by about EUR 140 million.

The data in relation to the insurance companies have been reclassified under account 150 of the balance-sheet, Non-current assets and groups of assets being sold, sub-account "other assets".

14.2 DEFERRED TAX LIABILITIES: COMPOSITION

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
gains to be divided into instalments	2,718			2,718	6,821
goodwill	38,416			38,416	18,540
tangible assets	25,652	-	2,301	27,953	27,643
financial instruments	313,346	-		313,346	381,022
personnel expenses	13,185	-	13	13,198	11,638
other	36,159		406	36,565	120,423
Gross deferred tax liabilities	**429,476**	**-**	**2,720**	**432,196**	**566,087**
set-off with deferred tax assets	361,573			361,573	295,305
net deferred tax liabilities	**67,903**	**-**	**2,720**	**70,623**	**270,782**

The data in relation to the insurance companies have been reclassified under account 90 of the balance-sheet, Liabilities associated with groups of assets being sold, sub-account "other liabilities".

14.3 CHANGES IN DEFERRED TAX ASSETS (BALANCING P&L)

(euro '000)

	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1. opening balance	**1,132,631**	**3,112**	**541**	**1,136,284**	**1,576,840**
2. increases	**350,194**	**17,877**	**24,967**	**393,038**	**586,307**
2.1 deferred tax assets of the year	280,390	13,982	24,967	319,339	412,997
a) relating to previous yrs	18,277	1,455	1	19,733	16,797
b) due to changes in accounting policies	318	-	-	318	114,941
c)write backs	35			35	-
d) other	261,760	12,527	24,966	299,253	281,259
2.2 new taxes or tax rate increases	10,715	9		10,724	-
2.3 other increases	59,089	3,886	-	62,975	173,310
3. reductions	**506,232**	**4,577**	**(172)**	**510,637**	**1,008,746**
3.1 deferred tax assets eliminated in the yr	442,958	157	6	443,121	957,826
a) transfers	440,808	157	6	440,971	956,553
b)writedowns of non recoverable items	2,137			2,137	1,273
c) change in accounting policies	13			13	-
3.2 tax rate Reductions				-	-
3.3 other decreases	63,274	4,420	(178)	67,516	50,920
IFRS5 "Discontinuing operations"		16,412		16,412	
4. Final amount	**976,593**	**-**	**25,680**	**1,002,273**	**1,154,401**

Comparative data have been re-determined on the basis of the adjustments made in application of IAS 8 (see notes to the financial statements Part A – Accounting Policies Section 2 – General drafting principles).

The flow of assets being sold includes the data concerning the insurance companies, considered as being sold as of 31/12/2006.

14.4 CHANGES IN DEFERRED TAX LIABILITIES (BALANCING P&L)

(euro '000)

	banking group	insurance companies	other companies	Total	
				31 12 2006	31 12 2005
1. opening balance	**446,352**	**15,768**	**2,351**	**464,471**	**843,788**
2. increases	**152,349**	**5,770**	**368**	**158,487**	**385,808**
2.1 deferred tax liabilities of the year	113,897	2,769	29	116,695	217,144
a) relating to previous yrs	356	1,456	29	1,841	-
b) due to changes in accounting policies	-	-	-	-	113,212
c) other	113,541	1,313		114,854	103,932
2.2 new taxes or tax rate increases	8,568			8,568	-
2.3 other increases	29,884	3,001	339	33,224	168,664
3. reductions	**219,776**	**782**	**-**	**220,558**	**765,126**
3.1deferred tax liabilities eliminated in the yr	206,870	376	-	207,246	550,424
a) transfers	204,683	376	-	205,059	548,339
b) due to changes in accounting policies			-	-	82
c) other	2,187	-		2,187	2,003
3.2 tax rate reductions	-			-	437
3.3 other decreases	12,906	406		13,312	214,265
IFRS5 "Discontinuing operations"		20,756		20,756	
4. final amount	**378,925**	**-**	**2,719**	**381,644**	**464,470**

The flow of assets being sold includes the data concerning the insurance companies, considered as being sold as of 31/12/2006.

14.5CHANGES IN DEFERRED TAX ASSETS (BALANCING NET EQUITY)

(euro '000)

	banking group	insurance companies	other companies	Total	
				31 12 2006	31 12 2005
1. opening balance	**29,083**	**1,368**	**-**	**30,451**	**66,501**
2. increases	**2,245**	**-**	**-**	**2,245**	**9,966**
2.1 deferred tax liabilities of the year	2,245	-	-	2,245	6,598
a) relating to previous yrs				-	-
b) due to changes in accounting policies				-	-
c) other	2,245			2,245	6,598
2.2 new taxes or tax rate increases				-	-
2.3 other increases	-	-	-	-	3,368
3. reductions	**25,961**	**1,368**	**-**	**27,329**	**46,016**
3.1deferred tax liabilities eliminated in the yr	17,379	51	-	17,430	20,811
a) transfers	17,379	51		17,430	9,691
b) due to changes in accounting policies				-	-
c) other	-			-	11,120
3.2 tax rate reductions				-	-
3.3 other decreases	8,582	1,317		9,899	25,205
4. final amount	**5,367**	**-**	**-**	**5,367**	**30,451**

The flow of the column of the insurance companies includes the data in relation to these companies, considered as being sold as of 31/12/2006.

14.6 CHANGES IN DEFERRED TAX LIABILITIES (BALANCING NET EQUITY)

(euro '000)

	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1. opening balance	**87,471**	**14,146**	**-**	**101,617**	**101,444**
2. increases	**19,723**	**6,757**	**-**	**26,480**	**60,050**
2.1 deferred tax liabilities of the year	17,868	-	-	17,868	59,585
a) relating to previous yrs				-	-
b) due to changes in accounting policies				-	-
c) other	17,868			17,868	59,585
2.2 new taxes or tax rate increases	-			-	57
2.3 other increases	1,855	6,757	-	8,612	408
3. reductions	**56,641**	**4,980**	**-**	**61,621**	**59,877**
3.1deferred tax liabilities eliminated in the yr	52,274	274	-	52,548	16,839
a) transfers	52,274	51		52,325	16,839
b) due to changes in accounting policies				-	-
c) other		223		223	-
3.2 tax rate reductions				-	-
3.3 other decreases	4,367	4,706	-	9,073	43,038
IFRS5 "Discontinuing operations"		15,923		15,923	
4. final amount	**50,553**	**-**	**-**	**50,553**	**101,617**

Deferred taxes for the year mainly consist of taxes on capital gains resulting from the valuation of the financial instruments of the AFS portfolio, and taxes concerning the valuation of derivative contracts hedging cash flows.

The re-transfers of deferred taxes mainly consist of the updated accounting of estimated taxes in relation to issued bonds convertible into own shares.

The flow of the column of insurance companies include the data in relation to the insurance companies, considered as being sold as of 31/12/2006.

14.7 CURRENT TAX ASSETS

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
Advance payment IRES	51,592	-	-	51,592	7,921
Advance payment IRAP	87,631	-	23	87,654	84,983
other credit and taxes	514,875	-	-	514,875	420,015
gross current tax assets	**654,098**	**-**	**23**	**654,121**	**512,919**
set off with current tax liabilities	191,729	-	-	191,729	76,077
net current tax assets	**462,369**	**-**	**23**	**462,392**	**436,842**

Other credit and taxes mostly consist of income tax credit to be refunded, IRES-IRAP credit or credit resulting from prior tax returns which can be used as a set-off, in addition to taxes incurred and deductible during the year.

The data in relation to the insurance companies have been reclassified under account 150 of the balance-sheet, Non-current assets and groups of assets being sold, sub-account "other assets".

14.8 CURRENT TAX LIABILITIES

14.8.1 OF THE BANKING GROUP

(euro '000)

account	31 12 2006		31 12 2005	
	own		own	
	ascribed to net equity	ascribed to P&L	ascribed to net equity	ascribed to P&L
fiscal debts IRES	15,694	235,784		12,620
fiscal debts IRAP	529	143,014		121,330
other debts for income current taxes	-	50,416	4,015	44,745
Debt for gross current taxes	**16,223**	**429,214**	**4,015**	**178,695**
set off with current tax assets	-	191,729		71,398
debts for net current taxes	**16,223**	**237,485**	**4,015**	**107,297**

14.8.2 OF THE INSURANCE COMPANIES

(euro '000)

account	31 12 2006		31 12 2005	
	own		own	
	ascribed to net equity	ascribed to P&L	ascribed to net equity	ascribed to P&L
fiscal debts IRES	-			5,805
fiscal debts IRAP	-			2,969
other debts for income current taxes	-			868
Debt for gross current taxes	**-**	**-**	**-**	**9,642**
set off with current tax assets	-			4,654
debts for net current taxes	**-**	**-**	**-**	**4,988**

The data in relation to the insurance companies have been reclassified under account 90 in the balance-sheet, Liabilities associated with groups of liabilities being sold, sub-account "other liabilities".

14.8.3 OF OTHER COMPANIES

(euro '000)

account	31 12 2006 own: ascribed to net equity	31 12 2006 own: ascribed to P&L	31 12 2005 own: ascribed to net equity	31 12 2005 own: ascribed to P&L
fiscal debts IRES	-			
fiscal debts IRAP	-	15		49
other debts for income current taxes	-			1
Debt for gross current taxes	**-**	**15**	**-**	**50**
set off with current tax assets	-			25
debts for net current taxes	**-**	**15**	**-**	**25**

Section 15

Non current assets and disposal groups held for sale and related liabilities - Account 150 (assets) account 90 (liabilities)

15.1 NON CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND RELATED LIABILITIES: COMPOSITION

(euro '000)

	banking group	insurance companies	other companies	Total	
				31 12 2006	31 12 2005
A. Individual assets					
A.1 equity investments	-			-	230
A.2 tangible assets					
A.3 intangible assets					
A.4 other non current assets	-			-	5,991
Total A	-	-	-	-	6,221
B. Assets groups held for sale					
B.1 financial assets held for trading		7,363,749		7,363,749	
B.2 financial assets valued at fair value		2,607,134		2,607,134	
B.3 financial assets available for sale		683,830		683,830	
B.4 financial assets held to maturity		4,299,761		4,299,761	
B.5 due from banks		113,115		113,115	
B.6 loans to customers		8,705		8,705	
B.7 equity investments				-	-
B.8 tangible assets	-	26,386		26,386	10
B.9 intangible assets		109,685		109,685	
B.10 other assets		198,611		198,611	
Total B	-	15,410,976	-	15,410,976	10
C. Liabilities associated with assets held for sale					
C.1 Debts					
C.2 securities					
C.3 other liabilities					
Total C	-	-	-	-	-
D. Liabilities associated to disposal groups held for sale					
D.1 Due to banks				-	
D.2 customer deposits		431,820		431,820	
D.3 issued securities		70,067		70,067	
D.4 financial liabilities held for trading		2,050		2,050	
D.5 financial liabilities valued at fair value		6,188,598		6,188,598	
D.6 allowances		2,216		2,216	
D.7 other liabilities		11,734,531		11,734,531	
Total D	-	18,429,282	-	18,429,282	-

As a result of the operations pending as of 31.12.2006 which will contribute to loss of control in the subsidiaries Montepaschi Vita, Montepaschi Assicurazioni Danni and Montepaschi Life, wholly owned by MPS Finance, these companies were considered as groups of assets being sold. Therefore, balance-sheet data have been reclassified under accounts 150 and 90, non-current assets and groups of assets being sold and associated liabilities.
Sub-account B.9, intangible assets, includes the goodwill in relation to the subsidiaries Montepaschi Vita and Montepaschi Assicurazione Danni, in the amount of EUR 93.6 million and EUR 4.6 million, respectively.
The valuation of the groups of assets being sold at the lower of cost price and sale price implied no writedowns.

Section 16

Other assets - Account 160

16.1 OTHER ASSETS: COMPOSITION

(euro '000)

	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
due from the treasury	95,201		2,531	97,732	245,044
third party cheques held for collection	432,569			432,569	410,789
MPS cheques held for collection	1,005			1,005	57,547
gold, silver, special metals	102			102	188
fixed stock assets	13,093		3,255	16,348	19,995
other stock assets			24,634	24,634	-
items in transit between branches	233,296			233,296	461,205
items in processing	649,725			649,725	900,976
non banking operating assets	990			990	24,697
credits for supply of goods and services	34,835		22,372	57,207	28,202
further expenseson third party goods different from those included	7,875			7,875	7,621
accrued income not attributable to own account	288,759	-		288,759	281,887
rediscount not attributable to own account	31,540		2	31,542	42,697
biologic assets	1,061		5,621	6,682	
other	952,117		602	952,719	1,444,308
Total	**2,742,168**	**-**	**59,017**	**2,801,185**	**3,925,156**

The data in relation to the insurance companies have been reclassified under account 150 of the balance-sheet, Non-current assets and groups of assets being sold, sub-account "other assets".

LIABILITIES

Section 1

Due to banks - Account 10

1.1 DUE TO BANKS: COMPOSITION

(euro '000)

values	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1. Due to central banks	1,034,600			1,034,600	895,305
2. Due to banks	14,842,940	-	79	14,843,019	15,311,870
2.1 current accounts and demand deposits	2,070,295	-	79	2,070,374	1,464,047
2.2 time deposits	6,428,243			6,428,243	7,648,532
2.3 loans	5,623,129			5,623,129	1,572,115
2.3.1 financial lease	-			-	179
2.3.2 other	5,623,129			5,623,129	1,571,936
2.4 Debt for commitments to repurchase own treasury shares				-	
2.5 liabilities related to assets sold not derecognised	361,839			361,839	4,460,825
2.5.1 repos	356,836			356,836	4,460,825
2.5.2 other	5,003			5,003	
2.6 other debts	359,434			359,434	166,351
Total	**15,877,540**	**-**	**79**	**15,877,619**	**16,207,175**
Fair value	**15,880,179**	**-**	**79**	**15,880,258**	**22,426,283**

Amounts due to banks are valued at cost or amortized cost, since no account is subject to fair value hedging. “Liabilities with respect to assets sold, but not written off” shows the liabilities posted in relation to payable repurchase agreements with respect to the corresponding securities sold, but not written off, existing in the assets side of the Balance-sheet. The account of "loans - other" also includes the loans resulting from payable repurchase agreements executed with reference to receivable repurchase agreements.

1.1 DUE TO BANKS: COMPOSITION

(euro '000)

account	Total 31 12 2006		Total 31 12 2005	
	minimum future lease payments	present value of minimum future lease payments	minimum future lease payments	present value of minimum future lease payments
up to 12 mths	26	26	157	153
from 1 to 5 yrs	-	-	26	26
later than 5 yrs				
Total	26	26	183	179
future financial costs	-	x	4	x
liability recorded in the accounts	26	26	179	179

1.5.2 OF THE INSURANCE COMPANIES

1.5.3OF THE OTHER COMPANIES

Section 2

Customer deposits- Account 20

2.1 CUSTOMER DEPOSITS: COMPOSITION

(euro '000)

values	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1. current accounts and demand deposits	42,138,574			42,138,574	42,707,840
2. time deposits	2,309,863			2,309,863	2,314,775
3. deposits received in administration	19,515			19,515	23,443
4. loans	5,749,313			5,749,313	1,347,779
4.1 finance lease	2			2	11
4.2 other	5,749,311			5,749,311	1,347,768
5. Debts for commitments to repurchase treasury shares					
6. liabilities relating to assets sold but not derecognised	1,925,270			1,925,270	4,453,587
6.1 reverse repos	1,905,105			1,905,105	4,453,587
6.2 other	20,165			20,165	
7. other debts	1,944,083	-		1,944,083	2,338,976
Total	54,086,618	-	-	54,086,618	53,186,400
Fair value	54,055,578	-	-	54,055,578	52,716,507

Customer deposits are mostly valued at cost or amortized cost, except for a marginal portion of borrowings which were subject to specific fair value hedge for the purpose of protecting them from any possible changes in fair value with respect to any interest rate fluctuations. "Liabilities with respect to assets sold, but not written off" shows the liabilities posted in relation to payable repurchase agreements, with respect to the corresponding securities sold but not written off existing in the assets side of the balance-sheet. The account "loans-other" also incorporates loans resulting from payable repurchase agreements executed with reference to receivable repurchase agreements.

The data in relation to the insurance companies have been reclassified under account 90 in the balance-sheet, Liabilities associated with groups of assets being sold, sub-account "customer deposits".

2.3 DETAILS ACCOUNT 20 "CUSTOMER DEPOSITS": STRUCTURED DEBTS

(euro '000)

values	banking group	insurance companies	other companies	Total 31 12 2006
customer deposits structured				

2.4 DETAILS ACCOUNT 20 "CUSTOMER DEPOSITS": HEDGED DEBTS

(euro '000)

values	Total 31 12 2006	Total 31 12 2005
1. hedged debts of fair value:		
a) interest rate risk	24,984	
b) foreign exchange risk		
c) various risks		
2. hedged debts of cash flow:		
a) interest rate risk		
b) foreign exchange risk		
c) various risks		
Total	24,984	-

2.5 CUSTOMER DEPOSITS FOR FINANCIAL LEASE: RECONCILIATION OF MINIMUM FUTURE PAYABLE FEES FOR FINANCIAL LEASING (LESSEE)

2.5.1 OF THE BANKING GROUP

(euro '000)

account	Total 31 12 2006		Total 31 12 2005	
	minimum future lease payments	present value of minimum future lease payments	minimum future lease payments	present value of minimum future lease payments
up to 12 mths	2	2	10	9
from 1 to 5 yrs	-	-	2	2
later than 5 yrs	-	-	-	-
Total	2	2	12	11
future financial costs	-	x	1	x
liability recorded in the accounts	2	2	11	11

2.5.2 OF THE INSURANCE COMPANIES

2.5.3 DI PERTINENZA DELLE ALTRE IMPRESE

Section 3

Securities issued - Account 30

3.1 SECURITIES ISSUED: COMPOSITION

(euro '000)

type of securities	banking group		insurance companies	
	book value	fair value	book value	fair value
A. Listed securities	448,695	447,404	-	-
1. bonds	448,695	447,404	-	-
1.1 structured (1)	-	-		
1.2 other	448,695	447,404		
2. other securities	-	-	-	-
2.1 structured				
2.2 other				
B. Unlisted securities	28,795,077	28,976,469	-	-
1. bonds	23,109,624	23,144,639	-	-
1.1 structured (1)	397,011	409,848		
1.2 other	22,712,613	22,734,791		
2. other securities	5,685,453	5,831,830	-	-
2.1 structured	25,971	25,000	-	-
2.2 other	5,659,482	5,806,830	-	-
Total	29,243,772	29,423,873	-	-

The table shows funding represented by securities which includes bonds, outstanding certificates of deposit and expired CDs to be repaid. All liabilities are valued at cost or amortized cost, since no account is subject to fair value hedging. Liabilities do not include bonds and repurchased CDs. The account of “structured” includes the value of the “host” securities where the implicit derivative was subject to discorporation and independent valuation, and classification among trading derivative instruments.
The column of fair value indicates the theoretical market value of the financial instruments as of the date of the financial statements.

The data in relation to the insurance companies have been reclassified under account 90 of the balance-sheet, Liabilities associated with groups of assets being sold, sub-account "outstanding securities".

other companies		Total 31 12 2006		Total 31 12 2005	
book value	fair value	book value	fair value	book value	fair value
-	-	448,695	447,404	9,446,345	9,533,385
-	-	448,695	447,404	9,446,345	9,533,385
		-	-	459,954	468,884
		448,695	447,404	8,986,391	9,064,501
-	-	-	-	-	-
		-	-	-	-
		-	-	-	-
-	-	28,795,077	28,976,469	14,002,708	14,153,847
-	-	23,109,624	23,144,639	7,626,113	8,041,642
		397,011	409,848	44,318	47,798
		22,712,613	22,734,791	7,581,795	7,993,844
-	-	5,685,453	5,831,830	6,376,595	6,112,205
		25,971	25,000	-	-
		5,659,482	5,806,830	6,376,595	6,112,205
-	-	29,243,772	29,423,873	23,449,053	23,687,232

3.1.A TITOLI IN CIRCOLAZIONE: DETTAGLIO PASSIVITÀ STRUTTURATE

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
Index Linked	360,502			360,502	
Unit Linked					
Equity Linked					
Step - up, Step down					
Dual Currency					
Drop Lock					
Target redemption note					
Cap Floater					
Floor Floater					
Reverse Floater					
Reverse convertible	25,971			25,971	
Convertible	31,905			31,905	
Credit linked notes					
Corridor					
Fund Linked	4,605			4,605	
other					
Total	422,983	-	-	422,983	-

This breakdown of table 3.1 details all structured securities, where the derivative was subject to discorporation and independent valuation, in accordance with the major types of securities issued.

The data in relation to the insurance companies have been reclassified under account 90 of the balance-sheet, Liabilities associated with groups of assets being sold, sub-account "outstanding securities".

3.1.B FAIR VALUE DERIVATIVESSTRUCTURED SECURITIES ISSUED

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
Fair value derivativesstructured securities issued	(59,038)			(59,038)	9,154

The table shows the fair value of implicit derivatives on structured securities which were separated from the host instrument and were classified in the trading portfolio valued at fair value. For regulatory purposes, such derivatives were considered as part of the banking book and are not included in the trading portfolio for regulatory purposes, with the exception of the cases with clear trading purposes. The amount for the year of 2006 has a negative sign since such implicit derivatives, as a whole, represent financial assets.

3.2 DETAILS ACCOUNT 30 "SECURITIES ISSUED": SUBORDINATED SECURITIES

(euro '000)

type	date of issue	expiry date	foreign currency	rate	balance	
					31 12 2006	31 12 2005
PASCHI 00/07 5,75	15/5/00	15/5/07	EUR	fixed	30,146	59,882
PASCHI07 SUB TV	15/5/00	15/5/07	EUR	variable	29,731	59,251
PASCHI 02-07 EM51SUB	31/12/02	31/12/07	EUR	variable	4,665	6,869
PASCHI TV 01/11	18/5/01	18/5/11	EUR	variable	-	247,792
PASCHI 01/11 TV SUB	20/7/01	20/7/11	EUR	variable	-	255,542
MPS FRN 02/07 SUB LO	20/12/02	20/12/07	EUR	variable	17,632	34,913
MPS 03/15 4,50	24/9/03	24/9/15	EUR	fixed	598,964	599,739
MPS 06 TV SUB	30/3/04	2/10/06	EUR	variable	-	601,822
BCA MPS 2014 TV	1/6/04	1/6/14	EUR	variable	250,149	249,308
MPS TV 05/07	28/6/05	28/12/07	EUR	variable	249,744	246,756
BMPS TV 05/15	30/6/05	30/6/15	EUR	variable	347,854	345,847
BMPS TV 05/17	30/11/05	30/11/17	EUR	variable	499,066	498,084
MPS TV 05/18	20/12/05	15/1/18	EUR	variable	138,258	149,168
BMPS 4,875 SUB 2016	31/5/06	31/5/16	EUR	EUR	763,289	-
BMPS TV AP09 SUB III	24/10/06	24/4/09	EUR	EUR	502,744	-
BMPS 5,75 SUB 2016	31/5/06	30/9/16	GBP	GBP	300,809	-
MPS Leasing e Factoring	30/12/02	30/12/09	EUR	variable	29,638	42,055
MPS Banca Impresa	30/9/04	30/9/13	EUR	variable	7,918	7,046
MPS Banca Impresa	22/12/03	22/12/13	EUR	variable	-	47
MPS Banca Impresa	30/6/05	30/6/08	EUR	indicizzato	-	50,003
MPS Banca Impresa	30/9/04	30/9/13	EUR	variabile	-	539
MPS Banca Impresa	29/12/03	29/12/06	EUR	indicizzato	-	6
MPS Preferred Capital II LLC	30/12/03	30/12/33	EUR	variable	621,597	634,391
Banca Popolare di Spoleto	1/5/99	1/5/06	EUR	variable	-	6,674
Banca Popolare di Spoleto	28/6/02	28/6/09	EUR	variable	7,782	7,797
Banca Popolare di Spoleto	30/12/04	30/12/09	EUR	variable	2,334	3,118
Banca Popolare di Spoleto	7/12/05	7/12/15	EUR	variable	7,792	7,799
Banca Monte Parma	19/11/03	19/11/08	EUR	fixed	1,952	2,972
Banca Monte Parma	19/11/03	19/11/08	EUR	variable	970	1,452
Banca Monte Parma	15/1/04	15/1/09	EUR	fixed	2,969	4,005
Banca Monte Parma	15/4/04	15/4/09	EUR	fixed	2,937	3,968
Banca Monte Parma	24/5/04	24/5/09	EUR	fixed	4,396	5,951
Banca Monte Parma	1/9/04	1/9/09	EUR	fixed	2,936	3,980
Banca Monte Parma	1/7/05	1/7/10	EUR	step up	5,893	7,419
Total					**4,432,165**	**4,144,195**

This breakdown of previous table 3.1 details all oustanding subordinated securities as of 31 December 2006 and their major characteristics. For prudential regulatory purposes, such liabilities can be calculated as part of Tier 2 capital.

3.3 DETAILS ACCOUNT 30 "SECURITIES ISSUED": SPECIFIC HEDGED SECURITIES

(euro '000)

values	Total 31 12 2006	Total 31 12 2005
1. specific hedged securities of fair value:	248,733	235,008
a) interest rate risk	248,733	235,008
b) foreign exchange risk		
c) various risks		
2. specific hedged securities of cash flow:	1,681,585	2,463,828
a) interest rate risk (1)	1,681,585	2,463,828
b) foreign exchange risk		
c) various risks		
Total	1,930,318	2,698,836

The table shows outstanding securities which are subject to specific hedging. In particular, at year-end there were hedging transactions of financial flows through OTC derivative contracts on interest rates, concerning some plain vanilla bonds. Hedging contributed to convert indexed-rate funding into fixed-rate funding, thus ensuring balance with the flows generated by the corresponding fixed-rate assets so funded. As a result of the hedging of financial flows, the fair value of derivative contracts is posted to a specific net equity reserve.

Section 4

Financial liabilities held for trading - Account 40

4.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION

(euro '000)

values	banking group				insurance companies			
	NV	FV		FV *	NV	FV		FV *
		L	UL			L	UL	
A. financial liabilities								
1. due to banks	4,721,126	5,080,999	1,584	5,082,582		-		
2. customer deposits	5,161,498	6,190,066	-	6,005,711		-		
3. debt securities	2,265	67,280				-		
3.1 bonds								
3.1.1 Structured				x				x
				x				x
3.2 other securities	2,265	67,280				-		
3.2.1 Structured				x				x
3.2.2 other	2,265	67,280		x		-		x
Total A	9,884,889	11,338,345	1,584	11,088,293	-	-	-	-
B. derivative instruments								
1. financial derivatives	x	195,266	4,942,699	x	x			x
1.1 for trading	x	195,266	4,638,830	x	x			x
1.2 with fair value option	x		18,669	x	x			x
1.3 other	x		285,200	x	x			x
2. credit Derivatives	x	231	236,453	x	x			x
2.1 for trading	x	231	216,464	x	x			x
2.2 with fair value option	x			x	x			x
2.3 other	x		19,989	x	x			x
Total B	x	195,497	5,179,152	x	x			x
Total (A+B)	9,884,889	11,533,842	5,180,736	11,088,293	-	-	-	-

FV = fair value   FV* = fair value calculated excluding any value changes due to a change in the issuer's creditworthiness with reference to the date of issue.
NV = nominal value
L = listed
UL = unlisted

The trading portfolio incorporates cash financial instruments mostly issued with the objective of gaining profits in the short term, and derivative contracts other than the contracts officially designed as hedging instruments, classified under account "80 – Hedging derivatives" of the assets side or account "60 – Hedging derivatives" of the liabilities side, according to the fair value as at year-end.
The derivatives associated with the instruments which adopted the fair value option are also classified in the trading portfolio. They cover risks inherent in funding valued at fair value, resulting from any possible fluctuations of interest rates and optional components implicit in the structured securities issued. The fair value of such derivatives is shown in this table under "B.1.2 - Linked with the fair value option ".
The trading portfolio also includes derivative contracts separated from other financial instruments of the banking book or derivative contracts linked with them from the viewpoint of management. For the purpose of calculation of capital requirements, such contracts are not part of the trading portfolio for regulatory purposes. Their fair value is shown in this table under "B.1.3 - Others".
All financial instruments posted under financial liabilities for trading purposes are valued at their fair value.
The data in relation to the insurance companies have been reclassified under account 90 in the balance-sheet, Liabilities associated with groups of assets being sold, sub-account "financial liabilities for trading purposes".

other companies				Total 31 12 2006				Total 31 12 2005		
NV	FV		FV *	NV	FV		FV *	NV	FV	
	L	UL			L	UL			L	UL
	-			4,721,126	5,080,999	1,584	5,082,582	5,150,464	5,152,013	2,218
	-			5,161,498	6,190,066	-	6,005,711	4,080,407	4,127,024	3,166
	-			2,265	67,280	-		-	2,265	67,280
				-	-	-			47,329	-
			x	-	-	-	x		-	-
			x	-	-	-	x		-	-
	-			2,265	67,280	-			47,329	67,280
			x	-	-	-	x		-	-
	-		x				x			
-	-	-	-	9,884,889	11,338,345	1,584	11,088,293	9,230,871	9,328,631	72,664
x			x	x	195,266	4,942,699	x	x	214,867	7,444,183
x			x	x	195,266	4,638,830	x	x	214,867	7,230,918
x			x	x	-	18,669	x	x	-	146,504
x			x	x	-	285,200	x	x	-	66,761
x			x	x	231	236,453	x	x	-	115,430
x			x	x	231	216,464	x	x	-	115,430
x			x	x	-	-	x	x	-	-
x			x	x	-	19,989	x	x	-	-
x			x	x	195,497	5,179,152	x	x	214,867	7,559,613
-	-	-	-	9,884,889	11,533,842	5,180,736	11,088,293	9,230,871	9,543,498	7,632,277

4.2 DETAILS ACCOUNT 40 "FINANCIAL LIABILITIES HELD FOR TRADING": SUBORDINATED LIABILITIES

(euro '000)

account	date of issue	expiry date	currency	rate	balance 31 12 2006	balance 31 12 2005
due to banks						
BPSPOLETO 09TV SUB	28/6/02	28/6/09	EURO	Variabile	-	30
customer deposits						
GENERALI TV 00/22 SUB	20/7/00	20/7/12	EURO	Variabile	-	26
debt securities						
Total					**-**	**56**

4.3 DETAILS ACCOUNT 40 "FINANCIAL LIABILITIES HELD FOR TRADING": STRUCTURED DEBTS

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006
due to banks	420			420
customer deposits				-
Total	420	-	-	420

4.4 FINANCIAL LIABILITIES HELD FOR TRADING: DERIVATIVE INSTRUMENTS

4.4.1 OF THE BANKING GROUP

(euro '000)

type of derivatives	interest rates	currency and gold	equity instruments	loans	other	Total 31 12 2006	Total 31 12 2005
A) listed derivatives							
1) financial derivatives:	4,556	-	190,710	-	-	195,266	214,867
- with underlying asset exchange	-	-	36,220	-	-	36,220	50,571
- options issued			36,220			36,220	50,571
- other derivatives			-			-	-
- without underlying asset exchange	4,556	-	154,490	-	-	159,046	164,296
- options issued	4,556		154,490			159,046	164,296
- other derivatives						-	-
2) credit derivatives:	-	-	231	-	-	231	
- with underlying asset exchange							
- without underlying asset exchange			231			231	
Total A	**4,556**	**-**	**190,941**	**-**	**-**	**195,497**	**214,867**
A) unlisted derivatives							
1) financial derivatives:	3,684,547	193,520	1,064,631	-	-	4,942,698	7,444,183
- with underlying asset exchange	-	87,482	997,351	-	-	1,084,833	626,553
- options issued	-	77,695	997,350		-	1,075,045	600,627
- other derivatives	-	9,787	1			9,788	25,926
- without underlying asset exchange	3,684,547	106,038	67,280	-	-	3,857,865	6,817,630
- options issued	582,332	82,087	49,332		-	713,751	1,015,433
- other derivatives	3,102,215	23,951	17,948		-	3,144,114	5,802,197
2) credit derivatives:	-	-	-	236,453	-	236,453	115,430
- with underlying asset exchange				225,643		225,643	112,541
- without underlying asset exchange				10,810		10,810	2,889
Total B	**3,684,547**	**193,520**	**1,064,631**	**236,453**	**-**	**5,179,151**	**7,559,613**
Total (A+B)	**3,689,103**	**193,520**	**1,255,572**	**236,453**	**-**	**5,374,648**	**7,774,480**

The table shows the fair value of derivative contracts classified in the trading portfolio, on the basis of the main types of risk they are associated with. By convention, the column of interest rates includes financial derivatives with underlying debt securities.

4.4.2 OF THE INSURANCE COMPANIES

The data in relation to the insurance companies have been reclassified under account 90 in the balance-sheet, Liabilities associated with groups of assets being sold, sub-account "financial assets for trading purposes".

4.4.3 OF OTHER COMPANIES

4.4.A PASSIVE DERIVATIVES: FAIR VALUE OPTION USE

4.4.A.1 OF THE BANKING GROUP

(euro '000)

account	31 12 2006 natural hedges	31 12 2006 other cases of accounting mismatch	31 12 2006 Portfolio of financial assets internally managed on the basis of fair value	31 12 2005 natural hedges	31 12 2005 other cases of accounting mismatch	31 12 2005 Portfolio of financial assets internally managed on the basis of fair value
financial Derivatives	448,934			146,504		
credit derivatives						
Total	**448,934**	**-**	**-**	**146,504**	**-**	**-**

This is a breakdown of previous table 2.1 and shows the book value (fair value) of the hedging derivatives of the instruments which adopted the fair value option, in accordance with the modes of use.
As of 31 December 2006 all derivatives associated with the fair value option, posted to the trading portfolio, are attributable to the natural and systematic hedging of fixed-rate structured bonds issued by the Bank.

By convention, such derivatives are classified in the trading portfolio. However, from the viewpoint of reporting in the profit and loss statement, they comply with regulations similar to the rules contemplated for hedging derivatives. Positive and negative differentials or margins settled or accrued until the date of reference of the financial statements are recorded under interest income and interest expense. Valuation profits and losses are posted under account "110 - Net profit/loss from financial assets and liabilities valued at fair value" in the profit and loss statement, in compliance with the representation used for funding instruments which adopted the fair value option.

4.4.A.2 OF THE INSURANCE COMPANIES

The data in relation to the insurance companies have been reclassified under account 90 in the balance-sheet, Liabilities associated with groups of assets being sold

4.4.A.3 OF OTHER COMPANIES

4.5 FINANCIAL LIABILITIES HELD FOR TRADING (OTHER THAN UNCOVERED POSITIONS) : ANNUAL CHANGES

(euro '000)

	due to banks	customer deposits	securities in issue	Total 31 12 2006
A. opening balance	5,154,232	4,130,189	47,329	9,331,750
B. increases				
B.1 issues				-
B.2 sales			28,375	28,375
B.3 positive changes of fair value				-
B.4 other changes	10,424	1,941,612		1,952,036
C. Diminuzioni				
C.1 purchases	82,074		8,425	90,499
C.2 redemptions				-
C.3 negative changes of fair value				-
C.4 other changes				-
D. closing balance	5,082,582	6,071,801	67,279	11,221,662

The movements within customer deposits do not include EUR 118,265,000 in relation to technical overdrafts.

Section 5

Financial liabilities carried at fair value - Account 50

5.1FINANCIAL LIABILITIES CARRIED AT FAIR VALUE: COMPOSITION

(euro '000)

transactions	banking group				insurance companies			
	NV	FV		FV*	NV	FV		FV*
		L	UL			L	UL	
1. Due to banks								
1.1 Structured				x				x
1.2 other				x				x
2. customer deposits						-	-	
2.1 Structured				x				x
2.2 other				x		-	-	x
3. debt securities	10,975,304	524,027	10,121,871		-	-	-	
3.1 Structured	2,574,847		2,603,936	x				x
3.2 other	8,400,457	524,027	7,517,935	x				x
Total	10,975,304	524,027	10,121,871		-	-	-	

FV = fair value
FV* = fair value calculated excluding any value changes due to any variation in the issuer's creditworthiness with reference to the date of issue.
NV = nominal VALUE
L= listed
UL= unlisted

The data in relation to the insurance companies have been reclassified under account 90 in the balance-sheet, Liabilities associated with groups of assets being sold, sub-account "financial liabilities valued at fair value".

The table shows the financial liabilities represented by fixed-rate and structured bonds which have been classified at fair value and are systematically subject to hedging, through derivative contracts, of the risk of interest rate fluctuations and the risk resulting from implicit options. As stated by the IASB and in the "Supervisory guidance on the use of the fair value option", issued by the Basle Committee on Banking Supervision, the fair value option might represent an alternative or additional instrument to hedge accounting, available to the banks for the purpose of determining their own risk hedging strategies.

As a result of the adoption of the fair value option on funding instruments, in general the Parent Bank Banca Monte dei Paschi di Siena and its subsidiaries (the commercial banks) were able to obtain a more significant accounting view consistent with the actual approach to risk hedging, by reducing the complexity of administrative management and ensuring a more reliable measurement of the financial instruments. Funding subject to hedging with derivative instruments is valued at fair value, in accordance with all the relative hedging derivatives which have been classified, for the purposes of the financial statements, under specific detail accounts of the trading portfolio.

other companies				Total 31 12 2006				Total 31 12 2005		
NV	FV		FV*	NV	FV		FV*	NV	FV	
	L	UL			L	UL			L	UL
				-	-	-		-	-	-
			x	-	-	-	x	-	-	-
			x	-	-	-	x	-	-	-
				-	-	-		-	1,442,115	4,943,514
			x	-	-	-	x	-	-	-
			x	-	-	-	x	-	1,442,115	4,943,514
-	-	-		10,975,304	524,027	10,121,871		11,757,949	5,146,360	6,111,065
			x	2,574,847	-	2,603,936	x	2,482,687	2,004,608	2,767,900
			x	8,400,457	524,027	7,517,935	x	9,275,262	3,141,752	3,343,165
-	-	-		10,975,304	524,027	10,121,871		11,757,949	6,588,475	11,054,579

Positive and negative differentials or margins in relation to derivative contracts settled or accrued until the date of reference of the financial statements are recorded in the profit and loss statement under interest income and expense. Valuation profits and losses are shown under account "110 - Net profit/loss from financial assets/liabilities valued at fair value", in compliance with the reporting used for funding instruments which adopted the fair value option.

When adopting the FVO, the Group took accounf of the fact that this accounting approach, unlike the hedge accounting technique, measures any value differences on bonds due to any changes in its creditworthiness. Since almost all the bond portfolio is placed with non institutional customers, failing an active market, the fair value of bonds is determined through valuation techniques. The fair value is determined, as already said, taking account of the component in relation to creditworthiness but also of the commercial spread. Any differences between the fair value determined as per the internal model and the amount actually exchanged are considered as income components (day one profit).

In compliance with the international principles, this income component is promptly posted to the profit and loss statement in the case of financial instruments with observable valuation criteria, but it is spread pro rata temporis over the life of the bonds in the case of non-observable valuation criteria. However, the day one profit component is a very limited case from the quantitative viewpoint.

With reference to the liabilities quoted in active markets, the fair value is the market value and directly observable changes are represented by the changes in creditworthiness. Any value differences resulting from any changes in creditworthiness are monitored accurately, since they cannot be included in capital for regulatory purposes. When adopting the FVO, the Group complied with the recommendations and directives issued by the Basle Committee.

5.1.A PASSIVITÀ VALUTATE AL FAIR VALUE: MODALITÀ DI UTILIZZO DELLA FAIR VALUE OPTION

5.1.A.1 OF THE BANKING GROUP

(euro '000)

account	31 12 2006			31 12 2005		
	due to banks	customer deposits	securities in issue	due to banks	customer deposits	securities in issue
natural hedges with derivatives			10,645,898		-	11,257,425
natural hedges with financial instruments	x	x	x	x	x	x
other mismatch						
Portfolio of financial assets internally managed on the basis of fair value	x	x	x	x	x	x
structured financial instruments	x	x	x	x	x	x
Total	-	-	10,645,898	-	-	11,257,425

This is a breakdown of previous table 5.1 and shows the book value (fair value) of the liabilities which adopted the fair value option, on the basis of the modes of use. In particular, as of 31 December 2006, all liabilities at fair value were attributable to natural hedging, since these bonds are subject to systematic hedging with derivative contracts. The adoption of the fair value valuation for bonds was necessary for the purpose of ensuring consistency of the valuation criteria adopted for derivative contracts and bonds, in order to avoid any possible accounting misrepresentation.

The risk of interest rate fluctuations and the risks resulting from any optional components implicit in structured securities, both existing in fair value funding, are systematically hedged by derivative contracts. Such contracts are classified in the trading portfolio by convention, but - from the viewpoint of reporting in the profit and loss statement - they comply with rules similar to the rules contemplated for hedge accounting derivatives, given their management purpose of hedging financial instruments. Positive and negative differentials or margins settled or accrued until the date of reference of the financial statements are registered under interest income and expense. Valuation profits and losses are posted under account "110- Net profit/loss from financial assets and liabilities valued at fair value" in the profit and loss statement, with reporting consistent with the reporting used for funding instruments which adopted the fair value option.

5.1.A.2 OF THE INSURANCE COMPANIES

(euro '000)

account	31 12 2006			31 12 2005		
	due to banks	customer deposits	securities in issue	due to banks	customer deposits	securities in issue
natural hedges with derivatives			-		6,385,629	-
natural hedges with financial instruments	x	x	x	x	x	x
other mismatch						
Portfolio of financial assets internally managed on the basis of fair value	x	x	x	x	x	x
structured financial instruments	x	x	x	x	x	x
Total	-	-	-	-	6,385,629	-

The data in relation to the insurance companies have been reclassified under account 90 in the balance-sheet, Liabilities associated with groups of assets being sold, sub-account "financial liabilities valued at fair value".

5.1.A.3 OF OTHER COMPANIES

5.2 DETAILS ACCOUNT 50 "FINANCIAL LIABILITIES CARRIED AT FAIR VALUE": SUBORDINATED LIABILITIES

(euro '000)

type	date of issue	expiry date	currency	rate	balance 31 12 2006	balance 31 12 2005
PASCHI 22/2015 INDEX	07/07/00	07/07/15	EUR	variable	14,483	39,698
PASCHI 00/15 IND.	20/07/00	20/07/15	EUR	variable	27,696	32,622
MPS 99/09 5 %	12/03/99	12/03/09	EUR	fix	420,258	437,924
MPS Preferred Capital I LLC	07/02/01	07/02/31	EUR	fix	437,924	439,608
Total					**900,361**	**949,852**

The table shows subordinated financial liabilities valued at fair value, with their main characteristics. For the purpose of quantifying capital for regulatory purposes, subordinated liabilities are not valued at fair value, but on the basis of the amount which was actually collected.

5.3 FINANCIAL LIABILITIES CARRIED AT FAIR VALUE: VARIAZIONI ANNUE

5.3.1 OF THE BANKING GROUP

(euro '000)

	due to banks	customer deposits	securities in issue	Total 31 12 2006
A. opening balance			11,257,425	11,257,425
B. increases				
B.1 issues			3,493,152	3,493,152
B.2 sales			26,422	26,422
B.3 positive changes of fair value			72,274	72,274
B.4 other changes			537,933	537,933
C. Diminuzioni				
C.1 purchases			1,354,646	1,354,646
C.2 redemptions			2,558,764	2,558,764
C.3 negative changes of fair value			399,978	399,978
C.4 other changes			427,919	427,919
D. closing balance	-	-	10,645,899	10,645,899

The table shows the movements occurred during the year with respect to the liabilities in relation to the portfolio valued at fair value, with details of the major technical kinds.

5.3.2 OF THE INSURANCE COMPANIES

(euro '000)

	due to banks	customer deposits	securities in issue	Total 31 12 2006
A. opening balance		6,385,629		6,385,629
B. increases				
B.1 issues				-
B.2 sales				-
B.3 positive changes of fair value				-
B.4 other changes		559,710		559,710
C. Diminuzioni				
C.1 purchases				-
C.2 redemptions				-
C.3 negative changes of fair value				-
C.4 other changes		756,694		756,694
IFRS5 "Discontinuing operations"		6,188,645		6,188,645
D. closing balance	-	-	-	-

The flow of liabilities being sold "discontinuing transactions" incorporates the closing values in relation to the insurance companies, considered as of 31/12/2006 as being sold.

5.3.A FINANCIAL LIABILITIES CARRIED AT FAIR VALUE : STRUCTURED LIABILITIES

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006
Index Linked	924,273			924,273
Unit Linked				-
Equity Linked	629,604			629,604
Step - up, Step down				-
Dual Currency	105,883			105,883
Drop Lock				-
Target redemption note				-
Cap Floater	17,349			17,349
Floor Floater				-
Reverse Floater				-
Reverse convertible				-
Convertibili				-
Credit linked notes				-
Corridor	11,642			11,642
Fund Linked				-
Commodities linked	88,850			88,850
other	826,335			826,335
Total	2,603,936	-	-	2,603,936

The table indicates the main types of structured bonds issued by the Group and subject to fair value valuation. Since bonds are valued at fair value, the implicit derivative was not separated from the accounting viewpoint.

Section 6

Hedging derivatives - Account 60

6.1 HEDGING DERIVATIVES: COMPOSITION BY TYPE OF CONTRACT AND UNDERLYING ASSETS

6.1.1 OF THE BANKING GROUP

(euro '000)

type of derivatives	interest rates	currency and gold	equity instruments	loans	other	Total
A) listed						
1) financial derivatives:						
- with underlying asset exchange						
- options issued						
- other derivatives						
- without underlying asset exchange						
- options issued						
- other derivatives						
2) credit derivatives:						
- with underlying asset exchange						
- without underlying asset exchange						
Total A						
B) unlisted						
1) financial derivatives:	94,328	-	-	-	-	94,328
- with underlying asset exchange	-	-	-	-	-	-
- options issued			-			-
- other derivatives						-
- without underlying asset exchange	94,328	-	-	-	-	94,328
- options issued						-
- other derivatives	94,328					94,328
2) credit derivatives:						
- with underlying asset exchange						
- without underlying asset exchange						
Total B	94,328	-	-	-	-	94,328
Total (A+B) (31/12/2006)	**94,328**	**-**	**-**	**-**	**-**	**94,328**
Total (A+B) (31/12/2005)	**38,626**	**-**	**24,004**	**-**	**-**	**62,630**

The fair value option was systematically adopted in relation to fixed-rate and structured instruments of bond funding where the risk of interest rate fluctuations is subject to hedging with derivatives. Therefore, funding is valued at fair value in compliance with all the relative hedging derivatives which, for the purpose of the financial statements, are classified under the specific detail accounts of the trading portfolio. "Hedge accounting" was used more precisely with reference to specific transactions mostly oriented to the hedging of financial instruments posted to the assets side of the balance-sheet. Thus, the table indicates the book value (fair value) with respect to hedging derivative contracts, with reference to hedge accounting.

6.1.2 OF THE INSURANCE COMPANIES

(euro '000)

type of derivatives	interest rates	currency and gold	equity instruments	loans	other	Total
A) listed						
1) financial derivatives:						
- with underlying asset exchange						
- options issued						
- other derivatives						
- without underlying asset exchange						
- options issued						
- other derivatives						
2) credit derivatives:						
- with underlying asset exchange						
- without underlying asset exchange						
Total A						
B) unlisted						
1) financial derivatives:	-	-	-	-	-	-
- with underlying asset exchange	-	-	-	-	-	-
- options issued			-			-
- other derivatives						-
- without underlying asset exchange	-	-	-	-	-	-
- options issued						-
- other derivatives	-					-
2) credit derivatives:						
- with underlying asset exchange						
- without underlying asset exchange						
Total B	-	-	-	-	-	-
Total (A+B) (31/12/2006)	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) (31/12/2005)	**2,292**	**-**	**-**	**-**	**-**	**2,292**

The data in relation to the insurance companies have been reclassified under account 90 of the balance-sheet, Liabilities associated with groups of assets being sold, sub-account "other liabilities".

6.1.3 OF OTHER COMPANIES

6.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED ITEMS AND RISK TYPE

6.2.1 OF THE BANKING GROUP

31 12 2006
(euro '000)

transactions	Fair Value hedge						cash flow hedge	
	micro-hedge					macro hedge	micro hedge	macro hedge
	interest rate risk	currency risk	credit risk	price risk	various risk			
1. financial assets available for sale	10,107			-		x		x
2. loans	30,666			x		x		x
3. held to maturity financial assets	x			x		x		x
4. Portfolio	x	x	x	x	x	32,968	x	
Total assets	**40,773**	**-**	**-**	**-**	**-**	**32,968**	**-**	**-**
1. financial liabilities	4,548					x	16,036	x
2. Portfolio	x	x	x	x	x		x	
Total liabilities	**4,548**	**-**	**-**	**-**	**-**	**-**	**16,036**	**-**

The table shows the negative fair values of hedging derivatives, classified by hedged assets or liabilities and the type of hedging implemented. In particular, fair value hedge was used as a protection from the risk of interest rate fluctuations of a portion of the fixed-rate bond portfolio of the assets in the balance-sheet, held for purposes other than for trading, and allocated to the portfolio available for sale (asset swap). It was also adopted for the specific hedging of fixed-rate mortgage loans with the objective of protecting them from any possible adverse changes in the trend of interest rates and for the financial plans of the subsidiary Banca Personale. The general hedging technique was adopted for the same purposes, but with reference to a larger loan portfolio.
As to financial liabilities, cash flow hedge was implemented in the case of some specific floating-rate bond issues, for the purpose of stabilizing their flows through interest rate swaps.

31 12 2005
(euro '000)

transactions	Fair Value hedge						cash flow hedge	
	micro-hedge					macro hedge	micro hedge	macro hedge
	interest rate risk	currency risk	credit risk	price risk	various risk			
1. financial assets available for sale	35,938			24,004		x		x
2. loans	2,023			x		x		x
3. held to maturity financial assets	x			x		x		x
4. Portfolio	x	x	x	x	x		x	
Total assets	**37,961**	**-**	**-**	**24,004**	**-**	**-**	**-**	**-**
1. financial liabilities	665					x		x
2. Portfolio	x	x	x	x	x		x	
Total liabilities	**665**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

6.2.2 OF THE INSURANCE COMPANIES

31 12 2006
(euro '000)

transactions	Fair Value hedge						cash flow hedge	
	micro-hedge					macro hedge	micro hedge	macro hedge
	interest rate risk	currency risk	credit risk	price risk	various risk			
1. financial assets available for sale	-					x		x
2. loans				x		x		x
3. held to maturity financial assets	x			x		x		x
4. Portfolio	x	x	x	x	x		x	
Total assets	-	-	-	-	-	-	-	-
1. financial liabilities						x		x
2. Portfolio	x	x	x	x	x		x	
Total liabilities	-	-	-	-	-	-	-	-

31 12 2005
(euro '000)

transactions	Fair Value hedge						cash flow hedge	
	micro-hedge					macro hedge	micro hedge	macro hedge
	interest rate risk	currency risk	credit risk	price risk	various risk			
1. financial assets available for sale	2,292					x		x
2. loans				x		x		x
3. held to maturity financial assets	x			x		x		x
4. Portfolio	x	x	x	x	x		x	
Total assets	**2,292**	-	-	-	-	-	-	-
1. financial liabilities						x		x
2. Portfolio	x	x	x	x	x		x	
Total liabilities	-	-	-	-	-	-	-	-

6.2.3 OF OTHER COMPANIES

Section 8

Tax liabilities - Account 80

PLEASE REFER TO SECTION 14 OF THE ASSETS

Section 9

Liabilities related to discontinued operations - Account 90

PLEASE REFER TO SECTION 15 OF THE ASSETS

Section 10

Other liabilities - Account 100

10.1 OTHER LIABILITIES: COMPOSITION

(euro '000)

	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
due to treasury	260,212	-	14	260,226	329,487
due to social security institutions	107,364	-	6	107,370	103,649
sum available to customers	150,382			150,382	209,382
liabilities for payment contacts	40,286			40,286	19,860
other liabilities due to employees	134,518	-		134,518	132,789
clearing balances with branches	132,672			132,672	522,764
items in processing	720,158			720,158	783,555
non banking operating liabilities	454			454	130,313
debts for supply of goods and services	594,884	-	208	595,092	496,857
granted warranties	52,903			52,903	54,582
credit derivatives					
Impegni irrevocabili ad erogare fondi					
accrued expense not attributable to own account	231,389		3	231,392	345,135
deferred income not attributable to own account	53,814	-	3	53,817	143,258
other	1,425,246	-	25,629	1,450,875	1,664,420
Total	**3,904,282**	**-**	**25,863**	**3,930,145**	**4,936,051**

Comparative data have been re-determined on the basis of the adjustments made in application of IAS 8 (see notes to the financial statements Part A – Accounting policies Section 2 – General drafting principles).

The data in relation to the insurance companies have been reclassified under account 90 of the balance-sheet, Liabilities associated with groups of assets being sold, sub-account "other liabilities".

Section 11

Staff severance indemnity reserve - Account 110

11.1 STAFF SEVERANCE INDEMNITY RESERVE: ANNUAL CHANGES

31 12 206
(euro '000)

	banking group	insurance companies	other companies	Total
A. Opening balance	**400,384**	**2,104**	**925**	**403,413**
B increases	**89,573**	**625**	**487**	**90,685**
B.1 provisions for the yr	88,223	214	30	88,467
B.2 other increases	1,350	411	457	2,218
C decreases	**105,179**	**296**	**40**	**105,515**
C.1 benefits paid	54,676	240	10	54,926
C.2 other decreases	50,503	56	30	50,589
IFRS5 "Discontinuing operations"	-	2,433		2,433
D. Closing balance	**384,778**	**-**	**1,372**	**386,150**

Whereas the staff severance indemnity reserve is considered as a definite contribution fund for the purpose of the international accounting principles, any changes in relation to actuarial valuations are detailed under section 12.3 of the liabilities side, in addition to the changes in relation to the Bank's pension funds with definite contribution.

The flow of liabilities being sold "discontinuing transactions" incorporates the closing values in relation to the insurance companies, considered as of 31/12/2006 as being sold.

31 12 206
(euro '000)

	banking group	insurance companies	other companies	Total
A. Opening balance	**402,133**	**1,963**	**649**	**404,745**
B increases	**47,027**	**600**	**409**	**48,036**
B.1 provisions for the yr	41,716		368	42,084
B.2 other increases	5,311	600	41	5,952
C decreases	**48,776**	**459**	**133**	**49,368**
C.1 benefits paid	37,522		111	37,633
C.2 other decreases	11,254	459	22	11,735
D. Closing balance	**400,384**	**2,104**	**925**	**403,413**

Section 12

Reserves for risks and charges - Account 120

12.1 RESERVES FOR RISKS AND CHARGES: COMPOSITION

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1. post retirement benefits	426,080	-	592	426,672	598,520
2. other reserves for risks and charges	582,819	-	660	583,479	586,091
2.1 legal disputes	149,264	-	-	149,264	132,237
2.2 personnel charges	26,048	-	-	26,048	27,884
2.3 other	407,507	-	660	408,167	425,970
Total	**1,008,899**	**-**	**1,252**	**1,010,151**	**1,184,611**

Comparative data have been re-determined on the basis of the adjustments made in application of IAS 8 (see notes to the financial statements Part A – Accounting Policies Section 2 – General drafting principles).

In 2006 the reduction in the Bank's pension funds was due to the outsourcing of the definite contribution fund in relation to the Parent Bank's employees recruited after 1st January 1991 (about EUR 164.3 mln.). As a consequence, the fund adopted an independent legal status and financial independence.

12.2 RESERVES FOR RISKS AND CHARGES: ANNUAL CHANGES

(euro '000)

account	banking group		insurance companies		other companies		Total 31 12 2006		Total 31 12 2005	
	post retirement benefits	other allowances	post retirement benefits	other allowances	post retirement benefits	other allowances	post retirement benefits	other allowances	post retirement benefits	other allowances
A. Opening balance	598,520	582,819	-	2,153	-	1,118	598,520	586,090	411,186	645,183
B. Increases	41,367	97,007	-	78	592	139	41,959	97,224	230,748	144,402
B.1 provision for the yr	20,132	85,366		50		139	20,132	85,555	122,037	54,269
B.2 changes due to the passage of time	6,725	9,658					6,725	9,658	-	7,791
B.3 changes due to the variations in the discount rate		-					-	-	-	100
B.4 other changes	14,510	1,983		28	592		15,102	2,011	108,711	82,242
C. decreases	213,807	97,008	-	15		598	213,807	97,621	43,414	203,494
C.1 use in the yr	30,134	71,372		15		-	30,134	71,387	42,446	123,371
C.2 changes due to the variations in the discount rate		1,137					-	1,137	-	206
C.3other changes	183,673	24,499				598	183,673	25,097	968	79,917
IFRS5 "Discontinuing operations"				2,216				2,216		
closing balance	426,080	582,818	-	-	592	659	426,672	583,477	598,520	586,091

Comparative data have been re-determined on the basis of the adjustments made in application of IAS 8 (see notes to the financial statements Part A – Accounting policies Section 2 – General drafting principles).

The flow of liabilities being sold "discontinuing transactions" incorporates the closing values in relation to the insurance companies, considered as of 31/12/2006 as being sold.

12.3 DEFINED POST RETIREMENT BENEFITS

12.3.1 ILLUSTRATION OF THE FUNDS

12.3.2 VARIATIONS IN PROVISIONS DURING THE YEAR

(euro '000)

Voci/Valori	banking group			insurance companies		
	defined post retirement benefits		staff severance indemnity reserve	defined post retirement benefits		staff severance indemnity reserve
	internal plans	external plans		internal plans	external plans	
opening balance	154,046	484,154	387,557			
increases	13,245	51,543	88,767	-	-	-
current service cost	807	2,030	73,538			
finance cost	7,055	21,257	11,750			
Contributions by plan participants	2		45			
actuarial losses	5,381	28,216	884			
negative foreign exchange differences						
past service cost			(11)			
other changes		40	2,561			
Decreases	(9,264)	35,258	89,385	-	-	-
paid benefits	3,630	35,258	49,459			
past service cost						
actuarial gains	392		12,227			
negative foreign exchange differences						
curtailments	(13,286)		(4,467)			
settlements			282			
other changes			31,884			
closing balance	176,555	500,439	386,939	-	-	-

Comparative data have been re-determined on the basis of the adjustments made in application of IAS 8 (see notes to the financial statements Part A – Accounting policies Section 2 – General drafting principles).

The table shows the movements for the year with reference to internal funds, external funds and the staff severance indemnity reserve which, according to the international accounting standards, are defined as definite contribution funds. The closing balance represents the theoretical gross liabilities in relation to the fund, taking account of actuarial profits and losses which had not been posted due to the application of the "corridor" method.

	other companies			Total 31 12 2006			Total 31 12 2005	
	defined post retirement benefits		staff severance indemnity reserve	defined post retirement benefits		staff severance indemnity reserve	defined post retirement benefits	staff severance indemnity reserve
	internal plans	external plans		internal plans	external plans			
			925	154,046	484,154	388,482	35,525	404,745
	-	-	30	13,245	51,543	88,797	111,392	48,036
			2	807	2,030	73,540	5,443	31,211
				7,055	21,257	11,750	11,448	9,595
				2	-	45	2	
				5,381	28,216	884	6,962	1,278
				-	-	-		
				-	-	(11)		
			28	-	40	2,589	87,537	5,952
	-	-	(417)	(9,264)	35,258	88,968	16,208	49,368
			5	3,630	35,258	49,464	16,152	36,274
				-	-	-		
				392	-	12,227	56	(22)
				-	-	-		
				(13,286)	-	(4,467)		810
				-	-	282		572
			(422)	-	-	31,462		11,734
	-	-	1,372	176,555	500,439	388,311	130,709	403,413

12.3.2A ANALISIS OF BONDS

31 12 2006
(euro '000)

account	31 12 2006		
	internal plans	external plans	staff severance indemnity reserve
a) not financed plans	176,555		386,939
b) financed plans		500,439	
Total	176,555	500,439	386,939

12.3.3 CHANGES IN THE YEAR OF THE EXTERNAL PLANS AND OTHER INFORMATION

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
opening balances	**588,826**			**588,826**	
increases	**51,924**	**-**	**-**	**51,924**	**97,624**
expected return of plan assets	25,113			25,113	11,063
actuarial gains	26,424			26,424	
positive foreign exchange differences				-	
group's contribution to the plan	230			230	6,849
partecipant's contribution to the plan				-	
other changes	157			157	79,712
decreases	**120,602**	**-**	**-**	**120,602**	**12,409**
actuarial losses				-	
negative foreign exchange differences				-	
paid benefits	35,258			35,258	12,409
settlements	129			129	
other changes	85,215			85,215	
closing balance	**520,148**	**-**	**-**	**520,148**	**85,215**

Comparative data have been re-determined on the basis of the adjustments made in application of IAS 8 (see notes to the financial statements Part A – Accounting policies Section 2 – General drafting principles).

12.3.3.A FAIR VALUE OF THE PLAN ASSETS: COMPOSITION

(euro '000)

account	banking group		insurance companies		other companies		Total 31 12 2006		Total 31 12 2005	
	own financial instruments	total	own financial instruments	total	own financial instruments	total	own financial instruments	total	own financial instruments	total
equity instruments		34,857					x	34,857	x	
of which: own instruments	6,382							x		x
debt instruments		217,542					x	217,542	x	64,762
of which: own instruments	41,606							x		x
premises		94,692					x	94,692	x	
of which: premises used by the group								x		x
insurance							x		x	
of which: own instruments								x		x
other assets		173,057					x	173,057	x	20,453
of which: other assets used by the group	1,285						49,273	x	19,966	x
Total		**520,148**					**x**	**520,148**	**x**	**85,215**
of which: own financial instruments	49,273						49,273	x	19,966	x

12.3.4 RECONCILIATION OF PRESENT VALUES OF PROVISIONS TO PRESENT VALUE OF PLAN ASSETS AND TO THE ASSETS AND TO THE LIABILITIES RECOGNIZED IN THE BALANCE SHEET

(euro '000)

account	Total 31 12 2006		
	defined post retirement benefits		staff severance indemnity reserve
	internal plans	external plans	
present value of	176,555	500,439	388,312
Fair value of plan assets (-)	x	(520,148)	x
Status of the reserve	176,555	(19,709)	388,312
unrecognized actuarial gains (losses) (+/-)			(2,162)
unrecognized pension cost in respect of past service (-)			
Effetto derivante dal limite all'iscrizione di attività	x	19,709	x
Fair value of assets reimbursable by thirds (-)			x
assets in balance sheet	-	-	x
liabilities in balance sheet	176,555	-	386,150

This table enables the reconciliation between the current value of the funds, as per the independent actuary's estimate, and the current value of posted liabilities. As a result of the application of the "corridor" method, actuarial profits and losses are posted to the balance-sheet only when they exceed the higher of 10% of the current value of the obligation with definite contribution and 10% of the fair value of any assets servicing the plan.
With reference to internal and external welfare funds, actuarial profits and losses are posted immediately, as funds almost exclusively in relation to retired staff.

12.3.5 PRINCIPAL ACTUARIAL ASSUMPTIONS

(euro '000)

principal actuarial assumptions	Total 31 12 2006			Total 31 12 2005		
	defined post retirement benefits		staff severance indemnity reserve	defined post retirement benefits		staff severance indemnity reserve
	internal plans	external plans		internal plans	external plans	
discount rate	4.40%	4.40%	4.24%	4.50%	4.40%	3.60%
expected return on plan assets	x		x			x
rate of increase in future compensation		5.00%			5.00%	

12.3.6 COMPARATIVE DATA

12.3.6.1 OF THE BANKING GROUP

(euro '000)

account	31 12 2006		
	defined post retirement benefits		staff severance indemnity reserve
	internal plans	external plans	
present value of	176,555	500,439	386,939
Fair value of plan assets (-)	x	526,863	X
Status of the reserve	176,555	(26,424)	386,939
Rettifiche basate sull'esperienza passata alle passività del piano			
Rettifiche basate sull'esperienza passata alle attività del piano	x	(26,424)	x

12.3.6.2 OF THE INSURANCE COMPANIES

12.3.6.3 OF OTHER COMPANIES

Section 13

Insurance Reserves - Account 130

13.1 INSURANCE RESERVES: COMPOSITION

(euro '000)

account	direct business	indirect business	Total 31 12 2006	Total 31 12 2005
A. non life business	**-**	**-**	**-**	**115,862**
A1. premium reserves	-	-	-	50,411
A2. outstanding claims	-	-	-	65,451
A3. other reserves				
B. life business	**-**	**-**	**-**	**11,805,937**
B1. actuarial reserves	-		-	11,706,081
B2. reserve for amounts payable	-		-	86,956
B3. other reserves	-		-	12,900
C. insurance reserves when investment risk is borne by the insured party				
C1.relating to investment funds and index linked contracts				
C2. arising from management of pension funds				
D. Total Insurance Reserves	**-**	**-**	**-**	**11,921,799**

The data in relation to the insurance companies have been reclassified under account 90 of the balance-sheet, Liabilities associated with groups of assets being sold, sub-account "other liabilities".

13.2 INSURANCE RESERVES: ANNUAL CHANGES

31 12 2006
(euro '000)

		non life business		
		premium reserves	outstanding claims	other reserves
opening balance		**50,411**	**65,451**	**-**
Contributions	(+)			
net Premiums	(+)			
gross Premiums	(+)	67,890		
premium assessments	(+)	2,184		
fee offsetting	(-)	12,079		
accrued Pro rata amount	(-)	50,411		
on going risk Integration	(+)	2,100		
reported damages	(+)		25,043	
damages with no follow up	(-)		x	
reopened damages	(-)		x	
payments		-	-	-
of which for:				
- damages	(-)			
- redemptions	(-)			
- advances	(-)			
- transfers	(-)			
- expiries	(-)			
- coupons	(-)			
operating income	(+)			
operating expenses	(-)			
used reserve for settled damages	(-)		25,962	
Revaluations	(+)		x	
Reserve for IBNR	(+)		6,235	
other changes	(+/-)		(9,473)	
changes for Shadow Accounting	(+/-)			
changes for LAT	(+)			
IFRS5 "Discontinuing operations"		60,095	61,294	
closing balance- 31 12 2006		**-**	**-**	**-**
closing balance 31 12 2005		**50,411**	**65,451**	**-**

The flow of liabilities being sold "discontinuing transactions" incorporates the closing values in relation to the insurance companies, considered as of 31/12/2006 as being sold.

life business			insurance reserves when investment risk is borne by the insured party		Total
actuarial reserves	reserve for amounts payable	other reserves	relating to investment funds and index linked contracts	arising from management of pension funds	
11,706,081	**86,956**	**12,900**			**11,921,799**
				x	
1,417,096			x		1,417,096
					67,890
					2,184
					12,079
					50,411
					2,100
					25,043
					-
					-
-	-	-	-	-	-
					-
2,080,665			x		2,080,665
-			x	x	-
				x	-
				x	-
-			x		-
-			x		-
				x	-
				x	-
					25,962
	8,286	2,428			10,714
					6,235
266,758	5,575	(6,587)	x	x	256,273
x		16,798			
x			x		
11,309,270	100,817	25,539			11,557,015
-		**-**			**-**
11,706,081	**86,956**	**12,900**			**11,921,799**

Section 14

Reimbursable shares - Account 150

14.1 REIMBURSABLE SHARES: COMPOSITION

Section 15

Group's shareholders' Equity - Account 140, 160, 170, 180, 190, 200 and 220

15.1 GROUP'S SHAREHOLDERS' EQUITY: COMPOSITION

(euro '000)

account	Total 31 12 2006	Total 31 12 2005
1. share Capital (1)	2,029,771	2,025,989
2. share premium reserve	560,788	539,461
3. Reserves (2)	3,597,754	3,346,183
4. (tresury shares)	(45,123)	(97,467)
a) parent company	(45,123)	(97,467)
b) subsidiaries	-	-
5. valuation reserves	650,254	617,982
6. equity instruments	71,488	46,077
7. net profit (loss) pertaining to the group	910,092	753,414
Total	**7,775,024**	**7,231,639**

15.2 "SHARE CAPITAL" AND "TREASURY SHARES": COMPOSITION

15.2.A SHARE CAPITAL: COMPOSIZIONE

(euro '000)

account	31 12 2006				31 12 2005			
	par value for share	par value shares fully paid	par value shares not fully paid		par value for share	par value shares fully paid	par value shares not fully paid	
			paid in	non paid in			paid in	non paid in
ordinary shares	0.67	1,644,272			0.67	1,640,490		
preferred shares	0.67	379,180			0.67	379,180		
saving shares	0.67	6,320			0.67	6,319		
Total Share Capital		**2,029,772**				**2,025,989**		

The Parent Bank's fully paid-up share capital amounts to EUR 2,029,771,034.02 and consists of three categories of shares (i.e. ordinary shares, preferred shares and savings shares).
It consists of 2,454,137,107 ordinary shares of a nominal value of EUR 0.67 each, 565,939,729 preferred shares of a nominal value of EUR 0.67 each and 9,432,170 savings shares of a nominal value of EUR 0.67 each. Ordinary and preferred shares are registered and indivisible. All of them are voting shares. Preferred shares have no right to vote at the ordinary meetings. Savings shares are indivisible, can be registered or unregistered at the shareholder's option. Savings shares have no voting rights, and are preferred shares in relation to profit distribution and capital repayment.

In 2006 the Group issued 5,465,206 ordinary shares with an increase in the nominal value of EUR 3.7 mln in relation to the capital increase already approved, servicing the partial conversion of Convertible Preferred Securities. The Parent Bank's directors arranged the issue of shares in favour of the holders of Convertible Preferred Securities who required the conversion in September 2006. The regulation contemplates that the request for conversion can be submitted by the bond holders each year in September, from 2004 to 2010, and subsequently at any time, or no later than the month following the occurrence of the automatic conversion or the conversion in case of repayment of the Convertible Preferred Securities.
The portion subject to conversion in September 2006 was 2.6% of the original nominal value of the loan.

15.2.B TREASURY SHARES: COMPOSITION

(euro '000)

account	31 12 2006		31 12 2005	
	par value for share	balance	par value for share	balance
ordinary shares	6,259	45,123	16,163	97,467
preferred shares				
saving shares				
Total Share Capital	6,259	45,123	16,163	97,467

15.3 SHARE CAPITAL - NUMBER OF SHARES: ANNUAL CHANGES

(n. shares)

account	31 12 2006			31 12 2005		
	ordinary shares	preferred shares	saving shares	ordinary shares	preferred shares	saving shares
A. Initial numbers of shares						
- fully paid	2,448,491,901	565,939,729	9,432,170	2,448,491,901	565,939,729	9,432,170
- not fully paid						
A.1 treasury shares (-)	24,124,747	-	-	-	-	-
A.2 outstanding shares: initial number	2,424,367,154	565,939,729	9,432,170	2,448,491,901	565,939,729	9,432,170
B. Increases	53,423,932			107,536,498		
B.1 new issues	5,645,206			-		
- against payment:	5,645,206	-	-	-	-	-
- business combination						
- conversation of bonds	5,645,206					
- warrants exercised						
- other						
- free :	-			-		
- to employees						
- to directors						
- other						
B.2 sales of treasury shares	47,778,726			107,536,498		
B.3 other changes						
C. Decreases	32,995,968			131,661,245		
C.1 cancellation						
C.2 purchase of treasury shares	32,995,968			131,661,245		
C.3 business transferred						
C.4 other changes						
D. outstanding shares: final number	2,444,795,118	565,939,729	9,432,170	2,424,367,154	565,939,729	9,432,170
D.1 treasury shares (+)	9,341,989			24,124,747		
D.2 final number of shares						
- fully paid	2,454,137,107	565,939,729	9,432,170	2,448,491,901	565,939,729	9,432,170
- not fully paid						

In 2006 the Group issued 5,465,206 ordinary shares with an increase in the nominal value of EUR 3.7 mln in relation to the capital increase already approved, servicing the partial conversion of the Convertible Preferred Securities.

15.4 SHARE CAPITAL: OTHER INFORMATION

15.4.A EQUITY INSTRUMENTS: COMPOSITION AND ANNUAL CHANGES

(euro '000)

	Total 31 12 2006		Total 31 12 2005	
	net worth element of convertible bonds	other equity instruments	net worth element of convertible bonds	other equity instruments
A. opening balance	**46,077**		**46,077**	
B. increases	**27,353**		**-**	
B.1 new issue				
B.2 sales				
B.3 other changes	27,353			
C. decreases	**1,942**		**-**	
C.1 repayment				
C.2 repurchase				
C.3 other changes	1,942			
D. closing balance	**71,488**		**46,077**	

"Equity instruments" incorporate the capital component in relation to the bonds issued by the Parent Bank and convertible into own shares. In particular, the value was quantified upon the issue of the Convertible Preferred Securities, in relation to the implicit option which, pursuant to IAS32, shall be separated from the bond instrument since it is deemed to be an instrument representative of capital.

The amount shown in the line of "other changes" is in relation to the updated accounting of tax estimate.

15.5 RESERVES FROM ALLOCATION OF PROFIT FROM PREVIOUS YEAR: OTHER INFORMATION

15.6 REVALUATION RESERVE: COMPOSITION

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1. financial assets available for sale	385,368		(2,131)	383,237	520,443
2. fixed assets	x	x	x	x	x
3. intangible assets	x	x	x	x	x
4. foreign investment hedges	-			-	
5. cash flow hedges	16,582			16,582	(20,105)
6. exchange differences	(793)			(793)	1,881
7. non current assets held for sale		33,478		33,478	-
8. special revaluation laws	189,814		27,936	217,750	115,763
Total	**590,971**	**33,478**	**25,805**	**650,254**	**617,982**

The table details the valuation reserves existing in the Group's net equity.
In particular, it embraces IAS reserves in relation to the portfolio available for sale (which shows the net capital gain/capital loss resulting from the fair value valuation of the financial instruments in the AFS portfolio), the hedging of financial flows (which shows the "fair value" of cash flow hedge hedging derivatives), foreign exchange differences. The reserves in relation to special revaluation laws and in particular law 266/2005 are also indicated.

The increase in the revaluation reserve is mostly attributable to the reclassification of a portion of the extraordinary reserve (See the note at the foot of the statement of changes in consolidated net equity).

The reserve of "Non current assets being sold" includes the reclassification of the reserves "financial assets available for sale" and the reserves "Special revaluation laws" in relation to the subsidiaries Montepaschi Vita and Montepaschi Assicurazione Danni considered as of 31/12/2006 as being sold.

15.7 REVALUATION RESERVE: ANNUAL CHANGES

15.7.1 OF THE BANKING GROUP

31 12 2006
(euro '000)

	financial assets available for sale	tangible assets	intangible assets	foreign investment hedges	cash flow hedges	exchange differences	non current assets held for sale	special revaluation laws
A. Opening balance	**501,070**	**x**	**x**	**-**	**(20,105)**	**1,881**		**77,743**
B. Increases	136,569	x	x	-	54,350	-	-	118,273
B1. fair value increases	126,369	x	x	-	54,350			-
B2. other changes	10,200	x	x		-	-		118,273
C. Decreases	252,271	x	x	-	17,663	(2,674)	-	6,202
C1. fair value decreases	19,834	x	x	-	16,849			
C2. other changes	232,437	x	x	-	814	(2,674)		6,202
D. closing balance	**385,368**	**x**	**x**	**-**	**16,582**	**(793)**	**-**	**189,814**

The other changes (decreases) in relation to the valuation reserve of financial asstes available for sale mostly refer to the retransfer to the profit and loss statement of the positive reserves resulting from the sale of the equity investments held in Generali and BNL.

31 12 2005
(euro '000)

	financial assets available for sale	tangible assets	intangible assets	foreign investment hedges	cash flow hedges	exchange differences	non current assets held for sale	special revaluation laws
closing balance prior year		**x**	**x**			**(2,605)**		**427,433**
effects of accounting principles' changes	**396,647**	**x**	**x**		**(41,087)**			**1,036**
A. Opening balance	**396,647**	**x**	**x**	**-**	**(41,087)**	**(2,605)**		**428,469**
B. Increases		x	x					
B1. fair value increases	146,796	x	x		20,204	5,194		338
B2. other changes	(163)	x	x		778	41		(21,111)
C. Decreases		x	x					
C1. fair value decreases	16,179	x	x			(445)		
C2. other changes	26,031	x	x			1,194		329,953
D. closing balance	**501,070**	**x**	**x**	**-**	**(20,105)**	**1,881**	**-**	**77,743**

15.7.2 OF THE INSURANCE COMPANIES

31 12 2006
(euro '000)

	financial assets available for sale	tangible assets	intangible assets	foreign investment hedges	cash flow hedges	exchange differences	non current assets held for sale	special revaluation laws
A. Opening balance	**19,373**	**x**	**x**					**10,084**
B. Increases		x	x					
B1. fair value increases	-	x	x					-
B2. other changes	25,474	x	x					-
C. Decreases		x	x					
C1. fair value decreases	63	x	x					
C2. other changes	19,078	x	x					2,312
IFRS5 "Discontinuing operations"	(25,706)						33,478	(7,772)
D. closing balance	**-**	**x**	**x**	**-**	**-**	**-**	**33,478**	**-**

31 12 2005
(euro '000)

	financial assets available for sale	tangible assets	intangible assets	foreign investment hedges	cash flow hedges	exchange differences	non current assets held for sale	special revaluation laws
closing balance prior year		**x**	**x**					**7,772**
effects of accounting principles' changes	**23,368**	**x**	**x**					**560**
A. Opening balance	**23,368**	**x**	**x**					**8,332**
B. Increases		x	x					
B1. fair value increases	569	x	x					17,953
B2. other changes	23,397	x	x					(5,930)
C. Decreases		x	x					
C1. fair value decreases	15	x	x					
C2. other changes	27,946	x	x					10,271
D. closing balance	**19,373**	**x**	**x**	**-**	**-**	**-**	**-**	**10,084**

15.7.3 OF OTHER COMPANIES

31 12 2006
(euro '000)

	financial assets available for sale	tangible assets	intangible assets	foreign investment hedges	cash flow hedges	exchange differences	non current assets held for sale	special revaluation laws
A. Opening balance	**-**	**x**	**x**					**27,936**
B. Increases		x	x					
B1. fair value increases		x	x					
B2. other changes		x	x					
C. Decreases	**2,131**	x	x					
C1. fair value decreases	2,131	x	x					
C2. other changes		x	x					-
D. closing balance	**(2,131)**	**x**	**x**	**-**	**-**	**-**	**-**	**27,936**

31 12 2005
(euro '000)

	financial assets available for sale	tangible assets	intangible assets	foreign investment hedges	cash flow hedges	exchange differences	non current assets held for sale	special revaluation laws
closing balance prior year		**x**	**x**					**28,856**
effects of accounting principles' changes		**x**	**x**					
A. Opening balance		**x**	**x**					**28,856**
B. Increases		x	x					
B1. fair value increases		x	x					
B2. other changes		x	x					
C. Decreases		x	x					
C1. fair value decreases		x	x					
C2. other changes		x	x					920
D. closing balance	**-**	**x**	**x**	**-**	**-**	**-**	**-**	**27,936**

15.8 VALUATION RESERVES FOR FINANCIAL ASSETS VAILABLE FOR SALE: COMPOSITION

(euro '000)

values	banking group		insurance companies		other companies		Total 31 12 2006		Total 31 12 2005	
	positive reserve	negative reserve	positive reserve	negative reserve	positive reserve	negative reserve	positive reserve	negative reserve	positive reserve	negative reserve
1. debt securities	7,171	14,471					7,171	14,471	48,033	6,698
2. equity securities	542,923	147,667				2,131	542,923	149,798	685,594	197,875
3. Quotas of UCITS	6,213	8,801					6,213	8,801	608	2,091
4. loans			-				-	-	(7,128)	-
Total	556,307	170,939	-	-	-	2,131	556,307	173,070	727,107	206,664

15.9 VALUATION RESERVES OF FINANCIAL ASSETS AVAILABLE FOR SALE: ANNUAL CHANGES

15.9.1 OF THE BANKING GROUP

31 12 2006
(euro '000)

	debt securities	equity securities	Quotas of UCITS	loans	Total
1. opening balance	**1,851**	**500,213**	**(994)**		**501,070**
2. positive changes	5,268	117,515	13,762	-	136,545
2.1 fair value increases	5,236	107,388	13,762		126,386
2.2 reclassification through profit and loss of negative provision	-	4,212	-	-	4,212
-due to impairment		2,200			
-following disposal		2,012			
2.3 other changes	32	5,915			5,947
3. negative changes	14,420	222,471	15,356	-	252,247
3.1 fair value decreases	11,038	8,490	307		19,835
3.2 impairment losses					-
3.3 reclassification through profit and loss of positive reserves: -following disposal	1,886	201,424	15,049		218,359
3.4 other changes	1,496	12,557			14,053
4. closing balance	**(7,301)**	**395,257**	**(2,588)**	**-**	**385,368**

31 12 2005
(euro '000)

	debt securities	equity securities	Quotas of UCITS	loans	Total
closing balance prior year	**39,048**	**357,599**			**396,647**
effects of accounting principles' changes					
1. opening balance	**39,048**	**357,599**			**396,647**
2. positive changes					
2.1 fair value increases	137	147,653	(994)		146,796
2.2 reclassification through profit and loss of negative provision					-
-due to impairment					
-following disposal					
2.3 other changes	(9)	(153)			(162)
3. negative changes					
3.1 fair value decreases	4,387	11,792			16,179
3.2 impairment losses	(173)	(19,175)			(19,348)
3.3 reclassification through profit and loss of positive reserves: -following disposal	30,888	12,269			43,157
3.4 other changes	2,223				2,223
4. closing balance	**1,851**	**500,213**	**(994)**		**501,070**

15.9.2 OF THE INSURANCE COMPANIES

31 12 2006
(euro '000)

	debt securities	equity securities	Quotas of UCITS	loans	Total
1. opening balance	**23,904**		**-**	**(4,531)**	**19,373**
2. positive changes	20,942	-	-	4,531	25,473
2.1 fair value increases			-		-
2.2 reclassification through profit and loss					-
of negative provision					
-due to impairment					
-following disposal					
2.3 other changes	20,942			4,531	25,473
3. negative changes	19,140	-	-	-	63
3.1 fair value decreases	63		-		-
3.2 impairment losses			-		-
3.3 reclassification through profit and loss			-		
of positive reserves:					
-following disposal			-		
3.4 other changes	19,077		-		19,077
IFRS5 “Discontinuing operations”	(25,706)				(25,706)
4. closing balance	**-**	**-**	**-**	**-**	**-**

31 12 2005
(euro '000)

	debt securities	equity securities	Quotas of UCITS	loans	Total
closing balance prior year	**23,368**				**23,368**
effects of accounting principles' changes					
1. opening balance	**23,368**				**23,368**
2. positive changes					
2.1 fair value increases	569				569
2.2 reclassification through profit and loss					-
of negative provision					
-due to impairment					
-following disposal					
2.3 other changes	23,397				23,397
3. negative changes					
3.1 fair value decreases	15				15
3.2 impairment losses					-
3.3 reclassification through profit and loss					-
of positive reserves:					
-following disposal					
3.4 other changes	23,415			4,531	27,946
4. closing balance	**23,904**	**-**	**-**	**(4,531)**	**19,373**

15.9.3 OF OTHER COMPANIES

31 12 2006
(euro '000)

	debt securities	equity securities	Quotas of UCITS	loans	Total
1. opening balance	**-**	**-**	**-**	**-**	**-**
2. positive changes	-	-	-	-	-
2.1 fair value increases			-		-
2.2 reclassification through profit and loss of negative provision					-
-due to impairment					
-following disposal					
2.3 other changes			-		-
3. negative changes	-	2,131	-	-	2,131
3.1 fair value decreases		2,131	-		2,131
3.2 impairment losses			-		-
3.3 reclassification through profit and loss of positive reserves:			-		-
-following disposal			-		
3.4 other changes			-		-
4. closing balance	**-**	**(2,131)**	**-**	**-**	**(2,131)**

31 12 2005
(euro '000)

	debt securities	equity securities	Quotas of UCITS	loans	Total
closing balance prior year					**-**
effects of accounting principles' changes					**-**
1. opening balance	**-**				**-**
2. positive changes					
2.1 fair value increases					-
2.2 reclassification through profit and loss of negative provision					-
-due to impairment					
-following disposal					
2.3 other changes					-
3. negative changes					
3.1 fair value decreases					-
3.2 impairment losses					-
3.3 reclassification through profit and loss of positive reserves:					-
-following disposal					
3.4 other changes					-
4. closing balance	**-**	**-**	**-**	**-**	**-**

15.9.1A REVALUATION RESERVES FOR ASSETS AVAILABLE FOR SALE: ANNUAL CHANGES OF GROUP'S EQUITY SECURITIES

account	opening balance	Positive changes			
		FV increases	recl profit and loss negat reserves		other changes
			due to impairment	following disposal	
Assicurazioni Generali	134,587				
Banca d'Italia	342,952				
BNL	46,350				
Borsa Italiana	33,460				
Centrale Bilanci	19,702	5			
Energia Italiana	2,929	8,822			
Istituto per il Credito Sportivo	40,853	2,860			
S.S.B.	4,606	4,354			
Sansedoni	6,185	1,137			
Santorini Investment	(154,597)	65,955			
Spoleto Crediti e Servizi	5,044				
other of Parent Company	3,462				
other of Group	5,284				4,883
finance equity securities	9,396				4,622
Total	**500,213**	**83,133**	**-**	**-**	**9,505**

The table contains a breakdown of capital gains and capital losses posted to the reserve of the portfolio available for sale for the main equity investments and, therefore, details previous tables 15.8 and 15.9. The column of disposals indicates the amount of the reserves written off due to sale of the relative equity investments, and consequently posted to the profit and loss statement.

The stake held in Santorini due to the acquisition of control has been consolidated fully.

negative changes				closing balance	
	recl profit and loss negat reserves				
FV decreases	impairment losses	following disposal	other changes	31 12 2006	31 12 2005
		134,587		-	134,587
				342,952	342,952
		46,350		-	46,350
		(822)		34,282	33,460
				19,707	19,702
				11,751	2,929
				43,713	40,853
				8,960	4,606
				7,322	6,185
				(88,642)	(154,597)
				5,044	5,044
			3,462	-	3,462
				10,167	5,284
				14,018	9,396
-	**-**	**180,115**	3,462	**395,256**	**500,213**

Section 16

Minority interests - Account 210

16.1 MINORITY INTERESTS: COMPOSITION

(euro '000)

account		banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1)	share capital	7,157		15	7,172	8,354
2)	additional paid-in capital	7,161		4	7,165	6,915
3)	Reserves	3,263		(394)	2,869	5,797
4)	(treasury shares)					
5)	valuation reserves	1,371			1,371	1,225
6)	equity instruments					
7)	profit (loss) for the yr -minority interest	18,802		373	19,175	23,464
	Total	**37,754**	**-**	**(2)**	**37,752**	**45,755**

16.2 VALUATION RESERVES: COMPOSITION

(euro '000)

account		banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1)	financial assets available for sale	87			87	13
2)	tangible assets	x	x	x	x	x
3)	intangible assets	x	x	x	x	x
4)	foreign investment hedges				-	-
5)	cash flow hedges				-	-
6)	exchange differences				-	-
7)	non current assets held for sale				-	-
8)	special revaluation laws	1,284			1,284	1,212
	Total	**1,371**	**-**	**-**	**1,371**	**1,225**

16.3 EQUITY INSTRUMENTS: COMPOSITION AND ANNUAL CHANGES

16.4 VALUATION RESERVES FOR FINANCIAL ASSETS VAILABLE FOR SALE: COMPOSITION

31 12 2006
(euro '000)

account	banking group		insurance companies		other companies		Total	
	positive reserve	negative reserve	positive reserve	negative reserve	positive reserve	negative reserve	positive reserve	negative reserve
1. debt securities							-	-
2. equity securities	5	(12)					5	(12)
3. Quotas of UCITS	141	(47)					141	(47)
4. loans							-	-
Total	**146**	**(59)**					**146**	**(59)**

31 12 2005
(euro '000)

account	banking group		insurance companies		other companies		Total	
	positive reserve	negative reserve	positive reserve	negative reserve	positive reserve	negative reserve	positive reserve	negative reserve
1. debt securities							-	-
2. equity securities	6	(10)					6	(10)
3. Quotas of UCITS	25	(8)					25	(8)
4. loans							-	-
Total	**31**	**(18)**					**31**	**(18)**

16.5 VALUATION RESERVES: ANNUAL CHANGES

16.5.1 OF THE BANKING GROUP

31 12 2006
(euro '000)

	financial assets available for sale	tangible assets	intangible assets	foreign investment hedges	cash flow hedges	exchange differences	non current assets held for sale	special revaluation laws
1. opening balance	**12**	**x**	**x**	**x**	**x**			**1,212**
B. increases		x	x					
B1. fair value increases	81	x	x					x
B2. other changes	-							81
C. Diminuzioni		x	x					
C1. fair value decreases	2	x	x					x
C2. other changes	4	x	x					9
D. closing balance	**87**	**x**	**x**					**1,284**

31 12 2005
(euro '000)

	financial assets available for sale	tangible assets	intangible assets	foreign investment hedges	cash flow hedges	exchange differences	non current assets held for sale	special revaluation laws
closing balance prior year		x	x	x	x			1,205
effects of accounting principles' changes	**4**	**x**	**x**	**x**	**x**			
A.opening balance	**4**	**x**	**x**	**x**	**x**			**1,205**
B. increases		x	x					
B1. fair value increases		x	x					x
B2. other changes	13							7
C. Decreases		x	x					
C1. fair value decreases		x	x					x
C2. other changes	4	x	x					
D. closing balance	**13**	**x**	**x**					**1,212**

16.5.2 OF THE INSURANCE COMPANIES

16.5.3 OF OTHER COMPANIES

Section 17

Other information

1 GUARANTEES GIVEN AND COMMITMENTS

(euro '000)

	transaction	banking group	insurance companies	other comapnies	total 31 12 2006	total 31 12 2005
1)	financial guarantees given	5,524,313	-	-	5,524,313	4,557,975
	a) Banks	2,292,487			2,292,487	1,568,829
	b) Customers	3,231,826			3,231,826	2,989,146
2)	commercial guarantees given	3,573,815	-	-	3,573,815	3,172,320
	a) Banks	158,389			158,389	166,369
	b) Customers	3,415,426			3,415,426	3,005,951
3)	irrevocable commitments to lend funds	8,938,324	-	-	8,938,324	26,593,476
	a) Banks	1,007,418	-	-	1,007,418	953,808
	i) usage certain	387,516			387,516	307,442
	ii) usage uncertain	619,902			619,902	646,366
	b) Customers	7,930,906	-	-	7,930,906	25,639,668
	i) usage certain	3,014,590			3,014,590	20,528,921
	ii) usage uncertain	4,916,316			4,916,316	5,110,747
4)	underlying commitments on credit derivatives: protection sales	5,060,462			5,060,462	2,158,649
5)	assets pledged as collateral of third party commitments	8,818			8,818	22
6)	other commitments	1,865,283			1,865,283	1,405,028
Total		**24,971,015**	**-**	**-**	**24,971,015**	**37,887,470**

2 ASSETS USED TO GUARANTEE OWN LIABILITIES AND COMMITMENTS

(euro '000)

portfolio	31 12 2006	31 12 2005
1. financial assets held for trading	6,405,174	11,436,840
2. financial assets carried at fair value		
3. financial assets available for sale	3,783	
4. financial assets held to maturity		
5. due from banks	372,545	1,494,280
6. customer loans	91,781	3,915
7. tangible assets		

5 MANAGEMENT AND TRADING ON BEHALF OF OTHERS: BANKING GROUP

(euro '000)

services		total 31 12 2006	total 31 12 2005
1.	**trading in financial instruments on behalf of third parties**	**36,895,454**	**32,519,412**
	a) purchases	18,447,460	16,260,218
	1. settled	18,432,970	16,260,218
	2. to be settled	14,490	
	b) sales	18,447,994	16,259,194
	1. settled	18,433,520	16,259,173
	2. to be settled	14,474	21
2.	**asset management**	**11,014,563**	**11,200,281**
	a) individual	4,165,891	4,899,086
	b) collective	6,848,672	6,301,195
3.	**Custody and administration of securities**	**263,871,899**	**263,550,670**
	a) third parties securities held in deposit related to depositary bank activities (excluding asset managementi)	14,929,732	14,638,341
	1. securities issued by companies ancluded in consolidation	40,160	36,650
	2. other securities	14,889,572	14,601,691
	b) third parties securities held in deposit (excluding asset managementi):	112,769,152	120,688,310
	1. securities issued by companies ancluded in consolidation	17,863,750	15,758,158
	2. other securities	94,905,402	104,930,152
	c) third parties securities deposited with third parties	122,225,546	111,098,843
	d) portfolio securities deposited with third parties	13,947,469	17,125,176
4.	**other transactions**	**3,900,575**	**70,207,262**
	4.1 credit collection on behalf of third parties: debit and credit adjustments	(162,018)	(5,561,203)
	a) debit adjustments	10,795,041	1,394,727
	1. current accounts	55,091	36,412
	2. central portfolio	8,645,021	1,207,868
	3. cash	309	
	4.other accounts	2,094,620	150,447
	b) credit adjustments	10,957,059	6,955,930
	1. current accounts	217,405	150,447
	2. transferor of bills and documents	10,739,654	6,769,071
	3.other accounts	-	36,412
	4.2 other transactions	4,062,593	75,768,465
	a) third parties portfolio for collection	1,418,276	1,348,900
	b) tax collection service	-	71,808,308
	outstanding taxrolls	-	1,379,034
	instalmentspayable and already advanced to the tax levying authorities	-	-
	payable received taxrolls	-	70,429,274
	c) other	2,644,317	2,611,257

6 MANAGEMENT AND TRADING ON BEHALF OF OTHERS: INSURANCE COMPANIES

7 MANAGEMENT AND TRADING ON BEHALF OF OTHERS: OTHER COMPANIES

PART B SCHEDULE

FAIR VALUE VALUATION REGARDING FINANCIAL INSTRUMENTS

1 - SUMMARY OF BALANCE SHEET/FAIR VALUE OF FINANCIAL INSTRUMENTS

portfolio	31 12 2006		
	balance sheet value	Fair value	Plus/minus potential
ASSETS			
financial assets held for trading	26,430,328	26,430,328	-
financial assets carried at fair value	-		-
financial assets available for sale	4,147,809	4,147,809	-
financial assets held to maturity	3	3	-
due from banks	11,991,033	12,001,953	10,920
Customers loans	91,941,019	93,423,356	1,482,337
change in value of financial assets recorded as part of a macrohedge	32,621	-	(32,621)
hedging derivatives	17,229	17,229	-
financial assets from discontinued operations	15,312,753	15,312,753	-
LIABILITIES			
due to banks	15,877,619	15,877,818	199
customer deposits	54,086,619	54,055,578	(31,041)
securities issued	29,243,772	29,305,997	62,225
financial liabilities held for trading	16,714,577	16,793,655	79,078
financial liabilities carried at fair value	10,645,899	10,645,899	-
hedging derivatives	94,328	94,328	-
financial liabilities from discontinued operations	18,429,282	18,436,965	7,683
Total	294,964,891	296,543,671	1,578,780

The table compares the fair value of the financial instruments with the relative book value and summarizes the results already shown in Part B in compliance with the reporting required by the Bank of Italy.
The comparison between balance-sheet data and fair value shows no difference in relation to the portfolios which are valued at fair value for the purpose of the financial statements. Loans (assets) and outstanding securities (liabilities), which are valued at amortized cost, are the accounts which show the most significant differences.

The following methods and assumptions were adopted for the determination of the fair value of the financial instruments:

with reference to debt securities held, irrespective of any classifications in the categories contemplated by IAS 39, in the case of securities listed in an active market, the Group adopted the year-end price quoted in that market. Failing any quotations in an active market, the Group identifies the comparable financial instruments having the financial characteristics of the instrument itself or updates cash flows including any factor which might influence the instrument value (e.g. credit risk and volatility);

the fair value of financial assets and liabilities with residual maturities of 18 months or lower has been reasonably approximated to their book value;

- with respect to demand lending and funding, the Group assumed the prompt maturity of the contractual obligations, corresponding to the date of the financial statements. Therefore, their fair value is approximate to book value;

- the fair value of performing medium-/long-term customer loans results from internally developed valuation techniques, by updating the residual contractual flows at the ruling interest rates. In particular, future cash flows have been adjusted with the expected losses (lump-sum adjustments) and updated using a free-risk interest rate curve;

- the fair value of impaired assets results from internally developed valuation techniques, by updating the residual cash flows as contemplated by each repayment schedule at the ruling free-risk interest rates. In this case, updating rates are free of risk, since the flows subject to updating are not contractual flows, but the flows after deducting expected losses;

- additional information concerning medium-/long-term liabilities and outstanding securities valued at fair value (FVO) is provided in section 5 of the liabilities side, Table 5. 1- financial liabilities valued at fair value;

- the fair value of medium-/long-term liabilities, represented by securities, has been determined by updating the residual contractual flows at the interest rates on the basis of which the Group might raise funds with similar characteristics in the market of reference as of the date of valuation, in compliance with the standards adopted for the instruments valued at fair value (FVO).

The standards used and the models adopted are homogeneous within the Group, but might be different from the criteria adopted and used by other Banking Groups, as already stated. Therefore, any comparison between internal models might be impossible.

Since IAS/IFRS do not require fair value reporting in relation to all the Group's assets and liabilities, excluding some financial instruments (e.g. demand funding) and in general a good portion of non-financial elements (i.e. goodwill, tangible assets, equity investments classified under account 100 of the assets side in the balance-sheet etc.), the resulting global fair value might not represent an estimate of the Group's economic value.

PART C

INFORMATION ON THE CONSOLIDATED PROFIT AND LOSS STATEMENT

Section 1

Interest - account 10 and 20

1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

1.1.1 OF THE BANKING GROUP

(euro '000)

account	unimpaired financial assets		non performing financial assets	other assets	Total 31 12 2006	Total 31 12 2005
	debt securities	loans				
1. financial assets held for trading	218,944	261,314		258,262	738,520	652,922
2. financial assets carried at fair value	30			x	30	261
3. financial assets available for sale	105,565			x	105,565	108,678
4. financial assets held to maturity	-			x	-	404
5. due from banks	213	403,490	135	11,753	415,591	210,215
6. Customers loans	45,560	4,157,209	219,569	35,299	4,457,637	3,791,137
7. hedging derivatives	x	x	x	-	-	37,118
8. financial assets sold but not derecognised	147,538			x	147,538	-
9. other assets	x	x	x	12,356	12,356	2,166
Total	517,850	4,822,013	219,704	317,670	5,877,237	4,802,901

The column of impaired financial assets shows the interest paid on such assets calculated, with reference to the financial assets valued at amortized cost, in accordance with the actual interest rate method and interest on arrears actually collected. Accrued interest on arrears, which are totally writen down since they are deemed to be unrecoverable, contribute to interest income only with respect to the portion actually recovered.

The line of financial assets held for trading purposes, in the column of other assets, include :

- positive and negative differentials and margins on derivative contracts associated with interest-bearing financial assets and liabilities, classified in the trading portfolio;
- margins between forward exchange as established in the outright contracts and the spot exchange ruling upon the execution of the contracts.

The line of financial assets sold but not written off shows interest income accrued on securities held, subject to funding repurchase agreements which, according to the international accounting principles, shall not be cancelled from balance-sheet assets, since the spot sale with a simultaneous commitment to repurchase does not imply the transfer of any risks and benefits. The line of other assets, column of other assets, shows interest accrued on tax credit and other residual assets.

1.1.2 OF THE INSURANCE COMPANIES

The table in relation to the insurance companies shows no value, since the subsidiaries Montepaschi Vita, Montepaschi Assicurazione Danni and Montepaschi Life have been considered as being sold with the subsequent reclassification of the data as of 31/12/2006 and comparative data under account 310 in the profit and loss statement, Profits from groups of assets being sold after taxes, sub-account "profits".

1.1.3 OF OTHER COMPANIES

(euro '000)

account	unimpaired financial assets		non performing financial assets	other assets	Total 31 12 2006	Total 31 12 2005
	debt securities	loans				
1. financial assets held for trading	-			x	-	-
2. financial assets carried at fair value				x	-	-
3. financial assets available for sale	-			-	-	19
4. financial assets held to maturity				x	-	-
5. due from banks		-		x	-	-
6. Customers loans		-	-	x	-	-
7. hedging derivatives	x	x	x	-	-	-
8. financial assets sold but not derecognised				x	-	-
9. other assets	x	x	x	-	-	2
Total	-	-	-	-	-	21

1.2.A INTEREST AND SIMILAR INCOME: DIFFERENTIALS ON HEDGING DERIVATIVES UTILISED IN FAIR VALUE OPTION

(in alternative to schedule 1.5.a Interest and similarexpense: differentials on hedging derivatives utilised in fair value option)

(euro '000)

account	banking group	insurance compnaies	other companies	Total 31 12 2006	Total 31 12 2005
differentials	129,327			129,327	42,004

1.3 INTEREST AND SIMILAR INCOME: OTHER INFORMATION

1.3.1 INTEREST INCOME ON FOREIGN CURRENCY FINANCIAL ASSETS

(euro '000)

account	banking group	insurance compnaies	other companies	Total 31 12 2006	Total 31 12 2005
Interest income on foreign currency financial assets	311,986			311,986	98,582

1.3.2 INTEREST INCOME ON FINANCE LEASE RECEIVABLES

(euro '000)

account	banking group	insurance compnaies	other companies	Total 31 12 2006	Total 31 12 2005
Interest income on finance lease receivables	165,574			165,574	126,279

1.3.2 INTEREST INCOME ON FINANCE LEASE RECEIVABLES

(euro '000)

account	banking group	insurance compnaies	other companies	Total 31 12 2006	Total 31 12 2005
Interest income on loans using public funds under administration	290			290	253

1.4 INTEREST AND SIMILAR EXPENSE: COMPOSITION

1.4.1 OF THE BANKING GROUP

(euro '000)

account	debts	securities	other liabilities	Total 31 12 2006	Total 31 12 2005
1. due to banks	590,223	x	10,880	601,103	379,185
2. customer deposits	784,981	x	3,798	788,779	500,309
3. issued securities		894,458	-	894,458	636,277
4. financial liabilities held for trading	257,707	23,890	5,100	286,697	177,621
5. financial liabilities carried at fair value		364,922	-	364,922	491,209
6. financial liabilities relating to assets sold not derecognised	107,078	12,379	2,070	121,527	8,709
7. other liabilities	x	x	463	463	7,148
8. hedging derivatives	x	x	52,784	52,784	16,110
Total	1,739,989	1,295,649	75,095	3,110,733	2,216,568

The line of "financial liabilities with respect to assets sold but not written off" shows the charges in relation to liabilities for payable repurchase agreements on securities held. The charges in relation to liabilities for payable repurchase agreements on receivable repurchase agreements are shown under "due to banks" and "customer deposits", column of liabilities.

"Outstanding securities" indicate interest expense accrued during the year in relation to bonds and certificates of deposit valued at amortized cost. The line of hedging derivatives shows the negative balance between positive and negative differentials on derivative contracts classified as hedging, according to the hedge accounting rules provided for by IAS39. The following table 1.5 re-opens the net balance and separately shows income and charges, taking account of the different types of hedging implemented.

The account of trading financial liabilities includes interest expense on the technical overdrafts of the trading portfolio, with no set-off with interest income on the corresponding financial assets.

1.4.2 OF THE INSURANCE COMPANIES

The table shows no value, since the insurance companies have been considered as being sold, with the subsequent reclassification of data as of 31/12/2006 and comparative data under account 310 of the profit and loss statement, sub-account "charges".

1.4.3 OF OTHER COMPANIES

(euro '000)

account	debts	securities	other liabilities	Total 31 12 2006	Total 31 12 2005
1. due to banks	151	x		151	9
2. customer deposits		x		-	-
3. issued securities	x			-	-
4. financial liabilities held for trading				-	-
5. financial liabilities carried at fair value				-	-
6. financial liabilities relating to assets sold not derecognised				-	-
7. other liabilities	x	x	53	53	15
8. hedging derivatives	x	x	-	-	-
Total	151	-	53	204	24

1.5 INTEREST AND SIMILAR EXPENSE: DIFFERENTIALS ON HEDGING TRANSACTIONS

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
A. positive differentials relating to operations of:					
A.1 specific hedges of assets fair value	50,136			50,136	
A.2 specific hedges of liabilities fair value	506			506	
A.3 generic hedges of interest rate' risk	4,391			4,391	
A.4 specific hedges of assets' financial flows				-	
A.5 specific hedges of liabilities' financial flows	56,935			56,935	
A.6 financial flows' generic hedges				-	
positive differentials Total (A)	111,968	-	-	111,968	
B. Differenziali negativi relativi a operazioni di:					
B.1 specific hedges of assets fair value	70,241			70,241	
B.2 specific hedges of liabilities fair value	684			684	
B.3 generic hedges of interest rate' risk	13,810			13,810	
B.4 specific hedges of assets' financial flows				-	
B.5 specific hedges of liabilities' financial flows	80,017			80,017	
B.6 financial flows' generic hedges				-	
negative differentials Total (B)	164,752	-	-	164,752	-
C. balance (A-B)	(52,784)	-	-	(52,784)	-

This table is a breakdown of account "Hedging derivatives" of Table 1.4.1 similar interest expense and charges. In particular, the table shows the opening of negative and positive differentials on "Hedge accounting" hedging contracts IAS39, with the different types of hedging executed.

1.5.A INTEREST AND SIMILAR EXPENSE: DIFFERENTIALS ON HEDGING DERIVATIVES UTILISED IN FAIR VALUE OPTION

(In alternative to schedule 1.2.a Interest and similar income: differentials on hedging derivatives utilised in fair value option

(euro '000)

account	banking group	insurance compnaies	other companies	Total 31 12 2006	Total 31 12 2005
Differentials	4,412			4,412	45,456

1.6 INTEREST AND SIMILAR EXPENSE: OTHER INFORMATION

1.6.1 INTEREST EXPENSE ON LIABILITIES DENOMINATED IN CURRENCY

(euro '000)

account	banking group	insurance compnaies	other companies	Total 31 12 2006	Total 31 12 2005
Interest expense on liabilities denominated in currency	560,381			560,381	232,043

1.6.2 INTEREST EXPENSE ON FINANCE LEASE PAYABLES

(euro '000)

account	banking group	insurance compnaies	other companies	Total 31 12 2006	Total 31 12 2005
Interest expense on finance lease payables	4			4	5

1.6.3 INTERESSI PASSIVI SU FONDI DI TERZI IN AMMINISTRAZIONE

(euro '000)

account	banking group	insurance compnaies	other companies	Total 31 12 2006	Total 31 12 2005
Interest expense on public funds under administration	7,523			7,523	7,118

Section 2

Commissions - Account 40 and 50

2.1 EARNED COMMISSIONS: COMPOSITION

2.1.1 OF THE BANKING GROUP

(euro '000)

values	Total 31 12 2006	Total 31 12 2005
a) guarantees given	38,604	39,857
b) credit derivatives	-	526
c) administration, brokerage and consultancy services:	913,550	907,861
1. financial instrument dealing	56,442	60,040
2. currency dealing	45,965	47,422
3. asset management	416,468	402,658
3.1 individual	123,617	109,323
3.2 collective	292,851	293,335
4. custody and administration of securities	18,094	19,360
5. depositary bank	28,779	24,950
6. placement of securities	40,750	25,801
7. client instructions	45,764	44,184
8. advisory services	5,637	6,318
9. distribution of third party services	255,651	277,128
9.1 asset management	2,531	2,637
9.1.1 individual		
9.1.2 collective	2,531	2,637
9.2 insurance products	80,485	86,287
9.3 other products	172,635	188,204
d) collection and payment services	180,170	132,316
e) securitisation servicing	15,614	17,473
f) factoring	16,465	14,973
g) tax collection services	-	
h) other services	433,543	465,758
Total	1,597,946	1,578,764

Insurance products under point 9.2 include the commissions resulting from the distribution of the insurance products of the Montepaschi Vita Group.

2.1.2 OF INSURANCE COMPANIES

The table shows no value since the insurance companies have been considered as being sold.

2.1.3 OF OTHER COMPANIES

2.2 EARNED COMMISSION: BY DISTRIBUTION CHANNEL: BANKING GROUP

(euro '000)

values	Total 31 12 2006	Total 31 12 2005
a) group branches:		
1. asset management	324,828	347,811
2. security dealing	18,336	18,813
3. third party servicesi and products	269,276	270,276
b) off-site:		
1. asset management	3,077	2,201
2. security dealing	10,411	6,988
3. third party servicesi and products	9,379	6,852
c) other distribution channels:		
1. asset management	65,461	52,646
2. security dealing	12,004	
3. third party servicesi and products		

2.3 COMMISSION EXPENSE: COMPOSITION

2.3.1 OF THE BANKING GROUP

(euro '000)

values	Total 31 12 2006	Total 31 12 2005
a) guarantees received	905	1,040
b) credit derivatives	-	428
c) administration, brokerage and consultancy services:	73,224	69,158
1. financial instrument dealing	12,618	13,449
2. currency dealing	622	456
3. asset management:	17,235	16,590
3.1 own portfolio	13,561	13,038
3.2 others' portfolio	3,674	3,552
4. custody and administration of securities	12,240	13,310
5. placement of securities	2,421	1,914
6. off-site distribution of financial instruments, products and services	28,088	23,439
d) collection and payment services	33,856	19,112
e) other services	68,775	71,778
Total	176,760	161,516

2.3.2 OF THE INSURANCE COMPANIES

The table shows no value since the insurance companies have been considered as being sold.

2.3.3 OF OTHER COMPANIES

(euro '000)

values	Total 31 12 2006	Total 31 12 2005
a) guarantees received	-	-
b) credit derivatives	-	-
c) administration, brokerage and consultancy services:	-	-
1. financial instrument dealing	-	-
2. currency dealing	-	-
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 others' portfolio	-	-
4. custody and administration of securities	-	-
5. placement of securities	-	-
6. off-site distribution of financial instruments, products and services	-	-
d) collection and payment services	-	-
e) other services	1,951	1,767
Total	1,951	1,767

Section 3

Dividend and similar income - Account 70

3.1 DIVIDEND AND SIMILAR INCOME: COMPOSITION

(euro '000)

account	banking group		insurance companies		other compnies		Total 31 12 2006		Total 31 12 2005	
	Dividends	income from quotas of UCITS.	Dividends	income from quotas of UCITS.	Dividends	income from quotas of UCITS.	Dividends	income from quotas of UCITS.	Dividends	income from quotas of UCITS.
A. Financial assets held for trading	363,290		-				363,290	-	417,312	-
B. Financial assets available for sale	27,472	67,863					27,472	67,863	37,388	21,472
C. Financial assets carried at fair value							-	-	-	-
D. investments	263	x		x		x	263	x	-	x
Total	391,025	67,863	-	-	-	-	391,025	67,863	440,832	21,472

The column in relation to the insurance companies shows no value since they have been considered as being sold.

Section 4

Net result from trading - Account 80

4.1 NET RESULT FROM TRADING: COMPOSITION

4.1.1 OF THE BANKING GROUP

(euro '000)

transactions	capital gains	trading profit	capital losses	trading losses	net profit	
					31 12 2006	31 12 2005
1. financial assets held for trading	128,416	190,487	104,885	354,769	(140,751)	(49,880)
1.1 debt securities	58,398	106,105	93,793	119,154	(48,444)	37,658
1.2 equity investments	31,518	67,306	10,994	228,883	(141,053)	(111,604)
1.3 Quotas of UCITS	36,557	6,473	94	2,878	40,058	19,326
1.4 loans	-	-	-	-	-	(777)
1.5 other	1,943	10,603	4	3,854	8,688	5,517
2. financial liabilities held for trading	3,966	15,579	9,539	68,732	(58,726)	185
2.1 debt securities	3,801	8,391	466	2,927	8,799	5,149
2.2 Debts	-				-	
2.3 other	165	7,188	9,073	65,805	(67,525)	(4,964)
3. other financial assets and liabilities: exchange differences	x	x	x	x	(14,024)	14,838
4. derivatives	4,937,668	13,577,474	4,889,869	13,617,470	23,863	(289,612)
4.1 financial derivatives:	4,878,667	13,541,345	4,829,129	13,573,152	33,791	(286,321)
- on debt securities and interest rates	4,490,518	11,835,380	4,511,226	11,732,796	81,876	(104,446)
- on equity securities and stock indexes	388,043	1,698,622	317,903	1,818,952	(50,190)	(157,651)
- on currency and gold	x	x	x	x	16,060	(33,256)
- other	106	7,343	-	21,404	(13,955)	9,032
4.2 credit Derivatives	59,001	36,129	60,740	44,318	(9,928)	(3,291)
Total	5,070,050	13,783,540	5,004,293	14,040,971	(189,638)	(324,469)

The table shows the profit/loss attributable to the portfolio of financial assets and liabilities held for trading purposes, except for the derivative contracts hedging financial instruments which adopted the fair value option, with valuation results indicated in table 5.1 of the notes to the financial statements, net profit/loss from hedging. By convention, the positive or negative balance of any value changes of the financial assets and liabilities denominated in currencies other than the currencies designated at fair value, hedging currencies and hedging derivatives currencies shall be shown under foreign exchange differences. Therefore, the effect resulting from any changes due to foreign exchange is not subject to separate reporting, in the case of trading instruments.

Such account includes the economic effects of the fair value valuation of derivative contracts on interest rate (interest rate swaps) originally protecting interest margin with respect to a portfolio of fixed-rate loans disbursed to the customers. Although such derivative contracts are useful for reducing the risk resulting from any possible interest rate fluctuations, they have been classified in the balance-sheet in the trading portfolio in accordance with the provisions of the international accounting principles, since they do not comply with the restrictive requirements of IAS39 for their classification in the hedging portfolio for IAS purposes.

4.1.2 OF THE INSURANCE COMPANIES

The table shows no value since the insurance companies have been considered as being sold.

4.1.3 OF OTHER COMPANIES

4.1.A NET RESULT FROM TRADING: BREAKDOWN OF CAPITAL LOSSES AND OF LOSS FROM TRANSFERS ATTRIBUTED TO THE CREDIT DETERIORATION OF THE DEBTOR

4.1.A.1 OF THE BANKING GROUP

(euro '000)

values	31 12 2006		31 12 2005	
	capital losses	loss from transfers	capital losses	loss from transfers
debt securities	-		5,660	
equity instruments				
Derivatives				
other				
Total	**-**	**-**	**5,660**	**-**

4.1.A.2 OF THE INSURANCE COMPANIES

4.1.A.3 OF OTHER COMPANIES

Section 5

Net result from hedging activities - Account 90

5.1 NET RESULT FROM HEDGING ACTIVITIES: COMPOSITION

(euro '000)

Componenti reddituali/Valori	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
A. gains on:					
A.1 fair value hedging instruments	79,217			79,217	29,665
A.2 hedged assets items (fair value)	19,534			19,534	
A.3 hedged liabilities items (fair value)	3,553			3,553	
A.4 cash flow hedges				-	
A.5 assets and liabilities in currency				-	
A. Total gains on hedging activities	102,304	-	-	102,304	29,665
B. losses on:					
B.1 fair value hedging instruments	21,957			21,957	44,178
B.2 hedged assets items (fair value)	87,075			87,075	(1,126)
B.3 hedged liabilities items (fair value)	442			442	
B.4 cash flow hedges				-	
B.5 assets and liabilities in currency				-	
B. Total losses on hedging activities	109,474	-	-	109,474	43,052
C. net hedging result (A - B)	**(7,170)**	**-**	**-**	**(7,170)**	**(13,386)**

The table shows the net profit/loss resulting from hedging and includes realized income components posted to the profit and loss statement, resulting from the valuation process of assets and liabilities subject to hedging, and the relative hedging derivative contracts, including any foreign exchange differences.

The column in relation to the insurance companies shows no value since these companies have been considered as being sold.

Section 6

Profit (loss) on disposal/repurchase - Account 100

6.1 PROFIT (LOSS) ON DISPOSAL/REPURCHASE: COMPOSITION

(euro '000)

account	banking group			insurance companies		
	profit	losses	net profit	profit	losses	net profit
1. financial assets						
1. due from banks		2	(2)			-
2. Crediti verso clientela	1,802	2	1,800			-
3. financial assets available for sale	350,468	15,889	334,579	-	-	-
3.1 debt securities	4,375	3,120	1,255	-	-	-
3.2 equity investments	346,093	10,670	335,423		-	-
3.3 Quotas of UCITS		2,099	(2,099)			-
3.4 loans			-			-
4. financial assets held to maturity			-	-	-	-
Total assets	352,270	15,893	336,377	-	-	-
1. financial liabilities						
1. due to banks	-		-			-
2. customer deposits			-			-
3. issued securities	2,738	15,667	(12,929)		-	-
Total liabilities	2,738	15,667	(12,929)	-	-	-

The table shows the results of the sale of financial assets other than the assets held for trading purposes, and the result of the repurchase of own financial liabilities. With particular reference to financial liabilities, according to the international accounting principles the repurchase of own liabilities shall be shown in the balance-sheet in a logic which is biased towards substance rather than form, as a real anticipated redemption with the cancellation of the financial instrument and the subsequent realization of losses or profits. During the year the Group continued to reorganize and enhance the value of its equity investments, as provided for by the Business Plan.

The main capital gains from sales incorporate the capital gains from the sale of Assicurazioni Generali (EUR 223 mln), Banca Nazionale del Lavoro (EUR 54.1 mln), Fiat (EUR 26.4 mln) and Farmafactoring (EUR 15.3 mln).

The column in relation to the insurance companies shows no value since these companies have been considered as being sold.

other companies			Total 31 12 2006			Total 31 12 2005		
profit	losses	net profit	profit	losses	net profit	profit	losses	net profit
		-	-	2	(2)	-	-	-
		-	1,802	2	1,800	2,688	6,465	(3,777)
		-	350,468	15,889	334,579	107,322	3,762	103,560
		-	4,375	3,120	1,255	72,495	71	72,424
		-	346,093	10,670	335,423	34,827	3,691	31,136
		-	-	2,099	(2,099)	-	-	-
		-	-	-	-	-	-	-
		-	-	-	-			-
-	-	-	352,270	15,893	336,377	110,010	10,227	99,783
		-	-	-	-	120	-	120
		-	-	-	-	-	-	-
		-	2,738	15,667	(12,929)	18,472	27,373	(8,901)
-	-	-	2,738	15,667	(12,929)	18,592	27,373	(8,781)

Section 7

Net result on financial assets and liabilities carried at fair value - Account 110

7.1 NET CHANGE IN FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE: COMPOSITION

7.1.1 OF THE BANKING GROUP

(euro '000)

transactions	capital gains	trading profit	capital losses	trading losses	net profit 31 12 2006	net profit 31 12 2005
1. financial assets	-	2,125	-	-	2,125	2,242
1.1 debt securities	-	225	-	-	225	(2,684)
1.2 equity investments	-	1,900		-	1,900	4,926
1.3 Quotas of UCITS		-			-	-
1.4 loans				-	-	-
2. Passività finanziarie	365,503	39,373	72,274	10,749	321,853	51,981
2.1 Titoli in circolazione	365,503	39,373	72,274	10,749	321,853	51,981
2.2 Debiti verso banche					-	-
2.3 Debiti verso clientela					-	-
3. other financial assets and liabilities: exchange differences	x	x	x	x	-	-
4. derivatives						
4.1 financial derivatives:	178,682	22,662	481,176	51,993	(334,938)	(20,686)
- on debt securities and interest rates	71,356	21,069	437,948	36,974	(382,497)	(27,141)
- on equity securities and stock indexes	107,326	1,593	43,228	15,019	50,672	5,537
- on currency and gold	x	x	x	x	(3,113)	918
- other					-	-
4.2 credit Derivatives					-	-
Total derivatives	178,682	22,662	481,176	51,993	(334,938)	(20,686)
Total	544,185	64,160	553,450	62,742	(10,960)	33,537

The account incorporates capital gains and losses originated by the fair value valuation of the financial liabilities classified in the fair value option portfolio and of the relative hedging derivative contracts. In particular, the Group has classified fixed-rate and structured bonds issued, systematically subject to hedging from adverse interest rate fluctuations through derivative contracts (interest rate swaps) in the portfolio of liabilities valued at fair value. The allocation of such instruments to the FVO portfolio meets the requirement of ensuring consistency of the valuation criteria adopted for the liabilities with the corresponding derivatives in a logic of "natural hedge", and therefore of considerable reduction of the misrepresentation which would be caused by a valuation with non-homogeneous accounting criteria.

7.1.2 OF THE INSURANCE COMPANIES

7.1.3 OF OTHER COMPANIES INCLUDED IN THE CONSOLIDATION

7.1.A NET RESULT ON FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE: BREAKDOWN OF THE WRITE-DOWNS

7.1.A.1 OF THE BANKING GROUP

There are no trading writedowns and losses attributable to the debtor's credit impairment.

7.1.A.2 OF THE INSURANCE COMPANIES

7.1.A.3 OF OTHER COMPANIES

7.1.B NET RESULT ON FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE ACCORDING TO THE FAIR VALUE OPTION

7.1.B.1 OF THE BANKING GROUP

(euro '000)

account	capital gains	trading profit	capital losses	trading losses	net profit/loss	
					31 12 2006	31 12 2005
assets						
natural hedges with derivatives	x	x	x	x	x	x
naturali hedges with other financial instruments	x	x	x	x	x	x
other types of accounting mismatch	x	x	x	x	x	x
financial assets portfolio carried at fair value		1,900			1,900	(2,684)
Structured financial instruments		224			224	4,926
liabilities						
natural hedges with derivatives	365,503	39,374	72,274	10,749	321,854	51,981
naturali hedges with other financial instruments	x	x	x	x	x	x
other types of accounting mismatch	x	x	x	x	x	x
financial assets portfolio carried at fair value	x	x	x	x	x	x
Structured financial instruments	x	x	x	x	x	x
financial derivatives						
natural hedges	178,682	22,662	481,176	51,993	(331,825)	(21,604)
other types of accounting mismatch	x	x	x	x	x	x
financial assets portfolio carried at fair value						
credit derivatives						
natural hedges						
other types of accounting mismatch	x	x	x	x	x	x
financial assets portfolio carried at fair value						
Total	544,185	64,160	553,450	62,742	(7,847)	32,619

The net profit/loss as of 31/12/2006 and 31/12/2005 shows a difference of EUR 3,113,000 and EUR 918,000, respectively, due to currency and gold as shown in table 7.1.1.

The Bank has classified fixed-rate and structured bonds issued, systematically subject to hedging from adverse interest rate fluctuations through derivative contracts (interest rate swaps) in the portfolio of liabilities valued at fair value. The allocation of such instruments to the FVO portfolio meets the requirement of ensuring consistency of the valuation criteria adopted for the liabilities with the corresponding derivatives in a logic of "natural hedge", and therefore of considerable reduction of the misrepresentation which would be caused by a valuation with non-homogeneous accounting criteria. Therefore, the table shows that the income impacts achieved by the Group on the financial assets and liabilities valued at fair value are all attributable to hedging operations, except for the profits realized from the sale of the equity investment held in Dada S.p.A (EUR 1.9 mln).

7.1.B.2 OF THE INSURANCE COMPANIES

7.1.B.3 OF OTHER COMPANIES

7.1.C FINANCIAL LIABILITIES' FAIR VALUE CHANGES (FVO)

7.1.C.1 OF THE BANKING GROUP

31 12 2006
(euro '000)

accounts	of the year			Cumulated		
	capital losses	capital gains	net profit	capital losses	capital gains	net profit
financial liabilities' fair value changes (FVO)	5,044		(5,044)	35,212		

7.1.C.2 OF THE INSURANCE COMPANIES

7.1.C.3 OF OTHER COMPANIES

Section 8

Net adjustments/recoveries on impairment - Account 130

8.1 ADJUSTMENT LOSSES ON LOANS: COMPOSITION

8.1.1 OF THE BANKING GROUP

(euro '000)

Operations	write-downs			write backs				Total 31 12 2006	Total 31 12 2005
	Specific		portfolio	Specific		portfolio			
	write-offs	other		A	B	A	B		
A. due from banks	4	119	1,379	61	760	-	3,302	(2,621)	6,547
B. customer loans	106,638	640,523	196,254	101,556	263,646	-	67,156	511,057	454,438
C. Total	106,642	640,642	197,633	101,617	264,406	-	70,458	508,436	460,985

A=interest
B=other

The account includes value adjustments and write-backs with respect to the impairment of the financial instruments allocated to the customer loans and due from banks portfolios. In particular, the column of write-offs shows the losses recorded in relation to the final write-off of the financial instruments, whereas the column of others includes specific write-downs on impaired loans subject to analytical valuation. Portfolio value adjustments are quantified with reference to performing financial instruments. The column A (specific write-backs) incorporates the write-backs represented by interest released on impaired positions valued at amortized cost.

8.1.2 OF THE INSURANCE COMPANIES

8.1.3 OF OTHER COMPANIES INCLUDED IN THE CONSOLIDATION

8.2 NET ADJUSTMENT LOSSES ON FINANCIAL ASSETS AVAILABLE FOR SALE: COMPOSITION

8.2.1 OF THE BANKING GROUP

(euro '000)

Operations	write-downs		write backs		Total	Total
	Specific		Specific		31 12 2006	31 12 2005
	write-offs	other	A	B		
A. debt securities		9		933	924	(7,994)
B. equity securities	75	108,182	x	x	108,257	130,818
C. Quotas of UCITS		22,461	x		22,461	
D. loans to banks						
E. customer loans						
F. Total	75	130,652	-	933	129,794	122,824

A = interest
B = other

8.2.2 OF THE INSURANCE COMPANIES

8.2.3 OF OTHER COMPANIES INCLUDED IN THE CONSOLIDATION

(euro '000)

Operations	write-downs		write backs		Total	Total
	Specific		Specific		31 12 2006	31 12 2005
	write-offs	other	A	B		
A. debt securities					-	-
B. equity securities		-	x	x	-	12,480
C. Quotas of UCITS			x			
D. loans to banks						
E. customer loans						
F. Total	-	-	-	-	-	12,480

A = interest
B = other

8.3 NET ADJUSTMENT LOSSES ON INVESTMENTS HELD TO MATURITY: COMPOSITION

8.3.1 OF THE BANKING GROUP

8.3.2 OF THE INSURANCE COMPANIES

8.3.3 OF OTHER COMPANIES INCLUDED IN THE CONSOLIDATION

8.4 NET ADJUSTMENT LOSSES ON OTHER FINANCIAL ACTIVITIES: COMPOSITION

8.4.1 OF THE BANKING GROUP

(euro '000)

Operations	write-downs			write backs				Total 31 12 2006	Total 31 12 2005
	Specific		portfolio	Specific		portfolio			
	write-offs	other		A	B	A	B		
A. Guarantees given		5,596	2,616		2,507		10,583	(4,878)	3,010
B. credit Derivatives								-	-
C. commitment to lend funds			-				-	-	203
D. other operations		524						524	-
E. Total	-	6,120	2,616	-	2,507	-	10,583	(4,354)	3,213

A=interest
B=other

8.4.2 OF THE INSURANCE COMPANIES

8.4.3 OF OTHER COMPANIES INCLUDED IN THE CONSOLIDATION

Section 9

Net premiums - Account 150

9.1 NET PREMIUMS: COMPOSITION

The table shows no value since the insurance companies have been considered as being sold.

Section 10

Other income/expense (net) from insurance activities- Account 160

10.1 OTHER INCOME/EXPENSE (NET) FROM INSURANCE ACTIVITIES: COMPOSITION

The table shows no value since the insurance companies have been considered as being sold.

10.2 NET CHANGE IN INSURANCE RESERVES: COMPOSITION

The table shows no value since the insurance companies have been considered as being sold.

10.3 CLAIMS SETTLED DURING THE YEAR: COMPOSITION

The table shows no value since the insurance companies have been considered as being sold.

10.4 OTHER INCOME/EXPENSES FROM INSURANCE ACTIVITIES: COMPOSITION

Section 11

Administrative expenses - Account 180

11.1 PERSONNEL EXPENSES: COMPOSITION

(euro '000)

values	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1. employees	1,845,730	-	1,506	1,847,236	1,812,354
a) wages and salaries	1,224,621	-	1,265	1,225,886	1,156,093
b) social charges	313,342	-	211	313,553	173,390
c) severance pay	12,809	-	-	12,809	14,830
d) social security costs	770	-	-	770	207,578
e) allocation to staff severance pay provision	88,223	-	30	88,253	83,739
f) provision for pension fund and similar provisions:	13,665	-	-	13,665	75,241
- defined contribution	4,864	-	-	4,864	12,017
- defined benefit	8,801	-	-	8,801	63,224
g) payments to external pension funds:	19,330	-	-	19,330	13,446
- defined contribution	18,797	-	-	18,797	5,635
- defined benefit	533	-	-	533	7,811
h) costs related to shared based payments	53,805	-	-	53,805	23,802
i) other staff benefits	119,165	-	-	119,165	64,235
2. other staff	3,882	-		3,882	9,458
3. directors	10,206	-	249	10,455	7,044
Total	**1,859,818**	**-**	**1,755**	**1,861,573**	**1,828,856**

The costs resulting from payment agreements based on own capital isntruments show a cost attributable to the employees' stock granting plan. The account of "other staff benefits" incorporates early retirement staff benefits (EUR 79.7 mln).

The column in relation to the insurance companies shows no value since these companies have been considered as being sold.

11.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY: BANKING GROUP

n. employees

staff average number	31 12 2006	31 12 2005
employees:	25,407	26,589
a)senior manager	571	627
b) total managers	6,958	6,961
- di 3rd 4th level	3,423	3,495
c) remaining staff	17,878	19,001
other staff	279	281
Total	25,686	26,870

11.3 DEFINED BENEFIT COMPANY PENSION FUNDS: TOTAL COST

11.3.1 OF THE BANKING GROUP

(euro '000)

values	Total 31 12 2006			Total 31 12 2006	
	defined benefit company pension funds		severance indemnity	defined benefit company pension funds	severance indemnity
	internal plans	external plans			
current service cost (+)	806	2,030	73,538	5,443	30,847
interest cost (+)	7,055	21,257	11,750	8,062	9,140
expected return on plan assets (-)	x	25,113	x	x	x
third party reimbursement(-)	5,892				
net actuarial gain/loss recognized (±)	4,992	1,859	(7,074)	-	
past service cost (±)				57,581	
effect of any curtailment (±)	(13,286)		(4,466)	2,481	19,770
effect of any settlement (±)			282		
Effect from asset registration (+)			(10,256)		
Total	(6,325)	33	63,774	73,567	59,757

The table shows the costs for the year in relation to both internal and external definite contribution funds, and the staff severance indemnity reserve.

11.3.2 OF THE INSURANCE COMPANIES

11.3.3 OF OTHER COMPANIES

(euro '000)

values	Total 31 12 2006			Total 31 12 2006	
	defined benefit company pension funds		severance indemnity	defined benefit company pension funds	severance indemnity
	internal plans	external plans			
current service cost (+)	-		2	-	144
interest cost (+)	-		-	-	9
expected return on plan assets (-)	x		x	x	x
third party reimbursement(-)					
net actuarial gain/loss recognized (±)	-				
past service cost (±)					
effect of any curtailment (±)	-		-	-	-
effect of any settlement (±)					
Effect from asset registration (+)					
Total	-		2	-	153

11.3.A CONTRIBUTIONS TO THE PLAN THAT THE BANK ASSESSES TO PAY IN THE FOLLOWING EXERCISE

11.3.A.1 OF THE BANKING GROUP

(euro '000)

	31/12/2006		31/12/2005	
	next exercise		next exercise	
account	defined benefit company pension funds	severance indemnity	defined benefit company pension funds	severance indemnity
contributions to the plan that the bank assesses to pay in the following year	-	-	1,300	1,500

11.3.A.2 OF THE INSURANCE COMPANIES

11.3.A.3 OF OTHER COMPANIES

(euro '000)

	31/12/2006		31/12/2005	
	next exercise		next exercise	
account	defined benefit company pension funds	severance indemnity	defined benefit company pension funds	severance indemnity
contributions to the plan that the bank assesses to pay in the following year	-	1,082	-	-

11.5 OTHER ADMINISTRATIVE EXPENSES: COMPOSITION

account	31 12 2006	31 12 2005
stamp duties	171,662	169,661
indirect taxes and duties	24,755	20,292
rental expenses	73,306	70,329
fees paid to external professionals	104,773	116,843
expenses for mainteinance of furniture and equipment	49,582	59,421
postage expenses	49,429	53,549
Telegraph, telephone and telex	24,820	27,040
advertising	53,578	59,847
various hire charges	37,422	45,674
Information and searches	19,927	26,858
Transport services	33,841	34,437
lighting, central heating, water	28,966	28,764
security services	24,115	24,172
car expenses and staff trip reimbursement	27,305	27,873
cleaning of premises	20,261	20,756
local property tax	6,615	11,883
rental transmission data	15,951	17,526
printing and stationary	9,485	9,854
insurances	11,450	11,319
supply of services rendered by third party	67,150	59,266
Software	92,123	69,046
associate share	4,624	7,389
entertainment expenses	9,486	11,152
other costs	13,586	12,612
expenses for fixed assets not rented	89	
subscriptions	1,833	1,854
car rentals	29,890	34,179
expenses for services of societies of the group	16,340	1,314
other costs	70,537	24,878
Total	**1,092,901**	**1,057,788**

Section 12

Net provisions for risks and charges - Account 190

12.1 NET PROVISIONS FOR RISKS AND CHARGES : COMPOSITION

12.1.1 OF THE BANKING GROUP

(euro '000)

account	Total 31 12 2006			Total 31 12 2005		
	indemnity for damages	legal disputes	other	indemnity for damages	legal disputes	other
provisions for the year	24,388	23,305	26,504	31,046	21,671	34,970
utilizations	(88)	(1,452)	(42,168)	(16)	(6,275)	(37,160)
Total	24,300	21,853	(15,664)	31,030	15,396	(2,190)

Net provisions for risks and charges (EUR 15.7 mln) include the amount for the year in relation to legal disputes and actions for revocation.

12.1.2 OF THE INSURANCE COMPANIES

12.1.3 OF OTHER COMPANIES

Section 13

Net adjustments/recoveries on tangible assets - Account 200

13.1 NET ADJUSTMENTS ON TANGIBLE ASSETS: COMPOSITION

13.1.1 OF THE BANKING GROUP

(euro '000)

assets	depreciation	adjustment losses	recoveries	net profit	
				31 12 2006	31 12 2005
tangible assets					
A.1 owned	67,552	1	8	67,545	66,076
- for operational use	65,150	1	8	65,143	63,985
- for investment	2,402	-	-	2,402	2,091
A.2 finance lease	250	-	-	250	619
- for operational use	250	-	-	250	619
- for investment	-	-	-	-	-
Total	**67,802**	**1**	**8**	**67,795**	**66,695**

13.1.2 OF INSURANCE COMPANIES

The table shows no value since the insurance companies have been considered as being sold. Therefore, depreciation of tangible assets was recorded under account 310 "Profits/losses from non-current assets being sold" (sub-account "charges").

13.1.3 OF OTHER COMPANIES

(euro '000)

assets	depreciation	adjustment losses	recoveries	net profit	
				31 12 2006	31 12 2005
tangible assets					
A.1 owned	394	-	-	394	749
- for operational use	315			315	670
- for investment	79			79	79
A.2 finance lease	82	-	-	82	73
- for operational use	82			82	73
- for investment				-	-
Total	**476**	**-**	**-**	**476**	**822**

Section 14

Net adjustments/recoveries on intangible assets - Account 210

14.1 NET ADJUSTMENTS ON INTANGIBLE ASSETS: COMPOSITION

14.1.1 OF THE BANKING GROUP

(euro '000)

assets	depreciation	adjustment losses	recoveries	net profit	
				31 12 2006	31 12 2005
intangible assets					
A.1 owned	61,580	4,813	-	66,393	76,198
- Generated internally by the company	-			-	166
- other	61,580	4,813		66,393	76,032
A.2 finance lease				-	-
Total	**61,580**	**4,813**	**-**	**66,393**	**76,198**

14.1.2 OF INSURANCE COMPANIES

The table shows no value, since the insurance companies have been considered as being sold. Therefore, amortization of intangible assets was recorded under account 310 "Profits/losses from non-current assets being sold" (sub-account "charges").

14.1.3 OF OTHER COMPANIES

(euro '000)

assets	depreciation	adjustment losses	recoveries	net profit	
				31 12 2006	31 12 2005
intangible assets					
A.1 owned	71	-	-	71	1,076
- Generated internally by the company				-	-
- other	71	-		71	1,076
A.2 finance lease				-	
Total	**71**	**-**	**-**	**71**	**1,076**

Section 15

Other operating expenses/income - Account 220

15.1 OTHER OPERATING EXPENSES: COMPOSITION

(euro '000)

values	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
non existent assets not attributable to own account	961			961	709
non operating loss not attributable to own account	12,498		12	12,510	26,679
Transactions for passive reasons	2,720			2,720	1,001
robberies	3,740			3,740	3,685
finance lease contingent rent disclosed as cost in the yr				-	-
amortisation of leasehold improvements	17,320			17,320	16,258
expenses for rented investment properties	273			273	220
other expenses of real estate management	12			12	57
expenses related to lease operations				-	
reclassification of gains/losses associated with cash flow hedges of non financial assets/liabilities				-	-
other	52,544		1,830	54,374	96,672
Total	**90,068**	**-**	**1,842**	**91,910**	**145,281**

The column in relation to the insurance companies shows no value since these companies have been considered as being sold.

15.2 OTHER OPERATING INCOME: COMPOSITION

(euro '000)

values	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
non existent liabilities not attributable to own acoount	1,700			1,700	450
non operating profits not attributable to own account	27,207		5	27,212	56,479
insurance indemnity	1,299			1,299	500
finance lease: contingent rental recognised as revenue rentals from operating leases				-	-
Canoni leasing operativo (locatore)				-	-
of which: potential rent				-	
rental from investment properties	2,206			2,206	2,539
rental from capital equipment	1,621			1,621	187
other income of real estate management	163			163	1,108
Recovery of taxes	167,464			167,464	164,525
Recovery of insurance premiums	6,297			6,297	7,125
income relating to lease operations				-	
other third party charges	8,710			8,710	7,487
reclassification of gains/losses associated with cash flow hedges of non financial assets/liabilities				-	-
other	125,105		14,598	139,703	148,466
Total	**341,772**	**-**	**14,603**	**356,375**	**388,866**

The column in relation to the insurance companies shows no value since these companies have been considered as being sold.

Section 16

Profit (loss) on equity investments - Account 240

16.1 PROFIT (LOSS) ON EQUITY INVESTMENTS: COMPOSITION

(euro '000)

profit components	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1) jointly owned companies					
A. Income	-	7,200	-	7,200	-
1. Revaluations		7,200		7,200	
2. gains from disposals				-	
3. write backs				-	
4. other positive changes				-	
B. Expense	-	-	-	-	-
1. writedowns				-	
2. impairment losses				-	
3. losses from disposals				-	
4. other negative changes				-	
Net Result	**-**	**7,200**	**-**	**7,200**	**-**
2) companies subject to significant influence					
A. Income	23,350	-	76	23,426	36,517
1. Revaluations	23,350	-	76	23,426	-
2. gains from disposals		-	-	-	-
3. write backs	-	-	-	-	-
4. other positive changes		-	-	-	36,517
B. Expense	268	-	13,206	13,474	1,499
1. writedowns	268	-	13,206	13,474	-
2. impairment losses	-	-	-	-	770
3. losses from disposals	-	-	-	-	-
4. other negative changes	-	-	-	-	729
Net Result	**23,082**	**-**	**(13,130)**	**9,952**	**35,018**
3) subsidiaries					
A. Income	59	-	-	59	-
1. Revaluations				-	
2. gains from disposals	59			59	
3. write backs				-	
4. other positive changes				-	
B. Expense	1,878	-	-	1,878	1,892
1. writedowns				-	-
2. impairment losses	1,437			1,437	1,692
3. losses from disposals	441			441	200
4. other negative changes				-	-
Net Result	**(1,819)**	**-**	**-**	**(1,819)**	**(1,892)**
Total	**21,263**	**7,200**	**(13,130)**	**15,333**	**33,126**

Revaluations and write-downs include profits and losses in the amount of EUR 30 mln and EUR 13.3 mln respectively, resulting from the valuation with the net equity method of the affiliated companies and/or companies subject to significant influence. The charges and income from the subsidiaries are in relation to the charges and income resulting from the de-consolidation of some minor subsidiaries.

16.2 VALUATIONS OF EQUITY INVESTMENTS HELD FOR SALE

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
valuations of equity investments held for sale					

Section 18

Adjustments to goodwill - Account 260

18.1 ADJUSTMENTS TO GOODWILL : COMPOSITION

(euro '000)

values	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
Adjustments to goodwill	599			599	29,021

Section 19

Profit (losses) on disposal of investments - Account 270

19.1 PROFIT (LOSSES) ON DISPOSAL OF INVESTMENTS: COMPOSITION

(euro '000)

profit components	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
A. Property	343	-	-	343	277
- gains from sales	343			343	671
- losses from sales	-	-		-	394
B. Other assets	2,569	-	-	2,569	226
- gains from sales	2,594			2,594	253
- losses from sales	25			25	27
Net Result	**2,912**	**-**	**-**	**2,912**	**503**

Section 20

Taxes on income from continuing operations - Account 290

20.1 TAXES ON INCOME FROM CONTINUING OPERATIONS: COMPOSITION

(euro '000)

profit components	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1. current taxes (-)	405,062	-	41	405,103	250,461
2. changes in current taxes of previous yrs (+/-)	8,542		-	8,542	2,909
3. reduction in current taxes of previous yrs (+)	4,100			4,100	2,064
4. changes in deferred tax assets (+/-)	(136,876)		59	(136,817)	(497,682)
5. changes in deferred tax liabilities (+/-)	27,864		29	27,893	497,288
6. taxes on income for the yr (-) (-1+/-2+3+/-4+/-5)	501,430		11	501,441	(245,882)

Comparative data have been re-determined on the basis of the adjustments made in application of IAS 8 (see the notes to the financial statements Part A – Accounting policies Section 2 – General drafting principles).

The column in relation to the insurance companies shows no value since these companies have been considered as being sold.

20.2 RECONCILIATION BETWEEN THEORETICAL AND EFFECTIVE TAX CHARGES FOR THE PERIOD

(euro '000)

account	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
(A) Profit (loss) before tax from continuing operations	1,281,736		6,903	1,288,639	784,289
(B) profit (loss) before tax of non current assets held for sale	45,848	124,353		170,201	
(A+B) profit (loss) before tax	**1,327,584**	**124,353**	**6,903**	**1,458,840**	**784,289**
current tax rate IRES (%)	33%	33%	33%	33%	33%
theoretical tax expense	438,103	41,036	2,278	481,417	258,815
tax rates different from the italian ones levied to foreign activities		(6,563)		(6,563)	(258,815)
fiscal effects of the results of the associates	(5,060)			(5,060)	(10,932)
permanent Differences	(112,121)		75	(112,046)	(209,243)
tax losses deducted not included in previous exercise	(1,157)			(1,157)	19,835
deferred tax assets adjustments/recoveries and deferred tax assets previously not recognized	12,410			12,410	(4,908)
effects from change of the fiscal rate				-	(4,616)
change of current taxes of previous yrs	(8,857)	(4,384)		(13,241)	(3,049)
net tax effect due to revaluation of assets				-	(138,645)
use of tax credits				-	12,420
taxes relating to distributable reserves				-	-
other	16,204	(14,033)	(2,342)	(171)	(57,254)
IRAP	167,796	5,524		173,320	150,031
Income tax for the year	507,318	21,580	11	528,909	(505,176)
of which:					
Income tax for the year from continuing operations	501,430		11	501,441	245,882
Income tax for the year of non current assets held for sale	5,888	21,580		27,468	5,762

Section 21

Profit (loss) after tax from discontinuing operations - Account 310

21.1 PROFIT (LOSS) AFTER TAX FROM DISCONTINUING OPERATIONS: COMPOSITION

(euro '000)

profitability components	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
Group of assets/liabilities					
1. income	236,238	2,072,612		2,308,850	4,110,247
2. charges	190,390	1,948,259		2,138,649	3,905,507
3. valuation differences on discontinued operations and related liabilities					
4. Profit (loss) on disposal					
5. taxes and duties	5,888	21,580		27,468	5,762
profit (losses)	**39,960**	**102,773**	**-**	**142,733**	**198,978**

Profits of the banking group include profits and charges in relation to the tax-collection companies until the date of termination of control, and the Parent Bank's tax-collection business unit, in compliance with the provisions of Law Decree no.203 of 30 September 2005, converted into law with amendments from art.1 of Law no.248 of 2 December 2005 which contemplates the centralization of the tax-collection business with Riscossione spa, a joint-stock company controlled by the Government.

In addition, as a result of the activity being carried out as of 31.12.2006 and resulting into the loss of control in the subsidiaries Montepaschi Vita, Montepaschi Assicurazioni Danni and Montepaschi Life, wholly owned by MPS Finance, these subsidiaries have been considered as groups of assets being sold. Therefore, the data in relation to the profit and loss statement have been reclassified under account 310 of the profit and loss statement, Profits from groups of assets being sold after taxes.

Since such transaction was considered as assets being sold, "discontinuing operations", it was necessary to re-determine the corresponding comparative data of the profit and loss statement.

21.2 BREAKDOWN OF TAXES ON DISCONTINUED OPERATIONS

(euro '000)

	banking group	insurance companies	other companies	Total 31 12 2006	Total 31 12 2005
1 current taxes (-)	5,888	16,906		22,794	5,762
2 changes in deferred tax assets (+/-)		13,467		13,467	
3 changes in deferred tax liabilities (-/+)		(18,141)		(18,141)	
4 income taxes (-1 +/-2 +/-3)	(5,888)	(21,580)		(27,468)	

Section 22

Net profit (loss) attributable to minority interests - Account 330

22.1 BREAKDOWN OF ACCOUNT 330 "NET PROFIT ATTRIBUTABLE TO MINORITY INTERESTS"

22.2 BREAKDOWN OF ACCOUNT 330 "LOSS ATTRIBUTABLE TO MINORITY INTERESTS"

Section 23

Other information

Section 24

Earnings per share

24.1 RECONCILIATION OF WEIGHTED AVERAGE NUMBER OF ISSUED ORDINARY SHARES

(n. shares)

account	31 12 2006	31 12 2005
weighted average number of issued ordinary shares (+)	2,441,867,397	2,436,513,703
diluitive effect from sold put options(+)	-	35,068,113
diluitive effect from ordinary shares to be granted as a result of payments based on own shares(+)	8,851,058	5,755,580
diluitive effect from convertible liabilities (+)	212,223,728	213,414,634
weighted average number of issued ordinary shares per diluted earnings per share	2,662,942,183	2,690,752,030

24.2.A RECONCILIATION OF OPERATING RESULT - NUMERATOR BASIC EARNINGS PER SHARE

(euro '000)

	31 12 2006			31 12 2005		
account	relating to the current activities and pertaining the parent company	relating to the ceased operating activities and pertaining the parent company	total of the parent company	relating to the current activities and pertaining the parent company	relating to the ceased operating activities and pertaining the parent company	total of the parent company
net Result	768,007	142,085	910,092	554,436	198,978	753,414
result attributable to other categories of shares	(148,497)	(27,473)	(175,970)	(107,794)	(38,685)	(146,479)
net result attributable to ordinary shares - numerator basic earnings per share	**619,510**	**114,612**	**734,122**	**446,642**	**160,293**	**606,935**

24.2.B RECONCILIATION NET RESULT - NUMERATOR BASIC EARNINGS PER SHARE

(euro '000)

	31 12 2006			31 12 2005		
account	relating to the current activities and pertaining the parent company	relating to the ceased operating activities and pertaining the parent company	total of the parent company	relating to the current activities and pertaining the parent company	relating to the ceased operating activities and pertaining the parent company	total of the parent company
net Result	768,007	142,085	910,092	554,436	198,978	753,414
result attributable to other categories of shares	(148,497)	(27,473)	(175,970)	(111,036)	(38,685)	(149,721)
passive interests on convertible instruments (+)	17,295		17,295	16,675		16,675
other(+/-)						
net result attributable to ordinary shares - diluted numerator earnings per share	**636,805**	**114,612**	**751,417**	**460,075**	**160,293**	**620,368**

24.2.C BASIC AND DILUTED EARNINGS PER SHARE

(euro '000)

	31 12 2006			31 12 2005		
account	relating to the current activities and pertaining the parent company	relating to the ceased operating activities and pertaining the parent company	total of the parent company	relating to the current activities and pertaining the parent company	relating to the ceased operating activities and pertaining the parent company	total of the parent company
basic earnings per share	0.25	0.05	0.30	0.18	0.07	0.25
diluted earnings per share	0.24	0.04	0.28	0.17	0.06	0.23

ANNEX TO PART C

SUMMARY OF INCOME AND EXPENSES OBTAINED IN THE CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF INCOME AND EXPENSES IN THE CONSOLIDATED FINANCIAL STATEMENTS

(the summary is also available for the Bank's financial statements)

	account	31 12 2006 Group	31 12 2006 third parties
A	**Income and expenses directly appropriated to net equity ed oggetto di "ricircolo"**	**(71,575)**	**75**
A1	financial assets available for sale	(110,937)	75
A1.1	- value appreciation (capital loss) from evaluation in the net equity	103,210	75
A1.2	- turn over to the current year's profit and loss	(214,147)	
A2	hedging of cash flow	36,688	-
A2.1	- value appreciation (capital loss) from evaluation in the net equity	36,688	
A2.2	- turn over to the current year's profit and loss	-	-
A2.3	- trasfers to the initial balance of hedged instruments	-	-
A3	Copertura di investimenti netti in gestioni estere	-	-
A4	exchange differences on foreign branches	2,674	
A5	non current assets held for sale	-	-
B	**Income and expenses directly and definetly appropriated to net equity**	**6,593**	**-**
B1	Costs deriving from the issue of own equity instruments	-	-
B2	profit (loss) from dealing of own shares	6,593	
B3	profit (loss) from derivatives on own equity instruments	-	-
C	**Net Income and expenses directly appropriated to net equity (A+B)**	**(64,982)**	**75**
D	**Net result from the profit and loss**	**910,092**	**19,838**
E	**Total income and expenses of the year (C+D)**	**845,110**	**19,913**
F	**Effects of the accounting principles/error adjustment changing**	**489**	**-**
F1	financial assets available for sale	489	-
F2	hedging of cash flow	-	-
F3	Copertura di investimenti netti in gestioni estere	-	-
F4	exchange differences on foreign branches	-	-
F5	Profit (loss) appropriated to nelle riserve di utili	-	-
G	**Total income and expenses of the exercise (E+F)**	**845,599**	**19,913**

As a result of the application of the international accounting principles, the financial instruments are placed in different portfolios with different accounting and valuation criteria, including the posting of capital gains or losses, directly to specific net equity reserves rather than to the profit and loss statement. The table gives a view of of the global result achieved during the year, by taking account of income components accrued and realized during the year, which are directly posted to net equity, and by neutralizing already accrued components, directly posted to net equity in prior years, but which are subject to a second final posting to the profit and loss statement (re-transfer) upon actual sale.

The balance-sheet account of the MPS Group which is most influenced by the re-transfer of net equity reserves to the profit and loss statement is represented by assets available for sale.

Point A) refers to the components which, upon valuation, are temporarily posted to net equity whereas, upon actual sale, are posted to the profit and loss statement.

In particular, line A1.1 shows the positive balance corresponding to net capital gains in the amount of EUR 103.2 mln accrued during the year resulting from the process of fair value valuation of the financial instruments classified in the portfolio available for sale. (The main changes are detailed under section 14 Net equity - table 14.1 of the Notes to the financial statements - part B - Balance-sheet).

Net profits in the amount of EUR 214.1 mln realized during the year and posted to the profit and loss statement, but resulting from capital gains accrued and directly posted to net equity in prior years, are offset with negative sign under line A1.2. The item mostly includes the portion of realized profits coming from the re-transfer of the reserve due to the sale of the investment held in Generali s.p.a. (EUR 134.6 mln) and B.N.L. s.p.a. (EUR 46.3 mln).

With reference to these transactions, the profit and loss statement for the year was influenced both by the difference of the amount received and the accounting book value of the equity investments, and by the re-transfer of the net equity reserve existing at the end of prior year.

Point B) is in relation to the components which are directly and definitively posted to net equity, with no possible future re-transfer to the profit and loss statement.

These income components shall never be posted to the profit and loss statement and are shown properly and promptly only in this summary.

In particular, profits in the amount of EUR 10.5 mln resulting from own shares trading are shown under line B2. Pursuant to the provisions of IAS32, they cannot be posted to the profit and loss statement, but directly adjust net equity.

PART D
SEGMENT REPORTING

MPS Banking Group's Divisional Organization
Primary segments: breakdown by business segment
Secondary segments: geographic breakdown

This section of the notes to the financial statements is prepared in accordance with the IAS/IFRS international accounting principles, with particular reference to n° 14. In this regard, after completion of the advisory procedure for the proposed improvements to segment reporting stated in Exposure Draft n°8, the *International Accounting Standards Board* issued the new IFRS 8 accounting principle ("Operating Segment") which will be enforced as of 1 January 2009.

For the purpose of the identification of the business segments and the data to be allocated, the MPS Group segment reporting considers the Group's organization and management structure, as well as the current internal reporting system in support of the Management's operating decisions, as a starting point.

PRIMARY REPORTING

BREAKDOWN BY BUSINESS SEGMENT: ECONOMIC DATA (PRIMARY SEGMENT AS PROVIDED FOR BY IAS14)

THE MPS GROUP OPERATIONS

The MPS Group operates all over Italy and in the major international financial centres, with operations ranging from traditional lending (i.e. short-/medium-/long-term loans to retail and corporate customers, leasing, factoring, consumer credit) to asset management, bancassurance and social welfare products, private banking, investment banking and corporate finance. As of 2001 the MPS Group introduced and gradually implemented Value Based management control instruments, with the objective of monitoring profitability by business area and unit. The VBM system adopted by the Group proved to be appropriate for the management of the identification rules of the business segments, and the review of segment reporting regulations. In addition, the system meets the regulatory requirements with respect to the correlation between management reporting for internal purpose and the data used for external reporting.

In this framework, for the purpose of segment reporting as contemplated by the IAS regulations, the MPS Group adopted the business approach and chose the major business segments in relation to consolidated operations as the primary reporting basis for the breakwodn of income/capital data. This breakdown results from logical aggregations of data of different legal entities:

"**divisionalized**" (Banca Monte dei Paschi di Siena, Banca Toscana and Banca Agricola Mantovana);
"**non divisionalized**" (product companies and other banks);
"service units" which provide services and support within the Group.

As a result of the new 2006-2009 Business Plan approved in June 2006, the Group was divided into new business areas:

Commercial Banking & Distribution Network;
Private Banking & Wealth Management;
Corporate Banking & Capital Markets;
Capital, Cost and Investment Governance.

As a consequence, following are the segments identified for the purpose of the operating representation of the Group's results, also defined on the basis of the criteria of business representativeness/predominance: **Commercial Banking & Distribution Network; Private Banking & Wealth Management; Corporate Banking & Capital Markets; and the Corporate Center, which includes Capital, Cost and Investment Governance**.

The first three segments incorporate the commercial retail, private and corporate and key clients (former large corporate) networks, which are indicative of the customer segmentation of the divisionalized Banks (**Retail, Private, Corporate and Key Clients**), for the purpose of the Group's internal reporting operated by applying quantitative and qualitative/behavioural criteria. The above-mentioned segments are also assigned the data of non-divisionalized legal entities (product companies) in compliance with the Group's governance rules (that is, in line with the positions and hierarchical relations resulting from the Group's current organization structure).

In particular:

COMMERCIAL BANKING & DISTRIBUTION NETWORK

Commercial Banking & Distribution Network is in charge of funding operations and supplies financial and non-financial services to the Retail customers of the divisionalized entities (including "small businesses") and the customers of the non-divisionalized company which deals with consumer credit, also through the management of electronic payment instruments. In addition, the Area manages minority interests in commercial Banks.

PRIVATE BANKING & WEALTH MANAGEMENT

Private Banking & Wealth Management is in charge of the supply of a customized and exclusive range of products/services to Private customers, in order to meet the most sophisticated requirements in terms of asset management and financial planning, including advice on non-strictly financial services (i.e. tax planning, real estate, art & legal advisory) and financial promotion. The Area also supervises the asset management product company.

CORPORATE BANKING & CAPITAL MARKETS

Corporate Banking and Capital markets is in charge of the management of operations with the Corporate and Key Clients of the divisionalized entities and the product companies operating in the area of short-/medium-/long-term corporate loans, corporate finance, leasing and factoring, investment banking and financial engineering, equity capital market and brokerage.
This business segment also encompasses international operations.

In addition, each one of the said Areas collects income resulting from the distribution of insurance and social welfare products to its own customers.

CORPORATE CENTER

The Corporate Center aggregates the operating units which are below the standards required for external reporting, the Group's Head Office units (such as governance and support units, business finance and depositary bank, equity investments management and the capital segments of the divisionalized entities with particular reference to ALM, treasury and capital management), in addition to the service Units in support of the Group's structure (with particular regard to credit collection, real estate management and the development and management of IT systems, all of them reporting to the Capital, Cost and Investment Governance Area). The Corporate Center also incorporate profitability from the companies consolidated with the net equity method and the eliminations in relation to infragroup items, in addition to profits from groups of assets being sold (after tax) in relation to the disposal of the tax collection and insurance business which is considered as being sold.

PROFIT AND LOSS STATEMENT CRITERIA BY BUSINESS SEGMENT

The composition of net operating income by business segment is based on the following criteria:

- **Interest margin** in relation to the segments of the divisionalized entities is calculated by contribution on the basis of the interal rates of transfer by product and maturity. With reference to the other Group's entities, interest margin is represented by the difference of interest income and similar income and interest expense and similar expenses.
- **Net commissions** are determined by direct allocation of real commissions to the business segments.
- **Net value adjustments/recoveries on loan impairment** are allocated to the business segments which originated them. With reference to the segments of the divisionalized entities, the balance-sheet aggregate is allocated on the basis of the distribution of the expected loss to each business segment (the "Private" business segment is not included in this allocation, by convention), with the following comparison of these results with the historical distribution of adjusting reserves between customers and parties subject to creditors' agreement proceedings.
- **Operating expenses** include administrative expenses and net value adjustments to tangible and intangible assets. Said accounts, in relation to the IT Service, the Corporate Center organization unit and the Head Offices of the Divisionalized Entities, are allocated to each segment in accordance with a model which is based on the logic of service supplied to the different organization units and allocates operating expenses to the identified units before re-distributing them to the segments. The costs which are not reasonably attributable to the business segments are allocated to the Corporate Center. With specific reference to personnel expenses for the network staff of the Divisionalized Entities, the allocation to the Business Segments is based on the univocal job position of human resources and, if this is not univocal, according to specific criteria in relation to the activity carried out. As regards non-divisionalized Entities (monosegment), total operating expenses converge on the corresponding business segments.

BASIC CRITERIA FOR THE STATEMENT OF CAPITAL AGGREGATES BY BUSINESS SEGMENT

Capital aggregates are represented by using the internal reporting system as a starting point in order to identify the accounts directly attributable to the segments. Such accounts are related to income/expenses assigned to each segment.

In particular:

- Customer loans are the assets used for the segment operations, directly attributable to the segment itself.
- Customer deposits and outstanding securities are the liabilities resulting from the segment operations, directly attributable to the segment itself.

OPERATIONS BETWEEN SEGMENTS

Income and the results of each segment include the transfers between business segments and geographical areas. These transfers are reported in accordance with the best practice accepted by the market (i.e. the method of ordinary market value or the method of cost increased by a proper margin) both with respect to commercial and financial transactions.

The income of each business segment is determined before infragroup balances and infragroup transactions are eliminated during the process of consolidation. If infragroup transactions are executed between entities belonging to the same business segment, the respective balances are eliminated within such segment. The balances of infragroup transactions are not shown separately, in compliance with par.28 of IAS 14 ("Therefore, with rare exceptions, a company shall provide a segment reporting in its financial statements as in the case of the internal reports to the directors") and its internal reporting system.

CHANGES IN THE DRAFTING PRINCIPLES

The data published as of 31 December 2005 have been restated on the basis of the changes due to:

- Changes in the business segments, as a result of the new organization of the Parent Bank;
- Further implementation/finetuning of the cost allocation model, with no amendments to the method of allocation of operating expenses to each business segment;
- Adjustments made after the application of IAS 8 (additional information is provided in the section covering the accounting principles):
- Reclassifications as a result of the application of IFRS 5 in relation to the (sold) tax collection unit and the insurance companies, considered as assets being sold, after the negotiations which will lead to the sale of the controlling interest in these companies.

Following is a breakdown of the MPS Group economic results/capital aggregates as of 31 December 2006 and 31 December 2005, on the basis of the above-mentioned business segments:

PRIMARY REPORTING

(euro '000)

31/12/06	Direzione Commercial Banking/Distribution network	Direzione Private Banking/Wealth Management	Direzione Corporate Banking/Capital Markets	Corporate Center	Mps Group total reclassified
ECONOMIC RESULTS					
Incone from financial and insurance business	**2,627.1**	**325.1**	**1,331.0**	**488.8**	**4,772.1**
Net value adjustments for impairment of loans and financial assets	-271.9	-5.0	-181.9	-127.6	-586.4
Operating Expenses	-1,566.8	-177.4	-689.1	-473.5	-2,906.7
Net operating income	**788.4**	**142.8**	**460.0**	**-112.3**	**1,279.0**
CAPITAL AGGREGATES					
Performing customer loans	36,535.1	804.8	47,784.0	5,126.3	90,250
Customer deposits and securities	44,201.2	4,331.7	25,397.1	20,046.3	93,976.3

PRIMARY REPORTING

(euro '000)

31/12/05	Direzione Commercial Banking/Distribution network	Direzione Private Banking/Wealth Management	Direzione Corporate Banking/Capital Markets	Corporate Center	Mps Group total reclassified
ECONOMIC RESULTS					
Incone from financial and insurance business	**2,476.3**	**287.0**	**1,290.1**	**267.5**	**4,320.8**
Net value adjustments for impairment of loans and financial assets	-229.5	-6.9	-178.0	-141.3	-555.7
Operating Expenses	-1,496.3	-180.5	-665.7	-509.8	-2,852.3
Net operating income	**750.5**	**99.6**	**446.4**	**-383.7**	**912.8**
CAPITAL AGGREGATES					
Performing customer loans	33,224.4	807.3	43,845.3	4,076.4	81,953
Customer deposits and securities	41,243.0	3,172.6	24,776.2	18,503.7	87,695.6

GEOGRAPHICAL BREAKDOWN: ECONOMIC RESULTS (SECONDARY REPORTING AS PROVIDED BY IAS 14)

As a basis for secondary reporting, the MPS Group adopted the breakdown of operating results by geographical area. Geographical areas are grouped with reference to the place of actual distribution of the products (which is indicative of the actual geographical location of the customers). This complies with the internal organization and reporting structure of the MPS Group which operates almost exclusively in the domestic market, with a particular concentration in the areas of central and northern Italy.

B. SECONDARY REPORTING

■ SECONDARY REPORTING

(euro '000)

31/12/06	Italy	Estero	Mps Group total reclassified
ECONOMIC RESULTS			
Income from financial and insurance business	**4,662.7**	**109.4**	**4,772.1**
Net value adjustments for impairment of loans and financial assets	-585.3	-1.1	-586.4
Operating Expenses	-2,186.2	-90.5	-2,906.7
Net operating income	**1,261.2**	**17.8**	**1,279.0**
CAPITAL AGGREGATES			
Performing customer loans	88,275.7	1,974.6	90,250
Customer deposits and securities	86,878.7	7,097.6	93,976.3

■ SECONDARY REPORTING

(euro '000)

31/12/05	Italy	Estero	Mps Group total reclassified
ECONOMIC RESULTS			
Income from financial and insurance business	**4,217.2**	**103.6**	**4,320.8**
Net value adjustments for impairment of loans and financial assets	-566.3	-10.7	-555.7
Operating Expenses	-2,759.7	-92.6	-2,852.3
Net operating income	**891.2**	**21.7**	**912.8**
CAPITAL AGGREGATES			
Performing customer loans	80,121.3	1,832.1	81,953
Customer deposits and securities	80,766.1	6,929.5	87,695.6

PART E
INFORMATION ON RISKS AND RELATIVE HEDGING POLICIES

Section 1 – Credit risks

Credit quality

1. General aspects

Within the guidelines of the Business Plan approved by the Board of Directors of the Parent Bank, top priority of the Group is to improve the quality of the managed loan portfolio and to consequently reduce credit costs.
In particular, credit priorities are focused on the following main goals:

- further enhancing credit portfolio quality;
- developing credit risk management tools and processes while implementing projects concerning the internal AIRB model in compliance with Basle II standards;
- intensifying of activities dealing with completing the experience period started in June 2006 and provided for by the rules as an essential condition for the system validation of internal ratings;
- improving the non-performing loans recovery management also from a commercial point of view.

2. Credit risk management policies

2.1 Organizational aspects
Credit grating, management and control within the MPS Group is carried out at three management macro-levels: the first one is at the Parent Bank level through the Credit Policies and Control Area as far as guidelines and strategic management; the second level can be found at the Credit Network/Credit Management of each bank of the banking Group and finally the third level is focused on the peripheral network of the Main Branches of the Group and their associated branches in the specific offices dealing with credit risks.

In particular, the Credit Policies and Control Area:

- defines credit portfolio development policies and draws up guidelines for credit quality management;
- is responsible for optimizing credit quality by minimizing the overall cost of credit risk through:

a. credit systems and processes evolution (granting, monitoring and recovery);
b. credit risk measures integration (PD, LGD, EAD) in the credit process;
c. co-ordinating and managing the monitoring process of important Group risks;
d. monitoring economic groups in difficult financial position and the related turnaround projects

- defines, together with the other competent offices, the guidelines and the general behaviours for performing and non-performing credit securitization;
- authorizes loans within its own delegated authority or make proposals to the competent body while expressing a justified opinion;
- assigns the rating to the Large Corporate customer segment (Key Clients);
- monitors the aggregates evolution.

In the Group, credit activity is carried out by a specialized body granting and monitoring credit facilities through well-defined structures which are duly delegated by a discretionary limits system authorised by the Board of Directors.

All the involved structures are called to grant/manage credit lines within specified delegated authorities, on the basis of criteria related to the subdivision and the risk level of the customers, as well as to monitor credit risks, using adequate procedures (based on the internal rating system) to determine the creditworthiness, to open the dossier, to follow up the evolution of the account and to foresee any emerging non-performing loan.

The evolution of all non-performing loans pointed out by the trend management process, including non-performing loans according to the Supervisory Instructions, is also generally followed by both the Head Office and the branches. General managers of the credit issuing branches as well as of the respective main branches of the Group are still responsible for credit quality.

The management of doubtful loans is assigned to the competent company of the Group (MPS Gestione Crediti Banca SpA).

Given the key role of the internal rating system within the Group management processes, in September 2006, in the Policies and Credit Control Area a unit was established to monitor it, in compliance with the regulatory requirements of establishing, a Credit Risk Control Unit charged with implementing second-level controls within the groups adopting the AIRB systems. The unit is in charge of:

- validating the development process of PD, LGD and EAD statistical calculation models and verifying their performances while discussing any optimization or re-assessment with the competent bodies if there are significant gaps in their forecasting capacities arise;
- verifying the compliance with regulatory requirements of rating assignment processes checking that they are correctly used by the network;
- monitoring quality and integrity of data used within the system duly involving the concerned units to solve any anomalies which may arise.

The steady monitoring of the system and the resulting reporting on its working and anomalies addressed both to the control units of the Parent Bank and, above all, to the operating units using the rating system guarantee a steady refinement of the system. The process has positive management consequences leading to improved process efficiency and granting process efficacy.

2.2 Management, measurement and control system

In 2006 the Group continued to reengineer granting, monitoring and credit control processes primarily aiming at enhancing efficiency and efficacy also using new measurements techniques in compliance with the new Basle II Accord.

In this respect, taking into account the available options of the "New Basle Accord on capital requirements – first pillar, credit risks" the Board of Directors of the Parent Bank approved the adoption and the resulting development and validation by the Bank of Italy of the AIRB[1] credit risk internal model. In June 2006, in line with the validation schedule of the internal rating system agreed upon with the Bank of Italy, the experience period for corporate customers of Banca Monte dei Paschi, Banca Toscana, Banca Agricola Mantovana and MPS Banca per l'Impresa was launched. In June 2007, in compliance with the regulations, the experience period for retail customers of the above-mentioned banks will start and will progressively be also extended to the product company Consum.it, specialised in consumer credit. This implementation will enable the MPS Group to apply for the validation of the AIRB system in June 2008. Thus in operating terms, starting from June 2006, as far as corporate customers are concerned, the networks of commercial banks of the Group and MPS Banca per l'Impresa are following the same validation process of creditworthiness, credit granting and monitoring of risk exposures, in compliance with the new metrics and the new principles introduced by the supervisory regulations issued by the Bank of Italy at year end.

2.2.1 Assessment and granting processes

Credit processes are specialized by kinds of customers aiming at improving the services offered to each specific segment and at optimizing the use of management and monitoring resources to properly balance commercial drive and credit management efficacy. Main driver of credit decision-making is the counterpart rating which is becoming a simple supporting instrument for the creditworthiness evaluation as the customers' sizes increase. Generally speaking, the management approach provides for a follow up of Small Businesses which is directly carried out by the commercial line substantially guided, in the decision-making process, by statistical rating/scoring. Creditworthiness assessment structures (Credit Workshops) deal, on the other hand, with the management of SMEs; they can be found all over Italy and assign a customer rating resulting from assessments, also of quality leading to the amendment of the starting statistical rating (override). The operating tool for rating assignment and credit granting to banks is the Electronic Credit Line Management (Pratica Elettronica di Fido = PEF) which, in line with the commercial service model, was specialized in two paths: one for smaller companies and/or showing lower risk factors (streamlined PEF), the other for larger companies and/or showing higher risk factors (comprehensive PEF).

[1] Advanced Internal Rating Based Approach

The **streamlined PEF** dealing with Small Businesses provides guidelines to account manager to assess the main customer's features supplying relevant information through automatic queries and meanwhile imposing specific assessment depending on the customer's business activity and his financing request. To support the decision-making process, the updated statistical rating of the counterpart and the customer's maximum sustainable risk are also displayed; on this basis, the account manager is able to decide or to autonomously renew positions which in the past he had to forward to higher bodies; the implemented decision-taking algorithms use the counterpart rating among the decision-taking drivers and enable the definition of credit policies at the level of the Parent Bank. The features of the streamlined PEF enable

- the enhancement of the customer service level curtailing answer back times thanks to high automation level;
- effective risk monitoring thanks to the use of rating as decision-taking driver preventing management policies inconsistent with the targets of improving the credit portfolio quality and the resulting group credit cost reduction;
- more transparency in the decision-taking process thanks to the filing of all information supporting and guiding the decision.

For larger counterparts, such as SME and Large Corporates the **comprehensive PEF** has been used since long, supporting, on the one hand the account manager in the customer assessment and on the other credit workshops in the counterpart creditworthiness assessment. In line with the regulatory guidelines, for counterparts with larger size than the threshold one, a more detailed assessment was arranged above all regarding quality aspects and therefore also the possibility of modifying the statistical rating computed by the decision-taking drivers through the override. This task was assigned to assessment bodies other than the decision-making ones: credit workshops or directly the Policies and Credit Control Area as to Large Corporate in compliance with the rule providing for that banks have to keep apart bodies approving the rating from those managing the positions and being responsible for the commercial budgets.

The comprehensive PEF assignment model suggests to the analyst of the credit workshop a rating statically computed using customer's financial statements and trend information and, starting from the experience period, also its quality information in a special form filled in by the account manager and the credit analyst. In June 2006, a process was implemented enabling to objectively catch also the customer's quality information in the counterpart rating. Starting from the model rating computed on the basis of financial statements, trend and quality information of the counterparts the assessment of which is more complex, due to size or kind of business, it is possible to carry out an override aiming at catching any information that the assessment path was unable to include in the rating. The override autonomies, in line with risk autonomies, are diversified on the basis of the role of the validating party. Decision-making rules were implemented defining the control level necessary to replace the customer rating with the holding rating in case of high influence. Otherwise than with streamlined PEF, where automatic renew and decision-making mechanisms are provided, in the comprehensive PEF the rating is an essential driver in determining the delegated authority. Starting from June rules were defined linking the delegated authority to the rating expressed by the counterpart aiming at raising the hierarchical levels of delegated authority of higher risk positions and lowering the less risky ones. The new model is more efficient since the streamlining of the decision-making chain for the limited-risk positions enables to curtail decision-making time and risks are better monitored since the most risky positions only are submitted to the Board of Directors.

During the second half of 2006 a new pricing method was implemented at the Head Offices of BMPS, BT and BAM delivering to the account managers information concerning the risk-adjusted profitability of each transaction. This method will be delivered to the branches in the first half of 2007. Currently, branches use the so-called “Pricing Overview” linking the rating creditworthiness with pricing assessments: an overview of the portfolio profitability subdivided by rating levels is periodically supplied to the account manager so that measures are taken on counterparties not complying with the average risk-adjusted profitability afterwards assessed.

The production launch of retail PEF is scheduled by the first half of 2007 in compliance with the time schedule of the experience period for this customer segment. This PEF maximized efficiency while maximizing the use of automatisms in the filling in of loan requirements and in their approval while minimizing manual interventions. Moreover, risk cost curtailing targets were also taken into account, using counterpart rating and granting scoring in the decision-making process of credit lines.

In 2006, while issuing the new processes, the regulations were deeply renewed to refocus them on final users and provide a clearer understanding of new risk metrics to account managers and meanwhile to standardize the behaviours of all players involved independently of the bank in order to create the same operating procedure in the banking Group as to risk assessment and monitoring. To this purpose, 2,500 MPS Group employees were trained in 2006 and all training courses dealing with credit granting are undergoing a redefiniton to include new metrics, new methodologies, but above all the new credit granting and management in the operating procedure of analysts and account managers working in the operating network.

2.2.2 Monitoring processes

As to credit portfolio management and monitoring, the “Trend Management” process has been produced since long on the basis of rating model forecasting and is able to monitor the corporate and retail portfolio trends, while focusing the attention of managers only on customers who are statistically highly likely to default within one year.

The “Trend Management” is based on an early warning system acting through three sub-processes:

- the “System Supervision”, which is now deeply reviewed, focusing and addressing the monitoring activities on major-risk positions. Thus, the Bank acts previously to safeguard the loan portfolio identifying future problems, if any. As a matter of fact, usually every 30 days, the system acquires the counterpart rating informing the network of the positions with worst ratings which must be submitted to analysis. The preventive logic of the “System Supervision” focuses on low quality loans although still performing;

- the “Operating Management”, optimized in 2006, daily monitoring internal and external credit problems which are represented through a potential risk index aiming at preventing default cases occurring within the month of the loan portfolio which have been skipped by the rating. The aim of the new Operating Management is to create the conditions for a wider and better daily monitoring of potential risk situations arising among customers borrowing or exceeding the limits in order to better manage past-due loans. The increase in identification marks of the new Operating Management enabled the cancellation of almost all controls referring to the credit risk managed until now through the internal Control System;
- the “Streamlined Renewals” drastically reducing, in case of positive ratings and small amounts, network assessment times to review credit lines.

2.3 Credit risk mitigation

As to mitigating the risk, the Group operating activity provides for the collection of real guarantees, usually for transactions other than the short-term ones. In particular, usually mortgages are started on real estate linked with building acquisition, construction and restructuring both for sale and for direct customers’ use for production investments. Other real guarantees are mainly securities quoted on regular markets and are also used to support short-term financing transactions. Short and medium-term financing transactions are sometimes backed by personal guarantees, mostly given by individuals (guarantees) and sometimes by companies (guarantees and binding letters of comfort).

3. The Analysis of Economic Capital

In 2006 – in view of the application of Basle 2 principles – the MPS Group developed many activities for the purpose of arranging measurement models, lending and organization processes and IT systems in compliance with the guidelines contemplated by the Regulations on the Banks’ Capital Adequacy.

In particular, all rating models with reference to Corporate and Retail customers have been redefined with the dual objective of (i) complying with the quantitative-qualitative requirements provided for by Basle 2 regulations and (ii) introducing the instruments in relation to the internal rating system within the Bank’s lending processes – from loan disbursement to credit monitoring – and risk management, budget and planning, accounting and balance-sheet processes, in a standardized, consistent and structured way, thus fulfilling the obligations of “use” of the rating contemplated by the Experience Period, as required by the new regulations.

More specifically, in addition to a complete review of the Corporate and Retail models (also including the adoption of a MPS Group logic, the introduction of new criteria of customer segmentation in compliance with the portfolio classification adopted for the calculation of capital ratios as provided for by the New Banking Supervisory Regulations, the adjustment of “default” definition, the determination of only one Probability Default in relation to one customer for the legal entities subject to Basle II scope of validation, the definition of a rating for Economic Groups and Related Customer Groups), the models have been re-adjusted and a new masterscale has been built for application during 2007 for the purpose of representing the customers'degree of risk expressed by the internal rating systems, in accordance with one matrix. Accordingly, the LGD and EAD standards are being finetuned, as well as the techniques of valuation and revaluation of the guarantees within the Credit Risk Mitigation process. In addition, the establishment of a specific Basle-Pillar II Committee has contributed to the planning and start of activities oriented to integrating and completing the provisions of the Second Pillar, for the purpose of complying with the requirements of the ICAAP process and providing all information contemplated by the New Supervisory Instructions for the implementation of the Supervisory Regulatory Process by the Supervisory Authority. In this logic, in 2007 the methods of measurement of each risk factor will be developed, adjusted and integrated; and the diversified economic capital will be calculated accordingly. Stress testing and scenario analysis techniques will be finetuned with the objective of checking global capital adequacy with respect to global internal capital.

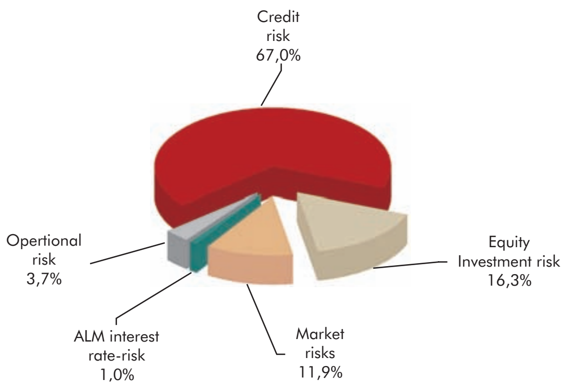
As developed by the Risk Management Unit of the Corporate Center of the MPS Group for all legal entities subject to risk measurement, Banca Monte dei Paschi adopts the methods of measurement of the economic capital, as the amount of minimum financial resources required for covering the economic losses due to the occurrence of unexpected events generated by different categories of risk.

The relevant risks included in the area of valuation embrace: a) **credit risk** (inclusive of counterparty risk), b) **trading book market risks**, c) **interest rate risk registered in the Banking Book (ALM)**, d) **operational risk**, e) E**quity risk**, as the risk of losses originated by the Equity Investment portfolio.

VaR measures – which keep their original value in accordance with the ruling regulations and the international best practice – are actually determined with a holding period and confidence intervals by risk factors, in compliance with the guidelines of the latest Banking Supervisory Regulations issued by the Bank of Italy. Total Economic Capital stems from the measurement of each risk factor. Such measures are standardized both in relation to their time horizon (annual holding period) and selected confidence interval (99.93% in line with the rating level assigned to the MPS Group by the official rating agencies) and are subject to intra-risk and inter-risk diversification processes. The final output shows the total internal capital by Legal Entities, Business Units, Responsibility Areas and is periodically published in the Risk Management Report edited by the Risk Management Unit of the Parent Bank. In addition, the same measurement is made at a centralized level for each Legal Entity, notified to the Board of each Legal Entity through a specific reporting adjusted to the specific business lines of the banks included in the area of consolidation.

The above-mentioned risk measures adopt the risk standards imposed by the New Banking Supervisory Regulations (Default Probability, Loss Given Default, Exposure At Default, Credit Risk Mitigation) and follow methods, evolutions and finetuning of these standards in accordance with the programmes contemplated by the Basle II Committee for approach to validation with the domestic Supervisory Authority. The output of the internal Model of Credit Portfolio developed and used by the Risk Management Unit of the Parent Bank represents a fundamental instrument for space and time monitoring of credit risk and are materially used in accordance with different analysis guidelines, such as a) the analysis of risk developments and total internal capital resulting from the application of the guidelines of the Business Plan and Planning estimates; b) the determination of reference values for the purpose of emphasizing the consistency of accounting provisions indicated by the IAS regulations; c) the "active" management of risks through techniques of optimization of the risk/return profile by kind of customer, by legal entities and kind of exposure; d) the use in the internal management processes in compliance with the policies laid down by the operating lending units; e) the use in the monitoring processes of credit risk.

Diversified Economic Capital
(excluding infragroup operations)
MPS Group - 31 December 2006



As of 31 December 2006, the Economic Capital of Banca Monte dei Paschi was attributable to credit risk (67%), equity investments risk (16.3%), operational risk (3.7%). The capital for accounting purposes with respect to financial risks (inclusive of the trading portfolio and ALM-Banking Book) came to 12.9% of the total Economic Capital.

To this end, the weight of the economic capital to insurance risk is decreasing as a result of the streamlining initiatives of equity investments, carried out by the Banking Group and Banca MPS. In addition, remarkable developments are under way in terms of measurement of the interest rate risk rate, mostly in relation to the shaping of demand items which will be implemented in the next months of 2007 and – within the ordinary evolution aimed at seizing and better measuring risks - will inevitably produce impacts on the measurement of sensitivity of the interest margin and the economic value, which at the moment cannot be assessed since simulated measurements are not available.

Qualitative information

A. CREDIT QUALITY

A.1 IMPAIRED AND PERFORMING LOANS: AMOUNTS, WRITEDOWNS, CHANGES, DISTRIBUTION BY BUSINESS ACTIVITY/REGION

A.1.1 BREAKDOWN OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (BOOK VALUE)

(euro '000)

Portfolio/quality	banking group						other companies		Total
	NPL	doubtful assets	restructured loans	past due	country risk	other assets	loan losses	other	
1. financial assets held for trading	9,540	190	-	63	-	26,420,535	-	-	26,430,328
2.financial assets available for sale	-	-	-	-	-	4,091,263	-	56,547	4,147,810
3. financial assets held to maturity	-	-	-	-	-	3	-	-	3
4. due from banks	1,865	-	-	4	252,045	11,737,118	-	-	11,991,032
5. customer loans	1,690,763	1,015,160	111,126	1,021,751	215,379	87,886,840	-	-	91,941,019
6. financial assets valued at fair value	-	-	-	-	-	-	-	-	-
7. financial assets held to be sold	-	-	-	-	-	-	-	15,086,230	15,086,230
8. hedging Derivatives	-	-	-	-	-	17,229	-	-	17,229
Total 31/12/2006	1,702,168	1,015,350	111,126	1,021,818	467,424	130,152,988	-	15,142,777	149,613,651
Total 31/12/2005	1,583,387	1,025,650	87,595	1,756,341	567,375	123,524,652	-	58,756	128,603,756

A.1.2 BREAKDOWN OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (GROSS AND NET VALUES)

(euro '000)

Portfolio/quality	impaired assets				other assets			Total (net exposure)
	gross Exposure	specific adjustments	portfolio adjustments	net Exposure	gross Exposure	portfolio adjustments	net Exposure	
A. banking Group								
1. financial assets held for trading	21,139	(11,346)		9,793	x	x	26,420,535	26,430,328
2. financial assets available for sale				-	4,091,422	(159)	4,091,263	4,091,263
3. financial assets held to maturity				-	3		3	3
4. due from banks	5,719	(3,850)		1,869	11,992,882	(3,719)	11,989,163	11,991,032
5. customer loans	6,248,164	(2,228,841)	(180,522)	3,838,801	88,644,125	(541,907)	88,102,218	91,941,019
6. financial assets valued at fair value				-	x	x	-	-
7. financial assets held to be sold				-	-		-	-
8. hedging Derivatives				-	x	x	17,229	17,229
Total A	6,275,022	(2,244,037)	(180,522)	3,850,463	104,728,432	(545,785)	130,620,411	134,470,874
B. other consolidated companies								
1. financial assets held for trading					x	x		
2. financial assets available for sale					56,547		56,547	56,547
3. financial assets held to maturity								
4. due from banks					-		-	-
5. customer loans								
6. financial assets valued at fair value					x	x		
7. financial assets held to be sold					15,086,230		15,086,230	15,086,230
8. hedging Derivatives					x	x		
Total B	-	-	-	-	15,142,777	-	15,142,777	15,142,777
Total 31/12/2006	6,275,022	(2,244,037)	(180,522)	3,850,463	119,871,209	(545,785)	145,763,188	149,613,651
Total 31/12/2005	6,683,554	(2,071,524)	(159,043)	4,452,986	94,705,728	(514,553)	124,150,770	128,603,756

A.1.3 CASH AND OFF-BALANCE SHEET EXPOSURES TO BANKS: GROSS AND NET VALUES

31 12 2006
(euro '000)

kind of exposure	gross Exposure	specific adjustments	portfolio adjustments	net Exposure
A. cash exposures				
A.1 banking group				
a) npl	5,684	3,818		1,866
b) watchlist credits	32	32		-
c) restructured loans				-
d) past due	4			4
e) country risk	252,845	X	798	252,047
f) other assets	24,094,514	X	-9,210	24,103,724
Total A.1	24,353,079	3,850	(8,412)	24,357,641
A.2 other companies				
a)loan losses				
b) other	14,970,981	X		14,970,981
Total A.2	14,970,981	-	-	14,970,981
Total A	39,324,060	3,850	(8,412)	39,328,622
B. off-balance sheet exposure				
B.1 Gruppo bancario				
a)loan losses				-
b) other	5,631,849	X	384	5,631,465
Total B.1	5,631,849	-	384	5,631,465
B.2 other companies				
a)loan losses				
b) other	37,234	X		37,234
Total B.2	37,234			37,234
Total B	5,669,083	-	384	5,668,699

31 12 2005
(euro '000)

kind of exposure	gross Exposure	specific adjustments	portfolio adjustments	net Exposure
A. cash exposures				
A.1 banking group				
a) npl	6,507	(4,453)		1,604
b) watchlist credits	102	(102)		-
c) restructured loans				-
d) past due	128			128
e) country risk	459,309	X	(743)	458,566
f) other assets	22,716,339	X	3,725	22,720,064
Total A.1	23,181,339	(4,555)	2,982	23,180,362
A.2 other companies				
a)loan losses				
b) other	158	X		158
Total A.2	158	-	-	158
Total A	23,182,093	(4,555)	2,982	23,180,520
B. off-balance sheet exposure				
B.1 Gruppo bancario				
a)loan losses				-
b) other	4,721,555	X	(618)	4,720,937
Total B.1	4,721,555	-	(618)	4,720,937
B.2 other companies				
a)loan losses				
b) other		X		
Total B.2				
Total B	4,721,555	-	(618)	4,720,937

A.1.3.A CASH AND OFF-BALANCE SHEET EXPOSURES TO BANKS SUBJECT TO COUNTRY RISK

(euro '000)

values	gross Exposure	specific adjustments	portfolio adjustments	net Exposure
npl				
watchlist credits				
estructured loans				
past due				
Total				

A.1.4 CASH EXPOSURES TO BANKS: TREND TO LOAN LOSSES SUBJECT TO COUNTRY RISK (GROSS AMOUNTS)

31 12 2006
(euro '000)

category	NPL	doubtful assets	restructured loans	past due	country risk
A. initial gross exposure	**6,057**	**102**	**-**	**128**	**459,309**
- of which: sold but not derecognised					
B. increases	**94**	**105**	**-**	**1**	**149,138**
B.1 transfers from performing loans	32			-	
B.2 transfers from other categories of losses					
B.3 other increases	62	105		1	149,138
C. decreases	**467**	**175**	**-**	**125**	**355,602**
C.1 outflow to performing loans					
C.2 writedowns	4			-	5,789
C.3 collections	463	61		125	349,813
C.4 sales					
C.5 transfers from other categories of losses					
C.6 other decreases		114			-
D. final gross exposure	**5,684**	**32**	**-**	**4**	**252,845**
- of which: sold but not derecognised					

31 12 2005
(euro '000)

category	NPL	doubtful assets	restructured loans	past due	country risk
final gross exposure from prior year	**5,759**	**99**			**291,147**
effects of changes in accounting principles					
A. initial gross exposure	**5,759**	**99**	**-**	**-**	**291,147**
- of which: sold but not derecognised					
B. increases	**9,255**	**14**	**-**	**248**	**172,226**
B.1 transfers from performing loans	9,057			247	
B.2 transfers from other categories of losses					
B.3 other increases	198	14		1	172,226
C. decreases	**8,957**	**11**	**-**	**120**	**4,065**
C.1 outflow to performing loans					
C.2 writedowns	8,790			120	
C.3 collections	167	11			
C.4 sales					
C.5 transfers from other categories of losses					
C.6 other decreases					4,065
D. final gross exposure	**6,057**	**102**	**-**	**128**	**459,308**
- of which: sold but not derecognised					

A.1.5 CASH EXPOSURES TO BANKS: TREND OF OVERALL VALUE ADJUSTMENTS

31 12 2006
(euro '000)

category	NPL	doubtful assets	restructured loans	past due	country risk
A. final total adjustments	**4,453**	**102**	**-**	**-**	**743**
- of which: sold but not derecognised					
B. increases	**121**	**32**	**-**	**-**	**795**
B.1 changes in value	60				795
B.2 transfers from other categories of losses					
B.3 other increases	61	32			
C. decreases	**756**	**102**	**-**	**-**	**740**
C.1 transfer to performing loans	594				
C.2 write-backs from recoveries	154				673
C.3 write-offs	4				
C.4 transfers from other categories of losses					
C.5 other decreases	4	102			67
D. final gross writedowns	**3,818**	**32**	**-**	**-**	**798**
- of which: sold but not derecognised					

31 12 2005
(euro '000)

category	NPL	doubtful assets	restructured loans	past due	country risk
A. initial gross writedowns	**4,111**	**99**	**-**	**-**	**1,008**
- of which: sold but not derecognised					
B. increases	**9,953**	**14**	**-**	**-**	**425**
B.1 changes in value	966				425
B.2 transfers from other categories of losses					
B.3 other increases	8,987	14			
C. decreases	**9,611**	**11**	**-**	**-**	**690**
C.1 transfer to performing loans	822				690
C.2 write-backs from recoveries					
C.3 write-offs	8,789				
C.4 transfers from other categories of losses					
C.5 other decreases		11			
D. final gross writedowns	**4,453**	**102**	**-**	**-**	**743**
- of which: sold but not derecognised					

A.1.6 CASH AND OFF-BALANCE SHEET EXPOSURES TO CUSTOMERS: (GROSS AND NET VALUES)

31 12 2006
(euro '000)

kind of exposure	gross Exposure	specific adjustments	portfolio adjustments	net Exposure
A. cash exposures				
A.1 banking group				
a) npl	3,689,206	1,932,684	56,372	1,700,150
b) watchlist credits	1,355,311	298,837	41,314	1,015,160
c) restructured loans	118,313	6,327	860	111,126
d) past due	1,106,065	2,338	81,976	1,021,751
e) country risk	217,953	x	2,574	215,379
f) other assets	101,024,467	x	539,139	100,485,328
Total A.1	**107,511,315**	**2,240,186**	**722,235**	**104,548,894**
A.2 other companies				
a) loan losses				-
b) other	134,562	x		134,562
Total A.2	**134,562**	**-**	**-**	**134,562**
Total A	**107,645,877**	**2,240,186**	**722,235**	**104,683,456**
B. off-balance sheet exposure				
B.1 banking group				
a) loan losses	86,018	20,363	327	65,328
b) other	22,990,170	x	25,709	22,964,461
Total B.1	**23,076,188**	**20,363**	**26,036**	**23,029,789**
B.2 other companies				
a) loan losses				-
b) other	-	X		-
Total B.2	**-**	**-**	**-**	**-**
Total B	**23,076,188**	**20,363**	**26,036**	**23,029,789**

31 12 2005
(euro '000)

kind of exposure	gross Exposure	specific adjustments	portfolio adjustments	net Exposure
A. cash exposures				
A.1 banking group				
a) npl	3,333,913	(1,726,023)	(35,142)	1,572,748
b) watchlist credits	1,385,782	(318,585)	(41,547)	1,025,650
c) restructured loans	98,114	(10,489)	(30)	87,595
d) past due	1,840,269	(2,088)	(81,968)	1,756,213
e) country risk	111,749	x	(2,982)	108,767
f) other assets	94,439,387	x	(489,591)	93,949,796
Total A.1	**101,209,214**	**(2,057,185)**	**(651,260)**	**98,500,769**
A.2 other companies				
a) loan losses				-
b) other	58,598	x		58,598
Total A.2	**58,598**	**-**	**-**	**58,598**
Total A	**101,267,812**	**(2,057,185)**	**(651,260)**	**98,559,367**
B. off-balance sheet exposure				
B.1 banking group				
a) loan losses	49,110	(16,315)		32,795
b) other	10,604,647	x	(40,267)	10,564,380
Total B.1	**10,653,757**	**(16,315)**	**(40,267)**	**10,597,175**
B.2 other companies				
a) loan losses				-
b) other	2,755,325	X		2,755,325
Total B.2	**2,755,325**	**-**	**-**	**2,755,325**
Total B	**13,409,082**	**(16,315)**	**(40,267)**	**13,352,500**

A.1.6.A CASH AND OFF-BALANCE SHEET EXPOSURES TO CUSTOMERS SUBJECT TO COUNTRY RISK

(euro '000)

values	gross Exposure	specific adjustments	portfolio adjustments	net Exposure
npl				
watchlist credits				
estructured loans				
past due				
Total				

A.1.7 CASH EXPOSURES TO CUSTOMERS: TREND TO LOAN LOSSES SUBJECT TO COUNTRY RISK (GROSS AMOUNTS)

31 12 2006
(euro '000)

category	NPL	doubtful assets	restructured loans	past due	country risk
A. initial gross exposure	**3,333,912**	**1,385,782**	**98,114**	**1,840,270**	**111,749**
- of which: sold but not derecognised					
B. increases	**1,307,771**	**872,520**	**94,932**	**1,239,390**	**149,201**
B.1 transfers from performing loans	322,842	396,715	40,006	927,934	
B.2 transfers from other categories of losses	535,352	329,382	9,577	33,249	
B.3 other increases	449,577	146,423	45,349	278,207	149,201
C. decreases	**952,477**	**902,991**	**74,733**	**1,973,595**	**42,997**
C.1 outflow to performing loans	7,695	77,456	1,881	1,002,506	-
C.2 writedowns	303,811	23,683	4,528	5,574	
C.3 collections	389,808	335,189	57,820	480,602	42,997
C.4 sales	22,932				
C.5 transfers from other categories of losses	1,162	433,721	10,379	462,298	-
C.6 other decreases	227,069	32,942	125	22,615	-
D. final gross exposure	**3,689,206**	**1,355,311**	**118,313**	**1,106,065**	**217,953**
- of which: sold but not derecognised					

31 12 2005
(euro '000)

category	NPL	doubtful assets	restructured loans	past due	country risk
final gross exposure from prior year	**3,024,070**	**1,439,114**	**57,350**		**82,448**
effects of changes in accounting principles					
A. initial gross exposure	**3,024,070**	**1,439,114**	**57,350**	**-**	**82,448**
- of which: sold but not derecognised					
B. increases	**1,093,694**	**926,329**	**86,776**	**1,986,339**	**29,967**
B.1 transfers from performing loans	445,218	810,087	52,750	1,485,121	
B.2 transfers from other categories of losses	435,074	15,162	14,873	10,622	
B.3 other increases	213,402	101,080	19,153	490,596	29,967
C. decreases	**783,852**	**979,661**	**46,012**	**146,069**	**666**
C.1 outflow to performing loans	1,315	116,388	2,552		67
C.2 writedowns	342,264	34,849	1,445	40	
C.3 collections	332,347	341,349	22,369	145,988	29
C.4 sales	98,000				
C.5 transfers from other categories of losses	6,029	478,244	19,646		49
C.6 other decreases	3,897	8,831		41	521
D. final gross exposure	**3,333,912**	**1,385,782**	**98,114**	**1,840,270**	**111,749**
- of which: sold but not derecognised					

A.1.8 CASH EXPOSURES TO CUSTOMERS: TREND OF OVERALL VALUE ADJUSTMENTS

31 12 2006
(euro '000)

category	NPL	doubtful assets	restructured loans	past due	country risk
A. final total adjustments	**1,761,165**	**360,132**	**10,519**	**84,056**	**2,982**
- of which: sold but not derecognised					
B. increases	**843,524**	**192,093**	**13,742**	**57,251**	**2,564**
B.1 changes in value	563,346	164,373	9,140	45,969	2,564
B.2 transfers from other categories of losses	101,790	7,137	4,584	96	
B.3 other increases	178,388	20,583	18	11,186	
C. decreases	**615,632**	**212,074**	**17,074**	**56,993**	**2,972**
C.1 transfer to performing loans	155,589	56,232	2,967	47,810	275
C.2 write-backs from recoveries	43,711	25,933	1,127	628	2,697
C.3 write-offs	296,941	23,183	4,528	5,310	
C.4 transfers from other categories of losses	5,401	101,080	4,809	2,317	-
C.5 other decreases	113,990	5,646	3,643	928	
D. final gross writedowns	**1,989,057**	**340,151**	**7,187**	**84,314**	**2,574**
- of which: sold but not derecognised					

31 12 2005
(euro '000)

category	NPL	doubtful assets	restructured loans	past due	country risk
final gross adjustments from prior year	**1,668,845**	**368,618**	**14,407**		**2,421**
effects of changes in accounting principles					
A. initial gross writedowns	**1,668,845**	**368,618**	**14,407**	**-**	**2,421**
- of which: sold but not derecognised					
B. increases	**614,730**	**241,487**	**7,214**	**85,665**	**657**
B.1 changes in value	486,550	207,253	4,059	66,617	657
B.2 transfers from other categories of losses	99,881	15,498	3,155	2,099	
B.3 other increases	28,299	18,736		16,949	
C. decreases	**522,410**	**249,973**	**11,102**	**1,609**	**96**
C.1 transfer to performing loans	118,313	58,619	2,051	1,341	79
C.2 write-backs from recoveries	43,860	30,690	2,612	221	4
C.3 write-offs	337,834	42,585	1,445	40	
C.4 transfers from other categories of losses	755	111,909	4,994		13
C.5 other decreases	21,648	6,170		7	
D. final gross writedowns	**1,761,165**	**360,132**	**10,519**	**84,056**	**2,982**
- of which: sold but not derecognised					

A.2 CLASSIFICATION OF EXPOSURES ACCORDING TO EXTERNAL AND INTERNAL RATINGS

A.2.1 DISTRIBUTION OF CASH AND OFF-BALANCE SHEET EXPOSURES ACCORDING TO EXTERNAL RATINGS (BOOK VALUE)

31 12 2006
(euro '000)

Exposures	external ratings						without rating	**Total**
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	Inferiore a B-		
A. cash Exposures	21,983,585	10,310,992	1,251,468	173,712	98,556	5,202	110,188,563	144,012,078
B. Derivatives	2,210,423	428,006	3,127	-	5,715	-	2,954,304	5,601,575
B.1 financial Derivatives	2,196,783	235,349	3,127		5,715		2,954,304	5,395,278
B.2 credit Derivatives	13,640	192,657					-	206,297
C. issued Guarantees	676,792	1,660,273	106,230	25,271	136,423		6,493,138	9,098,127
D. fund distribution	2,185,764	584,627	87,538	224	7,353	148	6,072,671	8,938,325
Total	27,056,564	12,983,898	1,448,363	199,207	248,047	5,350	125,708,676	167,650,105

A.2.2 DISTRIBUTION OF CASH AND OFF-BALANCE SHEET EXPOSURES ACCORDING TO INTERNAL RATINGS (BOOK VALUE)

31 12 2006
(euro '000)

Exposures	internal ratings								
	high Quality	medium Qualy	fair Quality	moderate Quality	terrible Quality	Default	group administrative Default	without rating	Total
A. cash Exposures	11,353,658	20,683,315	17,907,995	10,349,657	1,501,914	4,205,877		78,009,662	144,012,078
B. Derivatives	17,415	36,747	35,266	23,958	894	8,470	-	5,478,825	5,601,575
B.1 financial Derivatives	17,415	36,747	35,266	23,958	894	8,470		5,272,528	5,395,278
B.2 credit Derivatives								206,297	206,297
C. issued Guarantees	2,117,553	1,404,110	829,415	730,689	17,180	103,716		3,895,464	9,098,127
D. fund distribution	587,707	889,666	3,262,200	664,812	29,430	48,859		3,455,651	8,938,325
Total	**14,076,333**	**23,013,838**	**22,034,876**	**11,769,116**	**1,549,418**	**4,366,922**	**-**	**90,839,602**	**167,650,105**

A.3 Distribution of the guaranteed expositions according to warranties

A.3.1 CASH EXPOSURES TO BANKS AND TO GUARANTEED CUSTOMERS

31 12 2006
(euro '000)

	exposure value	real security		
		properties	securities	other goods
1. Exposures to guaranteed banks:	22,815	-	-	-
1.1 totally gyaranteed	2,640			
1.2 partially guaranteed	20,175			
2. Exposures to guaranteed customres:	54,385,066	82,934,601	3,355,517	1,120,568
2.1 totally gyaranteed	51,300,136	82,786,677	2,564,838	1,024,654
2.2 partially guaranteed	3,084,930	147,924	790,679	95,914

A.3.2 OFF BALANCE SHEET EXPOSURES TO BANKS AND TO GUARANTEED CUSTOMERS

31 12 2006
(euro '000)

	exposure value	real security		
		properties	securities	other goods
1. Exposures to guaranteed banks	929,364	-	7,500	36
1.1 totally gyaranteed	35			36
1.2 partially guaranteed	929,329		7,500	
2. Exposures to guaranteed customres	2,742,991	78,970	217,967	199,551
2.1 totally gyaranteed	2,234,513	78,359	199,333	151,521
2.2 partially guaranteed	508,478	611	18,634	48,030

personal warranty								
credit Derivatives				signature Credit				Total
states	other public corporations	banks	other subjects	states	other public corporations	banks	other subjects	
-	-	-	-	-	-	-	250,584	250,584
							250,432	250,432
							152	152
-	-	292,687	-	9,830	182,834	1,150,206	71,801,866	160,848,109
		190,688		8,991	166,220	1,099,305	70,299,379	158,140,752
		101,999		839	16.614	50,901	1,502,487	2,707,357

personal warranty								
credit Derivatives				signature Credit				Total
states	other public corporations	banks	other subjects	states	other public corporations	banks	other subjects	
-	-	-	-	-	-	-	-	7,536
								36
								7,500
-	-	101,253	-	-	245	64,209	2,864,097	3,526,292
		100,818			242	45,850	2,781,466	3,357,589
		435			3	18,359	82,631	168,703

A.3.3 DETERIORED CASH EXPOSURES TO BANKS AND TO GUARANTEED CUSTOMERS

31 12 2006
(euro '000)

	exposure value	guaranteed amount
1. Exposures to guaranteed banks:	94	
1.1 above 150%	4	
1.2 between 100% and 150%		
1.3 between 50% and 100%		
1.4 within 50%	90	
2. Exposures to guaranteed customres:	3,205,210	2,524,111
2.1 above 150%	1,908,604	2,232,798
2.2 between 100% and 150%	207,203	255,198
2.3 between 50% and 100%	5,030	7,433
2.4 within 50%	1,084,373	28,682

	Guarantees (fair value)																		
	real security			personal warranty														Total	Excess fair value guarantees
				credit Derivatives							signature Credit								
	properties	securities	other goods	gov.nts and central banks	other public corporations	Banks	financial societies	insurance companies	non financial societies	other subjects	gov.nts and central banks	other public corporations	Banks	financial societies	insurance companies	non financial societies	other subjects		
	5,517,737	58,578	32,239	-	-	-	-	-	50,323	227,400	1,717	6,156	185,603	70,256	5,617	1,169,678	3,456,700	10,782,002	8,324,957
	5,301,971	37,325	18,890						43,818	191,928	1,717	5,949	177,124	68,710	4,962	1,144,245	3,363,946	10,360,585	8,147,904
	213,940	19,280	11,619						6,505	35,465		206	8,374	863	655	22,055	80,291	399,253	173,508
	44	428	200									1		119		227	1,259	2,277	718
	1,782	1,545	1,530							7			105	564		3,151	11,204	19,887	2,827

A.3.4 DETERIORED OFF.BALANCE SHEET EXPOSURES TO BANKS AND TO GUARANTEED CUSTOMERS

31 12 2006
(euro '000)

	exposure value	guaranteed amount
1. Exposures to guaranteed banks:		
1.1 above 150%		
1.2 between 100% and 150%		
1.3 between 50% and 100%		
1.4 within 50%		
2. Exposures to guaranteed customres:	68,785	3,090
2.1 above 150%	1,339	1,339
2.2 between 100% and 150%	1,559	1,559
2.3 between 50% and 100%	18	18
2.4 within 50%	65,869	174

Guarantees (fair value)																	Total	Excess fair value guarantees
real security			personal warranty															
			credit Derivatives							signature Credit								
properties	securities	other goods	gov.nts and central banks	other public corporations	Banks	financial societies	insurance companies	non financial societies	other subjects	gov.nts and central banks	other public corporations	Banks	financial societies	insurance companies	non financial societies	other subjects		
-	303	3,180	-	-	-	-	-	-	-	-	-	-	79	-	4,892	14,050	22,506	20,079
	172	1,587											79		4,812	13,800	20,451	19,604
	124	1,522													18	207	1,872	466
	3	7														5	15	5
	4	64													62	38	168	4

A.3.6 EXPOSURES OVERDUE/EXCEDEEING BETWEEN 90 AND 180 DAYS: EXPOSURES TO BANKS AND TO GUARANTEED CUSTOMERS

31 12 2006
(euro '000)

	exposure value	guaranteed amount
1. Exposures to guaranteed banks:		
1.1 above 150%		
1.2 between 100% and 150%		
1.3 between 50% and 100%		
1.4 within 50%		
2. Exposures to guaranteed customres:	38,580	38,463
2.1 above 150%	34,124	34,325
2.2 between 100% and 150%	3,275	3,294
2.3 between 50% and 100%	113	114
2.4 within 50%	1,068	730

Guarantees (fair value)																	Total	Excess fair value guarantees
real security			personal warranty															
			credit Derivatives							signature Credit								
properties	securities	other goods	gov.nts and central banks	other public corporations	Banks	financial societies	insurance companies	non financial societies	other subjects	gov.nts and central banks	other public corporations	Banks	financial societies	insurance companies	non financial societies	other subjects		
82,384	181	978												307	1,119	1,303	86,272	
79,711	109	618													51	1,276	81,765	
2,673	72													210	1,052	19	4,026	
														97	16		113	
		360														8	368	

B. DISTRIBUTION AND CONCENTRATION OF CREDITO

B.1 DISTRIBUTION BY BUSINESS SECTOR OF CASH EXPOSURES AND OFF-BALANCE TO CUSTOMERS

(euro '000)

exposures	gov,nts and central banks				other public entities				financial societies			
	gross exposure	specific writedowns	portfolio adjustments	net exposure	gross exposure	specific writedowns	portfolio adjustments	net exposure	gross exposure	specific writedowns	portfolio adjustments	net exposure
A. cash Exposure												
A.1 non performing loans					691	232		459	19,609	4,081		15,529
A.2 watch loans					6,617	4,022		2,595	16,077	5,993		10,083
A.3 restructured Exposures									6,224	986		5,238
A.4 expired Exposures	61			61	2,079		52	2,027	2,593		67	2,526
A.5 other exposures	4,468,022	X	5,996	4,462,025	2,661,467	X	1,856	2,659,610	11,438,422	X	1,592	11,436,830
Total A	4,468,083	-	5,996	4,462,086	2,670,854	4,254	1,908	2,664,691	11,482,925	11,060	1,659	11,470,206
B. off-balance sheet Exposure												
B.1 non performing loans									4,794	1,575		3,219
B.2 watch loans									996	223		773
B.3 expired exposures												
B.4 other exposures	1,867,260	X	1,193	1,866,067	366,363	X	628	365,734	3,622,459	X	5,055	3,617,404
Total B	1,867,260	-	1,193	1,866,067	366,363	-	628	365,734	3,628,249	1,798	5,055	3,621,396
Total (A+B) 31/12/2006	6,335,343	-	7,189	6,328,153	3,037,217	4,254	2,536	3,030,425	15,111,174	12,858	6,714	15,091,602

insurance companies				non financial entities				other entities			
gross exposure	specific writedowns	portfolio adjustments	net exposure	gross exposure	specific writedowns	portfolio adjustments	net exposure	gross exposure	specific writedowns	portfolio adjustments	net exposure
85	60		25	3,020,729	1,608,513	3,634	1,408,583	648,092	319,799	52,739	275,554
				977,247	218,909	24,585	733,754	355,370	69,913	16,729	268,728
				108,152	5,337	779	102,036	3,937	4	81	3,852
				763,593	1,929	56,525	705,138	337,740	409	25,332	311,999
977,967	X	270	977,697	55,266,145	X	406,544	54,859,600	26,430,400	X	125,455	26,304,945
978,052	60	270	977,722	60,135,866	1,834,688	492,067	57,809,111	27,775,539	390,125	220,336	27,165,078
				46,823	11,999		34,823	613	132		481
				11,864	1,533		10,331	2,106	66		2,040
				15,228	4,002	327	10,900	3,594	833		2,761
200,312	X	230	200,082	12,477,491	X	17,247	12,460,245	4,456,285	X	1,356	4,454,929
200,312	-	230	200,082	12,551,406	17,534	17,574	12,516,299	4,462,598	1,031	1,356	4,460,211
1,178,364	60	500	1,177,804	72,687,272	1,852,222	509,641	70,325,410	32,238,137	391,156	221,692	31,625,289

B.2 BREAKDOWN OF LOANS TOWARDS NON FINANCIAL COMPANIES

(euro '000)

account	Total 31 12 2006
agricolture, forestry and fishery	4,544,412
energy products	1,931,829
ferrous and ferrous metals	562,887
minerals	1,396,673
chemicals	705,593
metal products except cars and means of transport	1,726,576
farming machinery	1,294,255
office machines, data processing machines, precision instruments	222,388
electric materials	805,511
means of transport	813,982
foodstuffs, beverage	2,604,041
textile, footwear, leather	2,510,189
other industrial products	963,092
paper, printing, publishing	731,538
rubber products	1,411,074
construction	6,361,723
commercial, repair services	9,235,344
hotel services	2,706,004
inland trasport services	1,243,241
sea trasport services	410,930
trasport-related services	714,577
communications Services	580,181
other saleable Services	12,584,392
Total	**56,060,432**

B.3 DISTRIBUTION BY GEOGRAPHIC AREA OF CASH EXPOSURES AND OFF-BALANCE TO CUSTOMERS

(euro '000)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
exposures	gross Exposure	net Exposure	gross Exposure	net Exposure	gross Exposure	net Exposure	gross Exposure	net Exposure	gross Exposure	net Exposure
A. cash Exposure										
A.1 non performing loans	3,639,702	1,689,832	46,476	10,014	1,526	304	1,441		63	
A.2 watch loans	1,342,290	1,008,314	4,730	2,997	6,287	2,279	2,004	1,570		
A.3 restructured Exposures	113,073	106,343	5,240	4,783						
A.4 expired Exposures	1,101,208	1,017,525	4,058	3,482	738	687	33	31	28	26
A.5 other exposures	96,342,853	95,806,067	4,070,902	4,067,324	292,518	294,403	264,869	262,388	271,338	270,525
Total A	102,539,126	99,628,081	4,131,406	4,088,600	301,069	297,673	268,347	263,989	271,429	270,551
B. off-balance sheet Exposure										
B.1 non performing loans	43,596	30,740			8,512	7,661				
B.2 watch loans	14,749	12,927	267	267						
B.3 expired exposures	18,894	13,733								
B.4 other exposures	12,979,753	12,954,301	4,359,117	4,359,117	1,039,620	1,039,620	18,887	18,887	4,592,793	4,592,536
Total B	13,056,992	13,011,701	4,359,384	4,359,384	1,048,132	1,047,281	18,887	18,887	4,592,793	4,592,536
Total (A+B) 31/12/2006	115,596,118	112,639,782	8,490,790	8,447,984	1,349,201	1,344,954	287,234	282,876	4,864,222	4,863,087

B.4 DISTRIBUTION BY GEOGRAPHIC AREA OF CASH EXPOSURES AND OFF-BALANCE TO BANKS

(euro '000)

exposures	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	gross Exposure	net Exposure	gross Exposure	net Exposure	gross Exposure	net Exposure	gross Exposure	net Exposure	gross Exposure	net Exposure
A. cash Exposure										
A.1 non performing loans			4,129	574	1,324	1,201			231	90
A.2 watch loans			32							
A.3 restructured Exposures										
A.4 expired Exposures	4	4								
A.5 other exposures	10,515,201	10,534,065	12,814,582	12,808,015	339,052	336,659	406,429	405,744	272,095	271,288
Total A	10,515,205	10,534,069	12,818,743	12,808,589	340,076	337,860	406,429	405,744	272,326	271,378
B. off-balance sheet Exposure										
B.1 non performing loans										
B.2 watch loans										
B.3 expired exposures										
B.4 other exposures	1,859,251	1,858,905	2,597,120	2,597,120	711,372	711,372	113,634	113,634	350,472	350,434
Total B	1,859,251	1,858,905	2,597,120	2,597,120	711,372	711,372	113,634	113,634	350,472	350,434
Total (A+B) 31/12/2006	12,374,456	12,392,974	15,415,863	15,405,709	1,051,748	1,049,232	520,063	519,378	622,798	621,812

B.5 IMPORTANT RISKS

(euro '000)

account	31 12 2006	31 12 2005
a) Amount	2,156,350	3,255,911
b) Number	2	3

C. SECURITIZATION TRANSACTIONS AND DISPOSAL OF ASSETS

C.1 SECURITIZATION TRANSACTIONS

Qualitative information

Following are the performing securitization transactions executed by the MPS Group:

Siena Mortages 00-1 SpA;
Siena Mortages 01-2 SpA;
Siena Mortagages 02-3 SpA;
Siena Mortgages 03-4 SpA;
MPS Asset Securitization SpA;
Seashell II srl;
Mantegna Finance srl;
Mantegna Finance II srl;
Spoleto Mortgages srl;

and non-performing securitization transactions:

Ulisse SpA;
Ulisse 2 SpA;
Ulisse 4 srl.

STRATEGIES - PROCESSES - OBJECTIVES

Performing assets securitization transactions have been structured on the basis of the types of assets sold, with the objective of achieving economic benefits in relation to the optimization of the loan portfolio management, the diversification of the sources of finance, the reduction of their cost and the matching of the natural maturities of assets and liabilities.

The trend of the securitization transactions is regular. This opinion is also shared by the rating agencies which have kept the ratings originally assigned to each class of bonds issued unchanged (with reference to the Siena Mortgages 00-1 SpA securitization, Moody's upgraded the rating assigned to C class from the original Baa2 to A2).

The portfolio securitized through the Siena Mortgages 00-1 and 01-2 vehicles consists of residential mortgage loans exclusively originated by the Parent Bank Banca Monte dei Paschi di Siena SpA. The portfolio securitized through the Siena Mortgages 01-2 and 02-3 vehicles consists of residential mortgage loans originated both by the Parent Bank and the other commercial banks belonging to the group.

The assets securitized by MPS Asset Securitisation SpA are represented by loans secured by pledge on financial instruments with maturities ranging from 15 to 30 years, originated by the Parent Bank and other commercial banks of the Group.

The other securitization transactions in relation to mortgage loans are Seashell II srl with assets originated by former Banca 121 SpA, Mantegna Finance srl and Mantegna Finance II srl in relation to the assets originated by Banca Agricola Mantovana SpA. and Spoleto Mortgages Srl with respect to residential mortgage loans originated by Banca Popolare di Spoleto SpA.

With reference to non-performing assets securitization, the portfolio of Ulisse SpA consists of mortgage loans originated by Banca Monte dei Paschi di Siena SpA, with the portfolio of Ulisse 2 SpA being represented by short-term unsecured loans originated by the Parent Bank.

The portfolio of Ulisse 4 srl consists of non performing assets, partly secured by mortgages and partly unsecured, originated by Banca Popolare di Spoleto SpA.

As regards Ulisse SpA securitization, the relative portfolio is characterized by the concentration of loans on a limited number of positions.

With reference to Ulisse 2 SpA securitization, the cumulative recoveries achieved as of the date of the financial statements are well above the originally estimated Cumulative Business Plan.

Ulisse 4 srl securitization progresses regularly. One of the two originally issued bond classes (i.e. the senior class, provided with a rating) has been already repaid totally. Cumulative recoveries achieved as of the date of the financial statements are higher than originally expected.

Internal systems of risk measurement and control

The trend of transactions is steadily monitored through periodical (quarterly and monthly) measurement of collection flows, residual capital, default payments and bad loan positions (default payments and bad loan positions in relation to performing securitizations).

Organization and reporting to the Top Management

The MPS Group has set up a specific unit within the Parent Bank Credit Policies and Control Area which is in charge of co-ordinating performing securitizations. Non performing securitizations are monitored by a specific unit within the subsidiary MPS Gestione Crediti SpA.

In addition, a Group Directive contemplates that a half-yearly reporting is sent to the Top Management in relation to the trend of the transactions implemented by the Banking Group.

QUANTITATIVE INFORMATION

C.1.1 EXPOSURES ARISING FROM SECURATIZATION TRANSACTIONS CLASSIFIED BY QUALITY OF THE UNDERLYING ASSETS

31 12 2006
(euro '000)

quality of underlying assets	cash Exposures					
	Senior		Mezzanine		Junior	
	gross Exposure	net Exposure	gross Exposure	net Exposure	gross Exposure	net Exposure
A. With ubderlying own assets						
a) loan losses					229,912	193,367
b) other	1,425	1,421	22,728	22,782	277,132	277,154
B. With third parties ubderlying own assets						
a) loan losses	57,831	57,831	2,483	2,483		
b) other	455,744	455,751	426,502	426,523	30,541	30,541

issued Guarantees						credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
gross Exposure	net Exposure	gross Exposure	net Exposure	gross Exposure	net Exposure	gross Exposure	net Exposure	gross Exposure	net Exposure	gross Exposure	net Exposure
					(5,000)						

31 12 2005
(euro '000)

quality of underlying assets	cash Exposures					
	Senior		Mezzanine		Junior	
	gross Exposure	net Exposure	gross Exposure	net Exposure	gross Exposure	net Exposure
A. With underlying own assets						
a) loan losses					266,793	246,793
b) other	1,771	1,771	21,877	18,636	318,876	326,541
B. With third parties underlying own assets						
a) loan losses	60,837	60,087	9,247	9,159		
b) other	167,322	166,947	147,946	148,942	34,848	35,622

C.1.2 EXPOSURES ARISING FROM THE MAJOR "OWN" SECURITIZATION TRANSACTIONS CLASSIFIED BY KIND OF SECURITIZED ASSETS AND EXPOSURE

31 12 2006
(euro '000)

exposures	cash Exposures					
	Senior		Mezzanine		Junior	
	book value	value adjustments/ recoveries	book value	value adjustments/ recoveries	book value	value adjustments/ recoveries
A. subject to total write off from balance sheet						
A.1 Mantegna Finance						
- mortgage loans			2,053	(4)	10,000	
A.2 Mantegna Finance II						
- mortgage loans	1,421	(3)	6,959		17,685	
A.3 M.P.S. Asset Securitization						
- performing credits			5,061	70	100,044	
A.4 Siena Mortgages 03-4						
- mortgage loans			3,539	(11)	78,826	
A.5 Vintage Capital						
- titoli obbligazionari e crediti derivativi			5,170			
A.6 Ulisse 2						
- non performing credits					188,204	(36,544)
A.7 Ulisse						
- non performing credits						
A.8 Siena 00-1						
- mortgage loans					31,556	
A.9 Siena 01-2						
- mortgage loans					16,588	
A.10 Seashell II						
- mortgage loans					19,805	
A.11 Siena 02-3						
- mortgage loans					27,475	
A.12 Gonzaga Finance						
- titoli obbligazionari e crediti derivativi						
A.13 Spoleto Mortgages						
- mutui fondiari assistiti da ipoteca di 1° grado su immobili residenziali					5,163	
A.14 Ulisse 4						
- non performing credits					2,945	(21)
A.15 Segesta Finance						
- titoli obbligazionari e crediti derivativi						

issued Guarantees						credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries

31 12 2005
(euro '000)

exposures	cash Exposures					
	Senior		Mezzanine		Junior	
	book value	value adjustments/ recoveries	book value	value adjustments/ recoveries	book value	value adjustments/ recoveries
A. subject to total write off from balance sheet						
A.1 Mantegna Finance						
- mortgage loans			2,053	(4)	10,000	
A.2 Mantegna Finance II						
- mortgage loans	1,421	(3)	6,959		17,685	
A.3 M.P.S. Asset Securitization						
- performing credits			5,061	70	100,044	
A.4 Siena Mortgages 03-4						
- mortgage loans			3,539	(11)	78,826	
A.5 Vintage Capital						
- titoli obbligazionari e crediti derivativi			5,170			
A.6 Ulisse 2						
- non performing credits					188,204	(36,544)
A.7 Ulisse						
- non performing credits						
A.8 Siena 00-1						
- mortgage loans					31,556	
A.9 Siena 01-2						
- mortgage loans					16,588	
A.10 Seashell II						
- mortgage loans					19,805	
A.11 Siena 02-3						
- mortgage loans					27,475	
A.12 Gonzaga Finance						
- titoli obbligazionari e crediti derivativi						
A.13 Spoleto Mortgages						
- mutui fondiari assistiti da ipoteca di 1° grado su immobili residenziali					5,163	
A.14 Ulisse 4						
- non performing credits					2,945	(21)
A.15 Segesta Finance						
- titoli obbligazionari e crediti derivativi						

C.1.3 EXPOSURES ARISING FROM THE MAJOR "THIRD PARTIES" SECURITIZATION TRANSACTIONS CLASSIFIED BY KIND OF SECURITIZED ASSETS AND EXPOSURE

31 12 2006
(in migliaia di euro)

exposures	cash Exposures					
	Senior		Mezzanine		Junior	
	book value	value adjustments/ recoveries	book value	value adjustments/ recoveries	book value	value adjustments/ recoveries
A.1 Entasi Srl	49,474					
- other assets						
A.2 Italease Finance Spa 2005-1			797			
- leasing						
A.3 Sestante Finance S.r.l. 3			3,028			
- residential mortgages						
A.5 Pharma Finance S.r.l. 2	3,000		2,507			
- other assets						
A.6 Island Finance	5,565					
- other assets						
A.7 Heliconus S.r.l.	1,520					
- residential mortgages						
A.8 Trevi Finance Spa			2,483			
- non performing mortgage						
A.9 Bayerische Hypo und Vereinsbank AG	2,118					
- residential mortgages						
A.10 AYT Promociones Inmobiliarias 4 Fdta	12,256	3				
- other assets						
A.11 CM Bancaja 1 Fondo de Titulizacion de Activos	4,709		1,701			
- other assets						
A.12 Promise-I 2002-1 PLC			2,839			
- other assets						
A.13 Promise-C 2002-1 PLC	1,007					
- other assets						
A.14 Metrix Funding 2005-1 Plc	2,012		3,539			
- other assets						
A.15 Lambda Finance BV	4,036		7,037			
- other assets						
A.16 Smile 2005 Synthetic BV	1,353		5,503			
- other assets						
A.17 IMSER Securitisation S.r.l.			24,887			
- other assets						
A.18 Credico Finance 2			3,098			
- residential mortgages						
A.19 Berica Residential MBS 1 S.r.l.			4,117			
- non residential						

issued Guarantees						credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries

exposures	cash Exposures					
	Senior		Mezzanine		Junior	
	book value	value adjustments/ recoveries	book value	value adjustments/ recoveries	book value	value adjustments/ recoveries
A.20 PMI Uno Finance S.r.l.			1,011			
- other assets						
A.21 Credico Finance 3			3,025			
- residential mortgages						
A.23 Sagres Sociedade de Titularizacao de Creditos S.			6,565			
- other assets						
A.24 Leek Finance n. 12 PLC			3,022			
- residential mortgages						
A.25 Permanent Custodians Limited on Behalf of Arms I	10,076	4	25,164			
- UK mortgages						
A.26 La Defence III S.r.l.			2,457			
- non residential						
A.27 Residential Mortgage Securities 20 PLC	2,510		1,002			
- residential mortgages						
A.28 Valencia Hipotecario 1 FTA			201			
- residential mortgages						
A.29 B-Tra 2005-I			3,030	15		
- other assets						
A.30 Colombo S.r.l.			31,612			
- other assets						
A.31 F-E Blue S.r.l.			5,115			
- leasing						
A.32 Locat Securitisation Vehicle 2 S.r.l.			6,613			
- leasing						
A.33 Residential Mortgage Securities 18 PLC			8,278			
- residential mortgages						
A.34 Residential Mortgage Securities 17 PLC			4,014			
- residential mortgages						
A.35 E-Mac NL 2004-I BV			1,003			
- residential mortgages						
A.36 Bancaja 6 FTA			9,111			
- ES Residential Mortgatges						
A.37 Patagonia Finance Sa					2,750	
- titoli						
A.38 Credico Funding S.r.l.	9,993					
- titoli						
A.39 Conca d'Oro Funding	4,797					
- other assets						

issued Guarantees						credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries

exposures	cash Exposures					
	Senior		Mezzanine		Junior	
	book value	value adjustments/ recoveries	book value	value adjustments/ recoveries	book value	value adjustments/ recoveries
A.40 Crediti Sanitari regione Sicilia	5,879					
- other assets						
A.41 MNBA Europe Bank	7,000					
- carte di credito						
A.42 Classic Finance	50,000					
-titoli						
A.43 Titulizatione de Activos			1,940			
- residential mortgages						
A.44 Mutina	2,792					
- non performing mortgages						
A.45 Pharma Finance S.r.l.	3,744					
- Receiveables from loans and leases to Italian pharmacies						
A.46 B-TRA 2006-1 NV/SA	10,071					
- Belgian personal and corporate income tax						
A.47 PROMISE COLOR-2003-1 PLC	3,024					
- loans						
A.48 DEUTSCHE BANK AG			817			
- other assets						
A.49 PROMISE-A 2002-1 PLC	2,259					
- loans						
A.50 AYT BONOS TESORERIA II FTA			6,050			
- other assets						
A.51 AYT DEUDA SUBORDINADA I FONDO DE TITULIZACION DE	16,078		11,564			
- other assets						
A.52 BBVA 5 FTPYME FONDO DE TITULIZACION DE ACTIVOS	20,132					
-loans granted to Spanish small and medium size enterprises						
A.53 LINE AAA SRL			5,043			
- loans						
A.54 COMPAGNIA ITALIANA SRL	30,213					
- Italian consumer loans						
A.55 KEA FINANCE SRL	20,153					
- other assets						
A.56 BERICA 6 RESIDENTIAL MBS SRL			13,087			
- Italian Residential Mortgages						
A.57 SUNRISE SRL			6.023			
- Consumer Loans						

issued Guarantees						credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries

exposures	cash Exposures					
	Senior		Mezzanine		Junior	
	book value	value adjustments/ recoveries	book value	value adjustments/ recoveries	book value	value adjustments/ recoveries
A.58 ATLANTE SRL			5,036			
- residential and commercial mortgage loans						
A.59 PATRIMONIO UNO CMBS SRL			21,980			
- Italian Commercial Mortgage						
A.60 ARCOBALENO FINANCE SRL			2,014			
- portfolio of loans						
A.61 LEASIMPRESA FINANCE SRL	15,002		5,200			
- lease contracts						
A.62 DUCATO CONSUMER SRL			4,586			
- European consumer loans						
A.63 AGRISECURITIES SRL	25,140		27,156	6		
- Italian lease receivables						
A.64 TITAN EUROPE 2005-1 PLC			1,823			
- mortgage loans						
A.65 GRANITE MASTER ISSUER PLC			1,007			
-UK residential mortgages						
A.66 STICHTING MEMPHIS 2006-I			4,348			
-residential mortgage						
A.67 RUSSIAN CONSUMER FINANCE NO 1 SA	501					
- Consumer loan						
A.68 CB MEZZCAP LIMITED PARTNERSHIP CB MEZZCAP LIMITED PARTNERSHIP	9,336		9,569			
- loans						
A.69 GOALS 2006-1 LTD			3,025			
- lease recievables						
A.70 AIRE VALLEY MORTGAGES 2006-1 PLC	5,507		6,508			
- UK Residential Morgages						
A.71 LEO-MASDAG B.V			15,012			
- Dutch Commercial Backed Mortgages						
A.72 DRIVER ONE GMBH	35,036					
- Auto loan receivables						
A.73 DRIVER TWO GMBH			15,016			
- German Auto loan receivables						
A.74 MONASTERY 2006-I BV			15,100			
- residential mortgages						
A.75 CANDIDE FINANCING 2006 BV			34,670			
- Dutch first lien residential mortgages						
A.76 KION MORTGAGE FINANCE PLC			2,006			
- Greek residential mortgages						

issued Guarantees						credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries

exposures	cash Exposures					
	Senior		Mezzanine		Junior	
	book value	value adjustments/ recoveries	book value	value adjustments/ recoveries	book value	value adjustments/ recoveries
A.77 AMSTEL CORPORATE LOAN OFFERING 2006 BV	5,016		20,590			
- other assets						
A.78 BELUGA			11,043			
- Dutch Residential Mortgages						
- other assets						
A.79 ARMS II EURO FUNDS VI			2,033			
- Australian Residential Mortgages						
A.80 A-BEST ITALIAN AUTOS			3,036			
- Italian Auto Loans						
A.81 SCCI JUL 16 TV SERIE8	2,536	1				
- Contributi previdenziali						
A.82 BERICA5 R 2041 CL A	6,110					
- loans						
A.83 PTRMO TV 2021 A	2,034	(1)				
- mortgage						
A.84 IMSER 2 A1A	2,003					
- proprieties						
A.85 CORDUSIO RM2 A2 35TV	4,003	2				
- mortgage						
A.86 CORDUSIO A2 42 TV	8,036	2				
- mortgage						
A.87 LOCAT SEC VEH 28CLA2	4,010	3				
- Leasing						
A.88 VINTAGE B-TV 00/10			963	720		
- Bond						
A.89 BCJA 3 A2	1,617					
- loans						
A.90 BBVAP 5 A1 TV MR39	5,033	(1)				
- loans						
A.91 CANDI 2006-1 A3 51TV	5,023	(1)				
- mortgage						
A.92 PATAGONIA ZG 01/16	73,915	(4,068)				
- loans						
A.93 MEDIA 1 A	3,860	(3)				
- mortgage						
A.94 ATLAF 1 A	5,034	(1)				
- mortgage						
A.95 MARCH MUT2 06-38CLA2	7,051	(1)				
- mortgage						
A.96 VOBA FIN 06-43CL A2	2,004					
- mortgage						
	381,309	7	428,041	21	2,750	-

issued Guarantees						credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries	net Exposures	value adjustments/ recoveries

The table shows the Bank's exposures with reference to each third party's securitization transaction, indicating the contractual technical kinds in relation to the assets sold. The column of value adjustments/recoveries shows any flows for the year of value adjustments/recoveries, as well as writedowns and revaluations posted to the profit and loss statement or directly to net equity reserves. As previously highlighted, cash exposure is represented by purchased/underwritten securities issued by vehicle companies (ABS).

C.1.4 EXPOSURES TO SECURITIZATIONS CLASSIFIED BY PORTFOLIO AND TYPE OF FINANCIAL ASSETS

31 12 2006
(euro '000)

Exposures	trading	carried at fair value	available for sale	held to maturity	loans	total 31 12 2006	total 31 12 2005
1. cash exposures							
- Senior	430,798		84,204			515,002	228,806
- Mezzanine	427,973		18,645		5,170	451,788	176,837
- Junior	12,750				488,290	501,040	608,956
2. off.balance sheet exposures							
- Senior							
- Mezzanine							
- Junior							

C.1.5 SECURITISED ASSETS UNDERLYING JUNIOR SECURITIES OR OTHER FORM OF CREDIT SUPPORT

31 12 2006
(euro '000)

assets	traditional	synthetic
A. own underlying assets:	3,823,979	
A.1 totally derecognised	3,823,979	
1. NPL	378,099	x
2. doubtful loans		x
3. restructured Exposures		x
4. past due Exposures		x
5 . other assets	3,445,880	x
A.2 partially derecognised		
1. NPL		x
2. doubtful loans		x
3. restructured Exposures		x
4. past due Exposures		x
5. other assets		x
A.3 non derecognised		
1. NPL		
2. doubtful loans		
3. restructured Exposures		
4. past due Exposures		
5. other assets		
B. third party underlying assets:	661,168	
1. NPL		
2. doubtful loans		
3. restructured Exposures		
4. past due Exposures		
5. other assets	661,168	

C.1.6 STAKES IN SPECIAL PURPOSE VEHICLES

name	head office	stake %
Siena Mortgages 00-1 S.p.a.	Milan	7.0%
Siena Mortgages 01-2 S.p.a.	Milan	7.0%
Siena Mortgages 02-3 S.r.l.	Conegliano (TV)	9.1%
Siena Mortgages 03-4 S.r.l.	Rome	6.0%
Mantegna Finance Srl	Mantova	7.0%
Mantegna Finance II Srl	Mantova	7.0%
MAS	Rome	10.0%
Ulisse S.p.a.	Milan	60.0%
Ulisse 2 S.p.a.	Milan	60.0%

This table shows the stakes held in vehicle companies, in relation to own securitizations.

C.1.7 SERVICER ACTIVITIES - COLLECTIONS OF SECURITISED LOANS AND REDEMPTIONS OF SECURITIES ISSUED BY THE SPECIAL PURPOSE VEHICLE

31 12 2006
(euro '000)

purpose vehicle	securitised assets (yr end figure)		loans collected during the yr	
	impaired	performing	impaired	performing
Ulisse S.p.A.	119,294		38,025	
Ulisse2 S.p.A.	252,692		71,702	
Siena Mortgages 00-1 S.p.A.		206,259		74,594
Siena Mortgages 01-2 S.p.A.		544,069		127,753
Siena Mortgages 02-3 S.r.l.		911,691		178,393
Siena Mortgages 03-4 S.r.l.		716,376		187,605
Mps Assets Securitisation S.p.A.		811,873		295,024
Seashell II S.r.l.		233,401		66,325
Segesta Finance S.r.l.		28,493		3,556

The table shows own securitizations where the Bank plays the role of servicer. With reference to multioriginator securitizations, the originator banks are in charge of servicing with reference to the portion of credit assigned.

C.1.8 PURPOSE VEHICLE OF THE BANKING GROUP

percentage of securities redeemed (yr end figure)					
Senior		Mezzanine		Junior	
impaired assets	performing assets	impaired assets	performing assets	impaired assets	performing assets
100.00%		3.82%			
100.00%		100.00%		6.99%	
	64.80%		-		
	60.50%		-		
	29.49%		-		
	14.54%		-		
	52.06%		-		
	55.88%		-		
	100.00%		52.18%		

C.2 SALES TRANSACTIONS

C.2.1 FINANCIAL ASSETS SOLD AND NOT DERECOGNISED

(euro '000)

portfolio	financial assets held for trading			financial assets carried at fair value			financial assets available for sale		
	A	B	C	A	B	C	A	B	C
A. balance sheet assets	2,206,177								
1. debt securities	2,206,177								
2. equity securities									
3. UCITS									
4. loans									
5. impaired assets									
B. derivative instruments				x	x	x	x	x	x
Total	2,206,177								
Total 31/12/2006									

LEGEND:
A = financial assets sold and fully recognised (book value)
B = financial assets sold and partially recognised (book value)
C = financial assets sold and partially recognised (total value)

financial assets held to maturity			loans with banks			customer loans			Total
A	B	C	A	B	C	A	B	C	31 12 2006
									2,206,177
									2,206,177
x	x	x	x	x	x	x	x	x	
x	x	x	x	x	x	x	x	x	
x	x	x	x	x	x	x	x	x	
									2,206,177

C.2.1.A - HEDGING DERIVATIVES SOLD AND NOT DERECOGNISED

(euro '000)

accounts	Total 31 12 2006
IRS	
TROR	
Options	
Total	

C.2.1.B - TYPE OF SALES TRANSACTIONS OF FINANCIAL ASSETS NOT DERECOGNISED

(euro '000)

accounts	Total 31 12 2006
passive PCT	2,206,177
securitization	
Prestito titoli	
sales	
Total	2,206,177

C.2.2 FINANCIAL LIABILITIES RELATING TO FINANCIAL ASSETS SOLD AND NOT DERECOGNISED

(euro '000)

assets portfolios	financial assets held for trading	financial assets carried at fair value	financial assets available for sale	financial assets held to maturity	loans with banks	customer loans	Total
1. deposits from customers	1,925,270					70,067	1,995,337
a) relating to fully recognised assets	1,925,270					70,067	1,995,337
b) relating to partially recognised assets	-					-	-
2. due to banks	793,659					-	793,659
a) relating to fully recognised assets	793,659						793,659
b) relating to partially recognised assets							-
Total 31/12/2006	2,718,929					70,067	2,788,996

D. MODELS FOR THE MEASUREMENT OF CREDIT RISK

1. The Analysis of Economic Capital

In 2006 – in view of the application of Basle 2 principles – the MPS Group developed many activities for the purpose of arranging measurement models, lending and organization processes and IT systems in compliance with the guidelines contemplated by the Regulations on the Banks' Capital Adequacy.

In particular, all rating models with reference to Corporate and Retail customers have been redefined with the dual objective of (i) complying with the quantitative-qualitative requirements provided for by Basle 2 regulations and (ii) introducing the instruments in relation to the internal rating system within the Bank's lending processes – from loan disbursement to credit monitoring – and risk management, budget and planning, accounting and balance-sheet processes, in a standardized, consistent and structured way, thus fulfilling the obligations of "use" of the rating contemplated by the Experience Period, as required by the new regulations.

More specifically, in addition to a complete review of the Corporate and Retail models (also including the adoption of a MPS Group logic, the introduction of new criteria of customer segmentation in compliance with the portfolio classification adopted for the calculation of capital ratios as provided for by the New Banking Supervisory Regulations, the adjustment of "default" definition, the determination of only one Probability Default in relation to one customer for the legal entities subject to Basle II scope of validation, the definition of a rating for Economic Groups and Related Customer Groups), the models have been re-adjusted and a new masterscale has been built for application during 2007 for the purpose of representing the customers'degree of risk expressed by the internal rating systems, in accordance with one matrix. Accordingly, the LGD and EAD standards are being finetuned, as well as the techniques of valuation and revaluation of the guarantees within the Credit Risk Mitigation process. In addition, the establishment of a specific Basle-Pillar II Committee has contributed to the planning and start of activities oriented to integrating and completing the provisions of the Second Pillar, for the purpose of complying with the requirements of the ICAAP process and providing all information contemplated by the New Supervisory Instructions for the implementation of the Supervisory Regulatory Process by the Supervisory Authority. In this logic, in 2007 the methods of measurement of each risk factor will be developed, adjusted and integrated; and the diversified economic capital will be calculated accordingly. Stress testing and scenario analysis techniques will be finetuned with the objective of checking global capital adequacy with respect to global internal capital.

2 Credit risk management policies

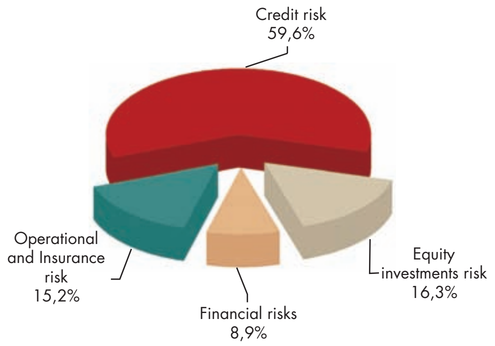
As developed by the Risk Management Unit of the Corporate Center of the MPS Group for all legal entities subject to risk measurement, Banca Monte dei Paschi adopts the methods of measurement of the economic capital, as the amount of minimum financial resources required for covering the economic losses due to the occurrence of unexpected events generated by different categories of risk.

The relevant risks included in the area of valuation embrace: a) **credit risk** (inclusive of counterparty risk), b) **trading book market risks**, c) **interest rate risk registered in the Banking Book (ALM)**, d) **operational risk**, e) E**quity risk**, as the risk of losses originated by the Equity Investment portfolio.

VaR measures – which keep their original value in accordance with the ruling regulations and the international best practice – are actually determined with a holding period and confidence intervals by risk factors, in compliance with the guidelines of the latest Banking Supervisory Regulations issued by the Bank of Italy. Total Economic Capital stems from the measurement of each risk factor. Such measures are standardized both in relation to their time horizon (annual holding period) and selected confidence interval (99.93% in line with the rating level assigned to the MPS Group by the official rating agencies) and are subject to intra-risk and inter-risk diversification processes. The final output shows the total internal capital by Legal Entities, Business Units, Responsibility Areas and is periodically published in the Risk Management Report edited by the Risk Management Unit of the Parent Bank. In addition, the same measurement is made at a centralized level for each Legal Entity, notified to the Board of each Legal Entity through a specific reporting adjusted to the specific business lines of the banks included in the area of consolidation.

The above-mentioned risk measures adopt the risk standards imposed by the New Banking Supervisory Regulations (Default Probability, Loss Given Default, Exposure At Default, Credit Risk Mitigation) and follow methods, evolutions and finetuning of these standards in accordance with the programmes contemplated by the Basle II Committee for approach to validation with the domestic Supervisory Authority. The output of the internal Model of Credit Portfolio developed and used by the Risk Management Unit of the Parent Bank represents a fundamental instrument for space and time monitoring of credit risk and are materially used in accordance with different analysis guidelines, such as a) the analysis of risk developments and total internal capital resulting from the application of the guidelines of the Business Plan and Planning estimates; b) the determination of reference values for the purpose of emphasizing the consistency of accounting provisions indicated by the IAS regulations; c) the "active" management of risks through techniques of optimization of the risk/return profile by kind of customer, by legal entities and kind of exposure; d) the use in the internal management processes in compliance with the policies laid down by the operating lending units; e) the use in the monitoring processes of credit risk.

Diversified Economic Capital
(excluding infragroup operations)
Gruppo MPS - 31 December 2006



As of 31 December 2006, the Economic Capital of Banca Monte dei Paschi was attributable to credit risk (59.6%), equity investments risk (16.3%), operational risk (15.2%). The capital for accounting purposes with respect to financial risks (inclusive of the trading portfolio and ALM-Banking Book) came to 8.9% of the total Economic Capital.

To this end, the weight of the economic capital to insurance risk is decreasing as a result of the streamlining initiatives of equity investments, carried out by the Banking Group and Banca MPS. In addition, remarkable developments are under way in terms of measurement of the interest rate risk rate, mostly in relation to the shaping of demand items which will be implemented in the next months of 2007 and – within the ordinary evolution aimed at seizing and better measuring risks - will inevitably produce impacts on the measurement of sensitivity of the interest margin and the economic value, which at the moment cannot be assessed since simulated measurements are not available.

2. CREDIT RISK MEASUREMENT MODELS

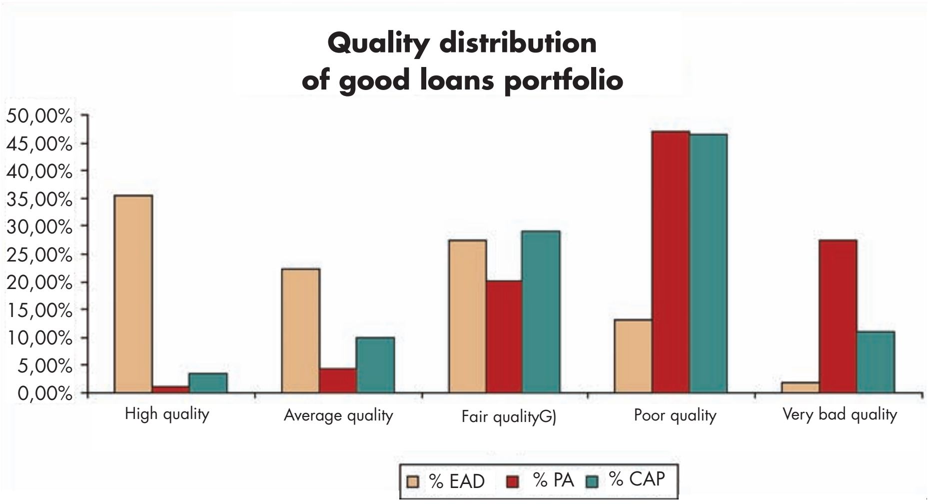
During 2006 the MPS Group and Banca MPS credit risk were analyzed and monitored through the use of the Credit Portfolio Model developed by the Risk Management Unit of the Parent Bank which includes the positions of the major legal entities of the Group itself.

This Model was technologically developed in accordance with the most widespread international quantitative techniques and is fuelled by a) default probabilities (DP) resulting from internal rating models classified by kind of customers (Large Corporate, SMEs, Small Business and Retail) and expressed on the basis of a corporate and retail masterscale which will be mapped on one masterscale in 2007; b) economic loss rates in case of default (LGD) obtained from the analysis of the multiannual time series of direct and indirect recoveries and costs identified on default closed positions; c) default exposure ratios for the calculation of EAD; d) data concerning different kinds of guarantees (i.e. collaterals, financial and personal collaterals) securing the transactions. The Model also contemplates the calculation of the effect of credit diversification through a complicated matrix of structural and dynamic correlation which captures the effects of risk concentration/diversification and re-distribute risks by party, thus ensuring many opportunities of aggregation and representation on the basis of the "views" useful for management purposes and the organization and operating units of the MPS Group.
The output of the Portfolio Model – which is the subject of the Risk Management Report submitted periodically to the Top Management during the meetings of the Corporate Center Risks Committee and to the Top Management of Banca Monte dei Paschi – is diversified since it indicates the time trend of credit risk in accordance with various modes of aggregation of the variables subject to analysis (by legal entity, by kind of customer, by geographical area, by business sector, by rating class, by continental areas,…). The main summary measures produced are represented by a) the Expected Loss, which indicates the annual estimated average loss; b) the Unexpected Loss which represents the difference of the loss measured at a confidence level of 99.93% - in a calendar year – and the Expected Loss; c) risk measures in relation to the default portfolio (i.e. NPLs, watchlist credits, restructured loans, past-due loans); d) the Economic Capital which actually represents the capital absorption ratios for accounting purposes generated by each position. This is flanked by specific stress testing analysis on some variables (e.g. increase in default probabilities, increase in loss rates, value reduction of the guarantees, increase in the margins available on uncommitted loans) aimed at checking the level of Expected Loss and Economic Capital which might be reached on the basis of "extreme" but possible scenarios, although the relative metrics – as already hinted at - will be innovated deeply in 2007 in the framework of the projects contemplated in relation to Pillar II.

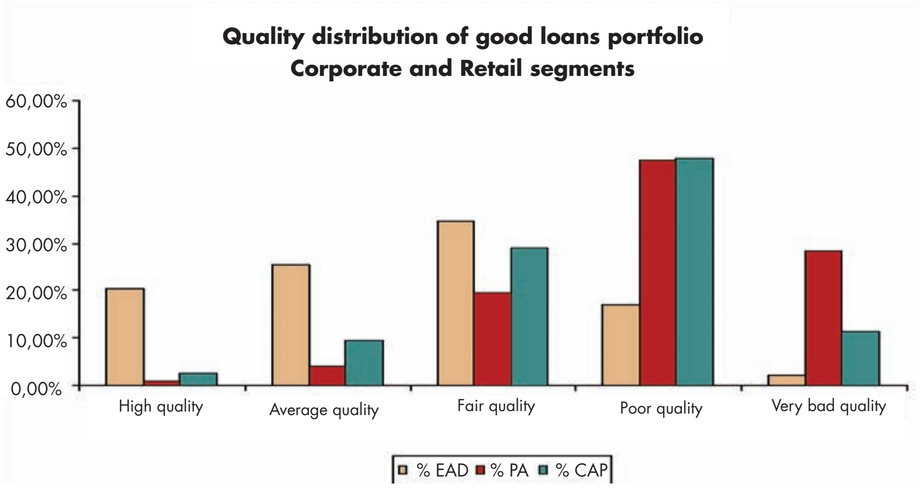
The internal rating models were graded on the basis of the specific data of the Banking Group units subject to the area of validation, as in the case of the EAD and LGD standards, which adopted a workout method of estimate. Loss ratios were calculated on the basis of the historical recoveries and cost measured by Banca MPS in relation to NPL positions over a period of several years, adjusted with the appropriate updating rates and the cure-rate method for compliance of the amount with the default definition used by the internal rating systems.

The above-listed input standards - which virtually match the standards contemplated for the determination of Capital for Regulatory Purposes pursuant to the New Basle Accord – will be subject in 2007 to additional methodological and implementation finetuning in accordance with the activities of the Workshops indicated by the Basle 2 Programme implemented by the MPS Group for the achievement of the validation objective of the Advanced approach, effective 2008. In particular, the estimated EAD ratios and the modes of implementation of Credit Risk Management are subject to review, prior a better identification of the system of the guarantees.
The chart below shows the breakdown of the credit quality of the whole loan portfolio (excluding financial assets positions) using the new masterscale which – although in the making – approximates the final result expected to be achieved at the end of the work.

As a result of the analyses carried out, more than 65% of risk exposures are disbursed to Investment Grade customers. The following classification incorporates exposures to banks, Government agencies and Non Banking Financial Institutions which are assigned a credit standing valuation within the portfolio model using the official rating, if existing – although a specific programme of implementation of internal ratings is not expected for the purpose of validation with the Regulatory Authority.



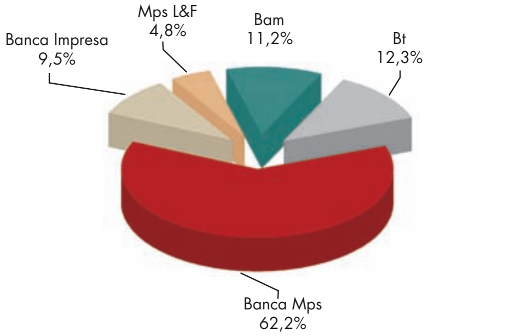
The following graph shows the breakdown of credit quality in relation to the Corporate and Retail portfolio subject to validation for the purpose of Basle 2, based only on internal rating models. The weight of high quality and average quality exposures is reduced as a result of the non-contribution from the Governments and Banks segment. This component is classified under “Not subject to internal rating”, represented in the graph.



As at 31 December 2006, the MPS Group risk exposures increased slightly year-on-year. This is attributable to higher disbursements to Retail customers (Households), Banks and Financial companies, but above all Corporate Customers. The sharp reduction in Expected Loss and Economic Capital registered in 2005 is attributable to the widespread improvement of the borrower's ratings, with particular regard to the ratings of the SME and Small Business segments.

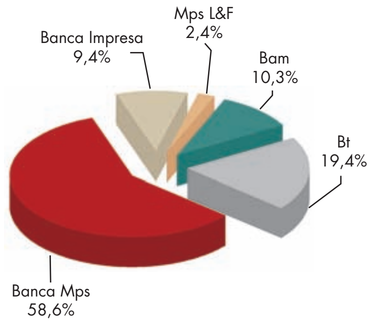
The graphs below show the marginal contribution – in terms of exposure, Expected Loss and Economic Capital – exclusively concerning the credit risk of the three commercial banks (MPS, BT and BAM), MP Banca per l'Impresa (Bimp) and MP Leasing & Factoring (MP L&F), which account for more than 80% of the MPS Group total lending. As is clear, Banca MPS and Banca Toscana account for about 57.8% and 16.6%, respectively, of the economic capital with respect to credit risk. Banca per l'Impresa and Banca Agricola Mantovana show similar percentages (11.2% and 11.3%, respectively), with the rest covering the risks of MP L&F.

Risk Exposure
(excluding infragroup operations)
Gruppo MPS - 31 December 2006



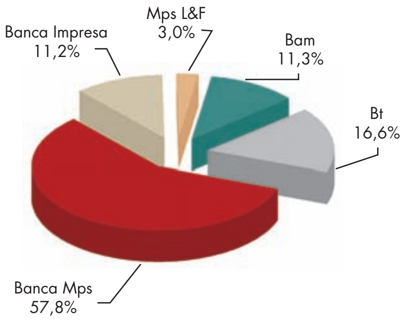
* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per l'Impresa

Expected Loss
(excluding infragroup operations)
Gruppo MPS - 31 December 2006



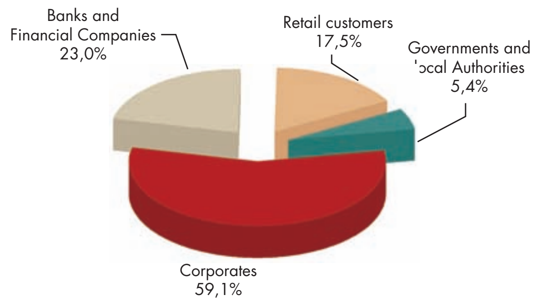
* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per l'Impresa

Economic Capital
(excluding infragroup operations)
Gruppo MPS - 31 December 2006



* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per l'Impresa

Risk Exposure
(excluding infragroup operations)
Gruppo MPS - 31 December 2006

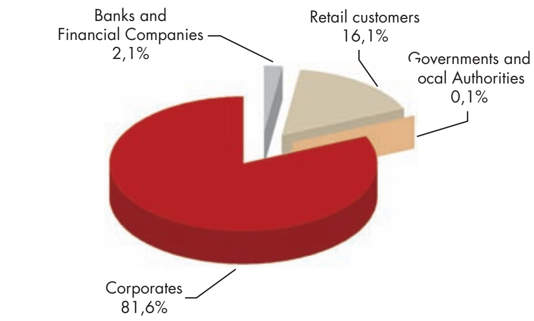


* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per l'Impresa

In view of the geographical distribution and operations of the MPS Group, which are mostly domestic oriented, it is clear that lending transactions are mainly executed with the corporates, especially the SMEs (59.1% of total), "Banks and financial companies" (23%) and "Retail" customers (17.5%). Risk exposures to "Governments and Local Authorities" account for 5.4%.

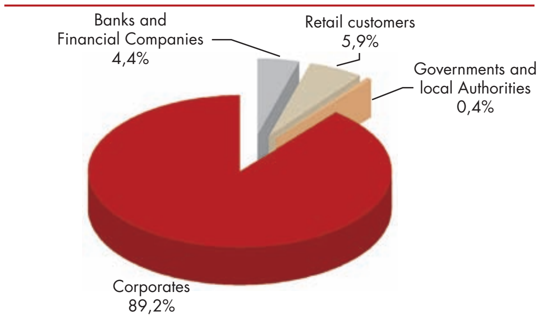
The graph shows that the "Corporates" absorb more than 89% of total economic capital, with the "Retail" customers (Households) absorbing a percentage close to 6%. The segment of "Banks and Financial Companies" absorbs 4.4% of total capital.

Expected Loss
(excluding infragroup operations)
Gruppo MPS - 31 December 2006



* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per l'Impresa

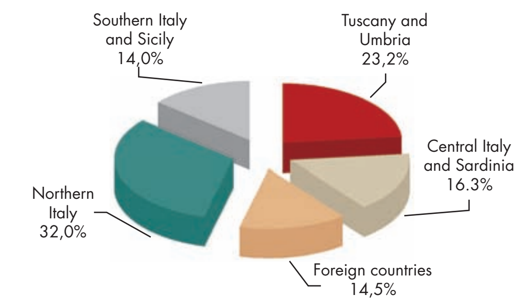
Economic Capital
(excluding infragroup operations)
Gruppo MPS - 31 December 2006



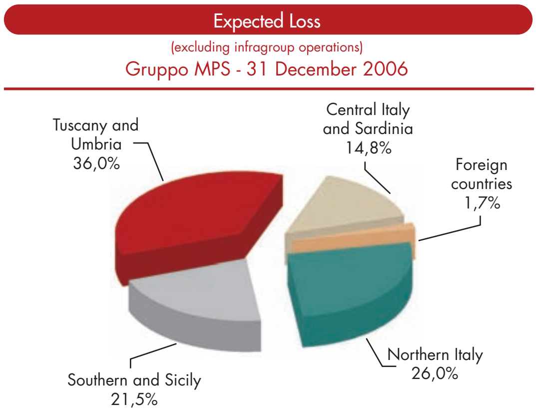
* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per l'Impresa

From the geographical viewpoint, the MPS Group loans are mostly disbursed to resident customers. The geographical breakdown of risk exposures shows that 14.5% of loans are disbursed to foreign nationals, with the remaining portion being distributed among northern Italy (about 32%), Tuscany and Umbria (23.2%), central Italy and Sardinia (16.3%) and southern Italy and Sicily (14%).

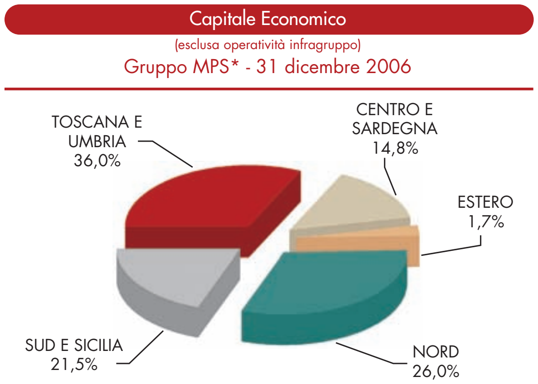
Risk Exposure
(excluding infragroup operations)
Gruppo MPS - 31 December 2006



* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per l'Impresa

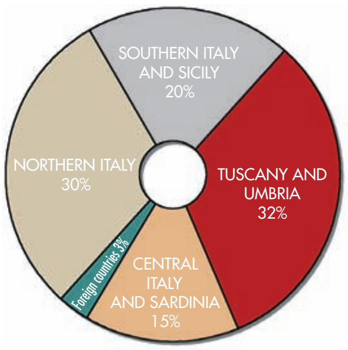


* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per l'Impresa



* Banca MPS, Banca Toscana, Banca Agr. Mant., MPS Leas. & Fact., MPS Banca per l'Impresa

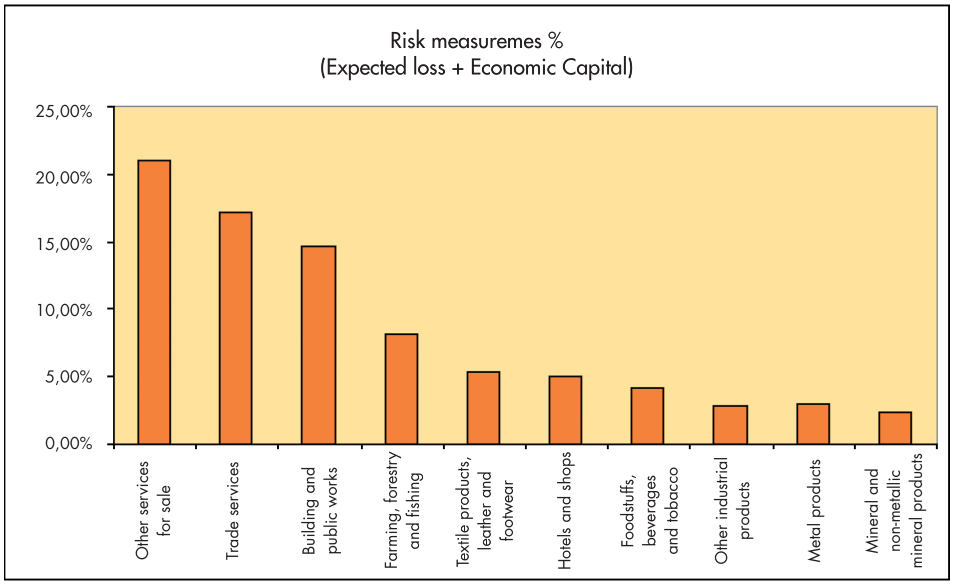
Risk measures %
(Expected loss + Economic capital)



Risk measures %	
Central Italy and Sardinia	14.70%
Foreign countries	2.59%
Northern Italy	30.49%
Southern Italy and Sicily	19.65%
Tuscany and Umbria	32.56%

FAs a result, lending operations in Tuscany and Umbria (about 32.5%%) and in northern Italy (about 30%) gave a major contribution to risk measurement. A minor impact results from the exposures to resident customers in central Italy and Sardinia and southern Italy and Sicily (14.7% and 19.65%, respectively). The contribution to risk measurement of foreign customers is marginal.

An analysis of the exposures of the top 10 business sectors in accordance with the Bank of Italy ranking – which account for more than 83% of total loans – shows that "other services in relation to sales" and "trade services" absorb 21.1% and 17.2% of total risk measures, respectively. The building industry, agriculture, and the textile industries account for an additional 28% with respect to total Expected Loss and Economic Capital.



1.2 Market risks

Any existing market risks, associated with the Trading Portfolio and the Banking Portfolio, are particularly important within the integrated management of the risks and capital of the MPS Group.

MARKET RISKS CONCERNING THE TRADING PORTFOLIO

In 2006, the MPS Banking Group operated in the domestic and international financial markets through many players. The major risk taking centres in terms of positions taken on the Trading Portfolio are the Parent Bank (Banca MPS), MPS Finance BM and Monte Paschi Ireland.

These three banks operated on their own behalf and managed trading positions on the basis of specific delegations and operating limits established by the Board of Directors.

The commercial banks (i.e. Banca Toscana, Banca Agricola Mantovana and MPS Banca Personale), in compliance with a specific Group regulation – are not entitled to take trading positions, since they can only trade securities on behalf of retail customers and guarantee a secondary market of their own bonds issued. In addition, such banks managed and worked off a residual backlog of positions (though in a modest amount).

As a result of the approval of the 2006-2009 MPS Group Business Plan, the business and the objectives of a few banks falling within the area of market risks have been re-designed for the purpose of improving total efficiency and achieving the Plan objectives.

More specifically, the mission for 2007 of Monte Paschi Ireland is expected to develop in the direction of activities which are more functional to funding requirements and Group Capital Management, rather than proprietary trading.

The corporate mission of MPS Finance BM and MPS Banca per l'Impresa is also expected to change.

The MPS Group trading portfolio results from the aggregation of the portfolios managed by the above-mentioned Group companies. The aggregate is subject to daily monitoring and reporting by the Parent Bank's Risk Management Unit on the basis of proprietary systems. The directional reporting flow of market risks is periodically channelled to the Parent Bank's Risk Committee and Board of Directors within the Risk Management Report, an instrument which informs the Top Management about the MPS Group total risk profile.

In particular, with reference to the Parent Bank's Trading Portfolio, the aggregate - monitored with integrated Value-at-Risk (VaR) methods - is larger than the aggregate relevant for regulatory purposes and incorporates some positions included in the Banking Portfolio for reporting purposes, but depending from the standpoint of operating management on the Business Areas carrying out trading activities in the strict sense of the term. These positions were taken directly on the basis of instructions coming from the Board of Directors or are attributable to the Parent Bank's Finance Area, but are not qualified for inclusion in the Trading Portfolio for Regulatory Purposes (e.g. investments in alternative funds, AFS securities). For the purpose of this section, such positions are monitored with methods typical of the Trading Portfolio risks. The Finance Area and the Treasury and Capital Management Area are the Parent Bank Business Areas entitled to take market risks.

Each bank independently operates with its trading portfolio and simultaneously manages interest rate, equities, commodities, foreign exchange and credit positions in an integrated manner, within the operating delegations set by its Board of Directors.
Trading operating limits, as approved by the Parent Bank's Board of Directors, are expressed by level of delegation in terms of diversified and non-diversified VaR between risk factors. In addition, the limits of Maximum Acceptable Loss (MPL) are established on a monthly and yearly basis in relation to the same scope of responsibility. These limits take account of potential or achieved profits/losses (P&L) and the risk measure on open positions (VaR).

The measurement of income components of AFS (Available-For-Sale) positions have been adjusted on a comparative basis to HFT (Held-For-Trading) positions.

Credit risk in relation to the trading portfolio is measured and monitored with credit spread sensitivity methods and the operating limits set for issuer risk and bond and equity concentration contemplate ceilings by counterpart and rating class.

Market risks are mostly monitored for management purposes in terms of Value-at-Risk, both at the Parent Bank and other Group companies.

VaR for management purposes is calculated by the Parent Bank Risk Management Unit independently of the operating units, through the internal model of market risk measurement implemented by the Unit itself. VaR is calculated with a 99% confidence interval and a holding period of one business day. The method used involves the historical simulation with full revaluation of all primary positions, on the basis of 500 historical records (about 2 business years) with daily shift. The VaR thus calculated takes account of all effects of diversification between risk factors, portfolios and kind of traded instruments. It is not necessary to assume any a priori functional form in the distribution of returns on assets and the correlations between different financial instruments are implicitly captured by the VaR model on the basis of the historical trend of risk factors.

Following are the kinds of risk factors under exam:

- Interest rate on all relevant curves and relative volatility;
- Equity prices, indices and baskets and relative volatility;
- Commodities prices and relative volatility;
- Exchange rates and relative volatility;
- Credit spread (only for the enhancement of Market Value and sensitivity measures).

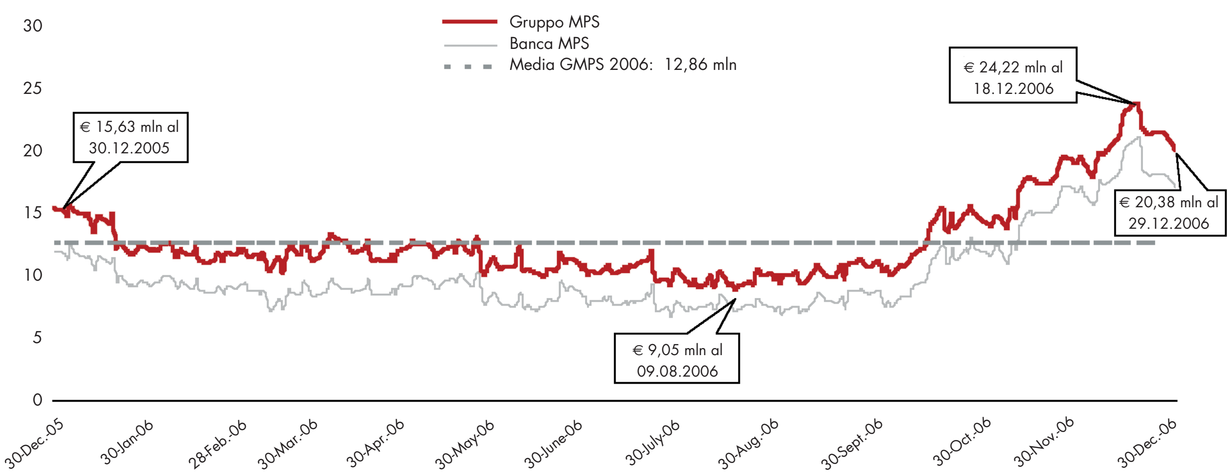
VaR values of the MPS Group are indicated without taking account of the benefit of diversification between banks, whereas the VaR of each bank is totally diversified by risk factor, portfolio and traded instruments. With reference to the risk factor macro-categories, the VaR consists of Interest Rate VaR (IR VaR), Forex VaR (FX VaR) and Equity VaR (EQ VaR).

In addition, scenario analysis in terms of shift sensitivity are regularly carried out in relation to interest-rate sensitive positions and on the basis of ad hoc assumptions on the volatility of different risk factors with respect to price risk (equities and foreign exchange).

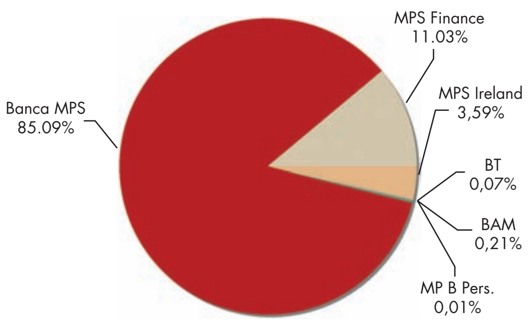
In 2006 the Parent Bank also started to monitor credit sensitivity, directly starting from the results of the front office application. 1bp shifts are postulated in relation to the specific curve of each issuer underlying any traded contract.

In 2006, the MPS Group management of market risks was characterized by prudence and rigour, with the objective of optimizing the global risk-return profile. The trend of the MPS Group risks during 2006 continued to be strongly influenced by the VAR trends in relation to the Parent Bank's positions.

VaR of the MPS Group trading portfolio
- 99% VaR 1 day (non correlated between banks) in EUR mln -



MPS Group VaR at 29.12.2006



The Group market risks are steadily concentrated on Banca MPS.

As of 31 December 2006, the Parent Bank accounted for roughly 85% of total risks, MPS Finance BM for about 11% with the remaining 4% being absorbed by Monte Paschi Ireland and the portfolios of the commercial banks.

During the year, the MPS Group VaR fluctuated in a range which went from a low of EUR 9.05 mln on 9 August 2006 to a high of EUR 24.22 mln on 18 December 2006

Average VaR for the year came to EUR 12.86 million. The end-of-year value was EUR 20.38 million.

Trading portfolio of the MPS Group
99% VaR 1 day - non correlated between banks

	VaR (EUR mln)	Date
2006 low	9.05	09/08/2006
2006 high	24.22	18/12/2006
2006 average	12.86	

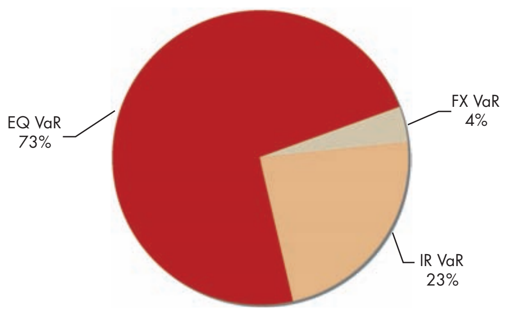
With reference to the Parent Bank, the VaR diversified by risk factors and portfolios was virtually steady in the first quarter of 2006 and resumed its gradual growth in the fourth quarter. This trend is indicative of a gradual increase in Equity VaR as a result of the growth of equities exposures for the purpose of exploiting the positive situation in the major international markets.

Trading portfolio of BMPS
99% VaR 1 day

	VaR (EUR mln)	Date
2006 low	6.86	19/07/2006
2006 high	21.47	19/12/2006
2006 average	10.25	

VaR Banca MPS

VaR breakdown by risk factor as at 29.12.2006



Average VaR for 2006 of Banca MPS stood at EUR 10.25 mln. The end-of-year value was EUR 17.34 mln.

In terms of VaR breakdown by risk factor, as of 29 December 2006 (last working day in 2006) the Parent Bank's portfolio was allocated firstly to equity risk factors (EQ VaR) (about 73%) and secondly interest rate risk factors (IR VaR) (23%), with foreign exchange risk factors (FX VaR) accounting for the remaining 4% .

1.2.1 INTEREST RATE RISK – TRADING PORTFOLIO FOR REGULATORY PURPOSES

Qualitative information

A. General aspects

Each bank of the MPS Group which is relevant as a market risk taking center contributes to determine the interest rate risk of the global Trading Portfolio.

With reference to the Parent Bank, the Finance Area and the Treasury and Capital Management Area are the Business Areas in charge of trading for the Parent Bank. The Finance Area manages a proprietary portfolio which takes trading positions on interest rates and credit. In general, interest rate positions are taken by purchasing or selling bonds, and by creating positions in listed derivatives (futures) and OTCs (IRS, swaptions), with the former instruments prevailing. Trading is carried out exclusively on the Bank's own behalf, with objectives of absolute return, in compliance with the limits delegated in terms of monthly and yearly VaR and MPA.

The management of the interest rate risk of the Trading Portfolio is flanked by the activity of the Centralized Treasury Unit of the Treasury and Capital Management Area, which operates in the short-term portion of the main interest rate curves, mostly through bonds and listed derivatives.

With reference to the credit risk existing in the trading portfolio, securities positions are generally managed through the purchase or sale of bonds issued by corporates, and by creating synthetical positions in derivatives. The activity is oriented to achieving a long or short position on each issuer, or a long or short exposure in specific product sectors. Trading is carried out exclusively on the Bank's own behalf, with objectives of absolute return, in compliance with additional specific limits of issuer risk and concentration, as resolved by the Board of Directors.

B. Management processes and methods of measurement of interest rate risk

Additional information concerning the process of market risk management in relation to the management and methods of measurement of interest rate risk is provided in the section covering "Market risks concerning the Trading Portfolio".

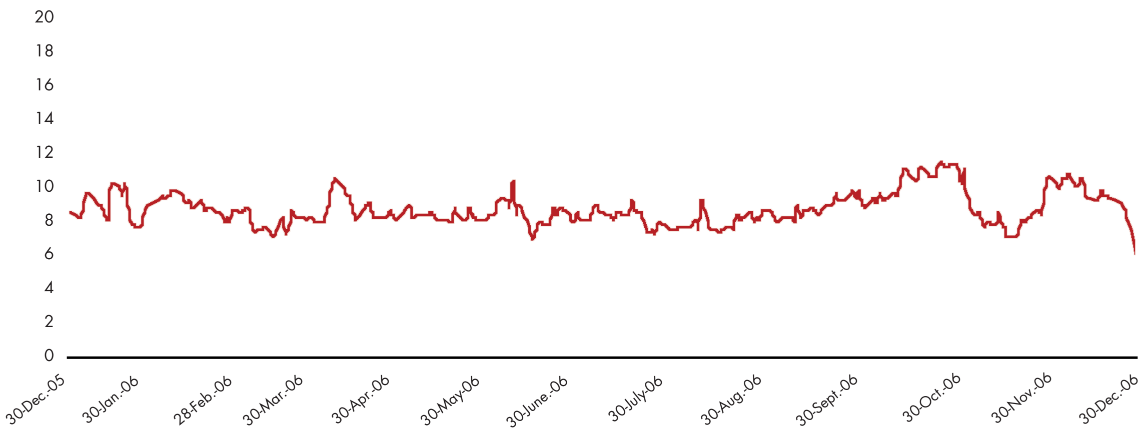
Quantitative information

2. Trading portfolio for regulatory purposes: internal models and other methods of sensitivity analysis.

The interest rate risk of the Trading Portfolio is monitored in terms of VaR and scenario analysis.

Each business unit within the MPS Group operates independently on the basis of the objectives and delegations of authority given to the unit. The positions are managed by specific desks with specific operating limits. Each desk adopts an integrated approach of risk management (including risks other than interest rate risk, where applicable) so as to benefit from the natural hedging resulting from simultaneously held positions which are inherent in non-perfectly correlated risk factors. VaR by risk factor (specifically, Interest Rate VaR) is relevant for management purposes for risk management analyses, even though the operating units use overall VaR diversified by risk factor and portfolio. The following information in relation to the MPS Group Interest Rate VaR is obtained in a non diversified manner by aggregating the Interest Rate VaRs of each bank.

VaR Interest Rate - Portafoglio di Negoziazione del Gruppo MPS
- VaR 99% 1 day in milioni di Euro -



■ **Trading portfolio of the MPS Group Interest Rate 99% VaR 1 day**

	VaR (EUR mln)	Date
End of period 2006	6.19	29/12/2006
2006 low	6.19	29/12/2006
2006 high	11.70	25/10/2006
2006 average	8.91	

The interest rate risk of the Trading Portfolio is monitored in terms of VaR and scenario analysis. Simulations include four interest rate risk scenarios:

- Parallel shift of + 100 bp in relation to all interest rate curves
- Parallel shift of - 100 bp in relation to all interest rate curves
- Parallel shift of +1% in relation to all surfaces of volatility of all interest rate curves
- Parallel shift of -1% in relation to all surfaces of volatility of all interest rate curves

The impact on net operating income and profits/losses for the year was estimated only in view of the positions classified as HFT, which post any Market Values changes directly to the P&L statement. The effect on net equity was estimated only with reference to the positions classified as AFS, which have an impact only on Net Equity also from the accounting viewpoint. The total effect results from the algebraic sum of the two components. Following is the summary of the scenario analysis on interest rate risks.

Banca MPS trading portfolio
(in EUR mln)

Risk Family	Scenario	Impact on net operating income and on pofit/losses for the year	Effect on Net Equity	**Total effect**
Interest Rate	+100 bpall curves	-67.47	-6.51	**-73.98**
Interest Rate	–100 bp all curves	70.38	7.96	**78.34**
Interest Rate	+1% Interest rate volatility	-0.85	0.00	**-0.85**
Interest Rate	–1% Interest rate volatility	0.92	0.00	**0.92**

1.2.2 **INTEREST RATE RISK – BANKING**

Qualitative information

A. General aspects, management procedures and methods of measurement of interest rate risk

In accordance with the international best practice, the Banking Book identifies the whole of the Bank's commercial operations in relation to the transformation of the maturities of assets and liabilities, Treasury, foreign branches and reference hedging derivatives.

The management strategies of the Banking Book, adopted by the Finance and Capital Management Committee and monitored by the Parent Bank's Risk Committee, are based on the measurement of the interest rate risk in a logic of total return and are oriented to minimizing the volatility of the expected interest margin in the current financial year (12 months) or minimizing the volatility of the global economic value on the basis of changing interest rate structures.

The fluctuations of interest margin at risk and the changes in the economic value of assets and liabilities of the Banking Book are analyzed by applying deterministic shifts of 25 bp, 100 bp and 200 bp. The 200 bp shift is applied in compliance with the provisions of Basle 2 "second pillar", expressed as a percentage in relation to Tier 1 and consolidated Capital for Regulatory Purpose.

MPS Group manages interest rate risk by portfolio. In general, hedging derivatives are executed within the Group with MPS Finance BM which in turn manages the global exposure to the market by volume. Therefore, as a result of this approach, a univocal relation between derivatives executed by each Group company and market derivatives cannot be maintained.

The adoption of the Fair Value Option (introduced by the new international accounting principles – IAS 39) can give a faithful view of this approach by designing a group of financial assets or liabilities managed at fair value with an impact on the P&L statement. This approach is adopted by Banca MPS in relation to the financial liabilities subject to fair value hedging by standardized portfolio. The Fair Value Option adopted concerns the elimination of the accounting mismatch between a Fair Value item and an item valued with other accounting criteria.

The use of the Fair Value Option with respect to some portfolios and classes of assets increases complexity in the management or valuation of the items (in particular, for assets hedging). In this case, Banca MPS adopted official IAS-compliant hedging forms.

B. Fair Value and Financial flow hedge

In particular, following are the main existing kinds of IAS-compliant hedging:

MPS GROUP

Risk ratios by 100 bo (+/–) shift	31/12/06 +100 bp	31/12/06 –100bp
Interest income at risk/total margin	1,46%	1,79%
Economic value at risk/Tier 1	0,73%	1,01%
Economic value at risk/Capital for regulatory purpose	0,54%	0,75%

- Micro Fair Value Hedge: hedging of commercial assets (loans/mortgage loans classified as Loans and Receivables) of Banca MPS and its Foreign Branches and the securities portfolio of Banca MPS and its Foreign Branches (classified as Loans & Receivables and Available for Sale, respectively);
- Macro Fair Value Hedge: hedging of commercial assets (loans/mortgage loans classified as Loans and Receivables);
- Micro Cash Flow Hedge: hedging of a limited portion of floating rate funding.

Quantitative information

2. Banking portfolio: internal models and other methods of sensitivity analysis.

BANCA MPS

Risk ratios by 100 bo (+/–) shift	31/12/06 +100 bp	31/12/06 –100bp
Interest income at risk/total margin	1,54%	1,88%
Economic value at risk/Tier 1	0,79%	1,10%
Economic value at risk/Capital for regulatory purpose	0,62%	0,85%

The sensitivity of MPS Group with reference to a parallel shift of the interest rate curve of +25 bp stood on average at around EUR 6.64 million during the year. This amount represents the estimated potential loss in case of interest rate reduction.

1.2.3 PRICE RISK – TRADING PORTFOLIO FOR REGULATORY PURPOSES

Qualitative information

A. General aspects

Each bank of the MPS Group which is relevant as a market risk taking center contributes to determine the price risk of the global Trading Portfolio.

The Business Area in charge of the Parent Bank's trading activity is the Finance Area which manages a proprietary portfolio and takes trading positions on equities, Stock Exchange indexes and commodities. In general, equities positions are taken both through the purchase/sale of equities and positions created in listed derivatives (futures) and OTC (options), with the former element prevailing. The activity with mutual funds is carried out exclusively by a specific desk through the direct purchase of the funds/SICAVs, with no derivative contracts. The activity is carried out exclusively on the Bank's own behalf, with objectives of absolute return, in compliance with the monthly and yearly VAR and MPA delegated limits.

B. Management processes and methods of measurement of price risk

Additional information on the process of market risk management in relation to the management and the methods of measurement of price risk is provided in the section covering "Market risks in relation to the Trading Portfolio".

Quantitative information

1. TRADING PORTFOLIO FOR REGULATORY PURPOSES: EQUITIES AND MUTUAL FUNDS CASH EXPOSURES

31 12 2006
(in EUR million)

Kinf of exposure/Values	Book value	
	Listed	Not listed
A. Equities	519,547	5,565
A.1 Shares	414,755	5,565
A.2 Innovative capital istruments		
A.3 Other capital instruments	104,792	
B. Mutual funds	156,147	116,991
B.1 Italian-law mutual funds	30,156	88,261
- open-end harmonized funds	30,156	81,217
- open-end non-harmonized funds		
- closed-end funds		
- mutual funds reserved for specific categories of investors		
- speculative funds		7,044
B.2 Funds of other EU countries	125,991	28,730
- harmonized funds	125,991	28,730
- open-end non-harmonized funds		
- closed-end non-harmonized funds		
B.3 Funds of non-EU countries	-	-
- open-end funds		
- closed-end funds		
Total	**675,694**	**122,556**

1.1 TRADING PORTFOLIO FOR REGULATORY PURPOSES: EQUITIES AND MUTUAL FUNDS CASH EXPOSURES

31 12 2006
(in EUR million)

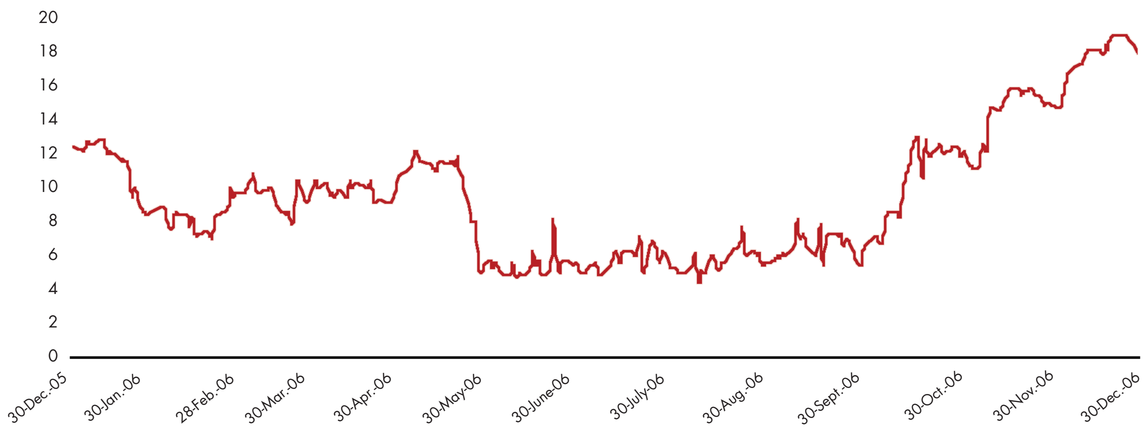
Kinf of exposure/Values	Book value	
	Listed	Not listed
Azionari	51,973	20,042
Obbligazionari	2,110	51,803
Bilanciati	57,427	2,029
Liquidità		9,236
Flessibili		26,701
Riservati		
Speculativi		1,629
Immobiliari		
Altri	44,638	5,547
Totale	**156,148**	**116,987**

3. Trading portfolio for regulatory purpose: internal models and other methods for sensitivity analysis

The price risk of the Trading Portfolio is monitored in terms of VaR and scenario analysis.

Each business unit within the MPS Group operates independently on the basis of the objectives and delegations assigned to it. The positions are managed by specific desks provided with specific operational limits. Each desk adopts an integrated risk management approach (also of a nature other than price risk, when allowed) for the purpose of benefiting of the natural hedging resulting from simultaneously holding positions based on non-perfectly correlated risk factors. The VaR by risk factor (specifically, Equity VaR) has management relevance for the purpose of risk management analyses, even though the global VaR diversified between risk factor and portfolios is used by the operating units. Following are the information in relation to the Group's Equity VaR, obtained in a non diversified way by aggregating the Equity VaR of each bank.

Equity VaR - MPS Group trading portfolio
- 99% VaR 1 day in EUR mln -



MPS Group trading portfolio
99% Equity VaR 1 day

	VaR (EUR mln)	Date
End of period 2006	18,63	29/12/2006
2006 low	4,67	02/08/2006
2006 high	19,74	27/12/2006
2006 average	9,72	

There are four simulated price scenarios:

- +1% of each equity, commodity, index, basket price
- -1% of each equity, commodity, index, basket price
- +1% of all volatility surfaces of all equities and commodities risk factors
- -1% of all volatility surfaces of all equities and commodities risk factors

The effect on the net operating income and the profit/loss for the year was estimated only in light of the positions classified as HFT, which post any Market Value changes directly to the P&L Statement.
The impact on net equity is estimated with reference to the positions classified as AFS which have an accounting impact only on Net Equity. The total effect results from the algebraic sum of the two components. Following is a summary of the scenario analyses.

Banca MPS trading portfolio
(in EUR mln)

Risk Family	Scenario	Impact on net operating income and on pofit/losses for the year	Effect on Net Equity	**Total effect**
Equity	+1% equity/commodity prices (prices, indices, baskets)	8.28	8.05	**16.32**
Equity	– 1% equity/commodity prices (prices, indices, baskets)	-8.29	-8.05	**-16.34**
Equity	+1% equity/commodity volatility	4.56	0.00	**4.56**
Equity	–1% equity/commodity volatility	-4.53	0.00	**-4.53**

The weight of Commodity Risk is moderate with respect to total price risk.

1.2.4 **PRICE RISK – BANKING PORTFOLIO**

Qualitative information

A. General aspects, management procedures and methods of measurement of price risk

The price risk of the Banking Portfolio of MPS Group is measured in relation to equity positions mostly held for strategic or institutional/instrumental purposes. This section does not incorporate the positions included in the Trading Portfolio for Regulatory Purpose (see the paragraph covering "MARKET RISKS IN RELATION TO THE TRADING PORTFOLIO"). These positions are taken directly on the basis of instructions coming from the Board of Directors or the Parent Bank's Finance Area (e.g. investments in alternative funds, AFS securities) which are not qualified for inclusion in the Trading Portfolio for Regulatory Purpose but are managed by the Business Areas carrying out trading activities and are monitored in terms of VaR.

The MPS Group equity investment portfolio consists of about 260 equity investments in companies outside the Group and roughly 62% of its value is concentrated on 5 investments. The remaining interests have a moderate unit value (170 investments have a value lower than EUR 1 million and account for 2.5% of the global portfolio). There are 28 investments in relation to the portfolio of Banca per l'Impresa, which are merely financial investments and account for approx.3.5% of the total value of the portfolio.

The instrument used for the measurement of price risk is Value-at-Risk (VaR) which represents the loss the portfolio in question, valued at fair value, might incur in one month, or one quarter, on the basis of a 99% confidence interval. The parametric VaR model used is based on the traditional approach of the variance-covariance matrix. Price volatility for listed companies and non-listed companies is estimated on the basis of the historical series of market returns and historical series of sectorial indexes, respectively. The VaR is measured according to a Group logic and subsequently redistributed in accordance with the shares held by each legal entity, on the basis of marginal contributions to the risk of each equity investment.
The portfolio under analysis embraces all equity investments held by Banca MPS in outside companies, or in companies which do not consolidate accounts totally or proportionally.

At year-end the portfolio VaR (99%, 1-month holding period) was about 14% of the portfolio fair value, with a high concentration in terms of risk in the top 8 equity investments. In view of the adoption of a quarterly time framework, the Maximum Loss expected in 99% of cases climbs to 24%.

Company	Fair Value Total %-Group	99% VaR 3 months Total %-Group
Banca MPS	62,22%	64,70%
MPS Finance	22,59%	20,23%
Banca Agricola Mantovana	9,62%	10,02%
Banca per l'Impresa	3,38%	3,19%
Banca Toscana	1,81%	1,49%
Other	0,39%	0,36%
Total MPS Group	**100%**	**100%**

An analysis of the Portfolio and VaR breakdown with reference to each company shows that BMPS and MPS Finance contribute 85% of the Group total, both in terms of fair value and VaR.

In addition, the above-calculated VaR is the basis for the determination of the Economic Capital, by standardizing the holding period (conversion of the holding period to 1 year) and the confidence interval (from 99% to 99.93% - which is consistent with the rating level assigned to the MPS Group by the official rating agencies). Such measurement of non-diversified Economic Capital is further processed in view of the diversification factor existing between different risk types. As a result of the above-mentioned model, it is possible to measure the marginal risk contribution of each equity investment and to disaggregate the measurement made in a Group logic with respect to the investment shares held by each Company.

The Risk Management Unit – which develops and maintains the internal measurement system – periodically reports – during the meetings of the Parent Bank's Risk Committee – on the extent of the risks in the equity investment portfolio and their trend. The methods of sensitivity and scenario analysis are being fine tuned.

Quantitative information

1. BANKING PORTFOLIO: CASH EXPOSURES IN EQUITY SECURITIES AND UCITS

31 12 2006
(in EUR million)

Kinf of exposure/Values	Book value	
	Listed	Not listed
A. Equities	212,792	1,669,756
A.1 Shares	212,792	1,669,756
A.2 Innovative capital istruments		
A.3 Other capital instruments		11,659
B. Mutual funds	275,002	357,248
B.1 Italian-law mutual funds	111.259	96,192
- open-end harmonized funds	30,156	
- open-end non-harmonized funds		
- closed-end funds		1,042
- mutual funds reserved for specific categories of investors	74,649	
- speculative funds	36,610	95,150
B.2 Funds of other EU countries	-	76,850
- harmonized funds	125,991	64,349
- open-end non-harmonized funds		12,501
- closed-end non-harmonized funds		
B.3 Funds of non-EU countries	163,743	184,206
- open-end funds	121,656	145,273
- closed-end funds	42,087	38,933
Total	**487,794**	**2,027,004**

1.1 BANKING PORTFOLIO: CASH EXPOSURES RELATING TO UCITS TYPES

31 12 2006
(in EUR million)

Kinf of exposure/Values	Book value	
	Listed	Not listed
Azionari	72,628	289,164
Obbligazionari		16,243
Bilanciati	198,102	49,903
Liquidità		
Flessibili		
Riservati		369
Speculativi		
Immobiliari		
Altri	4,272	1,565
Totale	**275,002**	**357,244**

2. BANKING PORTFOLIO: INTERNAL MODELS AND OTHER SENSITIVITY ANALYSIS METHODOLOGIES

1.2.5 Exchange rate risk

Qualitative information

A. General aspects, exchange rate risk management processes and measurement methods.

Foreign exchange operations are mainly based on short-term trading, with the systematic balance of the transactions originated by the commercial banks which automatically fuel the Group's position. The foreign branches maintained modest forex positions exclusively originated by funds available for commercial purposes. The sizeable cash and OTC derivative turnover was activated by the owner who followed a linear risk trend, with a steady and watchful use of delegated powers thus achieving satisfactory profitability, characterized by a steady trend during the year. Foreign currency equity investments are typically financed by funds raised, denominated in the same currency, with no foreign exchange risk.

B. Exchange rate risk hedging

Quantitative information

1. DISTRIBUTION OF ASSETS, LIABILITIES AND DERIVATIVES

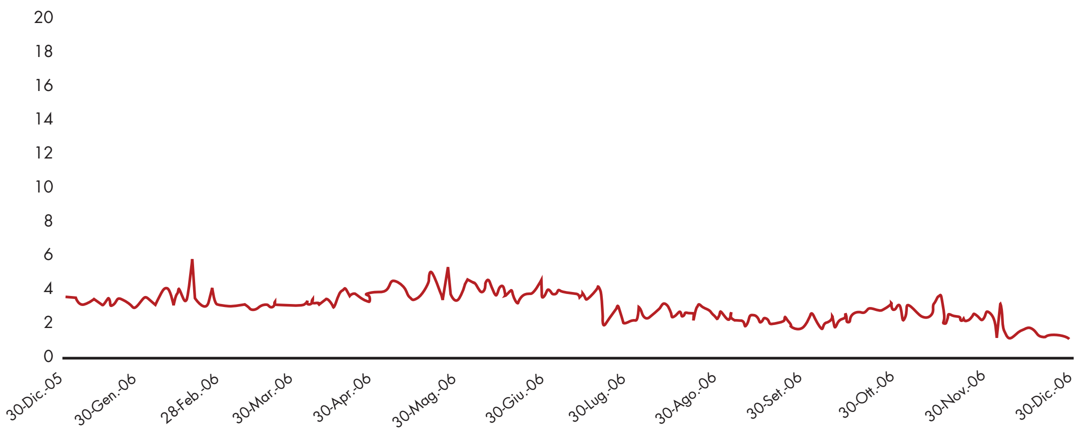
31 12 2006

account	currencies					
	US dollars	pounds	Yen	canadian dollars	swiss Franc	other currencies
A. Financial assets	6,732,606	467,257	655,682	1,364	564,452	274,471
A.1 debt securities	731,487	27,360	11,526		300	9,017
A.2 equity securities	358,118	14,105	74,317		15,877	6,068
A.3 loans to banks	3,197,310	328,125	478,002	869	358,528	181,946
A.4 loans to customers	2,398,102	97,660	91,837	495	189,743	77,405
A.5 other Financial assets	47,589	7			4	35
B. Other assets	76,881	20,432	122,564	119	2,241	10,420
C. Financial liabilities	9,908,843	2,894,103	925,493	1,446	205,638	858,659
C.1 due to banks	4,732,372	867,482	696,802	455	188,503	721,957
C.2 deposits from customers	2,614,540	494,857	224,992	987	6,357	113,145
C.3 debt securities	2,486,408	1,513,711			10,429	14,978
C.4 other Financial liabilities	75,523	18,053	3,699	4	349	8,579
D. Financial Derivatives	4,760,203	2,688,314	404,220	1,825	64,592	592,602
- Options	416,170	83,951	(59,713)	1,360	209	12,134
+ long positions	1,528,230	174,074	729,312	680	242	24,010
+short positions	(1,112,060)	(90,123)	(789,025)	680	(33)	(11,876)
-other	4,344,033	2,604,363	463,933	465	64,383	580,468
+ long positions	9,982,543	2,754,466	1,622,414	226	421,745	854,292
+short positions	(5,638,510)	(150,103)	(1,158,481)	239	(357,362)	(273,824)
Total assets	6,809,487	487,689	778,246	1,483	566,693	284,891
Total liabilities	5,148,640	205,789	521,273	(379)	141,046	266,057
balance (+/-)	1,660,847	281,900	256,973	1,862	425,647	18,834

1. DISTRIBUTION OF ASSETS, LIABILITIES AND DERIVATIVES

Following are the data in relation to the MPS Group Forex VaR, obtained in a non-diversified way by aggregating Forex VaRs of each Trading Portfolio of each bank designated as market risk taking center. Foreign exchange risk is monitored in terms of VaR and scenario analysis.

VaR Forex - Portafoglio di Negoziazione del Gruppo MPS
- VaR 99% 1 day in milioni di Euro -



Portafoglio di Negoziazione Gruppo MPS
VaR Equity 99% 1 day

	VaR (EUR mln)	Data
End of period 2006	1.22	29/12/2006
2006 low	1.22	29/12/2006
2006 high	5.78	14/02/2006
2006 average	3.05	

Following are four scenarios simulated in relation to foreign exchange rates:

- +1% all foreign exchange rate with respect to EUR
- -1% of all foreign exchange rates with respect to EUR
- +1% of all volatility surfaces of all foreign exchange rates
- -1% of all volatility surfaces of all foreign exchange rates

The impact on net operating income and profit/loss for the year was estimated taking account only of HFT positions, which post any Market Value changes directly to the Profit and Loss Statement. The impact on net equity was estimated with reference to AFS positions, which have an accounting impact only on Net Equity. The total effect results from the algebraic sum of the two components. Following is a summary of the scenario analyses.

Portafoglio di Negoziazione GMPS
Valori in milioni di EUR

Risk Family	Scenario	Impact on net operating income and on pofit/losses for the year	Effect on Net Equity	**Total effect**
Forex	+1% Tassi di Cambio contro EUR	1.37	-1.38	**-0.01**
Forex	– 1% Tassi di Cambio contro EUR	-1.20	1.41	**0.21**
Forex	+1% Volatilità Forex	-0.57	0.00	**-057**
Forex	–1% Volatilità Forex	0.30	0.00	**0.30**

1.2.6 Financial derivatives

A. financial derivatives

A.1 REGULATORY TRADING BOOK: END OF PERIOD NOTIONAL AMOUNTS

(euro '000)

kind of transactions	debt securities and interest rate		equities and stock exchange index		exchange rates and gold	
	listed	unlisted	listed	unlisted	listed	unlisted
1. Forward rate agreement		-				
2. Interest rate swap		229,729,852		10,000		
3. Domestic currency swap						
4. Currency interest rate swap						1,560,226
5. Basis swap		13,349,623		116,720		
6. stock index swaps						
7. commodity index swaps						
8. Futures	18,272,288		891,989			
9. Opzioni cap	-	61,959,814	-	-	-	-
- purschased		30,356,600				
- issued		31,603,214				
10. floor options		42,293,102	-	-	-	-
- purschased		17,084,133				
- issued		25,208,969				
11. other options	24,191,825	10,036,702	4,531,120	15,410,876	-	41,172,334
- purschased	24,157,175	3,913,745	4,304,620	8,612,931	-	18,656,539
- Plain vanilla	24,157,175	3,905,164	4,304,620	4,489,217		12,990,565
- Exotic		8,581		4,123,714		5,665,974
- issued	34,650	6,122,957	226,500	6,797,945	-	22,515,795
- Plain vanilla	34,650	6,114,742	226,500	4,953,160		15,524,779
- Exotic		8,215		1,844,785		6,991,016
12. forwards	3,857	36,121	678	13	-	16,987,348
- purchases	1,662	30,406	662	13		7,998,973
- sold	2,195	5,715	16			3,127,197
- currencies/currencies						5,861,178
13. other derivative contracts						
Total	42,467,970	357,405,214	5,423,787	15,537,609	-	59,719,908
average Values		10,494,302		628,885		105,411

other currencies		Total 31 12 2006		Total 31 12 2005	
listed	unlisted	listed	unlisted	listed	unlisted
		-	-	-	5,387,767
		-	229,739,852	-	236,645,955
		-	-	-	-
		-	1,560,226	-	1,378,075
		-	13,466,343	-	16,578,704
		-	-	-	-
	71,687	-	71,687	-	-
		19,164,277	-	14,933,975	-
-	-	-	61,959,814	-	83,727,919
		-	30,356,600	-	57,237,319
		-	31,603,214	-	26,490,600
-	-	-	42,293,102	-	41,286,942
		-	17,084,133	-	8,,440,212
		-	25,208,969	-	32,846,730
-	-	28,722,945	66,619,912	32,386,802	48,054,953
-	-	28,461,795	31,183,215	16,257,804	22,005,960
		28,461,795	21,384,946	16,257,804	16,693,509
		-	9,798,269	-	5,312,451
-	-	261,150	35,436,697	16,128,998	26,048,993
		261,150	26,592,681	16,128,998	22,043,112
		-	8,844,016	-	4,005,881
-	-	4,535	17,023,482	-	10,485,452
		2,324	8,029,392	-	6,887,969
		2,211	3,132,912	-	1,061,733
		-	5,861,178	-	2,535,750
	47,635	-	47,635	-	-
-	119,322	47,891,757	432,782,053	47,320,777	443,545,767
	936		11,229,534		

A.2 BANKING PORTFOLIO: END OF YEAR NOTIONAL AMOUNTS

A.2.1 HEDGING

(euro '000)

derivative types	debt securities and interest rate		equities and stock exchange index		exchange rates and gold	
	listed	unlisted	listed	unlisted	listed	unlisted
1. Forward rate agreement						
2. Interest rate swap		260,245				
3. Domestic currency swap						105,547
4. Currency interest rate swap						302,615
5. Basis swap		9,853				
6. stock index swaps						
7. commodity index swaps						
8. Futures						
9. Opzioni cap	-	-	-	-	-	-
- purschased						
- issued						
10. floor options	-	-	-	-	-	-
- purschased		-				
- issued		-				
11. other options	-	-	-	492	-	-
- purschased	-	-	-	492	-	-
- Plain vanilla		-				
- Exotic				492		
- issued	-	-	-	-	-	-
- Plain vanilla		-				
- Exotic						
12. forwards						115
- purchases						98
- sold						17
- currencies/currencies						
13. other derivative contracts						
Total	**-**	**270,098**	**-**	**492**	**-**	**408,277**
average Values						

other currencies		Total 31 12 2006		Total 31 12 2005	
listed	unlisted	listed	unlisted	listed	unlisted
		-	-	-	-
		-	260,245	-	3,397,136
		-	105,547	-	-
		-	302,615	-	17,392
		-	9,853	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
-	-	-	-	-	-
		-	-	-	-
		-	-	-	-
-	-	-	-	-	9,771
		-	-	-	207
		-	-	-	9,564
-	-	-	492	-	703,544
-	-	-	492	-	349,272
		-	-	-	349,272
		-	492	-	-
-	-	-	-	-	354,272
		-	-	-	354,272
		-	-	-	-
	-	-	115	-	-
			98	-	-
			17	-	-
		-	-	-	-
		-	-	-	-
-	**-**	**-**	**678,867**	**-**	**4,127,843**

A.2 BANKING PORTFOLIO: END OF YEAR NOTIONAL AMOUNTS

A.2.2 OTHER DERIVATIVES

(euro '000)

derivative types	debt securities and interest rate		equities and stock exchange index		exchange rates and gold	
	listed	unlisted	listed	unlisted	listed	unlisted
1. Forward rate agreement						
2. Interest rate swap		26,041,953				
3. Domestic currency swap						
4. Currency interest rate swap						54,658
5. Basis swap		3,334,834				
6. stock index swaps						
7. commodity index swaps						
8. Futures						
9. Opzioni cap	-	93,948	-	-	-	-
- purschased		93,948				
- issued						
10. floor options	-	90,000	-	-	-	-
- purschased		90,000				
- issued						
11. other options	-	75,000	-	537,052	-	179,138
- purschased	-	-	-	416,194	-	179,138
- Plain vanilla		-	-	41,316		179,138
- Exotic			-	374,878		
- issued	-	75,000	-	120,858	-	-
- Plain vanilla		75,000	-	107,024		-
- Exotic			-	13,834		
12. forwards						196,839
- purchases						80,092
- sold						116,747
- currencies/currencies						
13. other derivative contracts		-	-	554,296		
Total	-	29,635,735	-	1,091,348	-	430,635
average Values		2,803,060	-	560,632		210,672

other currencies		Total 31 12 2006		Total 31 12 2005	
listed	unlisted	listed	unlisted	listed	unlisted
		-	-	-	-
		-	26,041,953	-	8,655,749
		-	-	-	-
		-	54,658	-	-
		-	3,334,834	-	755,447
		-	-	-	-
		-	-	-	-
		-	-	-	-
-	-	-	93,948	-	1,024,611
		-	93,948	-	884,645
		-	-	-	139,966
-	-	-	90,000	-	12,543
		-	90,000	-	12,543
		-	-	-	-
-	-	-	791,190	-	3,577,408
-	-	-	595,332	-	2,639,120
		-	220,454	-	824,749
		-	374,878	-	1,814,371
-	-	-	195,858	-	938,288
		-	182,024	-	559,517
		-	13,834	-	378,771
-	-	-	196,839	-	167.844
		-	80,092	-	77.781
		-	116,747	-	89.559
		-	-	-	504
	386,100	-	940,396	-	364.534
-	386,100	-	31,543,818	-	14.558.136
	-	-	3,574,364		

A.3 FINANCIAL DERIVATIVES: PURCHASE AND SALE OF UNDERLYING ASSETS

(euro '000)

kind of transactions	debt securities and interest rate		equities and stock exchange index		exchange rates and gold	
	listed	unlisted	listed	unlisted	listed	unlisted
A. regulatory trading book:	42,467,970	344,055,591	5.423.787	15,420,888	-	59,719,909
1. with underlying assets exchange	25,116,986	2,678,793	777.859	2,202,711	-	58,135,525
- purchases	24,322,311	2,673,078	249.359	1,111,595		17,583,970
- sales	794,675	5,715	528.500	1,091,116		14,129,524
- currencies/currencies						26,422,031
2. with no underlying assets exchange	17,350,984	341,376,798	4.645.928	13,218,177	-	1,584,384
- purchases	9,374,768	165,208,122	4.473.942	7,501,351		464,643
- sales	7,976,216	176,168,676	171.986	5,716,826		1,113,197
- currencies/currencies						6,544
B. banking portfolio:	-	26,561,145	-	984,816	-	838,914
B.1 hedging	-	260,245	-	492	-	408,278
1. with underlying assets exchange	-	-	-	-	-	302,731
- purchases				-		295,127
- sales						17
- currencies/currencies						7,587
2. with no underlying assets exchange	-	260,245	-	492	-	105,547
- purchases		248,839		492		99,036
- sales		11,406				6,511
- currencies/currencies						
B.2 other derivatives	-	26,300,900	-	984,324	-	430,636
1. with underlying assets exchange	-	-	-	984,324	-	251,498
- purchases				984,324		134,751
- sales				-		116,747
- currencies/currencies						-
2. with no underlying assets exchange	-	26,300,900	-	-	-	179,138
- purchases		3,071,704		-		66,884
- sales		23,229,196		-		112,127
- currencies/currencies						127

other currencies		Total 31 12 2006		Total 31 12 2005	
listed	unlisted	listed	unlisted	listed	unlisted
-	47,635	47,891,757	419,244,023	47,319,824	419,897,598
-	-	25,894,845	63,017,029	2,284,506	32,011,066
		24,571,670	21,368,643	1,089,967	7,693,286
		1,323,175	15,226,355	1,194,539	12,031,589
		-	26,422,031	-	12,286,191
-	47,635	21,996,912	356,226,994	45,035,318	387,886,532
	47,635	13,848,710	173,221,751	24,148,440	189,871,509
		8,148,202	182,998,699	20,886,878	197,999,465
		-	6,544	-	15,558
-	386,100	-	28,770,975	-	17,317,988
-	-	-	669,015	-	5,399,885
-	-	-	302,731	-	708,543
		-	295,127	-	708,543
		-	17	-	-
		-	7,587	-	-
-	-	-	366,284	-	4,691,342
		-	348,367	-	547,458
		-	17,917	-	4,143,884
		-	-	-	-
-	386,100	-	28,101,960	-	11,918,103
-	386,100	-	1,621,922	-	1,477,434
	-	-	1,119,075	-	1,387,369
	386,100	-	502,847	-	89,561
		-	-	-	504
-	-	-	26,480,038	-	10,440,669
		-	3,138,588	-	7,759,680
		-	23,341,323	-	2,680,989
		-	127	-	-

A.4 OTC FINANCIAL DERIVATIVES : POSITIVE FAIR VALUE - COUNTERPARTY RISK

(euro '000)

counterparty	debt securities and interest rate			equities and stock exchange index		
	gross amount not settled	settled gross amount	future exposure	gross amount not settled	settled gross amount	future exposure
A. regulatory trading book:						
A.1 Governments and Central banks	60					
A.2 public entities	23,176		3,070			
A.3 Banks	289,532	3,587,366	70,202	47,293	713,367	12,134
A.4 financial companies	59,094	319,426	24,918	27	124,067	
A.5 insurance companies	1,229	421	23		8,799	
A.6 non financial companies	86,384		18,944	632		
A.7 other entities	414		530			
Total A 31/12/2006	459,889	3,907,213	117,687	47,952	846,233	12,134
Total A 31/12/2005	296,854	2,041,889	81,431	156,483	46,512	77,068
B. banking portfolio:						
B.1 Governments and Central banks						
B.2 public entities						
B.3 Banks	9,008		214			
B.4 financial companies						
B.5 insurance companies				1,459		13,454
B.6 non financial companies						
B.7 other entities				469		481
Total B 31/12/2006	9,008	-	214	1,928	-	13,935
Total B 31/12/2005	21,936	229,809	60	2	15,319	-

A.4.1 OTC FINANCIAL DERIVATIVES WITH NET POSITIVE FAIR VALUE

31 12 2006

(euro '000)

Portfolios	debt securities and interest rate		equities and stock exchange index		exchange rates and gold		other currencies	
	positive FV	negative FV	positive FV	negative FV	positive FV	negative FV	positive FV	negative FV
A. regulatory trading book:	323,754		285,073		10,818			
B. banking portfolio:	175,407		108,035		626			

exchange rates and gold			other currencies			different underlying	
gross amount not settled	settled gross amount	future exposure	gross amount not settled	settled gross amount	future exposure	offset	future exposure
123,212	29,257	6,093				57,933	172,083
6,619	17					1,311	1,167
41,086		1,211					
170,917	29,274	7,304	-	-	-	59,244	173,250
28,307	77,048	42,231	3,618,364	1,026,337	904,332	-	-
126,063							
2,838							
2							
10,365		1,721					
1,671		61					
140,939	-	1,782	-	-	-	-	-
158,009	9,911	19,103	1,767	2,607	324	994,451	546,374

A.5 OTC FINANCIAL DERIVATIVES : NEGATIVE FAIR VALUE - FINANCIAL RISK

(euro '000)

counterparty	debt securities and interest rate			equities and stock exchange index		
	gross amount not settled	settled gross amount	future exposure	gross amount not settled	settled gross amount	future exposure
A. regulatory trading book:						
A.1 Governments and Central banks	2,623					
A.2 public entities	22,038		2.283			
A.3 Banks	856,224	3,142,772	330,147	1,218,999	124	843,772
A.4 financial companies	150,014	277,994	24,073	99,133	140	89,404
A.5 insurance companies	3,081			5,139		69,396
A.6 non financial companies	59,525		10,347	3,306		
A.7 other entities	864		53	65,472		
Total A 31/12/2006	1,094,369	3,420,766	366,903	1,392,049	264	1,002,572
Total A 31/12/2005	4,877,227	4,193,059	126,459	1,206,634	706,439	431,915
B. banking portfolio:						
B.1 Governments and Central banks						
B.2 public entities						
B.3 Banks	6,232		3,081			13,680
B.4 financial companies						19,301
B.5 insurance companies	6,056		153			10,703
B.6 non financial companies						
B.7 other entities	727		28			
Total B 31/12/2006	13,015	-	3,262	-	-	43,684
Total B 31/12/2005	75,572	280,312	8,954	33,946	-	75,022

exchange rates and gold			other currencies			different underlying	
gross amount not settled	settled gross amount	future exposure	gross amount not settled	settled gross amount	future exposure	offset	future exposure
411	39,332	1,020					1,096
3,330	1,521						
		418					
5,308		256					
1							
9,050	40,853	1,694	-	-	-	-	1,096
129,360	20,030	123,401	822	570	3,181	-	-
172,810							
54,098		188					
42							
5,270		2,014					
2,216		381					
234,436	-	2,583	-	-	-	-	-
111,925	673	14,901	-	2,221	932	325,433	28,217

A.5.1 OTC FINANCIAL DERIVATIVES WITH NET NEGATIVE FAIR VALUE

31 12 2006
(euro '000)

Portafogli/sottostanti	debt securities and interest rate		equities and stock exchange index		exchange rates and gold		other currencies	
	positive FV	negative FV	positive FV	negative FV	positive FV	negative FV	FV positivo	FV negativo
A. regulatory trading book:		340,162				136,407		
B. banking portfolio:								

A.6 "OVER THE COUNTER" FINANCIAL DERIVATIVES RESIDUAL LIFE: NV

(euro '000)

underlying assets	from 1 yrs	form 1 yr to 5 yrs	over 5 yrs	Total
A. regulatory trading book:	172,553,031	203,705,765	103,658,326	479,917,121
A.1 financial Derivative contracts on debt securities and interest rates	133,230,177	177,980,657	99,698,199	410,909,032
A.2 financial Derivative contracts on equity securities and share indices	3,749,157	15,333,175	3,600,655	22,682,986
A.3 financial Derivative contracts on exchange rates and gold	35,454,375	10,391,933	359,472	46,205,781
A.4 financial Derivative contracts on other underlying assets	119,322			119,322
B. banking portfolio:	41,533,863	13,186,889	9,765,135	64,485,888
B.1 financial Derivative contracts on debt securities and interest rates	25,538,472	12,051,717	9,640,501	47,230,690
B.2financial Derivative contracts on equity securities and share indicesi	1,065,594	1,068,298	124,634	2,258,527
B.3 financial Derivative contracts on exchange rates and gold	14,929,797	66,874		14,996,671
B.4 financial Derivative contracts on other underlying assets				
Total 31 12 2006	214,086,894	216,892,654	113,423,461	544,403,009

B. CREDIT DERIVATIVES

B1. CREDIT DERIVATIVES: NOTIONAL AMOUNTS YEAR END

31 12 2006
(euro '000)

transactions	regulatory trading book		other transactions	
	with single counterpart	with more than one counterpart(basket)	with single counterpart	with more than one counterpart(basket)
	NA	NA	NA	NA
1. protection purchases				
1.1 with underlying asset exchange	2,386,593	2,700,250		
(with specific description of contract type)				
1.2 with no underlying asset exchange	36,000	75,000	262,000	616,000
(with specific description of contract type)				
Total 31/12/2006	**2,422,593**	**2,775,250**	**262,000**	**616,000**
average Value 31/12/2006	**75,000**			
Total 31/12/2005	**1,913,425**	**132,700**	**-**	**-**
2. protection sales				
2.1 with underlying asset exchange	4,714,024	160,000		
(with specific description of contract type)				
2.2 with no underlying asset exchange	51,270	24,237	-	123,000
(with specific description of contract type)				
Total 31/12/2006	**4,765,294**	**184,237**	**-**	**123,000**
average Value 31/12/2006				
Total 31/12/2005	**1,658,352**	**304,798**	**190,499**	**-**

B2. CREDIT DERIVATIVES: POSITIVE FAIR VALUE - COUNTERPARTY RISK

(euro '000)

transactions	NA	positive fair value	future exposure
A. Regulatory trading book	**4,255,412**	**204,329**	**117,344**
A.1 Purchases of protection with counterparty:	**250,000**	**136,600**	**8,669**
1. Governments and Central banks			
2. other public entities			
3. Banks	174,000	128,806	6,361
4. financial companies	66,000	7,706	2,184
5. insurance companies	10,000	88	124
6. non financial companies			
7. other entities			
A.2 Sales of protection with counterparty:	**4,005,412**	**67,729**	**108,675**
1. Governments and Central banks			
2. other public entities			
3. Banks	2,542,264	39,637	63,904
4. financial companies	1,453,148	26,530	44,647
5. insurance companies	10,000	1,562	124
6. non financial companies			
7. other entities			
B. Banking portfolio	**878,000**	**1,967**	**4,390**
B.1 Purchases of protection with counterparty:	878,000	1,967	4,390
1. Governments and Central banks			
2. other public entities			
3. Banks		1,967	
4. financial companies	878,000		4,390
5. insurance companies			
6. non financial companies			
7. other entities			
B.2 Sales of protection with counterparty:	-	-	-
1. Governments and Central banks			
2. other public entities			
3. Banks			
4. financial companies			
5. insurance companies			
6. non financial companies			
7. other entities			
Total 31/12/2006	**5,133,412**	**206,296**	**121,734**
Total 31/12/2005	**2,171,331**	**13,996**	**69,171**

B3. CREDIT DERIVATIVES: NEGATIVE FAIR VALUE - FINANCIAL RISK

(euro '000)

transactions	NA	negative Fair value
Regulatory trading book		
1 Purchases of protection with counterparty:		
1.1 Governments and Central banks		
1.2 other public entities		
1.3 Banks	3,540,807	47,729
1.4 financial companies	1,407,036	18,687
1.5 insurance companies		
1.6 non financial companies		
1.7 other entities		
Total 31/12/2006	**4,947,843**	**66,416**
Total 31/12/2005	**1,638,272**	**35,115**

B4. CREDIT DERIVATIVES - RESIDUAL LIFE-: NV

(euro '000)

transactions	up to 1 year	over 1 yr to 5 yrs	over 5 yrs	Total
A. Regulatory trading book	241,547	6,660,318	3,245,509	10,147,374
A.1 credit Derivatives with qualified reference obligation	212,547	4,870,849	2,257,053	7,340,449
A.2 credit Derivatives with not qualified reference obligation	29,000	1,789,469	988,456	2,806,925
B. Banking portfolio	-	1,001,000	-	1,001,000
B.1 credit Derivatives with qualified reference obligation		1,001,000		1,001,000
B.2 credit Derivatives with not qualified reference obligation				-
Total 31/12/2006	**241,547**	**7,661,318**	**3,245,509**	**11,148,374**

1.3 Liquidity risk

Qualitative information

A. General aspects, liquidity risk management processes and measurement methods

The global profile of structural liquidity is monitored on the basis of the quantification of imbalances, by settlement date, of the cash flows mainly expiring in the first months of the projection horizon.

Specific emphasis is placed on the planning of the Group's funding policies, co-ordinated and managed by the Treasury and Capital Management Area of the Parent Bank, which:

submits the plan of the initiatives to be taken in the financial markets to the Finance Committee for approval, with the objective of achieving the objectives set by the business plan and in accordance with capital management requirements;

coordinates the MPS Group banks' access to domestic and international long-term and short-term capital markets, as welll as access to the European Central Bank re-finance transactions and centralized management of statutory reserves;

makes projections on future liquidity, on the basis of different market scenarios.

Quantitative information

1. TIME BREAKDOWN BY CONTRACTUAL RESIDUAL MATURITY OF FINANCIAL ASSETS AND LIABILITIES

31 12 2006
(euro '000)

Voci/Scaglioni temporali	A vista	Da oltre 1 giorno a 7 giorni	Da oltre 7 giorni a 15 giorni	Da oltre 15 giorni a 1 mese	Da oltre 1 mese fino a 3 mesi	Da oltre 3 mesi fino a 6 mesi	Da oltre 6 mesi fino a 1 anno	Da oltre 1 anno fino a 5 anni	oltre 5 anni
Balance sheet assets									
A.1 government securities	87,988		14,901		11,311	222,296	527,988	398,381	1,137,905
A.2 listed debt securities	317,669	5,441	6,957	339,821	659,406	618,723	185,518	903,191	3,277,466
A.3 other debt securities	311,942	1,441	24	107,123	12,744	66,398	133,055	1,571,998	845,838
A.4 UCITS Quotas	134,315		693,238					2,986	74,841
A.5 loans									
- Banks	3,556,197	1,122,564	289,498	3,108,447	841,189	1,416,017	1,221,042	332,544	7,965,365
- Customers	20,841,142	5,196,523	2,932,693	879,073	2.561,855	5,386,966	5,544,996	20,096,013	31,243,283
Balance sheet liabilities									
B.1 Deposits									
- Banks	4,050,362	1,375,319	4,058,829	340,311	1,303,479	1,417,372	1,114,487	118,575	1,377,535
- Customers	43,517,579	821,236	2,121,228	573,903	1,050,504	183,396	40,261	4,096	1,905,063
B.2 debt securities	2,700,215	75,093	164,930	1,138,345	929,695	1,891,733	3,399,893	20,422,794	9,233,982
B.3 other liabilities	601,194	856,523	809,364	47,217	190,405	120,524	46,793	132,438	1,786,167
off balance sheet transactions									
C.1 financial Derivatives with exchange of principal									
- long Positions	360,071	468,235	4,004,442	34,447	5,827,783	3,049,619	7,376,237	1,120,345	5,782,241
- short Positions	360,071	468,235	4,004,442	34,448	5,827,782	3,049,620	7,376,237	1,120,345	7,188,560
C.2 Deposits and borrowings to be received									
- long Positions	34,188	428,692	2	127	1,908	464	8		1,029,642
- short Positions		23,677	268,742	8,190	17,157	31,578	16,045	100,000	1,288,959
C.3 irrevocable commitments to disburse funds									
- long Positions	153,525	85	226	2,803	18,625	48,801	64,692	246,691	4,664,623
- short Positions	2,329,623	11,683	70,062	7,922					6,368,964

2. DISTRIBUTION OF FINANCIAL LIABILITIES BY BUSINESS SECTORS

(euro '000)

exposures	governments and central banks	other public entities	financial companies	insurance companies	non financial companies	other entities
1. Deposits from customers	1,409,355	1,808,681	2,753,534	274,944	16,536,675	31,303,430
2. Securities in issue	306	185	1,286,322	234	817,759	27,138,965
3. financial liabilities held for trading	1,697,056	29,785	5,202,032	23,612	100,981	9,661,111
4. financial liabilities carried at fair value		38	83,054	134,808	328,753	10,099,246
Total 31/12/2006	3,106,717	1,838,689	9,324,942	433,598	17,784,168	78,202,752

3. DISTRIBUTION OF FINANCIAL LIABILITIES BY GEOGRAPHIC AREA

(euro '000)

exposures	ITALY	OTHER EUROPEAN COUNTRIES	AMERICAS	ASIA	rest of the world
1. Deposits from customers	50,382,253	3,262,443	357,411	46,204	38,309
2. Due to banks	4,610,364	7,981,387	721,374	2,097,839	466,576
3. Securities in issue	24,761,941	2,501,335	1,979,503	95	897
4. financial liabilities held for trading	10,008,551	6,040,036	642,485	2,660	20,845
5. financial liabilities carried at fair value	9,922,709	304,117	418,970		103
Total 31/12/2006	99,685,818	20,089,318	4,119,743	2,146,798	526,730

1.4 Operational risks

Qualitative information

A. General aspects, management processes and methods of measurement of operational risk

The MPS Group implemented an integrated system of operational risk management based on a governance model which involves all banking and financial companies of the MPS Group. This approach defines the standards, methods and instruments which assess risk exposure and mitigation effects for each business area.

The roles and the process are outlined by the internal directive on the "governance and management of operational risks", approved by the Board of Directors on 26 October 2006. The regulations were set in compliance with the qualified requirements for the statutory adoption of the advanced approach, as contemplated by the relevant regulatory regulations.

The advanced approach is designed so as to homogeneously match all major qualitative and quantitative information sources (information or data).

The quantitative component is based on the collection, analysis and statistical modelling of historical loss data. The Group Companies participate in the collection and validation of data, create internal reporting useful for monitoring, take account of the results of risk capital produced by the Parent Bank, convey a culture of proper management of operational risks to their staff.

The qualitative component is focused on the self-assessment of the risk profile of each unit and is based on the identification of relevant scenarios. The Group companies get involved during the stage of identification of own processes and risks, self-assessment of the operating scenario and control system by the process responsibles, identification of any potential losses associated with risk scenarios estimated by the Top Management.

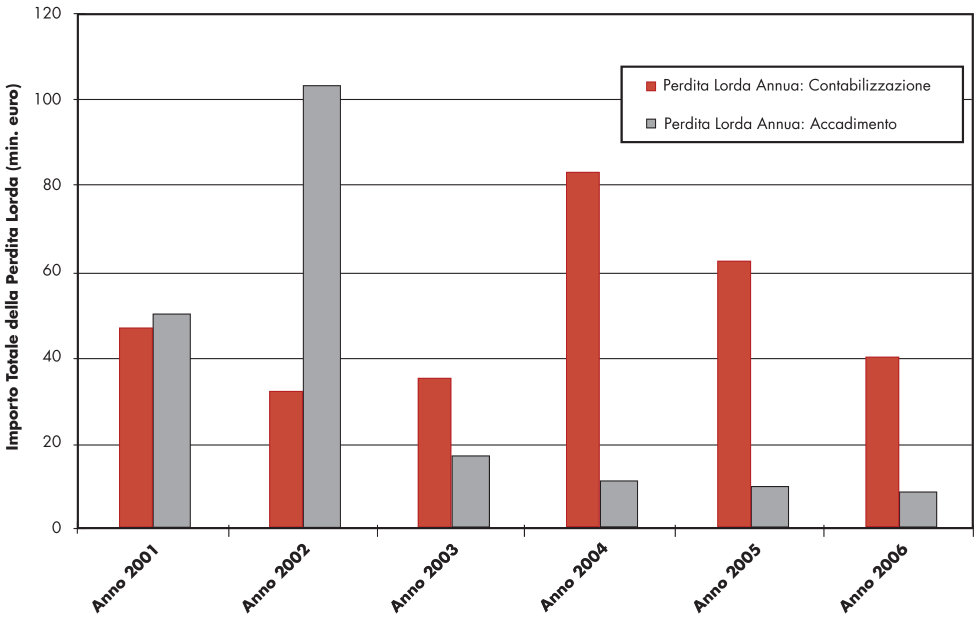
The process ends by identifying the priorities and technical-economic feasibility of mitigation actions.

Quantitative information

In 2006, the Group reported events which occurred before 2003, with a consolidated trend of reduction of risk events.

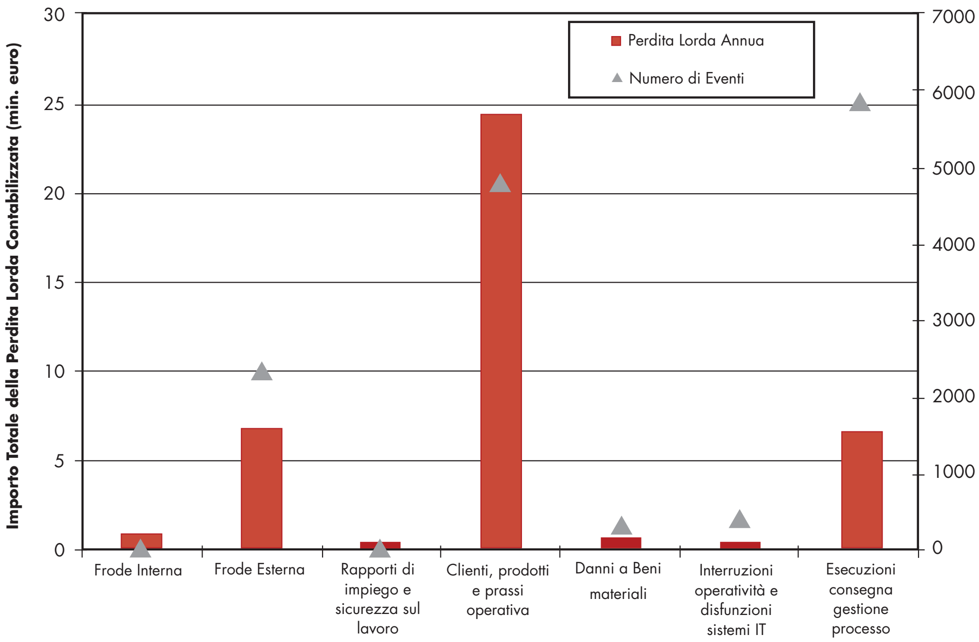
The reduction is concentrated in the category of risk events associated with the improper sale of investments services, thus proving the effectiveness of the organization measures adopted in the last few years (i.e. the review of the cycle of production and product distribution, the development of retail risk management systems and the network awareness of a proper product placement).

The chart below shows such trends. Reported losses do not include the provisions for lawsuits.



Trend of reporting and occurrence of operational losses

The losses reported in 2006 are mainly included in the risk class of "Customers, products and operational practice", where claims and lawsuits concerning past events are indemnified from. The "external fraud" class refers to robberies. Following is a breakdown by type of event.



Breakdown of operational losses

The risk profile is in line with the profiles of other Banking Groups, as confirmed by the benchmarking results with the data of DIPO, an association set up within the Italian Bankers' Association ("Italian Database of Operational Losses").

In a forward looking logic, the Group has identified the major potential risks associated with the development of the operating and regulatory scenario, and the modes of risk mitigations in relation to increasing technological complexity.

On the basis of the analysis of quantitative data, realized losses and the opinions of the Responsibles for corporate businesses, the Group has identified the main criticalities in terms of risk exposures, shared with the Head Offices of all subsidiaries. The results are summarized in the 2007 Management Plan.

The Parent Bank's Risk Committee approved the plan and the main initiatives to be taken in accordance with the operational riskiness of each critical area.

Such organization and IT projects are linked, for instance, with the reduction of operational riskiness in processes such as credit collection and file management (in total, 11 group projects and 3 local projects).

At a consolidated level, as a result of the introduction of a capital requirement on operational risks, the MPS Group is subject to a capital obligation of about EUR 690 million, according to the standard method.

However, the Group's objective is the adoption, as of 1 January 2008, of the advanced approach for capital calculation (so-called AMA). On the basis of internal model estimates, the level of exposure is lower than according to the standard method.

In 2007 the Group will also start the official procedures for the recognition of the advanced approach with the Bank of Italy.

INSURANCE COMPANIES RISKS

On 3 February 2004, Monte Paschi Vita established the Risk Management Unit charged with the task of implementing and maintaining measurement and monitoring management systems of companies risks.

The resolution of the Company's Board of Directors of 17 April 2003 classified the company's risks in the following categories:

- *Investment/financial risks* including market risks, credit risks, liquidity risks in compliance with Circular Letter No. 577/D

- *Insurance risks* subdivided into:

  - demographic risk resulting from life expectancy uncertainties. Of these risks there are three categories:

    - the risk of occasional gaps between the death number and the expected value resulting from normal "fluctuations" of death ratio in portfolio;
    - the risk of system gaps due to a mortality which is structurally different from the expected one (longevity risk);
    - the risk of catastrophe due to an extremely high death ratio caused by exceptional events such as earthquakes, epidemics, wars, etc.

  - reserve risk with particular reference to management costs and to the integration of the financial income guaranteed.

- *Other risks including all risks other than investment and insurance risks such as:*

  - operating risks;
  - risks linked with the membership to a group;
  - legal risks;
  - image risks

Risk management in the MPS Group insurance companies is mainly aimed at identifying risks referred to the interaction between security portfolio assets hedging the commitment of Branch I and Branch V policies and liabilities mainly made up of options of redemption/minimum performance guaranteed in favour of customers.

INSURANCE COMPANIES RISKS – FINANCIAL RISKS

The operating limits of investment risks/financial risks management which is consistent with the Company's specific and strategic goals are approved by the Board of Directors. In particular, the Board decides:

- maximum amounts of sustainable actual or potential losses;
- qualitative limits, such as rating, of credit risk for issuers and other counterparts;
- qualitative limits, such as kinds of securities, of liquidity risks, which are meant as risks concerning what can be liquidated.

Such operating limits are then delegated to the Chief Executive Officer. The Company's organizational structure then provides for some interdepartmental committees.

As far as market risk is concerned, the Board of Directors:

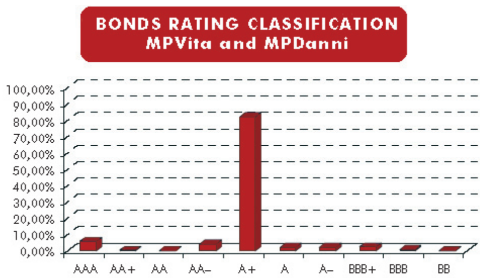
- establishes the Value-At-Risks limits on circulating assets;
- defines the investment portfolio assets;
- identifies the utilization criteria of derivatives and the specific levels of risks to be taken.

As to credit risk the Board of Directors:

- establishes the minimum level of average overall portfolio rating;
- calculates the total percentage of credit risk investments against the total investment amount of the Company;
- determines the maximum exposure towards one single issuer within limits diversified by ratings (concentration risk).

The Company monitors the compliance with these limits through adequate models. The operating activity has steadily expressed values consistent with these limits during the year. As to credit risk, cautious investment policies both in plain and complex credit instruments were adopted.

Hereunder the breakdown by rating of the whole MP Vita and MP Danni bond portfolio is reported, with a market value of EUR 11.6 bn at the end of December 2006.



The investment bond portfolio against the policies of Branch I and Branch V and the assets of the MPS Group insurance companies shows, as of 31 December 2006, investments with investment grade rating(from AAA to BBB-) amounting to 99% of the total amount and with speculative rating (from BB* to C) or NotRated to 0.1% of the total amount.

The average portfolio rating was A+ at the end of 2006.

The company's overall market risks, which are related to a portfolio of financial assets with a value dependent on market conditions (interest rates, share prices) and to the corresponding financial income guaranteed to the insured parties according to the agreements of Branch I and Branch V policies (minimum yearly performance, total or partial redemption with capital and income guaranteed), are monitored through an integrated asset/liabilities risk measurement model implemented in co-operation with the Risk Management Service of the Parent Bank.

The model is based on a representation of the assets portfolio and of the redemption options resulting from the policies and managed in the liabilities.
The risk measures are calculated on monthly basis (VaR 99% 1day and 1 month, duration and interest rate sensitivity) concerning mark-to-market of asset and liabilities and therefore able to quantify the maximum risk levels linked with rational behaviours of the customers (redemption arbitrages, no stickiness).

TOTAL MPV Vita
Risk measurement summary

Date	31-Dec-05	31-Mar-06	30-June-06	30-Sept-06	31-Dec-06
1-day VaR	17.053.497	24.427.048	22.928.107	20.755.454	14.208.477
Exchange	4.735	8.518	343.646	361.661	164.576
Equity	1.869.988	1.987.871	5.929.063	7.280.371	7.364.403
Rate	17.054.336	24.444.703	23.109.276	20.763.497	14.140.906
1-month VaR	71.093.956	86.873.097	92.868.373	86.539.368	56.490.253
Exchange	18.815	33.842	1.674.294	1.681.046	625.069
Equity	6.082.575	6.312.245	34.340.868	41.360.343	48.100.643
Rate	72.987.520	90.077.211	97.793.764	90.384.480	61.151.279
Sensitivity +25bp	-45.762.095	-61.581.496	-64.669.141	-62.866.017	-32.770.274
Duration gap	1,41	1,96	2,19	2,19	1,21

In 2006 the Value-At-Risk (VaR) reported an average value of abt. EUR 84.6mln with a monthly holding period (in 2005 EUR 89.5 mln).
The table shows that the risk position significantly decreased at year's end due to a remarkable change in assets allocation carried out by the insurance companies. The measurement trends show a risk consistent with the company's net worth.

Data as of 31 Dec. 06 in EUR mln

MP Vita

VaR 1g 99%	14.21
VaR 1m 99%	56.49
Sens +25bp	-32.77
Duration gap	1.21

Own account

VaR 1g 99%	1.07
VaR 1m 99%	4.38
Sens +25bp	-3.36
Duration gap	3.18

Separate managements

VaR 1g 99%	13.40
VaR 1m 99%	52.58
Sens +25bp	-29.41
Duration gap	1.13

In order to point out market risks more specifically resulting from the own account positioning against the customers' one, in the following chart main risk measurements are reported with the overall risk measurement matching as of 31 December 2006.

Data as of 31Dec 06 in EUR mln

The overall risk monitoring of the Insurance Companies is regularly submitted to the attention of the Risk Committee of the Parent Bank and is included in the determination process of the Value Based Management and Capital Allocation for the MPS Group insurance sector in full compliance therefore with the provisions concerning the financial groups issued by the Basle Committee and adopted by the Bank of Italy.

Beside this general representation of the market risks the Insurance Companies have a specific VaR limit on the circulating portfolio.

In 2006 these limits, calculated as of 31 December 2006 with a 99% confidence interval and quantified by the Board of Directors amounted to:

– EUR 150 mln for the circulating portfolio linked with the separate managements;

– EUR 10 mln for the circulating portfolio available

The operating activity was steadily consistent with these limits over the year.

As of 31 December 2006 the VaR , calculated according to the above-mentioned criteria, reports values of EUR 65.3 mln and EUR 4.8 mln respectively on the above portfolios.

As to the Danni company the limits amounted to EUR 3 mln in 2006 whereas the drawdown to EUR 0.7 mln as of 31 December 2006.

There is no liquidity risk, since the monitoring carried out in compliance with the 1801 Isvap Decree pointed out that in the next five years all needs will be met with fluctuating rate government bonds.

As to Montepaschi Life, considering the high percentage (abt 98%) of bonds invested in Branch III on the total amount of financial assets the market/credit risk is limited to own bonds consisting mainly of short-term government bonds at fluctuating rate and of temporary and short holding of structured bonds resulting from index-linked sales to customers: the year-end VaR (holding period until 31 December 2006) with 99% confidence interval amounts to abt. EUR 7 mln equal to a yearly volatility of 0.64% (standard deviation).

■ INSURANCE COMPANIES RISKS – INSURANCE RISKS

The Risk Management Unit of the company works out the measurement methods and the relative monitoring techniques of insurance/demographic risks.

– In particular, as to the risk of occasional gaps, a stochastic simulation of risk capital was carried out without taking into account the benefits resulting from the re-insurance. Risk capital amounts to EUR 5.6bn and were computed for each contract calculating the difference between the insured capital in case of death and the actuarial reserve.
  The computed risk measurement is the amount which the company must hold to meet the death risk in a year and was computed as 99° percentile: maximum loss which the company can meet in the 99% of the cases in a year. It was assumed that the deaths are spread according to the Poission breakdown, the drawing of the insured capitals is carried out for any single trajectory according to a sampling without repetition of the population of the insured persons. The risk measurement thus calculated amounts to abt. EUR 18 mln.

– Then a scenario analysis was carried out assuming a 100% - death increasing shock. The resulting risk measurement amounts to abt. EU R 32 mln, Finally, a 50%- death decreasing shock with a resulting risk measurement of abt. EUR 9 mln.

– Currently, the longevity risk is assessed in compliance with the regulations provided for by the ISVAP circular letter (circular letter nr. 343/D of 30 September 1998).

The Risk Management Unit is planning to work out measurement methods and the related monitoring techniques of risk-taking and to this purpose has charged a leading Italian consulting office.

From the point of view of the introduction of the Solvency 2 regulations, the Company took part in the preliminary QIS1 and QIS2 analyses of Ceiops and also intends to participate in the following sessions of such analysis; to this purpose, a consistent internal model of stochastic EV is being implemented also in co-operation with the competent offices of the Parent Bank; such model will also allow to monitor company's risks more efficiently.

PART F
INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1

Net Equity

A. QUALITATIVE INFORMATION
B. QUANTITATIVE INFORMATION

Section 2

Capital and ratios for regulatory purposes

2.1 BANKING CAPITAL FOR REGULATORY PURPOSES

1. QUALITATIVE INFORMATION

The capital for regulatory purposes and net equity ratios are computed on the basis of financial statements values calculated applying the IAS/IFRS international accounting standard IAS/IFRS and taking into account regulatory instructions issued by the Bank of Italy with the latest updating of Circular Letter no. 155/91 "Instructions in how to draw up reports on capital for regulatory purposes and prudential ratios". The capital for regulatory purposes is calculated by adding positive and negative components according to the quality of their capital. Positive components must be fully available to the bank so that they can be used in capital absorption calculations.

The capital for regulatory purposes is made up of Tier I Capital and Tier II Capital net of a few deductions; in particular:

Tier I capital includes the paid in capital, issue-premiums, profit and capital reserves, innovative capital instruments and the profit of the financial period net of own portfolio shares, of intangible assets including goodwill as well as of losses, if any, registered in the previous financial statements and in the current one;
Tier II capital includes valuation reserves, capital adequacy hybrid instruments, subordinated liabilities net of doubtful outcomes on country risk loans and other negative elements.

Equity investments and other items such as innovative capital instruments, hybrid capital instruments and subordinated assets, issued by banks, financial institutions and insurance companies are deducted from Tier I capital and Tier II capital.

The latest instructions of the above-mentioned Circular Letter are aimed at achieving compliance of determination criteria of capital for regulatory purposes and of ratios with the international accounting standards.
In particular, they provide for the so-called prudential filters mentioned by the Basle Committee to rule the criteria, domestic supervisory authorities must comply with to standardize statutory rules with the new financial statements principles.

Prudential filters aim at safeguarding the quality of the capital for regulatory purposes and reducing any potential volatility resulting from the application of the new principles; they are amendments of accounting data before their use for regulatory purposes. In particular, with reference to the most relevant aspects for Banca Monte dei Paschi di Siena, new rules provide that:

- as to financial assets held for trading, both unrealized capital gains and capital losses recorded in the profit and loss account are fully relevant;
- as to financial assets available for sale, unrealized capital gains and capital losses are

recorded after clearing in a specific net equity reserve; if the balance of this reserve is negative, it reduces Tier I capital, if positive, it supplies a 50% contribution to Tier II capital;

- as to hedging transactions, unrealized capital gains and capital losses on cash flow hedging, recorded in the special net equity reserve are frozen while no prudential filter is applied to fair value hedging;
- as to fair value option liabilities of natural hedge both unrealized capital gains and capital losses recorded in the profit and loss account are fully relevant except for the component due to changes in its creditworthiness;
- equity investments held in insurance companies are deducted from Tier I capital and Tier II capital;
- the participation in the Bank of Italy net equity is not taken into account in the net equity computation.

According to the regulatory instructions, the Bank's net equity must amount to at least 8% of the total weighted assets (total capital ratio), in relation to the credit risk profile, assessed according to the category of debtors, to the period of validity, to the country risk and to the guarantees obtained.

Banks must also comply with the capital requirement linked with intermediation: these market risks are computed on the whole portfolio held for trade for regulatory purposes by each kind of risks separately, position risk on debt and capital securities, settlement risk, counterpart risks and concentration risk. With reference to the whole financial statements, it is also necessary to calculate forex risk and the position risk on goods.

In the following tables, main contract features of innovative instruments are reported which are included in the computation of Tier I capital with capital and reserves as well as the features of the hybrid instruments of capital adequacy and subordinated liabilities which are included in Tier II capital. Subordinated loans are not included in the computation of Tier II capital but are deducted from capital requirements on market risks.

1. Tier I capital

Main characteristics of the instruments included in the computation of Tier I capital are hereunder reported and in particular of innovative capital instruments issued by the Bank:

Preference share total and capital instruments (Tier I)

Characteristics of subordinated instruments	Interest rates	step up	Issue date	Expiry date	Advanced repayment starting froml	Currency	Original amount in currency unit	Contribution to the capital for regulatory purposes (EUR mln))
F.R.E.S.H. (Floating Rate Exchangeable Subordinated Hybrid) - subordinated deposit			31 12 2003	N.A.		EUR	700.000.000	682
Preference share total and capital instruments (Tier I)								**682**

The instruments are perpetual, neither repayment clauses nor step-up clauses are provided for, however they are convertible into shares. In September of each year from 2004 to 2011 the instruments are convertible on initiative of the investor. There is also an automatic conversion clause if after the seventh year from the issuing the reference price of ordinary shares exceeds a pre-defined value.
The return is not cumulative with the option of not paying the return itself if in the previous financial year the Bank did not have any distributable profit and/or did not pay any dividend to the shareholders. The unpaid return is considered definitely lost.
The rights of the holders of the instruments are guaranteed on a subordinated basis. In case of liquidation of the Bank the rights of the investors will remain subordinated against the rights of all BMPS creditors not equally subordinated, including the holders of securities of Tier II capital; however they will have priority against the rights of BMPS shareholders. Due to these features the instruments can be computed in Tier I core. The structure provided for the establishment of a limited liability company and of a business trust which issued convertible preferred securities and convertible trust securities, respectively. The Bank underwrote an on-lending contract as a contract of subordinated deposit. The conditions of the on-lending contract are substantially the same as the conditions of convertible preferred securities.

B. QUALITATIVE INFORMATION

	31 12 2006	31 12 2005 (euro '000)
A. Tier I before solvency filtersli	**6,524,022**	**5,985,567**
sovency filters of Tier Ie		
- positive IAS/IFRS solvency filters i	32,778	25,175
- negative IAS/IFRS solvency filters	(7,301)	
B. Tier I after solvency filters	**6,549,499**	**6,010,742**
C. Tier II before solvency filters	**3,640,073**	**3,187,542**
sovency filters of Tier II		
- positive IAS/IFRS solvency filters		
- negative IAS/IFRS solvency filters	(18,080)	(93,750)
D. Tier II after solvency filters	**3,621,993**	**3,093,792**
E. Total Tier I and Tier II after solvency filters	**10,171,492**	**9,104,534**
Elements to be deducted from total Tier I and Tier II	(1,364,575)	(1,352,038)
F. capital for regulatory purposes	**8,806,917**	**7,752,496**

As of 31 December 2006, the MPS Group capital for regulatory purposes, calculated in compliance with the effects resulting from the application of the IAS/IFRS international accounting standards and the filters provided for by the regulatory authorities, stood at about EUR 8,806.9 mln. Tier I capital and its components were positively influenced by the capitalization of profits for the year. Tier II capital increased mainly as a consequence of the issue of Upper Tier II subordinated loans during the first half of 2006. The elements to be deducted are in line. For entirety of information, after the purchase of the majority interest in Santorini, the company was consolidated totally as of 31 December 2006 and is no longer included in the elements to be deducted. However, the value of the insurance companies deducted from capital for regulatory purposes increased.

2.3 CAPITAL ADEQUACY

A. QUALITATIVE INFORMATION

B. QUANTITATIVE INFORMATION

values	non weighted amounts		weighted amounts/requirements	
	31 12 2006	31 12 2005	31 12 2006	31 12 2005
A. Risk assets				
A.1 credit risk	181,137,381	160,846,935	88,802,666	79,814,366
standard method				
cash assets	111,590,173	100,035,660	83,724,436	75,400,667
1. exposures (other than equity instruments and other subordinated assets) to (or guaranteed by):	77,752,049	70,913,862	63,913,890	58,678,300
1.1 Governments and Central banks	-	175		
1.2 public entities	7,711,933	7,265,905	639,841	660,529
1.3 Banks	8,423,757	7,108,774	1,777,333	1,588,684
1.4 other entities(other than mortgage loans on residential and non proprieties)	61,616,359	56,539,008	61,496,716	56,429,087
2. mortgage loans on residential property	18,124,076	15,126,585	9,062,038	7,563,293
3. mortgage loans on non residential property	6,209,563	3,891,003	6,209,563	3,891,003
4. shares, equity investments and subordinated assets	1,140,537	1,828,856	1,218,258	1,850,631
5. other cash assets	8,363,948	8,275,354	3,320,687	3,417,440
off-balance sheet assets	72,220,186	63,032,372	7,687,748	6,581,178
1. guarantees and commitments with (or guaranteed by):	71,796,711	62,346,331	7,588,945	6,434,863
1.1 Governments and Central banks				
1.2 public entities	3,259,946	1,637,942	42,630	54,410
1.3 Banks	13,746,138	14,368,222	253,316	193,334
1.4 other entities	54,790,627	46,340,167	7,292,999	6,187,119
2. derivative contracts with (or guaranteed by):	423,475	686,041	98,803	146,315
2.1 Governments and Central banks				
2.2 public entities				
2.3 Banks				
2.4 other entities	423,475	686,041	98,803	146,315
doubtful results	(2,672,978)	(2,221,097)	(2,609,518)	(2,167,479)
1. doubtful results	(2,672,978)	(2,221,097)	(2,609,518)	(2,167,479)
B. solvency requirements				
B.1 credit risk			7,104,213	6,385,149
B.2 market risk			694,994	711,250
1. standard method	x	x		
of which:				
- position risk on debt securities	x	x	467,494	512,032
- position risk on equity securities	x	x	99,730	74,135
- exchange risk	x	x	13,042	18,382
- other risks	x	x	114,728	106,701
2. Modelli interni	x	x		
of which:				
- position risk on debt securities	x	x		
- position risk on equity securities	x	x		
- exchange risk	x	x		
B.3 other solvency requirements	x	x	219,725	294,306
B.4 Total solvency requirements(B1+B2+B3)	x	x	8,018,932	7,390,705
C. risk assets and solvency requirements	x	x		
C.1 risk weighted assets	x	x	100,236,654	92,383,816
C.2 (Tier 1 capital ratio)	x	x	6.53	6.51
C.3 (Total capital ratio)	x	x	9.48	9.16

The MPS Group total weighted risk assets as of 31 December 2006 came to EUR 100.237 bn approx., with a considerable growth with respect to the end of 2005. This determined an increase of EUR 628 mln in total prudential requirements. This increase was fully recorded under weighted assets by credit risk which progressed by EUR 8,988.3 mln. The capital requirement for market risks and the other capital requirements declined with respect to 31 December 2005. Loans to the private sector, especially residential housing loans (+ EUR 1.5 bn approx.), non-residential mortgage loans (+ EUR 2.3 bn) and other retail loans (+EUR 5.1 bn), progressed more remarkably.

Guarantees and commitments to the private sector advanced (+ EUR 1.1 bn), with equity investments decreasing due to the sale of Assicurazioni Generali, BNL, Fiat, Farmafactoring, in compliance with the objectives of the strategic plan. Capital ratios improved (Tier I ratio by about 3 bp and the Total risk ratio by 32 bp).

PART G
BUSINESS COMBINATIONS

Section 1

Business combinations achieved during the year

1.1 BUSINESS COMBINATIONS

During the year of 2006 no significant business combinations were completed outside the Group.

Section 2

Business combinations achieved after December 31, 2006

2.1 BUSINESS COMBINATIONS

name	transaction date	(1)	(2)	(3)	(4)
1.					
2.					
3.					

(1) Cost of transaction
(2) Purchased stake (%) with voting rights in the shareholders' meeting
(3) group earnings
(4) net profit/loss of the group

PART H
RELATED-PARTY TRANSACTIONS

1. DETAILS OF DIRECTORS', AUDITORS' AND TOP MANAGERS' COMPENSATION (KEY MANAGEMENT PERSONNEL)

(euro'000)

account	Total 31 12 2006	Total 31 12 2005
short term benefits	16,478	4,083
post retirement benefits		
other long term benefits		
termination benefits	8,918	
share based payment		
other compensation		
Total	**25,396**	**4,083**

2 INFORMATIONS ON THE RELATED PARTY TRANSLATIONS

2.A TRANSACTIONS WITH SHAREHOLDERS'

31 12 2006
(euro '000)

account	Contrallante	Controllanti congiunte/Entità che esercitano influenza notevole	Incidenza
Total financial assets			
Total financial liabilities			
Total interest earned			
Total interest paid			
guarantees given			
guarantees received			

2.B OPERAZIONI CON I DIRIGENTI CON RESPONSABILITÀ STRATEGICHE ED ALTRE PARTI CORRELATE

31 12 2006
(euro '000)

account	key management personnel	other correlated parties	Incidenze
Total financial assets	1.017	12.379	0,01
Total financial liabilities	925	20.348	0,02
Total variable cost	25.396		
guarantees given			
guarantees received	2.470	25.351	

PART I

PAYMENT AGREEMENTS BASED ON OWN CAPITAL INSTRUMENTS

PAYMENT AGREEMENTS BASED ON OWN CAPITAL INSTRUMENTS

As one of the major features of the Supplementary Corporate Labour Contract for 2006 in relation to the Professional Areas and the Managerial Categories of the Parent Bank and the concerned subsidiaries, a portion of the Corporate Bonus – calculated on the basis of the budget objectives achieved– is expected to be disbursed as stock granting, through the free assignment of ordinary shares of BMPS S.p.A., graded according to the professional areas, levels and categories. Said disbursement also concerns the Executives. This instrument aims at increasing the staff motivation in the achievement of corporate objectives and enhancing staff involvement.

Stocks are granted to employees through the buy back instrument as an alternative to the share capital increase, taking into account that according to the current regulations (s. art. 51 the Consolidation Act on Income Tax) free granting to the staff of stock which are necessarily of new issue is allowed.

The number of shares to be granted is calculated considering, as reference unit value of the share, the arithmetic mean of the prices of the Banca Monte dei Paschi di Siena S.p.A ordinary share quoted on the stock exchange in the month before the stock granting, i.e. in the period between the stock granting date and the same date of the previous calendar month.

The charge corresponding to the value of the shares assigned to the employees is posted to the profit and loss statement of the year of accrual, under personnel expenses. The total cost allocated for 2006 amounted to EUR 53,800,000.

REPORT OF INDIPENDENT AUDITORS