Banca Intesa

CONSOLIDATED REPORT AS AT 31ST MARCH 2006

This is an English translation of the Italian original "Relazione consolidata al 31 marzo 2006" and has been prepared solely for the convenience of the reader.

The version in Italian takes precedence and will be made available to interested readers upon written request to
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Consolidated report as at 31st March 2006

Banca Intesa S.p.A.
Registration number on the Milano Company Register and Fiscal Code 00799960158 Share capital 3,596,249,720.96 euro fully paid-in Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund, included in the National Register of Banks No. 5361 and Parent Company of "Gruppo Intesa", included in the National Register of Banking Groups.

Contents

Board of Directors, General Management, Board of Statutory Auditors and Independent Auditors

Board of Directors

Chairman	*	Giovanni BAZOLI
Deputy Chairmen	*	Giampio BRACCHI
		René CARRON
Managing Director and Chief Executive Officer	*	Corrado PASSERA
Directors		Giovanni ANCARANI
		Francesco ARCUCCI
		Benito BENEDINI
		Antoine BERNHEIM
		Jean Frédéric DE LEUSSE
		Gilles DE MARGERIE
		Alfonso DESIATA
	*	Ariberto FASSATI
	*	Giancarlo FORESTIERI
		Paolo FUMAGALLI
		Giangiacomo NARDOZZI
		Georges PAUGET
		Eugenio PAVARANI
		Giovanni PERISSINOTTO
		Ugo RUFFOLO
		Gino TROMBI

** Members of the Executive Committee*

General Management

General Manager	Corrado PASSERA

Board of Statutory Auditors

Chairman	Gianluca PONZELLINI
Auditors	Rosalba CASIRAGHI
	Paolo Andrea COLOMBO
	Franco DALLA SEGA
	Livio TORIO

Independent Auditors RECONTA ERNST & YOUNG

Gruppo Intesa – Financial highlights and financial ratios (°)

	31.03.2006	31.03.2005	% changes
Statement of income (in millions of euro)			
Net interest income	1,344	1,283	4.8
Net fee and commission income	1,012	911	11.1
Profits (Losses) on trading	364	188	93.6
Operating income	2,753	2,423	13.6
Operating costs	-1,331	-1,271	4.7
Operating margin	1,422	1,152	23.4
Net adjustments to loans	-194	-187	3.7
Net income	751	620	21.1

	31.03.2006	31.12.2005	% changes
Balance sheet (in millions of euro)			
Loans to customers	177,168	169,588	4.5
Financial assets / liabilities held for trading	34,462	29,819	15.6
Financial assets available for sale	4,533	4,379	3.5
Investments	8,869	9,188	-3.5
Total assets	279,067	273,761	1.9
Direct customer deposits	187,887	187,777	0.1
Indirect customer deposits	307,275	287,800	6.8
of which assets under management	*59,156*	*59,045*	*0.2*
Net interbank position	-14,559	-4,576	
Shareholders' equity	15,985	16,705	-4.3

	31.03.2006	31.12.2005	changes amount
Operating structure			
Number of employees	57,927	57,484	443
- Italy	*42,391*	*42,062*	*329*
- Abroad	*15,536*	*15,422*	*114*
Number of branches	3,879	3,851	28
- Italy	*3,123*	*3,106*	*17*
- Abroad	*756*	*745*	*11*

(°) Figures from the reclassified statement of income and reclassified balance sheet as described in the report on operations.

	31.03.2006	31.12.2005	31.03.2005
Balance sheet ratios (%)			
Loans to customers / Total assets	63.5	61.9	——
Investments [(a)] / Total assets	3.2	3.4	——
Direct customer deposits / Total assets	67.3	68.6	——
Assets under management / Indirect customer deposits	19.3	20.5	——
Statement of income ratios (%)			
Net interest income / Operating income	48.8	53.3	53.0
Net fee and commission income / Operating income	36.8	37.6	37.6
Operating costs / Operating income	48.3	54.7	52.5
Net income / Average total assets (ROA) [(b)]	1.1	1.1	0.9
Net income / Average shareholders' equity (ROE) [(c)]	19.1	22.3	18.4
Adjusted net income / Adjusted average shareholders' equity (adjusted ROE) [(d)]	19.4	24.8	18.7
Economic Value Added (E.V.A.) [(e)] (in millions of euro)	396	——	318
Risk ratios (%)			
Net doubtful loans / Loans to customers	0.8	0.7	——
Cumulated adjustments on doubtful loans / Gross doubtful loans to customers	68.6	69.2	——
Capital at Risk (C.a.R.) [(f)] - average for the period (in millions of euro)	39.0	25.6	——
Capital at Risk (C.a.R.) [(f)] - period-end (in millions of euro)	36.8	36.6	——
Capital ratios (%) [(g)]			
Tier 1 capital [(h)] net of preference shares / Risk-weighted assets (Core Tier 1)	7.01	7.10	——
Tier 1 capital [(h)] / Risk-weighted assets	7.83	7.94	——
Total capital [(i)] / Risk-weighted assets	10.66	10.34	——
Risk-weighted assets (in millions of euro)	194,988	190,038	——
Basic earnings per share (basic EPS) [(l)] **- euro**	**0.464**	**0.470**	——
Diluted earnings per share (diluted EPS) [(m)] **- euro**	**0.464**	**0.469**	——

[(a)] Investments include investments held to maturity, investments in associates and companies subject to joint control, property, equipment and intangible assets.

[(b)] Figure for the period has been annualised.

[(c)] Ratio between net income and weighted average of share capital, share premium reserve, reserves and valuation reserves. Figure for the period has been annualised.

[(d)] Ratio between net income inclusive of the change in the period in valuation reserves on assets available for sale and weighted average of share capital, share premium reserve, reserves and valuation reserves (excluding the aforementioned change in valuation reserves on assets available for sale). Figure for the period has been annualised.

[(e)] The indicator represents the economic value generated in the period in favour of shareholders, since it is the portion of net income for the period which remains after having remunerated shareholders' equity via the cost of capital. The latter represents the opportunity cost and is determined using the Capital Asset Pricing Model.

[(f)] The indicator probabilistically measures, in terms of average or period-end figures, market risks of the trading portfolio defined as the sum of Value at Risk (VaR) in time-series simulation, delta-gamma-vega VaR (DGV) and correlated and non-correlated simulations on illiquid parameters, using a 99% confidence level and 1 working-day holding period.

[(g)] Figures for 2005 have not been restated to consider the change in the consolidation area.

[(h)] Paid-in share capital, share premium reserve and reserves and retained earnings minus treasury shares, goodwill, intangible assets and after the application of so-called "prudential filters" set out by supervisory regulations.

[(i)] Tier 1 capital plus eligible subordinated liabilities, valuation reserves, with the application of so-called "prudential filters", net of equity investments as set out by supervisory regulations.

[(l)] Net income attributable to holders of ordinary shares compared to the weighted average number of ordinary shares outstanding. Figure for the period has been annualised.

[(m)] The dilutive effect is connected to the issue of ordinary shares following the potential exercise of all the stock options set out in the relevant assignment plan. As for the previous indicator, figure for the period has been annualised.

Gruppo Intesa – Financial highlights and financial ratios by business area (°)

Statement of income (in millions of euro)	Retail Division		Italian Subsidiary Banks Division		International Subsidiary Banks Division		Corporate Division and B.I. Infrastrutture e Sviluppo	
	31.03.2006	31.03.2005	31.03.2006	31.03.2005	31.03.2006	31.03.2005	31.03.2006	31.03.2005
Operating income	1,384	1,308	428	385	290	248	540	435
Operating costs	-706	-686	-196	-186	-153	-132	-203	-201
Operating margin	678	622	232	199	137	116	337	234

Balance sheet (in millions of euro)	Retail Division		Italian Subsidiary Banks Division		International Subsidiary Banks Division		Corporate Division and B.I. Infrastrutture e Sviluppo	
	31.03.2006	31.12.2005	31.03.2006	31.12.2005	31.03.2006	31.12.2005	31.03.2006	31.12.2005
Loans to customers	82,555	81,160	26,545	25,472	12,268	11,947	51,124	46,896
Direct customer deposits	74,773	76,577	26,128	26,222	13,657	13,336	36,179	37,187
Allocated capital	4,955	4,680	1,640	1,485	884	713	3,407	3,067

Statement of income ratios (%)	Retail Division		Italian Subsidiary Banks Division		International Subsidiary Banks Division		Corporate Division and B.I. Infrastrutture e Sviluppo	
	31.03.2006	31.03.2005	31.03.2006	31.03.2005	31.03.2006	31.03.2005	31.03.2006	31.03.2005
Operating costs / Operating income	51.0	52.4	45.8	48.3	52.8	53.2	37.6	46.2
Income (Loss) before tax from continuing operations / Allocated capital	46.2	49.7	49.4	49.3	50.8	54.8	39.8	24.2
Economic Value Added (E.V.A.) (in millions of euro)	259	275	75	71	58	53	125	45

(°) Figures from the reclassified statement of income and reclassified balance sheet as described in the report on operations.

(a) Figures for the period have been annualised.

Gruppo Intesa in the first quarter of 2006 and the Business Plan Executive summary

Gruppo Intesa in the first quarter of 2006

In the first quarter of 2006 Gruppo Intesa gave a considerable impulse to revenues, the growth of which is a primary objective of the new Business Plan.
After having completed the process aimed at restructuring the Bank and rationalising the Group, significantly curtailing operating costs and selling non-strategic assets, the commitment is now on developing operations and increasing volumes, through two different growth drivers: one internal, with the fidelisation of customers and the search of new relations, the improvement in service quality and the launch of new products. The external driver, instead, leads to acquire medium-small enterprises in Italy and abroad and, should the necessary preconditions recur, to the integration with larger entities.

The strategic guidelines announced, are confirmed by the results achieved in the last three months and by the performance of various statement of income components.
Operating income recorded a 13.6% increase with respect to the same period of the previous year. Profits on trading was particularly significant and almost doubled the figure for the corresponding quarter of the previous year, as the direct result of the positive evolution of interest rates and operating decisions, which privileged trading in financial instruments.
Net fee and commission income was also substantial and exceeded one billion euro, thus realising an over 11% increase, especially thanks to the positive trend of placement of insurance policies, debt securities and mutual funds.
The considerable growth of revenues enabled to more than absorb the increase in structure costs and improve by 23.4% operating margin, which reached 1,422 million euro.
Within costs, personnel expenses recorded a 3.8% increase, also attributable to the growth strategies of the international network. Administrative expenses also rose, especially in the cost components related to the development of products and services, and adjustments related to the increase in investments.
Instead, net adjustments to loans was practically stable (+7 million euro compared to the first quarter of 2005) and other income components had a marginal impact. Income before tax from continuing operations almost equalled 1,200 million euro (+21.4%) and consequently the tax charge was also higher.
Net income amounted to 751 million euro, compared to 620 million euro of the first quarter of 2005 (+21.1%).
EVA (Economic Value Added), which basically measures value creation resulting from the difference between return on and cost of capital employed, reached 396 million euro, up by 78 million euro with respect to the first quarter of 2005.
The comparison of figures for the first three months of 2006 with those of the last quarter of 2005 shows other equally positive elements: operating income increased by over 300 million euro (+12.5%), operating costs decreased by almost 150 million euro (approximately -10%), operating margin therefore recorded a 450 million euro progress (+46.6%). Net adjustments and, especially, provisions for risks and charges were practically halved, after the prudential strengthening recorded at the end of 2005.
The comparison between the two quarters is not consistent considering the subsequent components, because the last period of last year had benefited from the capital gain on the disposal of Nextra, which had occurred under a participation exemption regime and significantly impacted on income (loss) before tax from continuing operations, tax charges and net income for the period.

Consolidated balance sheet aggregates as at 31st March 2006 highlighted, with respect to figures at the end of 2005, a 4.5% growth rate in loans to customers to 177 billion euro and a 4.2% increase in customer deposits under administration, that almost reached 496 billion euro. In this area, direct customer deposits confirmed, with 188 billion euro, the good levels achieved at the end of 2005, while an appreciable progress was made by indirect customer deposits,

following the expansion of assets under administration and in custody (+8.5%) and stable assets under management.
Capital ratios as at 31st March 2006 were as follows: Total capital ratio, 10.66%, Tier 1 ratio, 7.83% and Core tier 1 ratio, 7.01%.

The 2005 – 2007 Business Plan

As already underlined, operations development and the results achieved in the first three months of 2006 were consistent with the targets set out in the 2005 – 2007 Business Plan, whose realisation will enable Banca Intesa to compare with the best European banks. It sets out, as is generally known, ambitious but credible targets, characterised by the key focus on the strategic value of sustainability, intended as the precondition for sound growth and effective value creation in the long term.
In line with the targets set out in the Plan, net revenues recorded a positive trend in the first quarter of 2006 (+13.6% compared to a target set out in the Plan of 7.4% average annual growth rate for the three years), and annualised ROE amounted to 19.1% with a 70 b.p. improvement compared with the same period of the previous year.
As indicated in the new Business Plan, the ***Retail Division*** strengthened the contents and the objectives of its corporate mission, which revolves around three main strategic elements: i) guaranteeing individuals an excellent service level via extensive assistance in valuation, selection and purchase of products and services suited to meet their investment and funding needs with transparent terms, ii) supporting the creation and development of new small and medium-sized ventures promoting innovation, entrepreneurial spirit, social and environmental sustainability, and iii) developing economic local communities.
In the first quarter of 2006, new activities commenced in view of a progressive consolidation of the positive results achieved in 2005. In the pursuit of such objective utmost attention was paid to the search for excellence in relations with customers, to be reached via an ever-increasing attention to service quality combined with a complete range of products, increasingly-characterised by innovation and high value added features.
In the retail market the first quarter of 2006 saw the strengthening of the success of the products of the Intesa Rata Sicura range, which enables holders of retail floating rate mortgages to hedge interest rate rises. As concerns long-term lending, the range of Intesa Soluzioni Casa mortgages was expanded with the introduction in January of Intesa Mutuo Atipico, a new type of loan which enables also temporary workers to finance the purchase of their first home; this product was presented in an advertising campaign launched last March and centred on certain of our key products present on the market (ContoIntesa, PrestIntesa, Intesa Per Domani), which wants to affirm Banca Intesa's will to be close to people by perceiving their needs – also the newest ones, which derive from the changes under way in society – and providing increasingly-effective responses.
In effect, in this first part of the year the positive trend of the sale of loans continued, with a 17% increase with respect to the same period of 2005, while assets under management registered the strong appreciation of Intesa Garanzia Attiva as well as the launch of the new product Premium Power, the new fund of funds with flexible management which has a more ambitious total return objective and a longer time horizon. In the bancassurance sector the development of the Index Linked offering continued (launch of 8 issues, up by 25% with respect to the first quarter of 2005) and, lastly, as part of activities in support of Small Business customers noteworthy was the launch in the first quarter of 2006 of Intesa eBusiness, Banca Intesa's solution for businesses which want to use the e-Commerce channel to expand their activities. Intesa eBusiness was developed in partnership with the main players in the eCommerce market: eBay (on-line shopping mall), Tiscali (ADSL connectivity), DHL (logistics).
The SMEs market achieved significant performances in the period as concerns both loans and services to SMEs, particular attention was paid to initiatives aimed at favouring and supporting the establishment and growth of new entrepreneurial ventures. To sustain performance in 2006, and testify constant commitment in supporting competitiveness and innovation capabilities of companies and the entire Italian economic system, certain important initiatives were launched in the quarter, both for SMEs and Small Businesses together and also specific for each of these segments. The most significant initiatives for both segments were: the launch of IntesaBrand, the first offering in Italy of financial and professional services addressed to SMEs for the development of the brand and of marketing policies, which will accompany companies in

the valorisation and advanced management of the brand; the new financing offering launched in partnership with the Eurofidi consortium that will provide privileged access to medium-term loans; as concerns the improvement in relations with customers, the organisation of technical-training seminars on documentary credits and international guarantees, dedicated to entrepreneurs who are members of Category associations. For Small Businesses, Banca Intesa launched "Soluzioni per l'agricoltura" (solutions for agriculture), the complete package of products and services tailored to meet the needs of agricultural companies and farmers, that represents an innovative way of managing the requirements of the entrepreneurs of this sector, by proposing specific solutions for each production chain.

The ***Corporate Division*** continued in the implementation of projects connected to the new Business Plan and aimed at supporting, in the medium- and long-term, the growth and success of its reference customers and to build long-lasting relations.
In line with these objectives, the first results of the Division highlighted a rise in volumes of loans to customers and an improvement in asset quality, also thanks to the adoption of pricing and lending policies directly related to the rating of the counterparty.
In particular, in the Mid Corporate segment a relaunch strategy of the whole area commenced based on the valorisation of the relation, to be achieved via the analysis of specific needs and an offering combining traditional and specialised services.
Instead, with reference to capital market and investment banking products, an action on high-potential customers was activated which redefines the whole sales process with the purpose of integrating the structures and increasing the synergies between relationship managers and product desks: the progressive growth in the number of deals closed by Structured finance (especially as concerns Leveraged Finance and Real Estate) and Capital Markets (the economic return of products related to interest rate and foreign exchange risk mitigations greatly exceeded the corresponding period of 2005) underlines the success of the new commercial approach.
Merchant banking activities were of high strategic importance in terms of both economic and balance sheet results and for the role of partner which the Bank plays either following direct customer requests or in the cases of corporate turnarounds.
Lastly, consistently with the inspiring principles of the Business Plan, the objectives of the Division are pursued always keeping in mind the need to pay utmost attention to the peculiarities of products offered to customers and the respect of transparency as concerns risk aspects.

For the ***Italian Subsidiary Banks Division***, made up of the subsidiaries which carry out retail banking activities (Cariparma, FriulAdria, Banca di Trento e Bolzano, Cassa di Risparmio di Biella e Vercelli and the Saving Banks in Central Italy), the Plan sets the objective of developing the local banks via a significant penetration in reference territories, conserving, always within the Group's strategy, proximity to local institutions and privileged and long-term relationships with households and local entrepreneurs.
In line with this objective, and consistently with the realisations of the other Divisions, the development of new services and products with high value added features and/or with innovative elements continued. In particular, in the first quarter of 2006 the following products were introduced: bonds and life insurance policies dedicated to specific segments (corporate and private), new forms of individual portfolio management schemes, new CAAM/NEXTRA funds, insurance policies to cover the person and goods, insurance policies to cover existing mortgaged loans and for which an intense commercial action continues. The main objective of acquiring new customers and satisfying existing customers was pursued via the opening of new branches (3 branches, in addition to the 14 branches opened in 2005, and compared to the 54 set out in the plan) and the launch of the customer satisfaction project to intensify the relationship with customers. Agreements were stipulated with Category associations and more competitive current accounts were launched which have interesting features for the customer such as: reduction of the cost as the number of services increases, high return (ContoInsieme, ExtraConto, Conto Io), satisfaction of specific needs (e.g. accounts for free-lance professionals).
In order to better pursue these objectives, the role of employees was also valorised via merit-oriented incentive systems, the definition of new training programmes, the optimisation of support tools and the development of the sense of belonging.

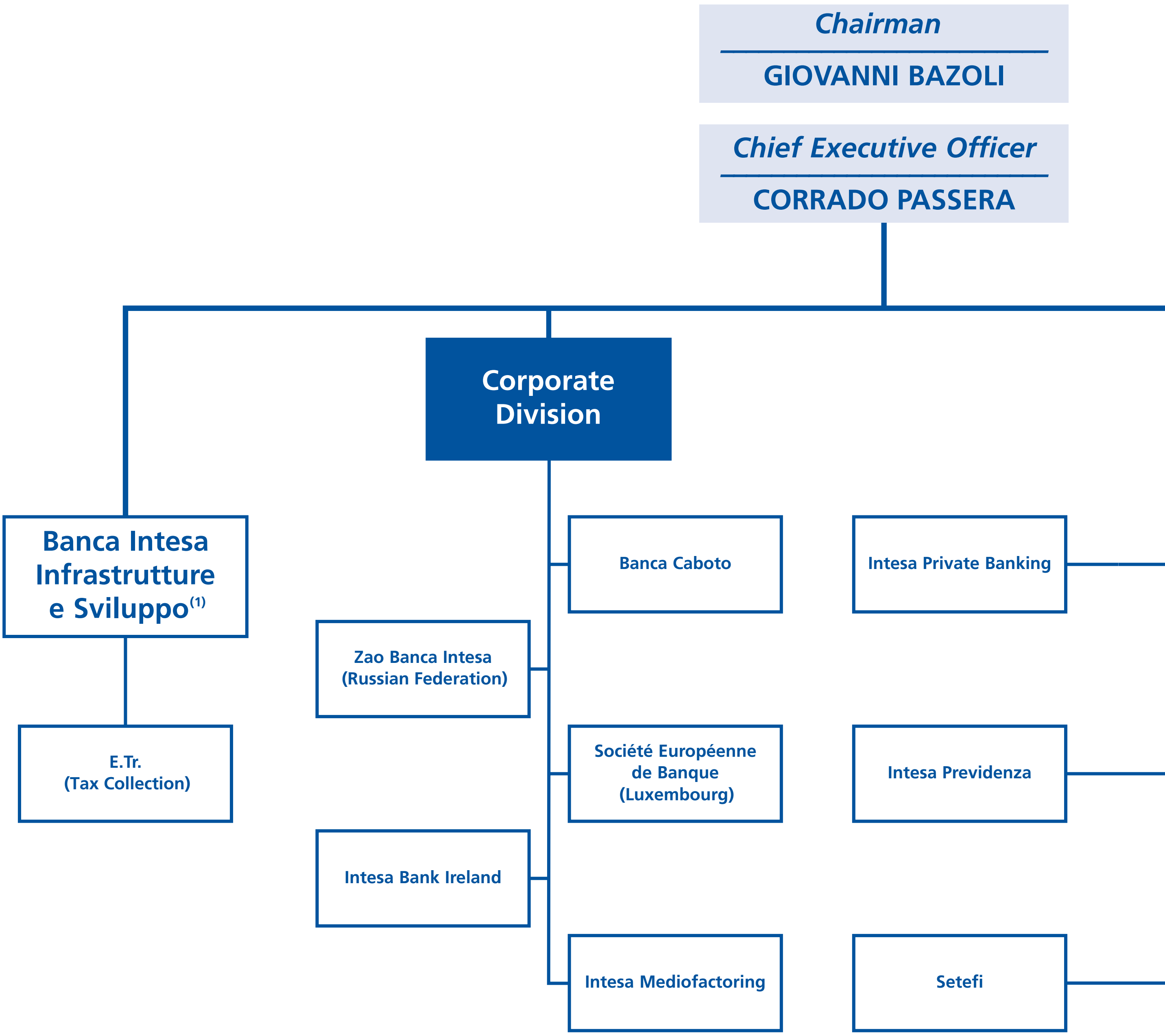
The strategy of the ***International Subsidiary Banks Division*** has the main objective of achieving leadership positions in Central-Eastern European Countries, considered the Group's second "domestic" market. Banca Intesa intends to contribute to the development of this area, also via the acquisition, currently under way, of Ukrsotsbank, the fourth largest bank in Ukraine in terms of total assets, which has already been amply described in the Annual report 2005.
Consistently with these indications, in the first quarter of 2006 the Hungarian Central-European International Bank (CIB) opened 3 branches in Hungary and strengthened its relationship with the large retailing group Tesco, which enables the bank, as of 2005, to open branches in the new Tesco outlets and which permitted the issue of a dedicated credit card (Tesco Credit Card). As concerns the range of distributed products, particularly noteworthy was the launch of new mortgage types connected to insurance policies of the Generali group.
Also Privredna Banka Zagreb (PBZ) expanded its territorial presence in Croatia with the opening of 5 new branches and continued the development of new products and services, mainly in the retail segment (home and car loans related to insurance policies in cooperation with Generali, internet banking with additional services such as the possibility of underwriting funds on line, Cash Pooling services). Noteworthy were also the satisfactory operations of PBZ Card, leading company in Croatia for credit cards and the progress of factoring for Small Medium Enterprises and corporate customers.
In the Slovakian market the main actions taken by Vseobecna Uverova Banka (VUB) referred to the launch of new retail products and services (mortgages, structured deposits, credit cards), the further development of distribution channels (the roll-out of the new branch lay-out continued) and the enhancement of direct channels (call centre and electronic banking). In the period under examination, also as a result of targeted commercial campaigns, approximately 17,000 new retail current accounts were opened and there was a significant development in structured funding products, launched on the market with the collaboration of Banca Intesa.
In 2005 Banca Intesa entered the Russian market with KMB Bank and the Serbian market with Banca Intesa Beograd. In the first quarter of 2006 KMB Bank worked on the development of ordinary operations, mostly focused on financing small and medium enterprises, and on the preparation of the new 2006-2010 business plan. This new plan focuses attention on the development of retail and Small Medium Enterprises activities and sets out the partial relocalisation of the current distribution network in addition to a strong rise in the number of branches, as well as a reorganisation of the bank, with the completion of the management team, the launch of a new brand and the implementation of a new IT system.
Instead, as concerns Banca Intesa Beograd, initiatives focused on the extension of the range of products offered to customers, especially for the retail segment; in particular, noteworthy were i) the new current account "Intesa Hit" that, thanks to the types of associated services (automatic Dinaro/Euro switch, credit and debit cards, home banking, health insurance), has already been highly appreciated by customers, with over 40,000 new openings in just two months from the launch, and ii) the great impulse given to the development of cards (commercial campaign for the launch in April of revolving cards and preparation of the sales network to the distribution of American Express credit cards). Lastly, noteworthy was the project conducted in the last few months to develop various types of home mortgages; their launch will permit to offer customers a complete range of products. In the first three months of the year 5 new branches were opened, while the new branch lay-out is currently being rolled out to the entire network.

Sustainable growth is also based on ***enhancement of human resources***. The 2005-2007 Plan foresees an on-going training programme for a total of 800,000 man-days. In the first quarter of 2006 over 70,000 man-days of training were delivered in addition to the 320,000 man-days already delivered in 2005.
From the standpoint of the new Plan, the soundness, and therefore the sustainability, of growth is strongly linked to innovation. There is a specific ***Investment plan in innovation*** which sets out investments amounting to almost 2 billion euro. In the first quarter of 2006 investments amounted to approximately 70 million euro, in addition to the approximately 700 million euro of 2005.
Such investments are aimed at improving customer service quality, with reference to both the sales channel and the type of services offered.
Strict operating cost discipline, already commenced under the previous plan, continues to be an objective in the current Business Plan. In fact, the pursuit of growth in a competitive market

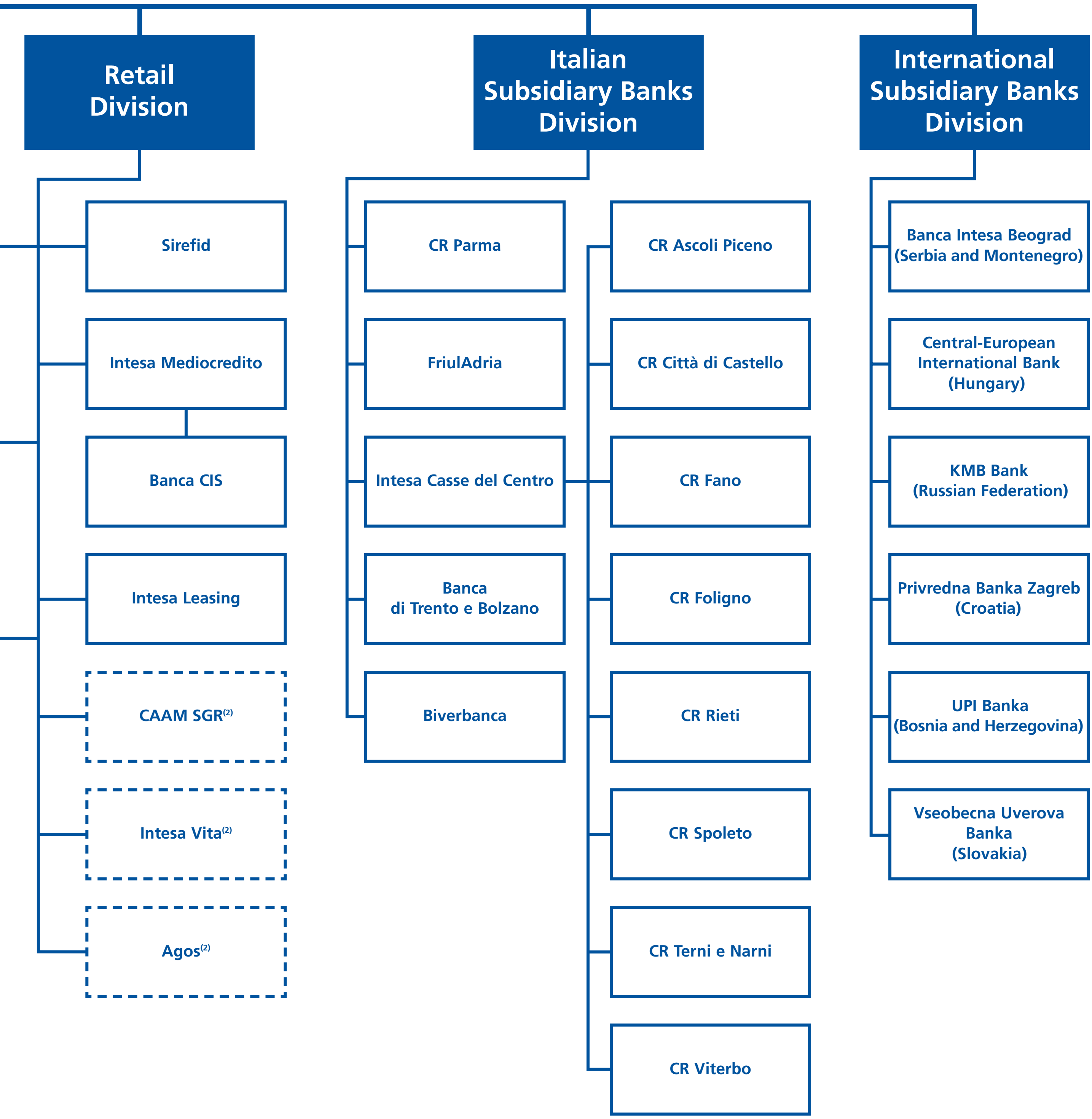
requires a balanced and competitive cost structure. As at 31st March 2006 the Group's cost/income ratio equalled 48.3%, essentially as a result of the strong growth in revenues. The particularly low ratio leads to believe that the 50% target set for 2007 is achievable. Growth-related expenses increased by approximately 33 million euro which together with the 70 million euro already sustained in 2005 represent approximately 45% of the total set out in the Business Plan. Such additional costs were offset by savings related to increased efficiency of back office and central structures and lower costs for management of real estate assets and procurement.

Optimisation of risk management and capital allocation is the other lever of the new Plan to ensure constant value creation. In the last few years, Banca Intesa greatly strengthened the management of all risk categories. Capital ratios confirmed absolutely adequate levels with the Tier 1 ratio at 7.83% and the Core tier 1 ratio – that is, the ratio between Tier 1 capital net of preference shares and total risk-weighted assets – which equalled 7.01%, with a slight decrease with respect to the end of 2005 due to the growth of assets determined by operations development. The Total capital ratio increased to 10.66% from 10.34% of 31st December 2005. As regards credit risk, it must be noted that the continuous attention paid to loan portfolio quality enabled to achieve the practical stability in the net doubtful loans/loans to customers ratio at 0.77%, in line with the 0.9% target for 2007. With regard to market risks, the strengthening of the internal risk management platforms and the effective control at desk level permitted the management of risks at a level compatible with the target set out in the Plan.

Main Group Companies



(1) Subsidiary bank specialised in Public & Infrastructure Finance.
(2) Jointly-controlled or associated company, carried at equity.


Retail Division
Sirefid
Intesa Mediocredito
Banca CIS
Intesa Leasing
CAAM SGR(2)
Intesa Vita(2)
Agos(2)
Italian Subsidiary Banks Division
CR Parma
FriulAdria
Intesa Casse del Centro
Banca di Trento e Bolzano
Biverbanca
CR Ascoli Piceno
CR Città di Castello
CR Fano
CR Foligno
CR Rieti
CR Spoleto
CR Terni e Narni
CR Viterbo
International Subsidiary Banks Division
Banca Intesa Beograd (Serbia and Montenegro)
Central-European International Bank (Hungary)
KMB Bank (Russian Federation)
Privredna Banka Zagreb (Croatia)
UPI Banka (Bosnia and Herzegovina)
Vseobecna Uverova Banka (Slovakia)

Consolidated financial statements

Consolidated balance sheet

(in millions of euro)

Assets		31.03.2006	31.12.2005	Changes	
				amount	%
10.	Cash and cash equivalents	1,477	1,797	-320	-17.8
20.	Financial assets held for trading	53,444	51,067	2,377	4.7
30.	Financial assets designated at fair value through profit and loss	-	-	-	
40.	Financial assets available for sale	4,533	4,379	154	3.5
50.	Investments held to maturity	2,378	2,810	-432	-15.4
60.	Due from banks	26,114	27,111	-997	-3.7
70.	Loans to customers	177,168	169,478	7,690	4.5
80.	Hedging derivatives	914	1,278	-364	-28.5
90.	Fair value change of assets in hedged portfolios (+/-)	-	-	-	
100.	Investments in associates and companies subject to joint control	2,200	2,091	109	5.2
110.	Technical insurance reserves reassured with third parties	-	-	-	
120.	Property and equipment	2,940	2,924	16	0.5
130.	Intangible assets	1,351	1,356	-5	-0.4
	of which				
	- goodwill	*891*	*869*	*22*	*2.5*
140.	Tax assets	3,028	3,096	-68	-2.2
	a) current	*1,650*	*1,670*	*-20*	*-1.2*
	b) deferred	*1,378*	*1,426*	*-48*	*-3.4*
150.	Non-current assets held for sale and discontinued operations	22	2,869	-2,847	-99.2
160.	Other assets	3,498	3,279	219	6.7
Total Assets		**279,067**	**273,535**	**5,532**	**2.0**

Consolidated balance sheet

(in millions of euro)

Liabilities and Shareholders' Equity	31.03.2006	31.12.2005	Changes	
			amount	%
10. Due to banks	40,673	31,771	8,902	28.0
20. Due to customers	116,705	115,270	1,435	1.2
30. Securities issued	71,182	72,320	-1,138	-1.6
40. Financial liabilities held for trading	18,982	21,249	-2,267	-10.7
50. Financial liabilities designated at fair value through profit and loss	-	-	-	
60. Hedging derivatives	1,482	1,410	72	5.1
70. Fair value change of liabilities in hedged portfolios (+/-)	-	-	-	
80. Tax liabilities	1,642	1,091	551	50.5
a) current	*1,156*	*643*	*513*	*79.8*
b) deferred	*486*	*448*	*38*	*8.5*
90. Liabilities associated with non-current assets held for sale and discontinued operations	-	2,963	-2,963	
100. Other liabilities	8,742	7,121	1,621	22.8
110. Employee termination indemnities	1,117	1,102	15	1.4
120. Allowances for risks and charges	1,802	1,732	70	4.0
a) post employment benefits	*319*	*320*	*-1*	*-0.3*
b) other allowances	*1,483*	*1,412*	*71*	*5.0*
130. Technical reserves	-	-	-	
140. Valuation reserves	914	829	85	10.3
150. Reimbursable shares	-	-	-	
160. Equity instruments	-	-	-	
170. Reserves	5,224	3,745	1,479	39.5
180. Share premium reserve	5,510	5,510	-	-
190. Share capital	3,596	3,596	-	-
200. Treasury shares (-)	-10	-	10	
210. Minority interests (+/-)	755	801	-46	-5.7
220. Net income (loss)	751	3,025	-2,274	
Total Liabilities and Shareholders' Equity	**279,067**	**273,535**	**5,532**	**2.0**

Consolidated statement of income

(in millions of euro)

		1st quarter 2006	1st quarter 2005	Changes amount	Changes %
10.	Interest and similar income	2,573	2,355	218	9.3
20.	Interest and similar expense	-1,273	-1,052	221	21.0
30.	**Interest margin**	**1,300**	**1,303**	**-3**	**-0.2**
40.	Fee and commission income	1,118	1,085	33	3.0
50.	Fee and commission expense	-106	-130	-24	-18.5
60.	**Net fee and commission income**	**1,012**	**955**	**57**	**6.0**
70.	Dividend and similar income	3	32	-29	-90.6
80.	Profits (Losses) on trading	352	130	222	
90.	Fair value adjustments in hedge accounting	8	-	8	
100.	Profits (Losses) on disposal or repurchase of	26	26	-	-
	a) loans	*-1*	*-1*	*-*	*-*
	b) financial assets available for sale	*24*	*25*	*-1*	*-4.0*
	c) investments held to maturity	*-*	*2*	*-2*	
	d) financial liabilities	*3*	*-*	*3*	
110.	Profits (Losses) on financial assets and liabilities designated at fair value	-	-	-	
120.	**Net interest and other banking income**	**2,701**	**2,446**	**255**	**10.4**
130.	Net losses / recoveries on impairment	-154	-156	-2	-1.3
	a) loans	*-165*	*-156*	*9*	*5.8*
	b) financial assets available for sale	*-1*	*-*	*1*	
	c) investments held to maturity	*3*	*-*	*3*	
	d) other financial activities	*9*	*-*	*9*	
140.	**Net income from banking activities**	**2,547**	**2,290**	**257**	**11.2**
150.	Net insurance premiums	-	-	-	
160.	Other net insurance income (expense)	-	-	-	
170.	**Net income from banking and insurance activities**	**2,547**	**2,290**	**257**	**11.2**
180.	Administrative expenses	-1,319	-1,278	41	3.2
	a) personnel expenses	*-808*	*-792*	*16*	*2.0*
	b) other administrative expenses	*-511*	*-486*	*25*	*5.1*
190.	Net provisions for risks and charges	-44	-51	-7	-13.7
200.	Net adjustments to / recoveries on property and equipment	-65	-62	3	4.8
210.	Net adjustments to / recoveries on intangible assets	-52	-47	5	10.6
220.	Other operating expenses (income)	96	74	22	29.7
230.	**Operating expenses**	**-1,384**	**-1,364**	**20**	**1.5**
240.	Profits (Losses) on investments in associates and companies subject to joint control	41	33	8	24.2
250.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
260.	Goodwill impairment	-	-	-	
270.	Profits (Losses) on disposal of investments	-7	57	-64	
280.	**Income (Loss) before tax from continuing operations**	**1,197**	**1,016**	**181**	**17.8**
290.	Taxes on income from continuing operations	-418	-372	46	12.4
300.	**Income (Loss) after tax from continuing operations**	**779**	**644**	**135**	**21.0**
310.	Income (Loss) after tax from discontinued operations	-	-	-	
320.	**Net income (loss)**	**779**	**644**	**135**	**21.0**
330.	Minority interests	-28	-24	4	16.7
Parent Company's net income (loss)		**751**	**620**	**131**	**21.1**

Changes in consolidated shareholders' equity as at 31st March 2006

(in millions of euro)

	1st quarter 2006												
	Share capital		Share premium reserve	Reserves		Valuation reserves				Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity
	ordinary shares	saving shares		retained earnings	other	available for sale	cash flow hedges	legally-required revaluations	other				
AMOUNTS AS AT 1.1.2006													
- Group	**3,111**	**485**	**5,510**	**3,660**	**85**	**389**	**-39**	**345**	**134**	**-**	**-**	**3,025**	**16,705**
- minority interests	**367**	**3**	**124**	**178**	**-**	**7**	**-2**	**11**	**6**	**-**	**-**	**107**	**801**
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR													
Reserves													
- Group				**1,483**								**-1,483**	**-**
- minority interests				**107**								**-107**	**-**
Dividends and other allocations [(a)]												**-1,542**	**-1,542**
CHANGES IN THE PERIOD													
Changes in reserves													
- Group				**-4**		**39**	**85**	**3**	**-42**				**81**
- minority interests	**-46**		**-10**	**-16**		**-**	**1**	**-2**	**-1**				**-74**
Operations on shareholders' equity													
Issue of new shares													
- Group													-
- minority interests													-
Purchase of treasury shares													
- Group											-10		-10
- minority interests													
Extraordinary dividends													
Changes in equity instruments													
Derivatives on treasury shares													
Stock options													-
Net income (loss) for the period													
- Group												**751**	**751**
- minority interests												**28**	**28**
SHAREHOLDERS' EQUITY AS AT 31.03.2006													
- Group	**3,111**	**485**	**5,510**	**5,139**	**85**	**428**	**46**	**348**	**92**	**-**	**-10**	**751**	**15,985**
- minority interests	**321**	**3**	**114**	**269**	**-**	**7**	**-1**	**9**	**5**	**-**	**-**	**28**	**755**

[(a)] The caption includes dividends and the amount attributable to the Allowances for charitable contributions, as well as the dividends of controlled companies attributable to minority interests.

Changes in consolidated shareholders’ equity as at 31st March 2005

(in millions of euro)

	1st quarter 2005												
	Share capital		Share premium reserve	Reserves		Valuation reserves				Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity
	ordinary shares	saving shares		retained earnings	other	available for sale	cash flow hedges	legally-required revaluations	other				
AMOUNTS AS AT 1.1.2005													
- Group	**3,076**	**485**	**5,406**	**2,527**	**85**	**117**	**-32**	**357**	**102**	**-**	**-10**	**1,856**	**13,969**
- minority interests	**339**	**3**	**123**	**228**	**-**	**3**	**-2**	**-**	**-**	**-**	**-**	**84**	**778**
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR													
Reserves													
- Group				**1,120**								**-1,120**	**-**
- minority interests				**77**								**-77**	**-**
Dividends and other allocations [a]												**-743**	**-743**
CHANGES IN THE PERIOD													
Changes in reserves													
- Group				**-22**		**36**	**1**		**18**				**33**
- minority interests				**-9**		**-**			**-**				**-9**
Operations on shareholders' equity													
Issue of new shares													
- Group													-
- minority interests													-
Purchase of treasury shares													
- Group											-2		-2
- minority interests													
Extraordinary dividends													
Changes in equity instruments													
Derivatives on treasury shares													
Stock options				2									2
Net income (loss) for the period													
- Group												**620**	**620**
- minority interests												**24**	**24**
SHAREHOLDERS’ EQUITY AS AT 31.03.2005													
- Group	**3,076**	**485**	**5,406**	**3,627**	**85**	**153**	**-31**	**357**	**120**	**-**	**-12**	**620**	**13,886**
- minority interests	**339**	**3**	**123**	**296**	**-**	**3**	**-2**	**-**	**-**	**-**	**-**	**24**	**786**

[a] The caption includes dividends and the amount attributable to the Allowances for charitable contributions, as well as the dividends of controlled companies attributable to minority interests..

Consolidated statement of cash flows

(in millions of euro)

	31.03.2006	31.03.2005
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**1,571**	**1,357**
- net income (+/-)	779	644
- gains/losses on financial assets held for trading and on assets/liabilities designated at fair value through profit and loss (-/+)	-	-
- gains/losses on hedging activities (-/+)	-8	-
- net losses/recoveries on impairment (+/-)	228	225
- adjustments to/net recoveries on property, equipment and intangible assets (+/-)	117	118
- net provisions for risks and charges and other costs/revenues (+/-)	81	107
- net insurance premiums to be collected (-)	-	-
- other insurance revenues/charges to be collected (-/+)	-	-
- taxes and duties to be settled (+)	431	382
- net adjustments/recoveries on disposal groups net of tax effect (-/+)	-	-
- other adjustments (+/-)	-57	-119
2. Cash flow from / used in financial assets	**-8,271**	**9,229**
- financial assets held for trading	-2,377	1,371
- financial assets designated at fair value through profit and loss	-	-
- financial assets available for sale	-157	178
- due from banks: repayable on demand	-322	-510
- due from banks: other	1,424	5,437
- loans to customers	-7,717	3,661
- other assets	878	-908
3. Cash flow from / used in financial liabilities	**6,217**	**-11,044**
- due to banks: repayable on demand	3,506	2,267
- due to banks: other	5,436	-1,555
- due to customers	1,244	-125
- securities issued	-1,848	-8,362
- financial liabilities held for trading	-2,267	-5,984
- financial liabilities designated at fair value through profit and loss	-	-
- other liabilities	146	2,715
Net cash flow from (used in) operating activities	**-483**	**-458**
B. INVESTING ACTIVITIES		
1. Cash flow from	**634**	**168**
- sales of investments in associates and companies subject to joint control	39	110
- dividends collected on investments in associates and companies subject to joint control	-	-
- sales/reimbursements of investments held to maturity	569	58
- sales of property and equipment	24	-
- sales of intangible assets	2	-
- sales of subsidiaries and business branches	-	-
2. Cash flow used in	**-418**	**-53**
- purchases of investments in associates and companies subject to joint control	-114	-
- purchases of investments held to maturity	-134	-
- purchases of property and equipment	-46	-9
- purchases of intangible assets	-27	-44
- purchases of subsidiaries and business branches	-97	-
Net cash flow from (used in) investing activities	**216**	**115**
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	-10	-2
- share capital increases	-	-
- dividend distribution and other	-	-
Net cash flow from (used in) financing activities	**-10**	**-2**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**-277**	**-345**
RECONCILIATION		
Cash and cash equivalents at beginning of period	1,797	1,785
Net increase (decrease) in cash and cash equivalents	-277	-345
Cash and cash equivalents: foreign exchange effect	-43	18
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,477**	**1,458**

LEGENDA: (+) from (–) used in

Report on operations

Accounting policies

DECLARATION OF COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

Gruppo Intesa's Consolidated financial statements have been prepared in compliance with the accounting principles issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission as provided for by Community Regulation 1606 of 19th July 2002.
The Consolidated financial statements as at 31st March 2006 have been prepared based on the application of international accounting standards as permitted by Consob Resolution 14990 of 14th April 2005 which modified Issuer Regulations. This resolution sets out that the contents of the report may alternatively comply with the provisions of Issuer Regulations (Attach 3D) or of IAS 34, relative to interim reports.
The present Report complies with requirements of IAS 34.
In the preparation of the Consolidated financial statements as at 31st March 2006, the IAS/IFRS principles in force as at 31st March 2006 have been used (including the interpretation documents called SIC and IFRIC), as endorsed by the European Commission. With respect to the principles endorsed as at 31st December 2005 it must be noted, with reference to issues applicable to banking activities, that IFRS 7 (Financial Instruments: disclosures) has been endorsed (Regulation EC 108/2006). As regards the accounting principle on financial instruments (IAS 39), endorsed texts diverge from the principle prepared by the IASB since certain issues which are still under discussion (fair value macrohedging of portfolios of assets and liabilities and hedging of on demand deposits) have not been endorsed. However, since Gruppo Intesa did not adopt the hedging techniques still under discussion, principles applied by the Group are fully compliant with those prepared by the IASB. It must be noted that the Consolidated Report as at 31st March 2006 has not been audited.

GENERAL PREPARATION PRINCIPLES

The Consolidated financial statements as at 31st March 2006 are made up of the Balance sheet, the Statement of income, the Changes in shareholders' equity, the Statement of cash flows; the Report on operations has also been included.
In compliance with provisions of Art. 5 of Legislative Decree 38/2005, the Consolidated financial statements have been drawn up in euro as functional currency.
The amounts indicated in the Consolidated financial statements and in the Report on operations are expressed in millions of euro, unless otherwise specified.
The Consolidated financial statements are prepared with the application of the general principles set out by IAS 1 and the specific accounting principles endorsed by the European Commission, as well as in compliance with the general assumptions set forth by the Framework for the Preparation and Presentation of Financial Statements issued by IASB.
The Consolidated financial statements and the tables in this Report present, in addition to figures for the reference period, the comparative figures as at 31st December 2005 for the Balance sheet and as at 31st March 2005 for the Statement of income.
For the purpose of simplifying comparison of the figures in the various periods and, in particular, to provide a more effective representation of results, certain reclassifications are made with respect to the compulsory forms and the figures for the whole of 2005 are restated to consider the changes in the consolidation area occurred in the first quarter of 2006. The most significant restatements are indicated in the relative comments, while changes in the consolidation area are illustrated in the following chapter.
The Consolidated financial statements as at 31st March 2006 contain all information required by IAS 34, by current regulations and by Consob (Italian Securities Exchange Commission), in addition to other information which is not compulsory but is nonetheless deemed to be necessary in order to give a true representation of the Group's situation.

ACCOUNTING PRINCIPLES

The accounting principles adopted in the preparation of the Consolidated financial statements as at 31st March 2006 for classification, recognition, measurement and derecognition of asset and liability captions, and the means of recognition of revenues and costs, have remained unchanged with respect to those adopted for the Annual report 2005 to which, therefore, reference must be made.

CONSOLIDATION AREA AND CONSOLIDATION METHODS

Consolidation area

The consolidated financial statements include Banca Intesa and the companies which it directly and indirectly controls and consider in the consolidation area – as specifically set out by the new IAS/IFRS principles – also the companies operating in dissimilar sectors from the Parent Company as well as private equity investments. Similarly, special purpose entities (SPE/SPV) are included when the requisite of effective control recurs, even if there is no direct or indirect stake in the company.
Companies are considered subsidiaries when the Parent Company, directly or indirectly, holds more than half of the voting rights or when it has a lower portion of voting rights but has the power to appoint the majority of directors of the company or determine its financial or operating policies. In the measurement of voting rights also "potential" rights are considered if they are currently exercisable or convertible in effective voting rights at any time. Companies are considered to be subject to joint control if their voting rights and the control of their economic activities are equally shared by Banca Intesa, directly or indirectly, and another entity. Furthermore, a company is qualified as subject to joint control if, even though voting rights are not equally shared, control on its economic activities and its strategies is shared on the basis of contractual agreements.
Companies are considered associates, that is subject to significant influence, when the Parent Company, directly or indirectly, holds at least 20% of voting rights (including "potential" voting rights as described above) or when the Parent Company – despite a lower percentage of voting rights due to specific legal agreements such as the participation of voting syndicates - has the power of participating in the determination of the financial and operating policies of the company. The equity investment in the Bank of Italy, in which Gruppo Intesa holds a 26.8% stake, is an exception since, considering its peculiarity, it is maintained at cost and is therefore not carried at equity.
Certain companies in which the Parent Company holds an equity stake exceeding 20% of voting share capital, and in any case of limited absolute amount, are excluded from the consolidation area and are classified in Financial assets available for sale since Banca Intesa, directly or indirectly, exclusively holds rights on a portion of the rewards of the investment, does not have access to management policies and may exercise limited governance rights to safeguard its economic interests.
Companies for which the shares have been received as pledges with voting rights are not consolidated, in consideration of the substance underlying the pledge, which has the purpose of guaranteeing loans and not of exercising control and direction over financial and economic policies in order to benefit from the economic return on the shares.
Furthermore, certain investments in subsidiaries, associates and companies subject to joint control are excluded from the consolidation area in consideration of their immateriality.

With respect to the situation as at 31st December 2005, UPI Banka, Sarajevo is included in the consolidation area, since control was acquired in the first quarter and is consolidated as of 1st January 2006. Furthermore, it must be noted that the controlling stake in Banca CIS increased to 83.7%, following the acquisition from the Sardegna Region of a 28.33% stake.
Conversely, the following companies exited the Group – but, in relation to the residual equity stake held, are consolidated with the equity method – Nextra Investment Management (now CAAM Sgr) and its subsidiaries Nextra Alternative Investments and Epsilon, sold to companies of the Crédit Agricole group as part of the well-known strategic partnership agreement which was amply described in the Annual report 2005. As part of that agreement, in March 2006, Banca Intesa acquired a 35% stake in Crédit Agricole Asset Management SGR, which is posted in the consolidated financial statements with the equity method. Following their disposal, Banco Wiese

Sudameris and related subsidiaries (with the exception of Wiese Leasing) are also no longer included in the consolidation area. The Group's tax collection companies are still fully consolidated, in consideration of the undefined timing and means with which all tax collection services must be transferred to the state-owned company, Riscossione Spa.

Consolidation methods

The methods used for the consolidation of the figures of subsidiaries (*full consolidation*) and for the consolidation of associates and of companies subject to joint control (*equity method*) have remained unchanged from those adopted for the Annual report 2005 to which, therefore, reference must be made.
The financial statements of the Parent Company and of other companies used to prepare the Consolidated financial statements as at 31st March 2006 refer to the same date. In certain cases, for subsidiaries which are not material, the last official figures are used.
Where necessary – and without prejudice to absolutely marginal cases – the financial statements of companies which are drawn up using different accounting criteria are restated to be compliant with the standards used by the Group.
The financial statements of the companies which do not operate in the Euro Zone are translated into euro applying to the assets and liabilities in the balance sheet the spot exchange rate at period-end and to the statement of income the average exchange rate.

BUSINESS COMBINATIONS

UPI Banka

On 4th January 2006 Banca Intesa, which already held a 35.03% stake in the voting share capital of UPI Banka, launched, through its subsidiary Intesa Holding International, the agreed takeover bid for the remaining 64.97% of UPI Banka's voting share capital. The offer was completed last 20th February with the purchase of 105,181 voting shares corresponding to 45.93% of UPI Banka's share capital for a total investment of 37.4 million euro. At the end of the transaction, Gruppo Intesa held 80.96% of the voting share capital of UPI Banka. The consideration paid was allocated to goodwill for the portion of 22.6 million euro that exceeded the book value of assets and liabilities (already posted at fair value).

Banca C.I.S.

In February, Banca Intesa acquired 28.33% of the share capital of Banca CIS, bank already controlled by Gruppo Intesa in which the subsidiary Intesa Mediocredito held a 55.37% stake, leading its total stake to 83.7%. The total cost of the operation amounted to approximately 80 million euro.

SIGNIFICANT SUBSEQUENT EVENTS

The Board of Directors of 26th April 2006 verified that the performance objectives for the exercise of the options related to 2005 had been achieved as set by the stock option plan connected to the implementation of the 2003-2005 Business Plan. In particular:

- the financial indicator EVA-Economic Value Added for the Group increased to 1,752 million euro in 2005 (1,090 million euro, net of the capital gain related to the sale of 65% of Nextra) from 681 million in 2004 restated on a consistent basis also taking into account IAS/IFRS while EVA was negative in 2002 for over 1,100 million pre-IAS/IFRS adoption;
- the total return on the Banca Intesa ordinary share in 2005 was approximately 27% after a return of 15% in 2004 and of approximately 58% in 2003;
- market capitalisation increased by approximately 7 billion euro between the end of 2004 and the end of 2005, from 23.8 to 30.7 billion euro, after the over 10 billion euro rise recorded between the end of 2002 and the end of 2004.

The Board of Directors, in execution of the mandate received from the Extraordinary Shareholders' Meeting of 17th December 2002, therefore resolved upon a capital increase for a maximum amount of 16,751,479.68 euro of share capital and 49,291,076.18 euro of share premium reserve to service the Stock Option Plan through the issue of a maximum 32,214,384 new ordinary shares with a nominal value of 0.52 euro to be assigned to the 185 managers holding the options.

Managing Director and CEO Corrado Passera and the top executives will exercise their options within the period 2nd-31st May 2006 and the resulting shares will be simultaneously traded in the "block market". Banca Intesa's top management announced that at least 50% of the capital gain will be simultaneously invested in the Banca Intesa shares. The Managing Director and CEO has communicated that he will hold his entire capital gain invested in Banca Intesa shares.

OTHER ASPECTS

As in the past, also for 2006, Gruppo Intesa will use the faculty contained in Art. 82, par. 2, of Consob Resolution 11971 of 14th May 1999 and subsequent amendments, of making the Consolidated financial statements as at 30th June 2006 available for Shareholders and the market within 75 days from the end of the half – instead of the quarterly report as at the same date.

The macroeconomic scenario and lending and deposit collecting activities

The macroeconomic scenario

The high prices of raw materials and the generalised increase in interest rates confirmed the strong expansion in world economy in the first months of 2006. In the United States, the rebound in the economy offset the temporary slowdown recorded at the end of 2005, leading to a further reduction in unemployment. Moreover, clear signs of an acceleration in growth rates came from the Euro Zone and Japan. Also following the recovery in exports to the Euro Zone, the economic trend in Central and Eastern Europe was generally positive. In view of the consolidation of economic growth and the depletion of unused resources, monetary polices became increasingly tighter. The Federal Reserve decided three further rises in rates for fed funds, to the current 5%. In the Euro Zone, the ECB raised official rates from 2.25% to 2.50% in March, signalling that a further move was likely before the end of the second quarter. The loosening trend in monetary policy appeared to end also in Eastern Europe: among the Countries where Gruppo Intesa operates, only Croatia registered a reduction in interest rates compared to the end of 2005, whereas Slovakia recorded a 50 basis point increase. Finally, the Bank of Japan started an action to withdraw liquidity in excess, previously injected in the system to fight deflation, and the markets were prepared to a future hike in interest rates.

Bond markets recorded a very negative trend, with rises in medium- and long-term interest rates in the order of 40-60 basis points. The increase in the slope of the yield curve mainly reflected more aggressive expectations on official rates, but also the higher risk premium, requested today by investors compared to the particularly low values registered in the last few years. The net rise in interest rates in the core markets affected the performance of the emerging markets, where the contraction in spread partly eased the upward phase in yields only till mid February.

In credit markets, spreads in the investment grade segment in euro remained virtually stable at all-time lows, in a context characterised by low volatility. Greater trading opportunities were instead offered by the High Yield segment which recorded an approximately 100 basis point contraction in spreads.

In foreign exchange markets, investors appeared more selective compared to 2005 and soon showed great attention towards the risk posed by external imbalances. Certain currencies that in 2005 had benefited from strong speculative flows registered marked drops. This situation also affected the Hungarian forint, which lost 2.9% from the end of 2005. The US dollar fluctuated around the levels as at the end of 2005, still showing reactivity to interest rates. However, in the last few weeks a marked weakness of the US currency started to appear.

With regard to stock markets, all main indexes recorded positive changes, more significant for the emerging markets. In Europe, Dax and Comit Globale were the most brilliant among the major indexes with a performance of respectively 9.3% and 9.9%. 2005 results favoured a strongly upward revision in estimated profits, more substantial for Italy than for the other European markets. Breakdown by industry shows that the best performance compared to the end of 2005 was registered by building and real estate (+34.8%) and automotive (+28.4%) sectors.

With regard to the Italian economy, after a disappointing January, industrial production rose strongly in February. Despite the slowdown in exports, economic analyses indicate that the trend remained positive also in March. Signs of recovery were also recorded in retail trade and in constructions. Consequently, short-term projections on GDP growth rates remained characterised by cautious optimism. Caution was justified by the weakness showed by durable consumer goods (excluding cars) and by the erosion in purchasing power caused by the rise in energy prices. On a longer-term prospect, the Italian economic recovery is weighed down by the uncertainties linked to competitiveness problems and to the national debt. Greater awareness of the fragile Italian fiscal situation, determined by April elections, led to a significant increase in the BTP-Bund spread.

Italian lending and deposit collecting activities

In the first quarter of the year bank interest rates recorded a clearly upward trend, following the two 25 basis point rises decided by the ECB in December and March. The upward trend should continue for the whole of 2006 and also for the following year, reflecting market expectations of a continuation of tight monetary policy. From the beginning of the year estimated yields on loans to households and non-financial companies returned to the levels reached at the end of 2004, influencing both loans with maturity over one year and shorter-term loans. Breakdown by sector shows that the average cost of household loans evidenced a higher resistance to rises than corporate loans – in line with the indications of rising competition in the retail segment also confirmed by ECB's most recent analyses on the conditions of access to credit in the Euro Zone – whilst on funding rates the upward trend appeared more moderate.

With regard to margins, at the end of March the short-term mark-up[1] stood at 2.81%, with a 4 basis point reduction from December, confirming its continuously downward trend. On the contrary, the contribution margin of on demand funding (mark-down[2]) strengthened its upward trend, rising to 1.77% from 1.64% at the end of 2005. Therefore, short-term spreads rose by 9 basis points, from 4.49% to 4.58%, contributing to increase the estimated overall spread between lending and funding rates by 4 basis points, to 2.94%.

In the first months of 2006, lending activities continued to record a positive performance, due to offer conditions that, despite rises in interest rates, continued to result attractive in real terms. The medium- and long-term component continued to give a predominant contribution to growth rates of the overall aggregate. At the same time, short-term activities, though not very brilliant, consolidated their positive trend, with an acceleration probably linked to the recovery in industrial production and exports. The divergent trend recorded by bank loans on different maturities was influenced by the sustained expansion in mortgages and consumer loans, also favoured by offer policies aimed at limiting risk and thus more focused on retail customers. A strong contribution to growth rates in medium- and long-term loans came from the persisting propensity of the production sector towards prolonging debt maturities, confirmed by the expansion in loans with maturity over 5 years. The overall quality of the customer portfolio remained good also in the first quarter.

In the first quarter of the year, domestic funding activities of the Italian banking system, according to the harmonised definition[3], confirmed strong growth rates and in progress compared to the last quarter of 2005. Following the evolution of the loan portfolio in the first quarter, the average maturity in bank funding continued to increase: in fact, the incidence of bonds rose, in twelve months, to 40% of the total. This trend is attributable not only to the appreciation of bonds showed by savers, but also to specific offer policies, determined by the need to balance maturities in assets and liabilities as well as by expectations of further interest rate rises.

Within funding activities, customer deposits registered an average increase, over the twelve months, slightly higher than that recorded in the last quarter of 2005, whereas bond funding rose more. The strong expansion in repurchase agreements continued and confirmed persistence of a wait-and-see market attitude. The considerable rise in short-term funding did not affect the slow but gradual rebalancing of financial portfolios in favour of longer-term maturities, that started from the second half of 2005. Noteworthy in this respect are the gradual disposal of money market and bond mutual funds in favour of balanced and flexible funds, and the acceleration of growth in bank indirect funding.

As concerns the future evolution, during 2006 the gap in the expansion of bank loans and overall economy should start to gradually shrink, reflecting a slowdown in loans (especially long-term) due to various factors: i) the rise in interest rates, ii) the slowdown in building activities, and iii) the declining intensity of the process of restructuring company debts. Despite this overall slowdown, demand for loans is expected to remain strong, in line with the average growth rate registered in the 2002-2005 three-year period. Households will continue to give the main

[1] Difference between the interest rates applied to households and companies on loans with maturity under one year and one-month euribor.

[2] Difference between one-month euribor and interest rates on households and companies current accounts.

[3] Sum of current accounts (including bank cashiers' cheques), deposits with notice period (saving deposits), deposits with predefined maturity (current accounts and term deposits, certificates of deposit), repurchase agreements and bonds (including subordinated liabilities). All contract types, with the exception of bonds, refer to Italian customers, excluding the Central Administration, in euro and foreign currency. Bonds refer to the total amount issued, irrespective of residence and sector of the holder.

contribution to the expansion in longer-term lending, whereas enterprises are expected to boost short-term borrowing to fund their operating activities. At the same time, bank funding appears to be addressed towards a slowdown in the most liquid instruments and a virtual stability in the longer-term component. These expectations reflect the effects of the rise in interest rates and households' improved confidence, that will both contribute to favour longer-term financial instruments. Therefore, even a cautious optimism regarding the development of asset management services appears justified. The projected evolution of banking activities should lead to an improvement in the sector's operating profitability.

Economic results

General aspects

The tables hereafter and the relative comments analyse the results recorded in the statement of income as at 31st March 2006 compared to those of the corresponding period of 2005, restated to consider the changes occurred in the consolidation area.

For the purpose of a more effective representation of results, a condensed statement of income, was prepared through opportune restatements and according to presentation criteria deemed to be better suited to represent the content of captions according to the principle of operating consistency.

Reclassifications are listed below:

- dividends on shares classified as assets available for sale and as assets held for trading are reallocated in profits (losses) on trading;
- fair value adjustments in hedge accounting are registered in net interest income due to their close correlation;
- profits and losses on disposal or repurchase of financial assets available for sale and of financial liabilities are included in profits (losses) on trading;
- recovery of expenses and of taxes and duties are directly deducted from administrative expenses instead of recorded in other operating income;
- profits and losses on disposal or repurchase of loans are posted in net adjustments to loans;
- net impairment losses on other financial activities, mainly related to guarantees, commitments and credit derivatives, are registered in net adjustments to loans;
- the reduction in time value on loans is recorded in net interest income instead of being allocated in net adjustments to loans, since the phenomenon derives directly from the application of the amortised cost criterion in absence of changes in forecasted expected future flows. A consistent approach is used for the time value of Employee termination indemnities and Allowances for risks and charges;
- permanent impairment of property, equipment and intangible assets are excluded from net adjustments to property, equipment and intangible assets – that thus solely express depreciation and amortisation – and are included in a residual caption which records net impairment losses on financial assets available for sale, investments held to maturity and other financial activities;
- profits (losses) on disposal of investments are recorded in profits (losses) on investments held to maturity and on other investments, instead of being presented together with profits (losses) on investments carried at equity.

Reclassified consolidated statement of income

(in millions of euro)

	31.03.2006	31.03.2005	Changes	
			amount	%
Net interest income	1,344	1,283	61	4.8
Dividends	-	-	-	-
Profits (Losses) on investments carried at equity	29	53	-24	-45.3
Net fee and commission income	1,012	911	101	11.1
Profits (Losses) on trading	364	188	176	93.6
Other operating income (expenses)	4	-12	16	
Operating income	**2,753**	**2,423**	**330**	**13.6**
Personnel expenses	-795	-766	29	3.8
Other administrative expenses	-419	-396	23	5.8
Adjustments to property, equipment and intangible assets	-117	-109	8	7.3
Operating costs	**-1,331**	**-1,271**	**60**	**4.7**
Operating margin	**1,422**	**1,152**	**270**	**23.4**
Goodwill impairment	-	-	-	-
Net provisions for risks and charges	-38	-44	-6	-13.6
Net adjustments to loans	-194	-187	7	3.7
Net impairment losses on other assets	2	4	-2	-50.0
Profits (Losses) on investments held to maturity and on other investments	5	61	-56	-91.8
Income (Loss) before tax from continuing operations	**1,197**	**986**	**211**	**21.4**
Taxes on income from continuing operations	-418	-346	72	20.8
Income (Loss) after tax from discontinued operations	-	18	-18	
Minority interests	-28	-38	-10	-26.3
Net income	**751**	**620**	**131**	**21.1**

Quarterly development of the reclassified consolidated statement of income

(in millions of euro)

	2006	2005			
	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	1,344	1,319	1,343	1,306	1,283
Dividends	-	-	-	12	-
Profits (Losses) on investments carried at equity	29	45	51	54	53
Net fee and commission income	1,012	935	934	926	911
Profits (Losses) on trading	364	129	177	182	188
Other operating income (expenses)	4	20	-6	10	-12
Operating income	**2,753**	**2,448**	**2,499**	**2,490**	**2,423**
Personnel expenses	-795	-846	-775	-770	-766
Other administrative expenses	-419	-476	-409	-448	-396
Adjustments to property, equipment and intangible assets	-117	-156	-121	-117	-109
Operating costs	**-1,331**	**-1,478**	**-1,305**	**-1,335**	**-1,271**
Operating margin	**1,422**	**970**	**1,194**	**1,155**	**1,152**
Goodwill impairment	-	-6	-	-	-
Net provisions for risks and charges	-38	-177	-45	-115	-44
Net adjustments to loans	-194	-237	-166	-127	-187
Net impairment losses on other assets	2	-18	1	-8	4
Profits (Losses) on investments held to maturity and on other investments	5	710	42	22	61
Income (Loss) before tax from continuing operations	**1,197**	**1,242**	**1,026**	**927**	**986**
Taxes on income from continuing operations	-418	-60	-339	-310	-346
Income (Loss) after tax from discontinued operations	-	25	-8	-2	18
Minority interests	-28	-27	-34	-35	-38
Net income	**751**	**1,180**	**645**	**580**	**620**

The first quarter of 2006 recorded a consolidated net income of 751 million euro, higher than in four quarters of the previous year, excluding substantial non-recurring income realised in the last period of 2005. The Group achieved this result especially following the good progress of operating income (+13.6% on the corresponding period of 2005), and despite the rise in operating costs (+4.7%) which stemmed from the numerous projects under way in the network both in Italy and in Central-Eastern Europe. Furthermore, the quarterly statement of income also recorded adjustments and provisions of various nature at levels similar to those of March 2005. Income before tax from continuing operations equalled 1,197 million euro (+21.4%) and consequently the tax charge was higher. The percentage incidence is, in any case, in line with that of the first quarter of the previous year.

Operating income

The rise in operating income, which totalled 2,753 million euro, was driven by net interest income (+4.8%) and net fee and commission income (+11.1%) which, in absolute terms, are the most significant components and from profits on trading, that almost doubled.

Net interest income

(in millions of euro)

	31.03.2006	31.03.2005	Changes	
			amount	%
Relations with customers	1,583	1,444	139	9.6
Relations with banks	-69	-32	37	
Securities issued	-634	-501	133	26.5
Differentials on hedging derivatives	79	8	71	
Financial assets held for trading	250	264	-14	-5.3
Investments held to maturity	26	29	-3	-10.3
Financial assets available for sale	43	29	14	48.3
Non-performing assets	75	51	24	47.1
Other net interest income	-17	-9	8	88.9
Interest margin	**1,336**	**1,283**	**53**	**4.1**
Fair value adjustments in hedge accounting	**8**	**-**	**8**	
Net interest income	**1,344**	**1,283**	**61**	**4.8**

Breakdown by component of net interest income (1,344 million euro, with an almost 5% rise compared to the first quarter of 2005) shows, on the one hand, the rise in operations with customers and, on the other hand, higher interest expense on interbank relations. Furthermore, the result for the first quarter of 2006 was affected by the decision to privilege trading on financial instruments, which led to a considerable rise in profits as illustrated hereafter.
More specifically, net interest income with customers – if considered together with interest on related funding via securities issued and connected differentials on hedging derivatives – highlighted in the first quarter a positive balance of 1,028 million euro, up by 8.1% with respect to the corresponding balance of the first quarter of 2005. The aggregate was characterised by the positive trend, in terms of both volumes and spread, registered by the retail segment, the disbursements to public entities and to fund infrastructural projects, as well as the significant increase in operations of Group banks in Central-Eastern Europe. The contribution of investments in securities, considering those held for trading and those available for sale presents a balance of 293 million euro, in line with the figure of the corresponding period of 2005. Interest on interbank relations presented a negative balance of 69 million euro compared to a -32 million euro balance as at 31st March 2005.
Lastly, the caption includes fair value adjustments in hedge accounting that is the imbalance of positive and negative variations in the fair value of hedging derivatives and the relevant assets and liabilities hedged.

Profits on investments carried at equity

The caption refers to the profits deriving from measurement with the equity method of the subsidiaries in which the Group has a significant influence, or has joint control. The figure, though very small in absolute terms, shows a slight decline with respect to the first quarter of 2005 essentially due to the reclassification in this caption of the relevant portion of the net income recorded by Nextra in the first quarter of 2005.

Net fee and commission income

(in millions of euro)

	31.03.2006	31.03.2005	Changes	
			amount	%
Guarantees given	38	35	3	8.6
Collection and payment services	72	67	5	7.5
Current accounts	175	172	3	1.7
Fees on credit and debit cards	69	62	7	11.3
Commercial banking activities	**354**	**336**	**18**	**5.4**
Dealing and placement of securities	296	284	12	4.2
Dealing in currencies	11	10	1	10.0
Portfolio management	47	38	9	23.7
Distribution of insurance products	108	79	29	36.7
Other	36	36	-	-
Management, dealing and consultancy activities	**498**	**447**	**51**	**11.4**
Tax collection	**63**	**29**	**34**	
Other net fee and commission income	**97**	**99**	**-2**	**-2.0**
Net fee and commission income	**1,012**	**911**	**101**	**11.1**

Net fee and commission income recorded a marked rise to 1,012 million euro (+11.1%). The trend confirmed the increasing contribution of commissions generated on management, dealing and consultancy activities (498 million euro), with respect to those originated by traditional commercial banking activities (354 million euro). In fact, while the latter posted a 5.4% rise mainly driven by fees on credit and debit cards, the former recorded a growth rate exceeding 11%, especially due to the development of commissions on dealing and placement of securities and distribution of insurance products, and to an encouraging recovery in the contribution generated by individual portfolio management schemes. In commissions from services and commissions from commercial banking activities, the most significant contribution in absolute terms came from the Italian network (93% of the total), even though the highest growth rates were recorded by the Group's international entities (approximately +25% with respect to March 2005) especially with reference to the Group's network operating in Central-Eastern Europe.
It must also be noted that the tax collection sector benefited, also in this first period of 2006, for the portion pertaining to the quarter, from the legislation which set the annual level of compensation for tax collection services. In 2005, in relation to the time of issue of the law, commissions for the first nine months had been entirely recorded in the third quarter.

Profits (Losses) on trading

(in millions of euro)

	31.03.2006	31.03.2005	Changes	
			amount	%
Interest rates	115	11	104	
Equities	184	113	71	62.8
Foreign exchange	42	38	4	10.5
Credit derivatives (trading book)	-4	1	-5	
Profits (Losses) on trading	**337**	**163**	**174**	
Profits (Losses) on disposal of financial assets available for sale and financial liabilities	**27**	**25**	**2**	**8.0**
Profits on trading	**364**	**188**	**176**	**93.6**

Profits (Losses) on trading includes: i) profits and losses on disposal of financial assets held for trading or available for sale, ii) valuation differences on financial assets held for trading designated at fair value, and iii) dividends collected on shares held for trading or available for sale. More specifically, the caption was the sum of 337 million euro of profits on trading more than doubled with respect to the same period of 2005, and 27 million euro of profits on disposal of financial assets available for sale, practically in line with the comparative figure.
As concerns trading activities, trading on equities, mostly attributable to Banca Intesa and Banca Caboto, continued to represent the most significant component (184 million euro, compared to 113 million euro as at 31st March 2005). In addition to the good performance recorded on

ordinary operations, this result also benefited from higher valuation effects of equity stakes classified as held for trading (115 million euro compared to 36 million euro as at 31st March 2005) which in part have been hedged in the first quarter of 2006.
Profits on foreign exchange activities equalled 42 million euro, with respect to 38 million euro of the first quarter of the previous year, and this result was generated by the Parent Company and also, to a significant extent, by the Central-Eastern European subsidiaries.
Also the contribution of interest rate activities, equal to 115 million euro, compared to the 11 million euro profit as at 31st March 2005 was on decidedly positive levels, also as a result of the aforementioned investment decisions.
The result of trading of credit derivatives led to a marginal contribution (-4 million euro compared to a net income of 1 million euro as at 31st March 2005).
Lastly, the 27 million euro imbalance of profits on the sale of financial assets available for sale (25 million euro as at 31st March 2005) also included the sale of private equity investments.

Other operating income (expenses)

Other operating income (expenses) is a residual caption which comprises income and expenses of various nature. The caption does not include recovery of expenses and of taxes and duties, which is directly deducted from administrative expenses.
The figure for the period is a net operating income of 4 million euro, compared to a net expense of 12 million euro of the first quarter of 2005. The typical components of this caption include rentals, income and expenses related to finance lease contracts, integration and reorganisation charges and those for litigations and for customer restoration not covered by specific provisions.

Operating costs

(in millions of euro)

	31.03.2006	31.03.2005	Changes	
			amount	%
Wages and salaries	562	540	22	4.1
Social security charges	151	151	-	-
Other	82	75	7	9.3
Personnel expenses	**795**	**766**	**29**	**3.8**
General structure costs	116	120	-4	-3.3
Information technology expenses	109	104	5	4.8
Indirect taxes and duties	91	87	4	4.6
Management of real estate assets	78	76	2	2.6
Legal and professional expenses	41	38	3	7.9
Advertising and promotional expenses	27	25	2	8.0
Indirect personnel costs	15	12	3	25.0
Other costs	34	24	10	41.7
Recovery of expenses and charges	-92	-90	2	2.2
Administrative expenses	**419**	**396**	**23**	**5.8**
Property and equipment	65	59	6	10.2
Intangible assets	52	50	2	4.0
Adjustments	**117**	**109**	**8**	**7.3**
Operating costs	**1,331**	**1,271**	**60**	**4.7**

The controlled rise in operating costs stemmed from personnel expenses (+3.8%), other administrative expenses (+5.8%), and adjustments to property, equipment and intangible assets (+7.3%).
With reference to personnel expenses it must be noted that the trend is related to rises for the renewal of the national labour contract and higher costs sustained by certain bank subsidiaries as a result of the expansion of activities and the operating network, mainly abroad. Breakdown of administrative expenses shows differentiated trends. The contraction of general structure costs and the containment of expenses on management of real estate assets were accompanied by increases in expenses (information technology, advertising and professional) more directly related to the implementation of projects for the development of new products and services, to

the aforementioned operational expansion, as well as the rationalisation of structures and processes. The caption relative to indirect taxes and duties was mostly attributable to operations with customers (certain tariffs of stamp duty have been increased as of 1st February 2005) and leads to recoveries from customers which – together with other recoveries – are directly deducted from total administrative expenses.
Adjustments to property, equipment and intangible assets summed up to 117 million euro, with a contained rise directly attributable to investments to support operational expansion.
The cost/income ratio decreased from 52.5% of March 2005 to 48.3% of the first quarter of 2006, mostly as a result of the favourable trends recorded by operating income and the constant attention paid to a targeted and selective growth in operating costs.

Operating margin

Driven by the progress of operating income, operating margin registered a 23.4% growth rate to 1,422 million euro, notwithstanding the increase in operating costs, which was foreseen considering, as already mentioned, the numerous commercial initiatives and the strengthening of the network.

Net provisions for risks and charges

Net provisions for risks and charges allocated in the period (38 million euro, compared to 44 million euro as at March 2005) are aimed at covering probable charges deriving mainly from revocatory actions, legal litigations and any other litigation. Their variation is constantly adapted on the basis of the litigations under way and the assessment as concerns their possible outcomes.

Net adjustments to loans

In the period net adjustments to loans equalled 194 million euro compared to 187 million euro of the first quarter of 2005, with a 3.7% increase. More specifically, the figure reflected adjustments of 425 million euro (+10.7%) and write-backs of 231 million euro (+17.3%).

(in millions of euro)

	31.03.2006	31.03.2005	Changes	
			amount	%
Doubtful loans	97	80	17	21.3
Other non-performing loans	93	68	25	36.8
Performing loans	14	5	9	
Net impairment losses on loans	**204**	**153**	**51**	**33.3**
Net adjustments to guarantees and commitments	**-10**	**34**	**-44**	
Net adjustments to loans	**194**	**187**	**7**	**3.7**

Considering the various non-performing loan categories, net impairment losses on doubtful loans recorded an increase from the 80 million euro of March 2005 to the current 97 million euro, mostly as a result of the passage to doubtful loans of three important corporate exposures, while those relative to other non-performing loans – namely, substandard loans, restructured loans and loans past due by over 180 days – registered a more substantial increase, from 68 million euro of the first quarter of 2005 to 93 million euro of March 2006, also due to the passage to the "substandard loans" category – and therefore subject to higher adjustment levels – of positions previously included in loans past due.
Provisions made to ensure that the generic coverage of performing loans is maintained at the levels required by the respective risk configurations, evidenced, on a net basis, new adjustments of 14 million euro, compared to 5 million euro of the first quarter of 2005.
Lastly, net write-backs of 10 million euro were posted on non-cash credit risk relative to guarantees and commitments outstanding, compared to 34 million euro of adjustments of the corresponding period of the previous year. This last figure had been affected by considerable adjustments referred to companies operating in the automotive sector.

Income (Loss) before tax from continuing operations

The trends indicated above led to income before tax from continuing operations of 1,197 million euro, with a 21.4% rise compared to 986 million euro of the first quarter of 2005. In addition to the aforementioned provisions to allowances for risks and charges and net adjustments to loans, this result also stems from the registration of net write-backs on other assets of 2 million euro and gains on measurement or on disposal of investments of 5 million euro (61 million euro as at March 2005, mostly referred to the sale of the subsidiary Milano Zerotre).

Taxes on income from continuing operations

Taxes on income from continuing operations, both current and deferred, referred to the period amounted to 418 million euro, with a 72 million euro rise with respect to the comparative figure as at 31st March 2005 (approximately +21%). The higher absolute value of the tax burden (calculated via the application of regulations in force in the various Countries in which the Group operates) stems from the expansion of taxable income and an approximately 35% tax rate practically in line with that of the corresponding period of the previous year.

Income (Loss) on discontinued operations, net of tax

The caption, which records nothing in the statement of income of the first quarter of 2006, recorded 18 million euro as at March 2005 referred to the sale of the portfolio of doubtful loans, which occurred in 2005 and was amply illustrated in the reports of the previous periods.

Net income

Net income for the quarter equalled 751 million euro (approximately +21%) compared to 620 million euro of March 2005 after the deduction of the relevant tax burden and minority interests.

Balance sheet aggregates

Reclassified consolidated balance sheet

(in millions of euro)

Assets	31.03.2006	31.12.2005	Changes	
			amount	%
Financial assets held for trading	53,444	51,068	2,376	4.7
Financial assets available for sale	4,533	4,379	154	3.5
Investments held to maturity	2,378	2,810	-432	-15.4
Due from banks	26,114	27,212	-1,098	-4.0
Loans to customers	177,168	169,588	7,580	4.5
Investments in associates and companies subject to joint control	2,200	2,091	109	5.2
Property, equipment and intangible assets	4,291	4,287	4	0.1
Tax assets	3,028	3,097	-69	-2.2
Non-current assets held for sale and discontinued operations	22	2,869	-2,847	-99.2
Other assets	5,889	6,360	-471	-7.4
Total Assets	**279,067**	**273,761**	**5,306**	**1.9**

Liabilities and Shareholders' Equity	31.03.2006	31.12.2005	Changes	
			amount	%
Due to banks	40,673	31,788	8,885	28.0
Due to customers	187,887	187,777	110	0.1
Financial liabilities held for trading	18,982	21,249	-2,267	-10.7
Tax liabilities	1,642	1,091	551	50.5
Liabilities associated with non-current assets held for sale and discontinued operations	-	2,963	-2,963	
Other liabilities	10,224	8,533	1,691	19.8
Allowances for specific purpose	2,919	2,835	84	3.0
Share capital	3,596	3,596	-	-
Reserves	10,724	9,255	1,469	15.9
Valuation reserves	914	829	85	10.3
Minority interests	755	820	-65	-7.9
Net income	751	3,025	-2,274	-75.2
Total Liabilities and Shareholders' Equity	**279,067**	**273,761**	**5,306**	**1.9**

General aspects

The tables above and hereafter analyse the results recorded in the balance sheet as at 31st March 2006 compared to those of the end of 2005, restated to consider the changes occurred in the consolidation area.

For the purpose of a clearer and more immediate analysis of the balance sheet and financial situation, the condensed tables of consolidated assets and liabilities have been prepared via grouping of certain captions, which contain the following reclassifications:

- the inclusion of cash and cash equivalents in the residual caption Other assets;
- the inclusion of hedging derivatives in Other assets/liabilities;
- the aggregation in just one caption of property and equipment and intangible assets;
- the aggregation of "Due to customers" and "Securities issued" in just one caption "Customer deposits";

- the aggregation in just one caption of allowances for specific purpose (Employee termination indemnities and Allowances for risks and charges);
- the presentation of Reserves as just one aggregate and net of any treasury shares.

Again for the purposes of a more effective representation of the composition of the aggregates, in the subsequent detailed tables and in the relative comments, derivatives recorded in Financial assets/liabilities held for trading and Due from/Due to banks are presented net and the value of fair value hedge derivatives is presented together with assets and liabilities hedged.

Loans to customers

(in millions of euro)

	31.03.2006	31.12.2005	Changes	
			amount	%
Current accounts	19,125	19,371	-246	-1.3
Mortgages	79,063	76,391	2,672	3.5
Advances and other loans	63,916	62,279	1,637	2.6
Repurchase agreements	6,431	3,692	2,739	74.2
Non-performing loans	5,322	5,170	152	2.9
Loans represented by securities	3,311	2,685	626	23.3
Loans to customers	**177,168**	**169,588**	**7,580**	**4.5**
Net value of related fair value hedge derivatives	**27**	**17**	**10**	**58.8**
Total	**177,195**	**169,605**	**7,590**	**4.5**

Loans to customers – inclusive of loans represented by securities issued by customers – reached 177,168 million euro with a 4.5% rise on the figure at the end of 2005. Even excluding repurchase agreements, which due to their financial nature are extremely volatile, loans to customers in the three months showed a growth rate close to 3%.
The increase in overall volumes is attributable to almost all lending contracts, with the persisting progress of medium- and long-term lending represented by mortgages (+3.5%), which continue to be approximately 45% of total loans to customers. Also advances and other loans increased (+2.6%) due to i) the growth of loans granted to support infrastructural projects, ii) the expansion of consumer lending, as well as iii) the expansion in the operations of subsidiaries in Central-Eastern Europe.
This trend was also recorded by loans granted via the underwriting of securities and repurchase agreements, while demand for short-term funding through overdrafts on current accounts showed a moderate decline, little over 1%.
Including net value of related fair value hedge derivatives, offset by fair value measurement of loans hedged, total loans to customers amounted to 177,195 million euro (+4.5%).

Loans to customers: loan portfolio quality

(in millions of euro)

	31.03.2006			31.12.2005		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
Doubtful loans	4,337	-2,976	1,361	3,995	-2,766	1,229
Substandard loans	4,447	-1,128	3,319	4,330	-1,196	3,134
Restructured loans	126	-35	91	124	-32	92
Past due loans	572	-21	551	754	-39	715
Non-performing loans	**9,482**	**-4,160**	**5,322**	**9,203**	**-4,033**	**5,170**
Performing loans to customers	**172,903**	**-1,057**	**171,846**	**165,438**	**-1,020**	**164,418**
Loans to customers	**182,385**	**-5,217**	**177,168**	**174,641**	**-5,053**	**169,588**
Net value of related fair value hedge derivatives	**27**	**-**	**27**	**17**	**-**	**17**
Total	**182,412**	**-5,217**	**177,195**	**174,658**	**-5,053**	**169,605**

Total non-performing loans equalled 5,322 million euro, compared to the 5,170 million euro of the end of 2005. However, the incidence of non-performing loans on total loans to customers remained unchanged at approximately 3%.
In detail, net doubtful loans totalled 1,361 million euro, compared to 1,229 million euro of December 2005, mostly as a result of the transfer to doubtful loans of three important corporate exposures. Nonetheless, the incidence on total loans was close to 0.77% only marginally higher than the 0.72% at the end of 2005, and with an unchanged degree of coverage of approximately 69%.
Substandard loans recorded, in absolute terms, an approximately 6% increase to 3,319 million euro, with an incidence on total loans to customers of approximately 1.9%, compared to 1.8% of December 2005, and a degree of coverage exceeding 25%, which, though slightly lower than at the end of 2005, is in any case sufficient to cover the intrinsic risk of this sort of portfolio. The rise in substandard loans stemmed from the transfer to this loan category of a significant amount of loans previously classified as past due.
In fact, the latter recorded a decrease, net, of 23% to 551 million euro, with an incidence on total loans to customers which dropped from 0.4% of the end of 2005 to the current 0.3%.
Restructured loans remained practically unchanged at little over 90 million euro.
Risk implicit in performing loans is calculated collectively on the basis of the risk configuration of the entire portfolio analysed via models which consider the Probability of Default (PD) and the Loss Given Default (LGD) of individual loans.
Cumulated collective adjustments amounted to 1,057 million euro, marginally higher than the figure at the end of 2005, and represented an average percentage of over 0.6% of gross exposure related to performing loans to customers. Such cumulated provisions, unchanged with respect to December 2005, are deemed to be adequate to cover the risk of performing loans.

Customer funds

(in millions of euro)

	31.03.2006	31.12.2005	Changes	
			amount	%
Deposits	16,204	15,351	853	5.6
Current accounts and other	84,267	85,630	-1,363	-1.6
Other	4,167	4,382	-215	-4.9
Repurchase agreements	12,067	10,094	1,973	19.5
Due to customers	**116,705**	**115,457**	**1,248**	**1.1**
Securities issued	**71,182**	**72,320**	**-1,138**	**-1.6**
Direct customer deposits	**187,887**	**187,777**	**110**	**0.1**
Net value of related fair value hedge derivatives	**707**	**97**	**610**	
Total	**188,594**	**187,874**	**720**	**0.4**
Indirect customer deposits	**307,275**	**287,800**	**19,475**	**6.8**
Customer deposits under administration	**495,869**	**475,674**	**20,195**	**4.2**

Direct customer deposits, including securities issued, reached 187,887 million euro, therefore consolidating the growth rate registered in 2005. Also figures as at 31st March 2006 confirm customers' propensity for liquidity or, in any case, for short-term investments. Deposits and current accounts, considered together, remained practically on the same levels as in December 2005, considering that the latter benefited from the rise, towards the end of the year, of deposits made by certain primary clients operating in the international markets.
Securities – issued on the international markets via certificates of deposit or placed with customers as structured or plain vanilla bonds – decreased (-1.6% to 71,182 million euro), due to the lower recourse to this type of funding, while repurchase agreements posted an approximately 20% increase to 12,067 million euro.
Including in the aggregate the net value of related fair value hedge derivatives, which is offset by fair value measurement of due to customers hedged (mainly securities issued), total customer deposits equalled 188,594 million euro, marginally higher than the figure of the end of the previous year.

Indirect customer deposits

(in millions of euro)

	31.03.2006	31.12.2005	Changes	
			amount	%
Individual portfolio management schemes	30,595	31,543	-948	-3.0
Bancassurance products	28,561	27,502	1,059	3.9
Total assets under management	**59,156**	**59,045**	**111**	**0.2**
Assets under administration and in custody	**248,119**	**228,755**	**19,364**	**8.5**
Indirect customer deposits	**307,275**	**287,800**	**19,475**	**6.8**

Indirect customer deposits totalled 307 billion euro, with a 6.8% growth rate with respect to the end of 2005.
The most significant component by far was assets under administration, which increased to 248 billion euro, with an 8.5% growth rate, also as a result of the contribution of institutional customers.
Assets under management – that, after the closing of the well-known strategic agreement with the Crédit Agricole group, now only represents under 20% of indirect customer deposits – confirmed, with a marginal increase, the amount at the end of 2005, therefore consolidating the good performance recorded last year.

Financial assets / liabilities held for trading

(in millions of euro)

	31.03.2006	31.12.2005	Changes	
			amount	%
Bonds and other debt securities	32,414	31,965	449	1.4
Equities and quotas of UCITS	6,424	3,056	3,368	
Trading portfolio	**38,838**	**35,021**	**3,817**	**10.9**
Net value of debt securities derivatives and interest rate derivatives	178	-729	907	
Net value of currency derivatives	-306	-150	156	
Net value of equity derivatives and stock index derivatives	-382	-507	-125	-24.7
Net value of credit derivatives	-26	3	-29	
Net value of trading derivatives	**-536**	**-1,383**	**-847**	**-61.2**
Other liabilities held for trading	**-3,840**	**-3,819**	**21**	**0.5**
Financial assets / liabilities held for trading	**34,462**	**29,819**	**4,643**	**15.6**

Financial assets / liabilities held for trading – recorded at fair value through profit and loss – comprise both debt securities (over 32 billion euro) and equities (over 6 billion euro) as well as the positive / negative value of trading derivatives.
The trading portfolio recorded an almost 11% rise to 38,838 million euro mainly attributable to equities, which doubled also as result of the development of dividend trade activities, while debt securities increased by 1.4%.
As concerns trading derivatives, which recorded a net negative value of 536 million euro, the most significant component referred to contracts on currencies, equities and stock indexes.

Financial assets available for sale

(in millions of euro)

	31.03.2006	31.12.2005	Changes	
			amount	%
Bonds and other debt securities	1,998	2,054	-56	-2.7
Equities and quotas of UCITS	53	36	17	47.2
Securities available for sale	**2,051**	**2,090**	**-39**	**-1.9**
Equity stakes	1,945	1,684	261	15.5
Private equity investments	279	291	-12	-4.1
Equity stakes available for sale	**2,224**	**1,975**	**249**	**12.6**
Loans available for sale	**258**	**314**	**-56**	**-17.8**
Financial assets available for sale	**4,533**	**4,379**	**154**	**3.5**
Net value of related fair value hedge derivatives	**-3**	**-33**	**-30**	**-90.9**
Total	**4,530**	**4,346**	**184**	**4.2**

Financial assets available for sale, made up of debt securities and equity stakes to be sold in the short term, totalled 4,533 million euro, with a 3.5% increase with respect to the figure of December 2005. The caption was constituted by debt securities and equities which are not held for trading purposes of 2,051 million euro (-1.9%), mostly made up of securities included in the investment portfolio based on the former accounting principles and long-term securities in the portfolio of a vehicle company.
It also included equity stakes and private equity investments of 2,224 million euro, with a net rise of 12.6% which is the combined effect of an increase in equity stakes (+15.5%) and a 4.1% decrease in private equity investments. Lastly, the caption included portions of syndicated loans to be placed with third parties, amounting to 258 million euro.
As is generally known, these assets are measured at fair value with recognition of changes in a specific valuation reserve under shareholders' equity.

Investments held to maturity

(in millions of euro)

	31.03.2006	31.12.2005	Changes	
			amount	%
Government securities	2,377	2,554	-177	-6.9
Bonds and other debt securities	1	256	-255	-99.6
Investments held to maturity	**2,378**	**2,810**	**-432**	**-15.4**

The caption includes debt securities held by Group companies (mainly Eastern-European banks and among these, in particular, VUB), that the relevant holding entity has declared will be held to maturity. These almost entirely referred to Government securities. The 15.4% contraction was due to the expiry of securities which reached maturity.

Investments in associates and companies subject to joint control

(in millions of euro)

	31.03.2006	31.12.2005	Changes	
			amount	%
Investments in associates and companies subject to joint control	1,754	1,645	109	6.6
Other	446	446	-	-
Investments in associates and companies subject to joint control	**2,200**	**2,091**	**109**	**5.2**

Investments in associates and companies subject to joint control, which are carried at equity, are recorded in the consolidated balance sheet for a total of 1,754 million euro, calculated based on the pro quota value of the associate's shareholders' equity increased by the eventual goodwill.
The subcaption "other" includes the equity investment in the Bank of Italy which is stated at cost (433 million euro) in consideration of the peculiarity of the equity investment, together with few cases of controlled entities which, in consideration of their irrelevance, are also stated at cost.

Net interbank position

(in millions of euro)

	31.03.2006	31.12.2005	Changes	
			amount	%
Loans	2,889	2,565	324	12.6
Deposits	-9,845	-6,338	3,507	55.3
Net interbank position repayable on demand	**-6,956**	**-3,773**	**3,183**	**84.4**
Loans	23,225	24,647	-1,422	-5.8
Deposits	-30,828	-25,450	5,378	21.1
Net interbank position with notice period	**-7,603**	**-803**	**6,800**	
Net interbank position	**-14,559**	**-4,576**	**9,983**	
Net value of related fair value hedge derivatives	**54**	**60**	**-6**	**-10.0**
Total	**-14,505**	**-4,516**	**9,989**	

At the end of March 2006 the net interbank position recorded an expansion in its negative balance, from 4.5 billion euro at the end of 2005, to 14.5 billion euro.
The rise, which occurred in the quarter, is attributable to the increase in the debt balance of the "on demand" component, and even more so, to the increase of the "with notice period" debt position. It was, among other reasons, connected to the need to find the funding necessary to support both the growth in loans to customers and the particularly dynamic expansion of trading activities, especially by Banca Caboto.

Non-current assets held for sale and discontinued operations and related liabilities

As provided for by IFRS 5, assets and the related liabilities, which no longer refer to continuing operations as they are undergoing disposal, are recorded in a specific caption. For 2005, these mostly refer to the sale of Banco Wiese Sudameris while the most significant component in March 2006 referred to property and equipment, essentially real estate, under disposal by various Group companies among which, especially, certain Eastern-European subsidiaries.

(in millions of euro)

	31.03.2006	31.12.2005	Changes	
			amount	%
Loans to customers	-	-	-	
Investments in associates and companies subject to joint control	1	15	-14	-93.3
Discontinued operations	-	2,831	-2,831	
Property and equipment	21	23	-2	-8.7
Other	-	-	-	
Liabilities associated with non-current assets held for sale and discontinued operations	-	-2,963	-2,963	
Non-current assets held for sale and discontinued operations and related liabilities	**22**	**-94**	**116**	

Allowances for specific purpose

In addition to cumulated provisions for Employee termination indemnities of 1,117 million euro, the caption included Allowances for risks and charges for a total of 1,802 million euro. The latter, which registered a 4% growth rate, for 319 million euro referred to pension funds, whilst the remaining portion (1,483 million euro) covered, as concerns the larger amounts, charges relative to legal disputes (368 million euro), revocatory actions (520 million euro), and other legal controversies (84 million euro), as well as charges related to personnel (166 million euro) and charges related to the sale of equity investments (99 million euro).

Shareholders' equity

The Group's shareholders' equity, including net income for the period, amounted to 15,985 million euro. It included valuation reserves of 914 million euro which for 348 million euro referred to legally-required revaluations recorded in the past based on specific laws and for 474 million euro derived from fair value measurement of financial assets available for sale and cash flow hedge derivatives. The remaining 92 million euro represented foreign exchange differences, of which 65 million euro referred to European subsidiaries which had adopted the euro as the local currency.

Valuation reserves

(in millions of euro)

	Valuation reserves as at 31.12.2005	Change in the period	Valuation reserves as at 31.03.2006
Financial assets available for sale	389	39	428
Property and equipment	-	-	-
Cash flow hedges	-39	85	46
Legally-required revaluations	345	3	348
Other	134	-42	92
Valuation reserves	**829**	**85**	**914**

Shareholders' equity for supervisory purposes

Shareholders' equity for supervisory purposes and related capital ratios were determined using the new instructions issued by the Bank of Italy which consider IAS/IFRS principles.

(in millions of euro)

Total capital and capital ratios	31.03.2006	31.12.2005
Tier 1 capital	15,264	15,096
Tier 2 capital	6,882	5,800
Items to be deducted	-1,361	-1,240
Total capital	**20,785**	**19,656**
Credit risks	14,067	13,760
Market risks	1,402	1,303
Tier 3 subordinated loans	-	-
Other capital requirements	130	140
Capital requirements	**15,599**	**15,203**
Excess capital	**5,186**	**4,453**
Risk-weighted assets	**194,988**	**190,038**
Capital ratios %		
Core Tier 1 / Total risk-weighted assets	7.01	7.10
Tier 1 / Total risk-weighted assets	7.83	7.94
Total capital / Total risk-weighted assets	10.66	10.34

Shareholders' equity for supervisory purposes amounted to 20,785 million euro, against risk-weighted assets of 194,988 million euro. The Total capital ratio equalled 10.66% of which 7.83% referred to Tier 1 capital. The ratio between Tier 1 capital net of preference shares and risk-weighted assets (Core Tier 1) equalled 7.01%. These last two ratios showed a slight decline with respect to the end of 2005 due to the rise in assets determined by the development of operations.

The following table illustrates the reconciliation of the Parent Company's shareholders' equity and net income with consolidated shareholders' equity and net income.

(in millions of euro)

	Shareholders' equity	*of which net income as at 31.03.2006*
Parent Company's balances as at 31st March 2006	**13,231**	**411**
Effect of consolidation of subsidiaries subject to control and joint control	2,582	325
Effect of consolidation of subsidiaries carried at equity	-18	29
Reversal of sale of subsidiaries, investments in associates and companies subject to joint control	-	-12
Reversal of adjustments to subsidiaries, investments in associates and companies subject to joint control	2	2
Restatement of goodwill	-7	-
Dividends collected during the period	-	-
Other	195	-4
Consolidated balances as at 31st March 2006	**15,985**	**751**

Breakdown of results by business area

In this chapter consolidated results are broken down by business area (the so-called primary segment foreseen by IAS 14).

Gruppo Intesa operates with a divisional, customer-oriented structure, made up of the following business areas: the Retail Division, the Italian Subsidiary Banks Division, the International Subsidiary Banks Division and the Corporate Division. The latter as of 1st January 2006 is considered together with Banca Intesa Infrastrutture e Sviluppo (B.I.I.S.), the new Group bank which absorbed the activities related to the public sector and to infrastructures. In consideration of the close proximity between the Corporate Division’s operations and B.I.I.S. it was deemed advisable, in the comments which follow, to consider them as part of the same segment at least in the start-up phase of the new entity. Finally, the organisational structure is completed by the Central Structures which guarantee governance and control of the operating units.

The ***Retail Division*** operates with approximately 2,100 branches and 26,000 employees serving approximately 6 million customers, consisting of Households, SMEs (with turnover up to 50 million euro) and Non-Profit Entities. The Retail Division is in charge of the Parent Company’s traditional lending and deposit collecting activities and also the offer of i) private banking services, ii) bancassurance and pension products, iii) mutual funds, iv) industrial and consumer credit, v) financial leasing, as well as vi) management of electronic payment instruments.

The ***Italian Subsidiary Banks Division*** is constituted by the Italian subsidiary banks performing retail banking activities. They are medium-sized or small banks, with a markedly local vocation, that operate with approximately 950 branches and over 8,000 employees in close coordination with the Retail Division, pursuing the optimisation of commercial synergies by sharing the most important initiatives and serving approximately 1.7 million customers.

The ***International Subsidiary Banks Division*** provides directives, coordination and support to the subsidiaries abroad that mainly perform retail and commercial banking activities mostly in Central-Eastern Europe, in Croatia, Slovakia, Serbia and Montenegro, Hungary, Bosnia and Herzegovina and the Russian Federation. This involves over 4.5 million customers, which are served by approximately 750 branches and over 14,000 employees in the Group.

The ***Corporate Division***, considered together with ***Banca Intesa Infrastrutture e Sviluppo***, manages a customer portfolio of over 18,000 large companies and financial institutions with a turnover exceeding 50 million euro, and operates through over 50 branches and with over 5,000 employees, with specific skills in mergers and acquisitions, structured finance, merchant banking, capital markets, global custody, and through the specialised network abroad made up of the Parent Company’s branches and representative offices and of other Group companies performing corporate banking activities. The Division guarantees reference customers a global and integrated offer of products and services through both traditional territorial structures and IT channels and operates in close proximity with Banca Intesa Infrastrutture e Sviluppo, which is responsible for the integrated service offering to all the public and private entities involved in public expenditure.

As mentioned above ***Central Structures*** are in charge of governance and control activities and also of treasury and strategic finance activities as well as of the management of the Parent Company’s securities portfolio.

BUSINESS AREAS

(in millions of euro)

	31.03.2006					
	Retail Division	Italian Subsidiary Banks Division	International Subsidiary Banks Division	Corporate Division and B.I.I.S.[(a)]	Central Structures	Total
Net interest income	736	252	174	140	42	1,344
Dividends	-	7	-	-	-7	-
Profits (Losses) on investments carried at equity	28	-	-	-	1	29
Net fee and commission income	612	150	78	214	-42	1,012
Profits (Losses) on trading	-	18	40	177	129	364
Other operating income (expenses)	8	1	-2	9	-12	4
Operating income	**1,384**	**428**	**290**	**540**	**111**	**2,753**
Personnel expenses	-406	-129	-72	-92	-96	-795
Other administrative expenses	-251	-60	-61	-97	50	-419
Adjustments to property, equipment and intangible assets	-49	-7	-20	-14	-27	-117
Operating costs	**-706**	**-196**	**-153**	**-203**	**-73**	**-1,331**
Operating margin	**678**	**232**	**137**	**337**	**38**	**1,422**
Goodwill impairment	-	-	-	-	-	-
Net provisions for risks and charges	-	-7	-2	-2	-27	-38
Net adjustments to loans	-114	-28	-29	-30	7	-194
Net impairment losses on other assets	-	-	4	-	-2	2
Profits (Losses) on investments held to maturity and on other investments	-	3	1	29	-28	5
Income (Loss) before tax from continuing operations	**564**	**200**	**111**	**334**	**-12**	**1,197**

(in millions of euro)

	31.03.2006					
	Retail Division	Italian Subsidiary Banks Division	International Subsidiary Banks Division	Corporate Division and B.I.I.S.[(a)]	Central Structures	Total
Loans to customers	82,555	26,545	12,268	51,124	4,676	177,168
Due to customers	51,921	16,907	12,993	26,998	7,886	116,705
Securities issued	22,852	9,221	664	9,181	29,264	71,182
Net interbank position	-16,989	1,477	-739	-10,390	12,082	-14,559

[(a)] Banca Intesa Infrastrutture e Sviluppo

Retail Division

(in millions of euro)

	31.03.2006	31.03.2005	Changes	
			amount	%
Net interest income	736	701	35	5.0
Dividends	-	-	-	-
Profits (Losses) on investments carried at equity	28	31	-3	-9.7
Net fee and commission income	612	570	42	7.4
Profits (Losses) on trading	-	1	-1	
Other operating income (expenses)	8	5	3	60.0
Operating income	**1,384**	**1,308**	**76**	**5.8**
Personnel expenses	-406	-406	-	-
Other administrative expenses	-251	-237	14	5.9
Adjustments to property, equipment and intangible assets	-49	-43	6	14.0
Operating costs	**-706**	**-686**	**20**	**2.9**
Operating margin	**678**	**622**	**56**	**9.0**
Goodwill impairment	-	-	-	-
Net provisions for risks and charges	-	-	-	-
Net adjustments to loans	-114	-48	66	
Net impairment losses on other assets	-	-	-	-
Profits (Losses) on investments held to maturity and on other investments	-	-	-	-
Income (Loss) before tax from continuing operations	**564**	**574**	**-10**	**-1.7**

(in millions of euro)

	31.03.2006	31.12.2005	Changes	
			amount	%
Loans to customers	82,555	81,160	1,395	1.7
Due to customers	51,921	52,650	-729	-1.4
Securities issued	22,852	23,927	-1,075	-4.5
Net interbank position	-16,989	-16,952	37	0.2

The Retail Division generated 47.7% of the Group's operating margin (54% as at March 2005) with an absorption of capital of 4,955 million euro equal to 41.8% (41.7% as at March 2005) and risk-weighted assets of 80 billion euro (41% of the total). Income before tax from continuing operations amounted to 564 million euro (-1.7% on March 2005). This was due to a rise in operating income (+5.8% from 1,308 million euro to 1,384 million euro), an increase in operating costs (+2.9%, from 686 million euro to 706 million euro) and higher net adjustments to loans, from 48 million euro to 114 million euro. As regards financial ratios, the cost/income ratio stood at 51%, with an improvement compared to 52.4% as at March 2005, benefiting from a notable rise in net income against a contained increase in operating costs. The Retail Division's EVA represented 65.4% of the Group's consolidated EVA and reached 259 million euro.

Within the Division, the aggregate of retail branches and SME branches reached an income before tax from continuing operations of 436 million euro with a 5.7% decrease with respect to the same period of the previous year. Such trend is affected by the strong increase in net adjustments attributable not only to the transfer to doubtful loans of positions previously recorded as substandard loans, but also to the increase in the latter and to the inclusion in non-performing loans of loans past due by over 180 days. Operating margin improved by 30 million euro (equal to 6%) due to a substantial increase in operating income (+49 million euro equal to

4.3%) and a contained rise in operating costs (+19 million equal to 3%). In particular, net interest income recorded a 2.8% improvement compared to March 2005, mainly due to the confirmation of the strong expansion of medium- and long-term loans, that registered a 13% growth rate in terms of average volumes. Demand for residential mortgages from retail customers continued to rise. Medium- and long-term loans again registered a strong expansion also in the market of small- and medium-sized companies with a 16.3% increase in average volumes compared to the same period of the previous year. Average volumes of direct customer deposits (current accounts and saving deposits) highlighted a 3% rise. A reduction was instead registered on bond issues, following the Bank's choice to offer customers different products with similar maturities (bancassurance products and mutual funds). Interest rates recorded a practical stability in both lending and funding components. The effect on the statement of income was however positive because of the strong increase in medium- and long-term lending and the expansion in short-term funding.
The service sector recorded a marked improvement (+6%) on March 2005. This result was mainly due to the commissions related to the assets under management segment following the great success achieved in placing the "Intesa Garanzia Attiva" fund and the offer of Bancassurance products, with higher value added with respect to the same period of the previous year. The other categories that registered a positive performance consisted of policies linked to mortgages and personal loans, and were related to customers' renewed interest in corporate derivatives. With regard to the placement of third party bonds, activities were considerably reduced and commissions halved with respect to the same period of 2005, since priority was given to the offer of Banca Intesa products. Operating costs registered a 3.0% increase compared to March 2005, showing a slight reduction in personnel expenses and an expansion in other administrative expenses.

As already outlined in the Executive Summary, in the first quarter of 2006, in the ***Retail*** segment initiatives already undertaken in 2005 were consolidated and new activities aimed at progressively improving results were initiated. In addition to the success of the *Intesa Rata Sicura* product range, which protects holders of floating-rate mortgages from the risk of rising interest rates, Intesa Soluzioni Casa mortgages were expanded with the introduction of *Intesa Mutuo Atipico*, which enables also temporary workers to finance the purchase of their first home conceding them – in case of proven temporary interruption of their job – to suspend the payment of up to six monthly instalments. With regard to assets under management, the first quarter registered the excellent appreciation of *Intesa Garanzia Attiva*, the first mutual fund in Italy with guaranteed capital launched in mid-December 2005, and the launch of *Intesa Premium Power*, the new fund of funds with flexible management and total return, which has the clear objective of a higher total return and a longer time horizon. Great attention was paid to the products conceived to attract new savings through the offer of attractive economic conditions and innovative product characteristics (*Vitamina C, Vitamina C4% Special, Intesa Basket* bonds) supported by adequate marketing initiatives. With the same objective, in the bancassurance segment, *Intesa Sempre Special*, the new capitalisation policy without commission on entry, was launched. Moreover, the development of the *Index Linked* offer continued with the launch of 8 new issues. Within assets under administration, activities focused on the placement of structured bonds with guaranteed capital at maturity issued by third parties (Dexia and Mediobanca).
Important innovations were also made in the offer to ***Small business*** customers. In particular, *Intesa eBusiness*, Banca Intesa's solution for businesses which want to deploy the *e-Commerce* channel to expand their activities, was launched in February. This initiative was developed in partnership with the main market players: eBay, Tiscali and DHL. Targeted actions were then undertaken towards particular types of customers, such as insurance agents and administrators of apartment blocks, with the offer of *ad hoc* products.
In the ***Small and medium-sized enterprises*** segment certain important initiatives were launched in the quarter, including *IntesaBrand*, the first offering in Italy of financial and professional services addressed to SMEs for the development of the brand and of marketing policies.
After the success of the initiative developed in 2005, a new financing offering was launched in partnership with the Eurofidi consortium that will provide privileged access to medium-term loans, particularly in support of innovation for SMEs. This initiative is based on a plafond of 500 million euro made available by Banca Intesa for new productive investments and a further

plafond of 250 million euro by Intesa Leasing for investments regarding industrial vehicles, real estate and other assets. The Eurofidi guarantee covers 100% of both the loan granted and the leasing contract.
The development of the offer of non-financial services through IntesaSoluzioni continued and *Soluzioni per l'agricoltura* (solutions for agriculture) was launched, the complete package of products and services tailored to meet the needs of agricultural companies and farmers, that represents an innovative way of managing the requirements of the entrepreneurs of this sector, by proposing specific solutions for each production chain.
For the purpose of improving customer relations, technical-training seminars for entrepreneurs who are members of Category associations were organised and the new approach for the sale of derivative instruments completed the test phase and started to be rolled out.
Specific initiatives in the ***Religious and Non-Profit Entities*** segment referred to the new Mosaico offering system, launched on the market at the end of last year and characterised by specific products/services to meet the needs of that particular segment.

The Retail Division is in charge of certain subsidiaries, the activities of which are strictly synergic with the Parent Company's sales network.
Asset management activities are performed through ***Banca Intesa Private Banking***, the statement of income of which highlighted for the first quarter, on the one hand, the positive trend in revenues, linked to the expansion of the customer base and of the relevant assets and, on the other hand, the related increase in costs. It must be recalled that in the first quarter of 2005 the gradual transfer to the new bank of the Parent Company's private customers was still under way and part of the charges, especially personnel expenses, rentals and accessory costs, were still recorded to Banca Intesa's statement of income. Therefore, all statement of income aggregates recorded substantial rises leading to a net income for the period of approximately 16 million euro compared to over 6 million euro of the first quarter of 2005. As at 31st March 2006, balance sheet aggregates highlighted indirect customer deposits of over 28 billion euro (approximately +3% on December 2005), of which assets under management exceeding 18 billion euro, and direct customer deposits amounting to 1.3 billion euro (approximately +31%), that were invested in due from banks and loans to customers for a total of approximately 1 billion euro and in the start-up of trading activities on the proprietary portfolio (0.3 billion euro), finalised to a more efficient management of liquid funds.

The network also distributes the supplementary pension funds of ***Intesa Previdenza***, which as at 31st March 2006, managed net assets of 1,218 million euro, related for 736 million euro to open-end pension funds and for 482 million euro to closed-end funds. In the quarter, funding activities were positive and recorded 1,339 new subscriptions, 731 to open-end pension funds and 608 to closed-end funds. The former recorded results above expectations especially for the PrevidSystem open-end fund and, among the latter, the increase was mainly related to the new subscribers to Fondo Pensione Dipendenti Banca Intesa. The first quarter of 2006 closed with a net income of 0.9 million euro, higher than the 0.6 million euro as at March 2005, as a result of the increase in the commissions linked to the rise in assets which more than balanced the increase in operating costs attributable to investments of administrative-procedural nature related to the new social security scenario.

Medium- and long-term lending activities are carried out through Banca Intesa Mediocredito and Banca CIS.
Banca Intesa Mediocredito posted a net income for the first quarter of 2006 of 14.1 million euro, compared to 25 million euro as at March 2005. With net interest income stable, the reduction in net income was due to: i) no dividends from the subsidiary Banca CIS (over 5 million euro as at March 2005), ii) an increase in operating costs, almost equally divided between personnel expenses and other administrative expenses and, in particular, iii) a rise in adjustments to loans due to the deterioration of existing positions. Main balance sheet aggregates highlighted a loan portfolio of 12,940 million euro, only marginally lower than as at December 2005, and an interbank funding – which was the main source of funding – equal to 10,957 million euro (-2.4%) while direct customer deposits, mainly through the issue of securities, increased by approximately 6% to 1,150 million euro.

Banca CIS closed the first quarter of 2005 with a net income of 2.9 million euro, in line with the figure of the first quarter of 2005, due to the positive trend of operating income, which amply absorbed the higher operating costs. More specifically, the increase in operating income (+4.8%) was attributable to the good performance of net interest income (+7%), only partly offset by the contraction in net fee and commission income (approximately -3%) and by the rise in operating costs (+3.4%) entirely attributable to administrative expenses. The resulting operating margin maintained a 6% improvement on the comparable figure of the previous year. Finally, net adjustments to loans were higher compared to the first quarter of the previous year. Balance sheet aggregates highlighted loans to customers at 1,321 million euro (+2.4% with respect to as at 31st December 2005) and interbank funding at 1,033 million euro (+1.3%) which was the main source of funding.

In the first quarter of 2006, ***Intesa Leasing*** stipulated, through the network of Group banks, 4,140 new contracts, for an overall countervalue of 837 million euro, with a progress, compared to the same period of 2005, in terms of both new investments (+53.8%) and number of operations (+3.3%). The company is currently ranked in third position among national operators in the sector, with an almost 8% market share. As at 31st March 2006, loans to customers, almost entirely generated by leasing operations, reached 7,159 million euro (approximately +5% on December 2005). As to the statement of income, the company closed the quarter with a net income of 7.8 million euro, up by over 15% on the corresponding period of 2005.

Setefi, specialised in management of electronic payment systems, performs the duties of acquirer for retailers, issues proprietary credit cards and manages the Moneta cards for Group banks. The company uses its own network of POS terminals and is in charge of the e-money system through the management of the Monetaonline site. In the first quarter of 2006, Setefi further expanded its activity, with a 15% increase in total transaction volumes in the twelve months. The number of directly-issued or managed cards equalled 3.6 million while proprietary and third-party POS terminals were approximately 122,000. The company closed the period with a net income of 6.4 million euro, virtually in line with the corresponding figure of the first quarter of 2005.

The Division's operating margin also benefited from commissions for the distribution of ***Intesa Vita*** insurance products placed through the branch network. Intesa Vita is a subsidiary of the Generali group and is consolidated by Gruppo Intesa with the equity method. The statement of income as at 31st March 2006 closed with a net income, determined according to IAS/IFRS, of approximately 46 million euro, after having collected gross premiums of approximately 1,800 million euro. As at 31st March 2006, Intesa Vita's technical insurance reserves were close to 26 billion euro, while shareholders' equity equalled 1,520 million euro.
Finally, a contribution to the results achieved by the Division came from the consumer credit activities performed through ***Agos***, the joint venture established with Crédit Agricole, that registered a net income for the quarter of 14 million euro, in line with that of the first period of the previous year.

Italian Subsidiary Banks Division

(in millions of euro)

	31.03.2006	31.03.2005	Changes	
			amount	%
Net interest income	252	229	23	10.0
Dividends	7	-	7	-
Profits (Losses) on investments carried at equity	-	-	-	-
Net fee and commission income	150	129	21	16.3
Profits (Losses) on trading	18	26	-8	-30.8
Other operating income (expenses)	1	1	-	-
Operating income	**428**	**385**	**43**	**11.2**
Personnel expenses	-129	-124	5	4.0
Other administrative expenses	-60	-55	5	9.1
Adjustments to property, equipment and intangible assets	-7	-7	-	-
Operating costs	**-196**	**-186**	**10**	**5.4**
Operating margin	**232**	**199**	**33**	**16.6**
Goodwill impairment	-	-	-	-
Net provisions for risks and charges	-7	-3	4	
Net adjustments to loans	-28	-20	8	40.0
Net impairment losses on other assets	-	-	-	-
Profits (Losses) on investments held to maturity and on other investments	3	5	-2	-40.0
Income (Loss) before tax from continuing operations	**200**	**181**	**19**	**10.5**

(in millions of euro)

	31.03.2006	31.12.2005	Changes	
			amount	%
Loans to customers	26,545	25,472	1,073	4.2
Due to customers	16,907	17,373	-466	-2.7
Securities issued	9,221	8,849	372	4.2
Net interbank position	1,477	2,289	-812	-35.5

The Italian Subsidiary Banks Division enhanced its economic results with an over 11% increase in operating income, that at 428 million euro represented 15.6% of the Group's consolidated operating income. Operating costs, at 196 million euro led to an operating margin of 232 million euro (+16.6%), corresponding to a cost/income ratio of 45.8% (*ex* 48.3%). Also income before tax from continuing operations registered an appreciable rise to 200 million euro (+10.5%).

In the first quarter of 2006 ***Cassa di Risparmio di Parma e Piacenza*** registered a net income of 63.5 million euro (+12% with respect to the same period of 2005), due to an almost 11% rise in operating income. This rise was determined both by net interest income (+13.2%), due to the progress of intermediated volumes and to the increase in interest rate spreads, and by net fee and commission income, over 16% higher also as a result of the good performance of the "under management" and bancassurance segments. The reduction in profits on trading is entirely attributable to the fact that the 2005 figure had benefited from non-recurring profits generated by the sale of securities. Operating costs rose by 6.2% due to the higher expenses incurred for the technological, organisational and commercial development aimed at continuously innovating products and services. Net adjustments to loans remained practically unchanged whereas an increase was registered in provisions for risks and charges. The balance sheet evidenced, compared to December 2005, a 3.9% increase in loans to customers to

12,151 million euro, a practical stability in direct customer deposits at 12,537 million euro and an over 5% rise in indirect customer deposits to 27,786 million euro.

Banca Popolare FriulAdria closed the statement of income for the first quarter of 2006 with a net income of 16.2 million euro, approximately 24% higher than the corresponding figure of 2005. This result benefited from generalised rises in all main income items. Net interest income increased by approximately 13%, attributable to the growth of intermediated volumes and notwithstanding a slight erosion in interest rate spreads. Net fee and commission income rose by approximately 18% benefiting from higher revenues generated by the placement of insurance products; profits on trading rose by over 60% also due to the profits made on the sale of two equity investments. The overall increase in operating income (approximately +23%) easily absorbed both the rise in operating costs (+3.8%) and higher net adjustments to loans which was made necessary by the deterioration of a single important position. With respect to figures as at 31st December 2005, balance sheet aggregates highlighted increases in both loans to customers (+3.8% to 3,883 million euro) and direct customer deposits (+1.4% to 3,104 million euro). Lastly, indirect customer deposits posted a 2.5% growth rate to 5,272 million euro.

In the first three months of 2006 ***Banca di Trento e Bolzano*** recorded overall positive results, though with a reduction compared to the first quarter of 2005, due to the lower contribution given by securities trading; this led to a net income of 4.2 million euro against 5.4 million euro as at March 2005. Despite lower profits on trading, operating income for the period maintained a level virtually equal to that of the first quarter of 2005, due to the higher performance recorded in the other areas: in fact, net interest income rose by 6.3% and net fee and commission income increased by over 22%. This allowed to continue to support the bank's expansion which required an approximately 9% increase in operating costs. Finally, net adjustments to loans registered a rise, following the increase in substandard loans. Balance sheet figures highlighted, compared to the end of 2005, a further expansion in loans to customers (+1.9% to 1,943 million euro) and a stability in direct customer deposits (+0.5% to 1,679 million euro). In the first three months indirect customer deposits registered a marked rise (+4.3%) to 2,052 million euro.

Cassa di Risparmio di Biella e Vercelli posted a net income for the first quarter of 2006 of 9.1 million euro, slightly lower than that of the corresponding period of 2005. This result was determined by the rise in operating income (approximately +15%), which stemmed from both net interest income (+6.6%), mostly in the customers and securities component, and net fee and commission income (+14.9%), mainly generated in the assets under management and credit cards segments, as well as trading activities, that also benefited from the capital gain generated by the sale of an equity investment. A physiological increase was registered in operating costs and a more marked rise was recorded in net adjustments to loans and in provisions for risks and charges, which, however, still allowed to maintain income before tax from continuing operations at a higher level (+1.7%) with respect to March 2005. Compared to December 2005, balance sheet figures showed a confirmation of direct customer deposits at 2,248 million euro against a moderate decline in loans to customers at 2,278 million euro. Finally, indirect customer deposits recorded an approximately 2% rise to 3,305 million euro.

The Saving Banks in Central Italy, united under the control of ***Intesa Casse del Centro***, highlighted an overall rise in operating income both in net interest income, which represented the main source of revenues, and in net fee and commission income. With regard to costs, after the severe containment policy enacted in the last few years, a moderate increase was recorded as a consequence of the start-up of a new phase of expansion and implementation of new projects. Also net adjustments to loans increased.

In short, the Saving Banks, considered on a single basis, registered the following net incomes: Cassa di Risparmio di Viterbo, 4.3 million euro (-32%), Cassa di Risparmio di Ascoli Piceno, 4.8 million euro (+14.2%), Cassa di Risparmio di Terni e Narni, 3.8 million euro (+20.9%), Cassa di Risparmio di Rieti, 4.1 million euro (+13.1%), Cassa di Risparmio di Foligno, 2.8 million euro (+6.2%), Cassa di Risparmio di Spoleto, 2.5 million euro (+10.3%), Cassa di Risparmio di Fano, 2.5 million euro (practically unchanged) and Cassa di Risparmio di Città di Castello, 2 million euro (+86%). Compared to December 2005, main aggregate balance sheet figures showed an improvement in loans to customers, which exceeded 6 billion euro with an almost 9% growth rate, a stability in direct customer deposits at 6.4 billion euro and a rise in indirect customer deposits to 5.7 billion euro.

International Subsidiary Banks Division

(in millions of euro)

	31.03.2006	31.03.2005	Changes	
			amount	%
Net interest income	174	158	16	10.1
Dividends	-	-	-	-
Profits (Losses) on investments carried at equity	-	-4	-4	
Net fee and commission income	78	61	17	27.9
Profits (Losses) on trading	40	37	3	8.1
Other operating income (expenses)	-2	-4	-2	-50.0
Operating income	**290**	**248**	**42**	**16.9**
Personnel expenses	-72	-62	10	16.1
Other administrative expenses	-61	-52	9	17.3
Adjustments to property, equipment and intangible assets	-20	-18	2	11.1
Operating costs	**-153**	**-132**	**21**	**15.9**
Operating margin	**137**	**116**	**21**	**18.1**
Goodwill impairment	-	-	-	-
Net provisions for risks and charges	-2	-	2	-
Net adjustments to loans	-29	-28	1	3.6
Net impairment losses on other assets	4	4	-	-
Profits (Losses) on investments held to maturity and on other investments	1	4	-3	-75.0
Income (Loss) before tax from continuing operations	**111**	**96**	**15**	**15.6**

(in millions of euro)

	31.03.2006	31.12.2005	Changes	
			amount	%
Loans to customers	12,268	11,947	321	2.7
Due to customers	12,993	12,696	297	2.3
Securities issued	664	640	24	3.8
Net interbank position	-739	-1,098	-359	-32.7

Positive results were also achieved by the Group entities operating in markets outside Italy, which find in the Eastern-European Countries, characterised by high growth rates, the most attractive development opportunities. The Division, which is in charge of international subsidiaries, recorded a positive trend. Operating income rose by approximately 17% to 290 million euro and represented 10.5% of the Group’s consolidated operating income. The programmed increase in operating costs to 153 million euro (+15.9%) was linked to the expansion of activities and of the operating network in the various areas where the Group is active. Therefore, operating margin improved by 18.1% to 137 million euro, with a cost/income ratio of 52.8% (*ex* 53.2%). Income before tax from continuing operations rose by 15.6% to 111 million euro.

Gruppo Intesa operates in Central-Eastern Europe with the fourth largest Hungarian bank (Central- European International Bank), the second largest Croatian bank (Privredna Banka Zagreb), the second largest Slovakian bank (Vseobecna Uverova Banka) and, more recently, with the second largest bank in Serbia and Montenegro (Banca Intesa Beograd) and the fifth largest bank in Bosnia and Herzegovina (UPI Banka). Gruppo Intesa is also present in the Russian Federation with ZAO Banca Intesa and with the recently-acquired KMB Bank.
Central- and Eastern-European economies recorded an overall positive trend, also due to the recovery in exports to the Euro Zone.

As at 31st March 2006, ***Central-European International Bank (CIB)*** registered a net income of 25.2 million euro, with an approximately 26% increase on that recorded in the first quarter of 2005, as a result of a generalised rise in all main income items: net interest income increased by 6.7%, especially due to higher intermediated volumes and, to a lower extent, to the rise in spreads; net fee and commission income recorded a 23.8% growth rate and profits on trading improved by over 27%. As to charges, operating costs evidenced a strong increase that however was directly connected to the expansion of the group's operations especially in the retail sector, with the opening of new branches and the consequent increase in employees. Also net adjustments to loans showed a rise, linked to the strong expansion of the loan portfolio with respect to March 2005. Compared to the end of the previous year, balance sheet aggregates registered a consolidation in loans to customers at the high levels reached as at 31st December 2005 (4.8 billion euro) and a further rise in direct customer deposits (+2.6%) which exceeded 3.2 billion euro.

In the first quarter of 2006, the ***Privredna Banka Zagreb (PBZ)*** group recorded a net income of 33.6 million euro (approximately +30%). This result was due to the strong growth in net fee and commission income (approximately +25%), also driven by the expansion in the credit cards segment and by the fairly positive trend of net interest income (+1.3%). Instead, the contribution from profits on trading was lower in a market partly influenced by the recurring uncertainties on the timing of Croatia's entry into the European Union. This, however, did not prevent to maintain an approximately 2% increase in operating income. Operating costs recorded a rise (approximately +11%) mainly attributable to the increase in employees and to the opening of new branches, determined by a programme targeting an increasingly higher presence in the territory. Conversely, net adjustments to loans were significantly lower than those of the corresponding period of 2005, thus leading to an appreciable rise in net income. Compared to December 2005, the main balance sheet items highlighted an over 5% rise in loans to customers to 4,081 million euro and a confirmation of direct customer deposits (4,397 million euro), after the strong expansion registered in the previous year.

The ***Vseobecna Uverova Banka (VUB)*** group posted a net income of 20.9 million euro, 3.3% higher than that recorded as at March 2005. This result was determined by an over 28% increase in operating income which rose in all its components (net interest income approximately +8%, net fee and commission income +46% and profits on trading approximately +25%). This considerable flow of revenues was however partly absorbed not only by a 19% rise in operating costs, supporting the strengthening of the management team and of the commercial development, but also by the higher adjustments to loans recorded by the VUB group subsidiary Consumer Finance Holding, in relation to the considerable increase in consumer credit activities.
Balance sheet figures highlighted the increase in direct customer deposits (+3.9% to 4,872 million euro) and, even if to a lower extent, in loans to customers (+0.7% to 2,279 million euro) and the excellent performance of indirect customer deposits (+7% to 1,395 million euro).

Banca Intesa Beograd closed the period with a net income of 8 million euro, virtually in line with that recorded in the corresponding period of the previous year. Noteworthy was the appreciable increase in operating income (over 20%) which allowed to support the reorganisation under way for the development of various initiatives aimed at expanding the product range and the network's territorial coverage (5 new branches opened in the quarter) and, therefore, the consequent rise in operating costs. Also net adjustments to loans recorded an increase, with respect to the period under comparison, also due to the expansion of the portfolio, which, at 561 million euro, highlighted an approximately 11% rise in loans to customers from the end of 2005. Also direct customer deposits registered an increase (approximately +2% to 740 million euro).

KMB Bank, the other recent acquisition of the Group, is the leading bank in lending and leasing activities for small enterprises in the Russian Federation, even if its business plan sets as objective an expansion of activities also in the retail segment. In the first quarter of 2006, KMB through the network of 54 branches (two more than as at the end of 2005) increased its loans to customers – in terms of both number and amount compared to last December – to 435 million euro. Also customer deposits, excluding subordinated deposits, recorded an over 8% rise to 171 million euro. The statement of income for the quarter closed with a net income of 0.5 million euro, mainly attributable to net interest income, almost doubled from as at March 2005, whilst also operating costs rose following the boost given to the expansion in activities.

Newly-acquired ***UPI Banka***, the fifth largest bank in Bosnia and Herzegovina in terms of total assets, closed the first quarter of 2006 with a net income of approximately 1 million euro, doubled with respect to as at March 2005, as a result of an approximately 28% increase in operating income, mainly in net interest income, and of effective cost containment and despite higher net adjustments to loans. Compared to December 2005, main balance sheet aggregates highlighted a rise both in loans to customers to 113 million euro (approximately +3%) and in direct customer deposits to 204 million euro (approximately +10%).

Corporate Division and Banca Intesa Infrastrutture e Sviluppo

(in millions of euro)

	31.03.2006	31.03.2005	Changes	
			amount	%
Net interest income	140	146	-6	-4.1
Dividends	-	-	-	-
Profits (Losses) on investments carried at equity	-	-	-	-
Net fee and commission income	214	195	19	9.7
Profits (Losses) on trading	177	87	90	
Other operating income (expenses)	9	7	2	28.6
Operating income	**540**	**435**	**105**	**24.1**
Personnel expenses	-92	-91	1	1.1
Other administrative expenses	-97	-92	5	5.4
Adjustments to property, equipment and intangible assets	-14	-18	-4	-22.2
Operating costs	**-203**	**-201**	**2**	**1.0**
Operating margin	**337**	**234**	**103**	**44.0**
Goodwill impairment	-	-	-	-
Net provisions for risks and charges	-2	-1	1	
Net adjustments to loans	-30	-50	-20	-40.0
Net impairment losses on other assets	-	-	-	-
Profits (Losses) on investments held to maturity and on other investments	29	-	29	-
Income (Loss) before tax from continuing operations	**334**	**183**	**151**	**82.5**

(in millions of euro)

	31.03.2006	31.12.2005	Changes	
			amount	%
Loans to customers	51,124	46,896	4,228	9.0
Due to customers	26,998	27,204	-206	-0.8
Securities issued	9,181	9,983	-802	-8.0
Net interbank position	-10,390	-147	10,243	

The Division closed the first quarter of 2006 with an operating income of 540 million euro with a 105 million euro rise compared to the same period of the previous year (+24.1%), though in a scenario still characterised by uncertainties perceived by the productive world regarding the timing of a real economic recovery. The contraction in spreads was balanced by a rise in lending, coupled with the offer of high quality services, which led to an increase in commission income.

Profits on trading recorded an excellent performance, benefiting from both the gains generated by the valuation of the Fiat shares and of the Parmalat equity investment in the merchant banking portfolio, and the good trend of corporate finance and equity capital market activities performed by Banca Caboto.

The contribution of net interest income in the first three months of 2006 amounted to 140 million euro, with a 4.1% reduction with respect to the corresponding period of the previous year. However, excluding capital market and private equity activities that were affected by a higher funding cost caused by the rise in interest rates, the change would have been positive (+4.6%). In fact, regarding corporate counterparties, loans to customers registered a 4.3% increase, signalling a significant recovery in operations. This trend was favoured by the commercial effort made to favour corporate loans, also through investment banking and structured finance operations, particularly for the Mid Corporate segment. Large Corporate activities did not show equally significant changes since priority was given to the safeguard of portfolio quality in a market characterised by strong commercial competition. Overall net loans to customers recorded an increase in volume that permitted to offset a good part of the erosion

in spreads. The expansion in operations was achieved maintaining a contained portfolio risk profile, which allowed to reduce net adjustments to loans, compared to the same period of the previous year (-20 million euro). The good commercial policy aimed at developing customer service enabled to generate net fee and commission income of 214 million euro, with a 9.7% rise on the figure as at March 2005. This performance was particularly due to the investment banking component. Operating costs recorded a slight increase (+1%), from 201 million euro as at March 2005, to 203 million euro for the first three months of 2006. This increase is, to a large extent, attributable to administrative expenses, mostly correlated to the services provided by other Group entities following the expansion in operations with customers. Operating margin stood at 337 million euro, with a 44% rise compared to March 2005.
The Corporate Division absorbed 28.7% of the Group's capital with an increase on the level recorded in the first three months of 2005. In absolute terms, capital absorbed increased following the rise in the credit risks related to on-balance sheet exposures due to the boost to loans granted in the Mid Corporate, Large Corporate and State and Infrastructures segments. The increase in net income determined a considerable rise in the value creation, from 45 million euro as at March 2005 to 125 million euro of the first quarter of 2006 (+80 million euro).

The Corporate Division's activities include four business departments:
- Corporate Relations Department, which manages the relations with Italian and international Large and Mid Corporates (with turnover exceeding 50 million euro), and also coordinates the relevant commercial operations performed through the branches abroad;
- Investment Banking Department, which includes Structured Finance and M&A;
- Financial Institutions Department, which is responsible for the relations with Italian and international financial institutions, for the management of transactional services related to payment systems, custody and settlement of securities, as custodian and correspondent bank, as well as for the coordination of the branches abroad, of the representative offices and of the companies Société Européenne de Banque, Intesa Bank Ireland and Zao Banca Intesa;
- Merchant Banking Department which operates in the private equity area also through the company Private Equity International (PEI).

Also Banca Caboto and Intesa Mediofactoring are included in the Corporate Division.

As already mentioned, ***Banca Intesa Infrastrutture e Sviluppo (BIIS)*** operates in close proximity with the Corporate Division. In the quarter, BIIS continued to provide support to the public sector, as formerly done by the Parent Company's State and Infrastructures Department, as a separate legal entity. Various important operations were concluded in the period, including the collection of health receivables towards Regions (the bridge financing operation named 'Atlantide 3' for the Lazio Region, the securitisation operation named 'D'Annunzio' for the Abruzzo Region), as well as the revolving financing of health receivables of the Molise Region's pharmacies; the multi-issue of BOC (short-term municipal bonds); the restructuring of the Pavia Province's debt. Moreover, in the first quarter, the bank completed and continued operations initiated in the last period of 2005 by the State and Infrastructures Department of Banca Intesa, including the securitisation of real estate properties owned by the State (operation named 'Patrimonio 1') and the continuation of BOC multi-issues of the Cities of Treviso, Brescia, Lecce and Potenza.
The statement of income for the first quarter confirmed significant increases in margins set out in the Business Plan. Operating income amounted to 21.4 million euro generated for 10.3 million euro by net interest income, for 9.6 million euro by net fee and commission income and for 1.5 million euro by profits on trading of financial instruments. These profits are offset by operating costs of 9.5 million euro attributable for 3.5 million euro to personnel expenses and for 6 million euro to general structure costs.
Therefore, operating margin for the quarter amounted to 11.9 million euro, with a significant increase on the result recorded in the first quarter of 2005 by the State and Infrastructures Department within the Corporate Division. Net income, as at 31st March 2006, after having benefited from marginal write-backs and deducted fiscal charges, equalled 7.6 million euro. As to main balance sheet aggregates, lending was almost entirely made up of loans to customers that, at 7,480 million euro, improved (+9.0%) the volumes recorded at the beginning of the period despite the stalemate in operations due to the political situation and to seasonal effects, as the first quarter normally shows lower perfomances than the subsequent quarters.

Breakdown by contract type shows the prevailing of mortgages and loans (72.2%) and of equity subscriptions (22.7%). Breakdown by counterparty shows that the most important segment was related to Public Entities and Administrations (60%) and Large Corporates involved in infrastructure works (15%). Direct customer deposits stood at 1,022 million euro (+6.8%), while the net interbank position was negative and totalled 6,050 million euro, with a 9.6% increase on the figure as at 1st January 2006.

BIIS is in charge of the activities of the Group's tax collection companies ***E.Tr***. and ***Esa.Tri.*** With effect as of 1st October 2006 the system of assigning the national tax collection service to concessionaires will be suppressed and transferred to the Revenue Agency, which will operate through the company Riscossione s.p.a. The latter, within 30th September 2006, will purchase a minimum 51% stake in the capital of the tax collection companies currently owned by private shareholders and, within 31st December 2010, the remaining shares so as to hold the entire capital of the tax collection companies. The whole price paid by Riscossione s.p.a. to the current shareholders of the tax collection companies must be reinvested in shares of Riscossione S.p.a., that may be sold to third parties – with pre-emption rights in favour of public shareholders – after two years from the purchase. The current concessionaires will retain the right to continue tax collection activities within the local fiscal system. The Board of Directors of Banca Intesa and BIIS already expressed favourable opinion on the acceptance of the offer made by Riscossione s.p.a. for the acquisition of up to 100% of the shares directly or indirectly held in the tax collection companies and also decided not to proceed to the spin-off of the operations related to the management of local fiscal activities.
From the management standpoint the tax collection subsidiaries benefited in the quarter from the possibilities conceded by Law 248 of 2.12.2005, i.e. the reactivation of administrative custody and the simplified distraint procedure, that gave a new boost to the actions of concessionaires. E.Tr. closed the period with a net income of 8.1 million euro (11.8 million euro without the adoption of IAS/IFRS) while Esa.Tri. recorded a net income of 10.7 million euro (8.3 million euro without the adoption of IAS/IFRS).

With regard to the customer segments managed by the ***Corporate Relations Department***, projects were initiated aimed at relaunching the Mid Corporate segment through greater focus on product offering and rising attention to cross-selling potential especially in the capital markets, structured finance and trade finance segments. The switch from short-term loans to medium- and long-term loans continued, in both the Mid and, particularly, the Large Corporate segments. Banca Intesa confirmed, even in this first part of the year, its leadership in all main turnaround programmes at the national level. With the adoption of the new service model, the number of deals concluded in the structured finance and in the investment banking area progressively increased and also involved the Mid Corporate segment: during the first quarter of 2006 about twenty operations were concluded. The new model, coupled with the launch of products specifically designed to support internationalisation and innovation, allowed to strengthen the Bank's positioning in the corporate sector and contribute to the development of Italian companies in the international markets.
Within the ***Investment Banking Department***, structured finance activities were characterised in the quarter by the closing of important operations in all main sectors. In the project finance segment, three important operations were implemented, with primary roles, respectively in the petrochemical, telecom and container ship sectors. The leveraged & acquisition finance segment finalised the structuring and disbursement of credit facilities in support of the acquisition of important corporate groups (Giochi Preziosi, Arena) by private equity funds, as well as for the acquisition of Esaote by a syndicate of investors. Other operations were related to the structuring of credit facilities in favour of highly-leveraged entities in relation to corporate finance, leverage buyout or medium-term refinancing transactions. With regard to the real estate segment, during the first quarter, seven operations were completed with primary counterparties made up of both public and private real estate funds for a total of approximately 1.7 billion euro.
Within the ***Financial Institutions Department***, after the completion of integration activities on a single information technology platform, the offer of transnational products and services addressed to Financial Institutions resumed full operations on all product segments, with a particular focus on the integrated offer of custodian and fund administration services. Again for the purpose of meeting customer internationalisation needs, after having completed in 2005 the

projects aimed at the organisational and strategic revision of the network abroad, in the first quarter of 2006 attention was focused on the identification of a corporate strategy for the entire network abroad, finalised to the acquisition of the competitive advantage necessary to be more effective in the domestic market. With regard, in particular, to Representative Offices a project was initiated aimed at improving the effectiveness of the promotional and relational activities performed for the whole Group.
The Financial Institutions Department is also responsible for the operations of the following three banks.

Société Européenne de Banque continues to operate with effectiveness in the Luxembourg financial market, mainly in support of corporate customers as well as in the private banking and mutual fund management areas. In the first quarter of 2006 the company recorded a net income of 4 million euro, with an approximately 3 million euro increase on the corresponding period of the previous year, as a result of the good performance of the net interest income and the contained level of operating costs.

Intesa Bank Ireland, the Group bank operating in Ireland mainly in wholesale banking and trading in financial markets, registered an economic performance in line with that of the corresponding period of 2005. In fact, the quarter closed with a net income of approximately 4 million euro, mostly determined by net interest income.

Zao Banca Intesa, the bank established to assist Italian enterprises operating in the Russian market and those interested in operating there, offering commercial and financial services to corporate customers, closed the first quarter of 2006 virtually at breakeven, whilst the previous year – the first full year of operations – had been negatively influenced by the costs related to the strengthening of its operating structures.

Main operations finalised during the first quarter of 2006 by the ***Merchant Banking Department*** include the sale of the equity investment in ISB (the owner of Cantiere del Pardo e Dufour) with simultaneous partial investment in the new-owner company, the sale of the equity investment in Fincantieri and the already-mentioned acquisition of 100% of Esaote, leading player in the biomedical equipment sector, by a group of financial investors and the company's management, in which Banca Intesa acted as organiser and lead investor. Furthermore, an agreement was reached with NH Hoteles, one of the main European hotel operators, listed on the Madrid stock exchange, for the development of a project in the Italian hotel sector, with the subscription of a capital increase and the subsequent acquisition of a 49% stake in the capital of NH Italia. Finally, noteworthy is the launch of a new initiative specialised in the mezzanine financing sector in collaboration with a primary private group, with the objective of becoming the first domestic operator in this interesting sector. As at 31st March 2006 the Department's overall portfolio (direct and through the subsidiary Private Equity International) amounted to approximately 2.5 billion euro, made up of 47 equity investments in addition to investments in funds.

Also Banca Caboto and Intesa Mediofactoring are included in the Corporate Division.
In the first quarter of 2006, ***Banca Caboto***'s activities were characterised by a generalised decline of operations in the primary market: the lower opportunities offered by the issuers of debt instruments and the typical seasonality of stock markets did not allow to repeat the economic performance of the first quarter of 2005. In April, however, important operations have been completed leading to the virtual recovery in economic projections. In the secondary and derivatives markets increases were recorded in the revenues from the fixed-income segment (+16% on the first quarter of 2005). Also the results achieved in equity intermediation (with a market share of 4.9% on the MTA) are in line with the period under comparison. The distribution of interest rate derivatives instruments through the Parent Company was characterised by a strong rise in intermediated volumes. The financial institutions segment registered a downward trend in intermediated volumes, whereas revenues from intermediation of listed derivatives recorded a rise due to the almost doubling of contracts originated by non-captive customers. In this context, operating income equalled 56 million euro, with an approximately 12% reduction with respect to the 64 million euro of the first quarter of 2005; this reduction was also attributable to lower income from activities in equity origination and in

the primary bond market and to the less profitable commercial conditions offered by the Parent Company. Operating costs, at 36 million euro, showed a physiological increase on the quarter under comparison but were lower than those recorded in the last two quarters of 2005. Net income of 14.7 million euro (23 million euro in 2005) reflected not only lower operating results, but also higher taxes.

The Corporate Division is also responsible for the operations performed by ***Intesa Mediofactoring***, which closed the first quarter with satisfactory operating and economic results. Turnover for the period recorded an approximately 13% increase compared to the first quarter of 2005, inverting the trend registered in the last few years. With respect to the first quarter of the previous year, net interest income increased by 2.8% and net fee and commission income rose by 3.3%, leading to a 4.4% improvement in operating income. Following also the 1% contraction in operating costs and the considerable reduction (-18.8%) in net adjustments to loans, net income for the period amounted to 13.6 million euro, with a 15.4% increase compared to the same period of 2005.

Central structures

The Central Structures are responsible not only for governance and control, but also for treasury and strategic finance activities and the proprietary portfolio.

Within ***treasury*** activities, in the first quarter of 2006 Banca Intesa maintained its leadership in domestic and cross-border payment systems in euro, consolidating the levels of activities registered in 2005. Works continued on the TARGET 2 project, the Eurosystem's gross settlement system, where the Bank plays the primary role of pilot bank and is expected to start operations in May 2008.

Internal preparatory works started for the participation in 2007 in the ABACO (Attivi BAncari COllateralizzati) project, initiative which will allow to allocate in the Bank of Italy a portion of the loans included in the Bank's balance sheet, in order to obtain short-term funds to support payment and liquidity management. In the first quarter of 2006 net requirements of short-term liquidity remained at contained levels, though slightly higher than in the previous year. The Bank further increased the diversification of funding sources: in particular, satisfying the market's rising interest for European Commercial Paper issued by the Group's Irish subsidiary and maintaining the average of US Commercial Paper issues at high levels, in consideration of attractive US market conditions. The monetary policy tightening started by the European Central Bank significantly increased the volatility of the short-term yield curve in euro, thus creating interesting trading opportunities.

In the first quarter of 2006, the ***proprietary portfolio*** recorded a progressive increase with concomitant adaptation of the decisions, which proved rewarding, regarding asset allocation, broad diversification and de-correlation between funds and strategies. In the first quarter of the year stock markets maintained their upward trend continuing to benefit from abundant liquidity, increase in corporate profits and expectations of further growth. In this context the portfolio recorded a very high performance due to a wise selection of both domestic and foreign securities and to the bearish positioning in the dividend curve. In the fixed-income market the gap remained wide between the interest rates suggested by macro fundamentals and market prices, particularly in the USA and, to a lower extent, in core Europe. Furthermore, all markets recorded a decline in implied volatility, which most of the times was not accompanied by a similar movement in realised volatility. In the first months of the year Emerging Countries showed a considerable strength, only partly reduced in the second half of March. The beginning of 2006 recorded i) the consolidation in the credit market of the upward trend of M&A operations funded with borrowing, ii) the adoption by many companies of policies aimed at the distribution of extraordinary dividends, and iii) the intensification of Leveraged Buy-Out operations launched by private equity funds. The large sums collected by private equity funds and their rising interest towards industrial targets determined however only a modest repricing of corporate risk. Also structured credit products registered a marked contraction in spreads during the first quarter of 2006. In the European Asset Backed Securities sector the contraction was accelerated by a structural imbalance between demand and supply, with a rising number of players operating in this sector. Also the American market experienced a significant contraction in spreads after the volatility phase of the last part of the year. In this context the Bank maintained, during the quarter, a long position on European ABS and benefited from market movements, gradually starting to take profits on the positions with highest gains. Also certain operations were made to reduce long positions at risk in Super Senior tranches of Collateralised Debt Obligation of ABS:

With regard to ***Asset & Liability Management*** activities, the management of interest rate and liquidity risks is charged to the Finance and Treasury Department, while strategic ALM and monitoring of the aforementioned risks are under the responsibility of the Risk Management Department. Interest rate risk is measured in terms of sensitivity of market value of positions against changes in the yield curve at various maturities. Exposure to interest rate risk is maintained at modest levels: even significant movements in the yield curve generate virtually negligible variations. Structural liquidity risk is managed by monitoring cash flows at maturity. The analysis of medium- and long-term mismatchings drives the decisions on bond issues.

With regard to ***funding activities***, in the first three months of 2006, the total amount of Banca Intesa's bond issues placed in the domestic market amounted to over 600 million euro, with a net prevalence of the component consisting of plain vanilla securities (approximately 76% of the total) and a prevailing concentration on 3-year maturities (approximately 44%). In international markets, the issue of Notes related to the EMTN programme reached, in the quarter, 2.8 billion euro (75% in public issues and the remaining in private placements), with a net prevalence of 5-year maturities. Floating-rate bonds represented over 67% of the total, fixed-rate bonds approximately 25% and structured issues the remaining portion of all operations in the quarter (approximately 8%). Approximately 94% of issues was denominated in euro. Moreover, in the first quarter of 2006, 89 million euro was collected through the issue of three-year certificates of deposit by the Hong Kong branch. Lastly, medium- and long-term loans (with maturities mainly between 10 and 20 years) granted by German banks and insurance companies amounted to 256 million euro.

The Parent Company Banca Intesa

General aspects

Banca Intesa's statement of income as at 31st March 2006 – the most significant component of the Group's consolidated financial statements – closed with a net income of 411 million euro, with an almost 32% increase with respect to the figure of the same period of the previous year, restated following the spin-off in favour of Banca Intesa Infrastrutture e Sviluppo. The contribution made to the latter of a business branch amounting to 340 million euro came into effect as of 1st January 2006. The spin-off referred to assets and juridical relations relative to the pre-existing State and Infrastructures Department of the Parent Company and to personnel dedicated to managing relations with the Public Administration and companies operating in the realisation of infrastructures. Following such contribution, which mostly referred to loans to customers (approximately 6,600 million euro) and due to customers (approximately 960 million euro), Banca Intesa, sole shareholder, was attributed 340,000,000 shares of the new company.
To permit a consistent comparison of statement of income and balance sheet figures as at 31st March 2006, in the comments below reference is made to comparative figures restated to consider the effects of the aforementioned operation, and reclassified as already illustrated in the comments to consolidated results. Such restatements are not considered in Banca Intesa's financial statements drawn up according to the forms defined by the Bank of Italy and published as an attachment to this present volume.

Reclassified statement of income

(in millions of euro)

	31.03.2006	31.03.2005	Changes	
			amount	%
Net interest income	760	762	-2	-0.3
Dividends	1	22	-21	-95.5
Net fee and commission income	623	607	16	2.6
Profits (Losses) on trading	241	69	172	
Other operating income (expenses)	45	37	8	21.6
Operating income	**1,670**	**1,497**	**173**	**11.6**
Personnel expenses	-507	-503	4	0.8
Other administrative expenses	-279	-271	8	3.0
Adjustments to property, equipment and intangibles assets	-79	-74	5	6.8
Operating costs	**-865**	**-848**	**17**	**2.0**
Operating margin	**805**	**649**	**156**	**24.0**
Net provisions for risks and charges	-29	-39	-10	-25.6
Net adjustments to loans	-132	-103	29	28.2
Net impairment losses on other assets	-1	-	1	-
Profits (Losses) on investments held to maturity and on other investments	10	20	-10	-50.0
Income (Loss) before tax from continuing operations	**653**	**527**	**126**	**23.9**
Taxes on income from continuing operations	-242	-218	24	11.0
Income (Loss) after tax from discontinued operations	-	3	-3	
Net income	**411**	**312**	**99**	**31.7**

Breakdown by component of the reclassified statement of income for the first quarter of 2006, set out in the table, highlighted **operating income** – made up of revenues, costs and valuation effects on ordinary operations - amounting to 1,670 million euro, with an 11.6% growth rate with respect to the first quarter of 2005. On a quarterly basis, not considering dividends, which are mostly collected in the second quarter, such result was the highest among the four previous quarters of 2005.
Breakdown by component of net interest income (760 million euro), practically stable compared to the first quarter of 2005, shows, on the one hand, the rise in operations with customers and investments in securities, and on the other hand, lower interest expense on interbank relations. Furthermore, the result was affected by the decision to privilege trading on financial instruments.
More specifically, net interest income with customers – if considered together with interest on related funding via securities issued and connected differentials on hedging derivatives – highlighted in the first quarter a positive balance of 485 million euro, up by 3% with respect to the corresponding balance of the first quarter of 2005. The aggregate was characterised by the positive trend, in terms of both volumes and spread, registered by the retail segment, and the lower contribution of corporate customers following the further reduction in loans to the large corporate segment. The contribution of investments in securities, considering those held for trading and those available for sale presents a balance of 232 million euro, up by 5.5% with respect to the corresponding period of 2005. Interest on interbank relations presented a positive balance of 6 million euro compared to a 44 million euro positive balance as at 31st March 2005.
Lastly, net interest income includes fair value adjustments in hedge accounting, positive for 3 million euro, that is the imbalance of positive and negative variations in the fair value of hedging derivatives and the relevant assets and liabilities hedged.
In the first three months, the contribution of *dividends* was practically absent due to their markedly seasonal trend, with, as already mentioned, collection of dividends concentrated in the second quarter of the year.
Positive, in line with the trend registered in 2005, was the trend recorded by *net fee and commission income*, up by 2.6% to 623 million euro, which benefited from both the significant contribution of income connected to the placement of insurance products, and the stability of commissions on management, dealing and consultancy, where the success in placement of new products, such as Intesa Garanzia Attiva, a mutual fund with guaranteed capital, entirely offset the lower contribution of placement of third party bond issues. Lastly, practically constant was the contribution of commissions on commercial banking activities.
Instead, *profits (losses) on trading*, which includes profits, losses and valuation effects on disposal of financial assets held for trading or available for sale, as well as dividends related to securities classified in such categories, highlighted, with 241 million euro, a considerable increase with respect to the 69 million euro of the first three months of 2005, ascribable to the positive trend of equity and interest rate activities. More specifically, interest rate activities generated a positive contribution of 62 million euro (*ex* -16 million euro) in part attributable to the recovery of a portion of credit risk adjustment following lower volumes, while the contribution of equities – which include the effects of disposal as well as valuation of certain equity stakes classified as held for trading whose market risks have been hedged – increased to 150 million euro (*ex* 52 million euro). Conversely, decreases were recorded by profits on foreign exchange activities, though with far lower absolute values, (10 million euro, *ex* 20 million euro) and on credit derivatives (-2 million euro, *ex* 1 million euro). Profits on trading also include the recognition to the statement of income of profits and losses realised on financial assets available for sale and financial liabilities, which totalled 21 million euro (*ex* 12 million euro), approximately half of which relative to the sale of private equity investments.
Other net operating income – which, in the reclassified statement of income, does not include the recoveries of expenses and taxes and duties, directly deducted from administrative expenses - amounted to 45 million euro (*ex* 37 million euro). The most significant amounts which make up the caption referred, among income, to consideration for services rendered to Group companies (47 million euro) and, among expenses, to amortisation of leasehold improvements (5 million euro).
The moderate rise in **operating costs**, which totalled 865 million euro (+2%), was mostly ascribable to administrative expenses (+3% to 279 million euro), in relation to the higher

growth-related expenses. In presence of an overall downward trend in other expense captions, information technology and professional expenses increased, also following projects for development in Italy and abroad, according to the trend which had already commenced in the previous year. Personnel expenses remained practically in line with the consistent figure of the first quarter of 2005 (+0.8% to 507 million euro), as a result of lower costs due to the reduction in average headcount and the higher charges mainly related to the provisions for the new national labour contract. The rise recorded by adjustments to property, equipment and intangible assets (approximately +7% to 79 million euro) is attributable to the increase in investments. On a quarterly basis, operating costs was on a lower level with respect to the average figure of 2005.

The combined effect of the positive trend recorded by income and the containment of operating costs led to an **operating margin** of 805 million euro (+24%), with a cost/income ratio of 51.8%, improved by almost 5 percentage points with respect to the first three months of 2005.

Income before tax from continuing operations, at 653 million euro, highlighted an approximately 24% progress. The figure was net of *net provisions for risks and charges* of 29 million euro, down with respect to the comparative figure (approximately -26%), destined to maintain an adequate coverage of legal disputes under way. Instead, *net adjustments to loans* rose up by approximately 28% to 132 million euro. More specifically, considering the various non-performing loan categories, net adjustments referred to doubtful loans for 58 million euro, substandard loans for 67 million euro, restructured loans for 3 million euro, and loans past due by over 180 days for 7 million euro. Collective measurement of performing loans, with the registration of adjustments for 1 million euro, highlighted the substantial congruity of coverage of performing loans, while valuation effects on *guarantees and commitments* were positive for 4 million euro. In the first quarter of 2005 net adjustments totalled 103 million euro.

Income before tax from continuing operations also reflected *net impairment losses on other assets* (1 million euro) as well as *profits on investments held to maturity and on other investments* (10 million euro), which include the disposal and valuation net effects of equity stakes.

After the registration of a tax charge of 242 million euro, with a 37% incidence, *net income* – as already illustrated above – highlighted, with 411 million euro, an almost 32% growth rate on the first quarter of 2005.

Reclassified balance sheet

(in millions of euro)

Assets	31.03.2006	31.12.2005	Changes	
			amount	%
Financial assets held for trading	37,747	38,774	-1,027	-2.6
Financial assets available for sale	2,725	2,575	150	5.8
Investments held to maturity	-	-	-	
Due from banks	43,307	41,252	2,055	5.0
Loans to customers	107,076	103,961	3,115	3.0
Investments in associates and companies subject to joint control	12,072	11,905	167	1.4
Property, equipment and intangible assets	1,834	1,873	-39	-2.1
Tax assets	2,214	2,253	-39	-1.7
Non-current assets held for sale and discontinued operations	-	-	-	
Other assets	3,966	4,149	-183	-4.4
Total Assets	**210,941**	**206,742**	**4,199**	**2.0**

Liabilities and Shareholders' Equity	31.03.2006	31.12.2005	Changes	
			amount	%
Due to banks	37,508	33,182	4,326	13.0
Due to customers	136,695	136,905	-210	-0.2
Financial liabilities held for trading	12,434	14,061	-1,627	-11.6
Tax liabilities	927	436	491	
Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	
Other liabilities	8,055	5,722	2,333	40.8
Allowances for specific purpose	2,091	2,204	-113	-5.1
Share capital	3,596	3,596	-	-
Reserves	7,816	7,794	22	0.3
Valuation reserves	1,408	1,297	111	8.6
Net income	411	1,545	-1,134	-73.4
Total Liabilities and Shareholders' Equity	**210,941**	**206,742**	**4,199**	**2.0**

Main balance sheet aggregates, compared to the corresponding figures as at 31st December 2005, restated in consistent terms to consider the aforementioned contribution to Banca Intesa Infrastrutture e Sviluppo, highlighted **loans to customers** of 107,076 million euro, up by 3%. The rise reflected the diverse trends recorded by the various contract types which make up the aggregate. More specifically, mortgages continued to grow, confirming the trend recorded in 2005 (46,117 million euro, +2.8%), and at the end of the first quarter of 2006 represented 43% of total loans to customers. Also advances and other loans rose (42,744 million euro, +8.7%) mostly as a result of "hot money" transactions of considerable amount, some of which substituted overdrafts on current accounts. This last substitution effect was the most significant determinant of the decline in current accounts (12,930 million euro, approximately -10%). Decreases were also recorded by repurchase agreements (2,000 million euro, -8.6%) and securities underwritten at the time of issue for the purpose of financing the issuer (97 million euro, -4.9%).
Including value of related fair value hedge derivatives connected to loans to customers, which as at 31st March amounted to 30 million euro (*ex* 23 million euro), the overall growth of the aggregate would in any case remain at 3%, whereas it would increase to 3.3% excluding the lower contribution, which is typically of a financial nature, represented by repurchase agreements.
As regards loan quality, non-performing loans, which amounted to 3,188 million euro, highlighted, considered together, a 60 million euro rise (+1.9%). More specifically, the increase in substandard loans (+10.8% to 2,321 million euro) mostly stemmed from the transfer of positions previously recorded in loans past due, which posted a considerable drop with respect to the figure of the end of 2005 (approximately -58% to 194 million euro).

The increase in doubtful loans (approximately +15% to 662 million euro) is ascribable, to almost the same extent, to the inclusion of certain retail positions and of certain corporate positions previously classified as substandard. As to performing loans (103,888 million euro, +3%), collective provisions of 467 million euro, determined based on the risk configuration of customers, guaranteed – net of repurchase agreements and loans to subsidiaries – a 0.51% coverage. A further 114 million euro covered off-balance sheet risks.

Direct customer deposits confirmed, with 136,695 million euro, the figure at the end of 2005 (-0.2%). As concerns breakdown by contract type, current accounts recorded a moderate decline (-1.3% to 72,214 million euro) and repurchase agreements a significant increase (+42% to 7,041 million euro). The decrease in current accounts and deposits was entirely ascribable to branches abroad, due to lower funding from Intesa Funding – in relation to the trend of commercial paper issues carried out by the subsidiary in the US market – as well as the closure, in the first days of 2006, of deposits of certain primary clients operating on the international markets. Securities issued decreased (-2.3% to 55,685 million euro), especially due to the lower recourse to funding via certificates of deposit by branches abroad.

Including in the aggregate the net value of related fair value hedge derivatives, which as at 31st March 2006 amounted to 730 million euro (224 million euro at the end of 2005), total customer deposits confirmed its practical stability (+0.2%).

The significant increase in **indirect customer deposits**, up by 7.5% to 219,087 million euro, was entirely ascribable to assets under administration (+8.9% to 189,650 million euro), which highlighted considerable contributions by institutional customers in addition to the growth, though more contained, of the retail segment. Assets under management – which, after the closing of the agreement with Crédit Agricole, only represented 13% of total indirect customer deposits – was instead in line with the figure at the end of 2005 (-0.5% to 29,437 million euro), in relation to the positive trend of bancassurance products which almost entirely offset the reduction in individual portfolio management schemes.

Financial assets held for trading, which comprise debt securities and equities held for trading, net of liabilities, totalled 25,313 million euro, with a 2.4% increase with respect to the end of 2005. The figure includes debt securities and equities (28,375 million euro, +2.1%): in detail, the decrease in debt securities (-2.2% to 25,615 million euro) was entirely offset by the increase in equities (+73% to 2,760 million euro), ascribable to the higher amounts relative to dividend trade transactions. The fair value of debt securities and equities was positive whereas derivatives (-982 million euro, -7.2%) and other financial liabilities held for trading (-2,080 million euro, +3.5%) presented negative net values.

Financial assets available for sale totalled 2,725 million euro, approximately 6% higher than the figure at the end of 2005, and comprised equity investments of 1,759 million euro, private equity investments of 276 million euro and debt securities and equities amounting to 432 million euro (*ex* 451 million euro). Lastly, the caption also included 258 million euro of loans, attributable to portions of syndicated loans destined to be placed with third parties.

Investments in associates and companies subject to joint control, that amounted to 12,072 million euro, comprised controlling equity stakes for 10,043 million euro and associates or jointly controlled equity stakes for 1,681 million euro. The caption includes, in consideration of its peculiarity, the equity investment in the Bank of Italy, amounting to 348 million euro. The net increase with respect to the consistent figure as at 31st December 2005 (+167 million euro), was ascribable to two new private equity investments (90 million euro), in addition to the already mentioned acquisition of 35% of Credit Agricole Asset Management SGR (25 million euro) and of the further stake in Banca CIS (80 million euro). Among disposals, the most significant amount referred to International Sailing Boats (-38 million euro).

Risk management and the controls system

CREDIT RISKS

QUALITATIVE INFORMATION

As regards information relative to the credit granting process and credit risk methodologies, instruments and analysis – with particular attention to the development of the "internal rating based advanced method" – please refer to the description contained in the Annual report 2005.

QUANTITATIVE INFORMATION

The following table shows non-performing and performing exposures to customers, broken down by business units.

(in millions of euro)

	31.03.2006			31.12.2005		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
Retail Division						
Doubtful loans	2,487	-1,522	965	2,308	-1,411	897
Substandard loans	2,773	-553	2,220	2,471	-546	1,925
Restructured loans	81	-24	57	94	-26	68
Past due loans	372	-13	359	601	-32	569
Performing loans	79,375	-421	78,954	78,107	-406	77,701
Italian Subsidiary Banks Division						
Doubtful loans	446	-297	149	420	-280	140
Substandard loans	378	-95	283	368	-93	275
Restructured loans	30	-7	23	30	-6	24
Past due loans	105	-6	99	90	-5	85
Performing loans	26,172	-181	25,991	25,124	-176	24,948
International Subsidiary Banks Division						
Doubtful loans	365	-317	48	361	-322	39
Substandard loans	469	-125	344	455	-127	328
Restructured loans	-	-	-	-	-	-
Past due loans	5	-	5	3	-	3
Performing loans	12,055	-184	11,871	11,736	-159	11,577
Corporate Division						
Doubtful loans	724	-583	141	593	-498	95
Substandard loans	675	-252	423	879	-325	554
Restructured loans	15	-4	11	-	-	-
Past due loans	90	-2	88	60	-2	58
Performing loans	50,655	-194	50,461	46,389	-200	46,189
Central Structures						
Doubtful loans	315	-257	58	313	-255	58
Substandard loans	152	-103	49	157	-105	52
Restructured loans	-	-	-	-	-	-
Past due loans	-	-	-	-	-	-
Performing loans	4,646	-77	4,569	4,082	-79	4,003
Loans to customers	**182,385**	**-5,217**	**177,168**	**174,641**	**-5,053**	**169,588**

MARKET RISKS

QUALITATIVE INFORMATION

As to qualitative aspects – relative, among other things, to the use of internal models for regulatory reporting of capital absorption, indicators and simulation methodologies used for the analysis of the risk profile of the trading book and the banking book, as well as risk hedging activity – please refer to the information provided in the Annual report 2005.

QUANTITATIVE INFORMATION ON THE TRADING BOOK

Breakdown of capital at risk

Quantitative information indicated hereafter refers to the trading book subject to market risks.

In the following paragraphs the market CaR is estimated by summing up VaR and simulations on illiquid parameters for the trading books of Banca Intesa and Banca Caboto; the Group's market risk is concentrated mainly in the books of these two entities.

Evolution of capital at risk

In the first quarter of 2006 market risks originated by Banca Intesa and Banca Caboto showed an upward trend which led capital at risk for the period to 39 million euro (average for the first quarter of 2006), up from the figure of the end of 2005 of 33.6 million euro (average for the fourth quarter of 2005). Risk exposure was measured summing up historical VaR (99% confidence level and one-working day holding period), DGV VaR of structured equity portfolios of Banca Caboto in London (99% confidence level and one-working day holding period), and risk simulations of the alternative investments portfolio and of other illiquid parameters (correlation and inflation).

Daily capital at risk (CaR) of the trading portfolio for Banca Intesa and Banca Caboto [(a)]

(millions of euro)

	average 1st quarter 2006	minimum 1st quarter 2006	maximum 1st quarter 2006	average 4th quarter 2005	average 3rd quarter 2005	average 2nd quarter 2005	average 1st quarter 2005
Banca Intesa	36.1	31.3	43.0	30.6	29.7	18.8	14.5
Banca Caboto	2.9	2.3	3.7	3.0	2.3	2.1	2.3
Intesa and Caboto	**39.0**	**34.1**	**45.7**	**33.6**	**32.0**	**20.9**	**16.8**

[(a)] The table sets out on every line past estimates of daily capital at risk calculated on the quarterly historical time-series respectively of Banca Intesa and Banca Caboto; the estimate of minimum and maximum values for Intesa and Caboto is calculated using aggregate historical time-series and therefore does not correspond to the sum of the individual values in the columns.

The analysis of breakdown of risk profile in the first quarter of 2006 with regard to the various factors showed the prevalence of equity risk for both Banca Intesa and Banca Caboto (68% and 45% of overall CaR, respectively).

Contribution of risk factors to overall CaR [a]

1st quarter 2006	Shares	Funds	Rates	Credit spread (*)	Foreign Exchange	Other Parameters
Banca Intesa	68%	13%	13%	4%	1%	1%
Banca Caboto	45%	-	21%	12%	-	22%
Intesa and Caboto	**65%**	**13%**	**14%**	**4%**	**1%**	**3%**

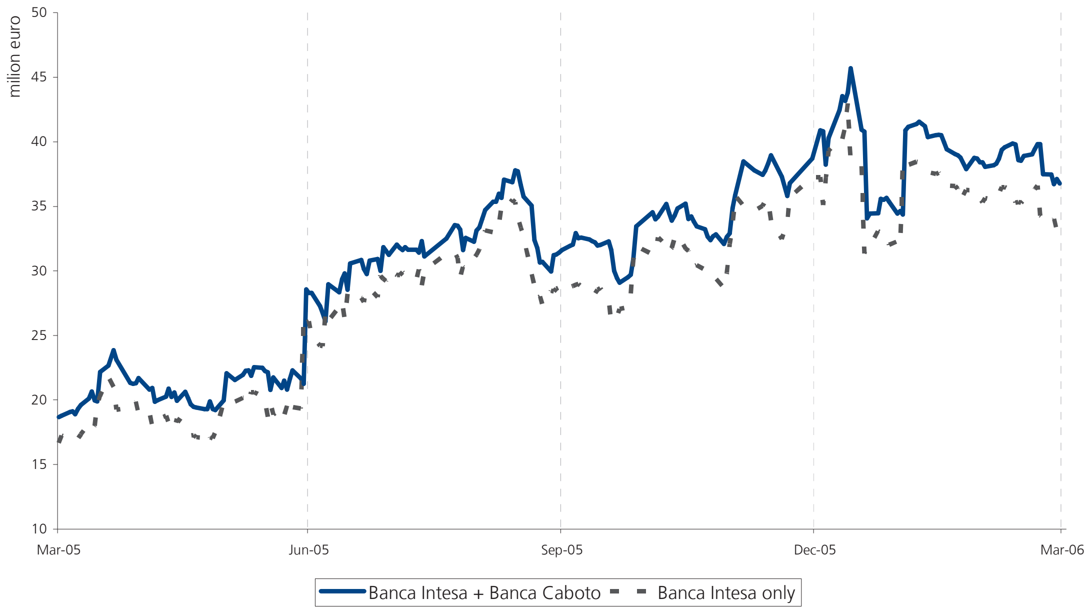
[a] The table sets out on every line the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the first quarter broken down between Banca Intesa and Banca Caboto and indicating the distribution of overall capital at risk.

(*) Inclusive for Banca Intesa of spread VaR of trading CDS, except spread VaR of bonds.
Inclusive for Banca Caboto of spread VaR of cash CDS strategies.

Changes in capital at risk

The trend recorded by capital at risk in the first quarter of 2006, showed in the graph, was especially due to Banca Intesa's exposure to equity risk which stemmed from strategic investment. Its exposure was subject to higher hedges in the quarter and in the subsequent month. Banca Intesa's interest rate component was stable on average for the entire period. Banca Caboto's risk profile was stable in the first quarter.

Evolution of market risks - daily capital at risk



QUANTITATIVE INFORMATION ON THE BANKING BOOK

Sensitivity analysis

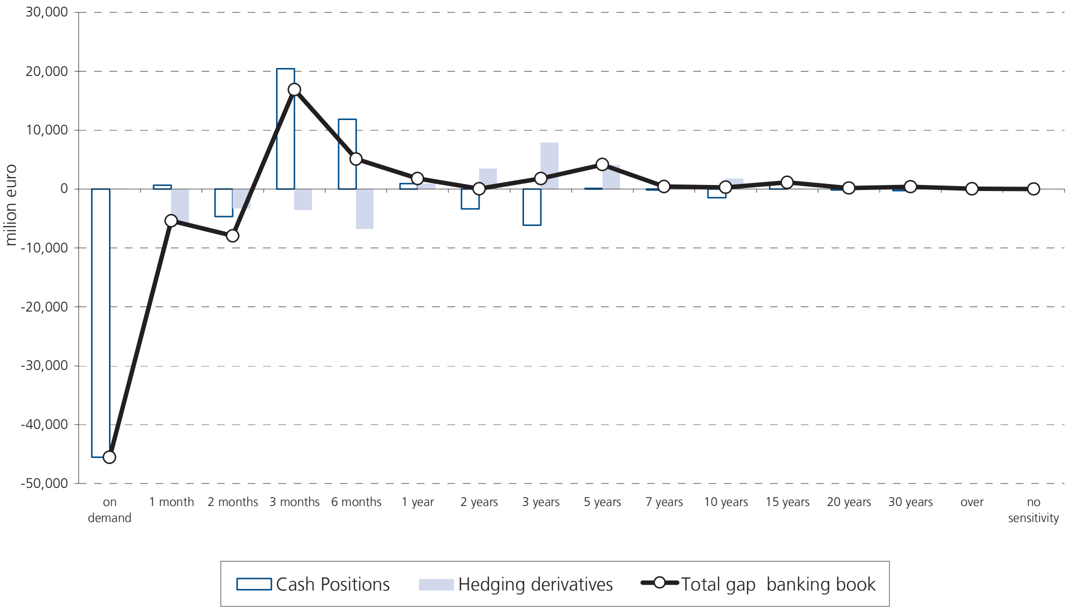
As regards Banca Intesa's banking book, the sensitivity of interest margin over 12 months to considerable changes in interest rates (+/- 100 basis points) was limited, as shown by the following table.

(in millions of euro)

	On-balance sheet		Off-balance sheet		Total sensitivity	% sensitivity
	on demand	maturity	hedging	trading		
+100 basis points	-63.1	289.7	-157.8	83.1	151.9	4.33%
-100 basis points	87.0	-289.7	157.8	-83.1	-128.0	-3.65%

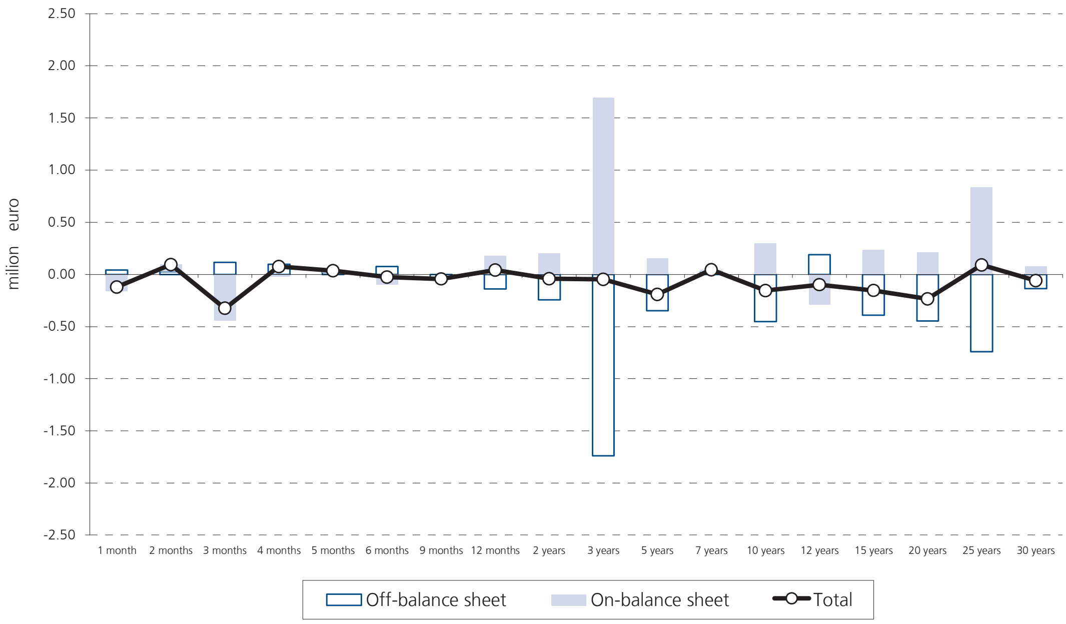
Also breakdown of capital by repricing dates highlights the practical elimination of interest rate risks.
Figures referred to interest rate risk on Banca Intesa's banking book represented approximately 75% of exposures referred to the entire Gruppo Intesa.

Capital profile by repricing dates



The analysis of the medium- and long-term subset, broken down by time buckets, confirms the effectiveness of the hedging policy adopted to cover interest rate risk generated by commercial banking activities.

Medium-long term sensitivity (+1 basis point)



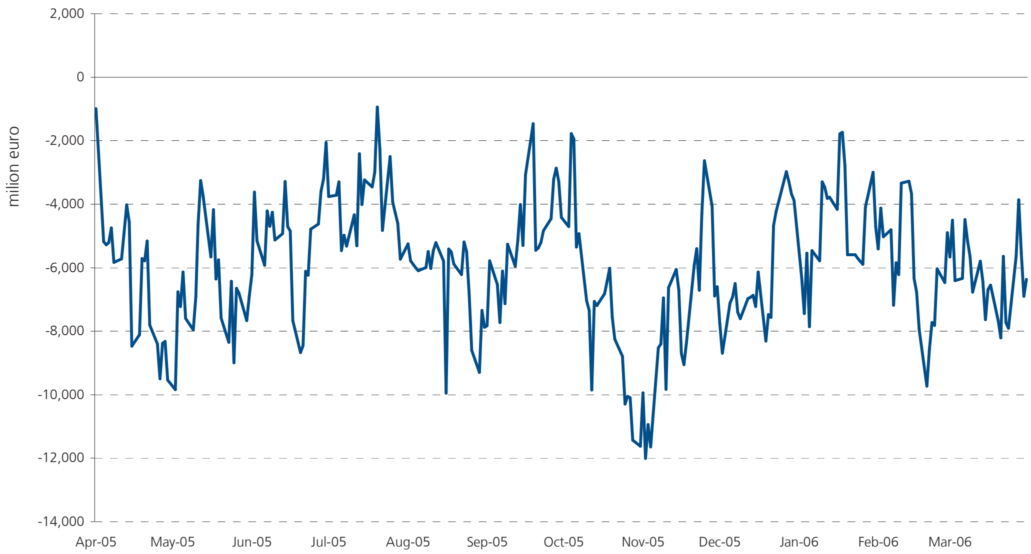
LIQUIDITY RISK

QUALITATIVE INFORMATION

For the illustration of the liquidity risk management processes and measurement methods please refer to the description provided in a specific chapter of the Notes to the consolidated financial statements of the Annual report 2005.

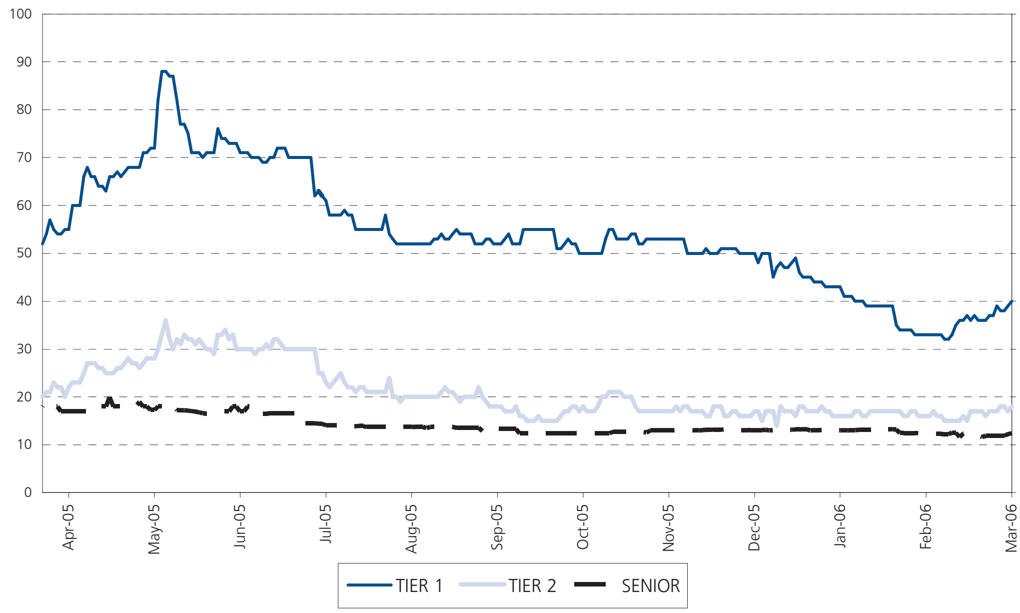
QUANTITATIVE INFORMATION

Weekly net exposure on the interbank market



The graph above shows the trend of net cumulated exposure for seven days on the interbank market. Average exposure in the last twelve months amounted to approximately 6 billion euro, and does not present any particular trend in the period under observation. Such exposure is the combined effect of treasury activities in Milano and in the branches abroad.

Spreads in asset swaps of Banca Intesa benchmark issued



The graph which shows the trends recorded by spreads in basis points of Banca Intesa issues in the last twelve months testifies a decrease in the perception of the Bank's specific risk, particularly for Senior issues. In the second quarter of 2005, a higher volatility is observed at the time of international tensions on certain industrial sectors, related in particular to car manufacturers.

OPERATIONAL RISK AND LEGAL LITIGATIONS

Activities to monitor and measure operational risks are aimed at guaranteeing continuity and the functioning of the production chain, maximising value creation through growth, cost discipline and attentive risk management, in addition to safeguarding tangible and intangible assets have been illustrated in detail in the Annual report 2005 to which, therefore, reference must be made.
As regards the various types of risk, and in particular legal risks, in the first months of 2006 the conciliation procedures with customers related to the Finmek and Finmatica bonds were concluded positively. Conciliations related to Parmalat, Cirio and Giacomelli bonds, as amply illustrated in the Report on operations of the Annual report 2005, had already been closed last year.
As concerns other important controversies, in the first months of the year no significant events occurred.

Shareholder base and stock price performance

Shareholder base

Banca Intesa's shareholder base as at 31st March 2006 – detailed in the following table – includes reference shareholders which are part of a Voting syndicate and hold 43.64% of the Bank's ordinary shares (43.27% is vested in the Syndicate) and approximately 194,000 shareholders holding 56.36%. With respect to as at 31st December 2005, there was no modification in the reference shareholder base and in the number of shares held.

Name	Shares included in the Voting syndicate	Shares not included in the Voting syndicate	Total shares	% of shares included in the Voting syndicate on total	% of shares held on total
Crédit Agricole S.A.	1,064,827,301	2,596,258	1,067,423,559	17.80	17.84
Fondazione CARIPLO	554,578,319	-	554,578,319	9.27	9.27
Generali group *of which*	435,229,478	-	435,229,478	7.27	7.27
- Assicurazioni Generali	*1,782,764*	-	*1,782,764*		
- Alleanza Assicurazioni	*248,236,838*	-	*248,236,838*		
- Other subsidiary companies	*185,209,876* [a]	-	*185,209,876*		
Fondazione CARIPARMA	254,375,410	6,139,792	260,515,202	4.25	4.35
"Gruppo Lombardo" *of which*	279,926,547	13,693,759	293,620,306	4.68	4.91
- Banca Lombarda e Piemontese	*139,963,274*	*5,059,638* [b]	*145,022,912*		
- I.O.R	*29,578,536* [c]	*1,675,058*	*31,253,594*		
- Mittel Partecipazioni Stabili	*15,000,000*	*6,959,063* [d]	*21,959,063*		
- Carlo Tassara	*95,384,737*	-	*95,384,737*		
Total Shareholders in the Syndicate	2,588,937,055	22,429,809	2,611,366,864	43.27	43.64
Total other Shareholders	-	3,372,007,423	3,372,007,423		56.36
Total	**2,588,937,055**	**3,394,437,232**	**5,983,374,287**		**100.00**

[a] Aachener und Münchener Lebensversicherung AG, Assitalia S.p.A., Central Krankenversicherung AG, Cosmos Lebensversicherungs AG, FATA - Fondo Assicurativo Tra Agricoltori S.p.A., Generali Assurances Iard S.A., Generali Versicherung AG (A), Generali Versicherung AG (D), Generali Vita S.p.A., GPA-VIE S.A., Ina Vita S.p.A., La Venezia Assicurazioni S.p.A., UMS - Generali Marine S.p.A., Volksfürsorge Deutsche Lebensversicherung AG, Volksfürsorge Deutsche Sachversicherung AG .

[b] Including 4,855,302 shares via the subsidiary Banco di Brescia.

[c] Shares with beneficial interest in favour of Mittel.

[d] Via the subsidiary Mittel Generale Investimenti.

Transactions with related parties

The individuals and juridical entities with the characteristics that make them eligible to be considered related parties on a consolidated basis – defined based on the indications given by IAS 24 and applied with reference to the specific organisational and governance structure of Banca Intesa and Group companies – were defined, also as at 31st March 2006, with the same criteria used and illustrated in the Annual report 2005, to which reference must be made.

Such relations have been subject to an attentive assessment from which no significant differences emerged, with respect to the figures in the Annual report 2005, other than the physiological changes intrinsic in the normal dynamics of interbank relations with both individual and corporate customers.

Company policy as concerns criteria which regulate the relations between various economic entities which make up the Group remains unchanged, and also the relationships with other related parties other than subsidiaries, associates and companies subject to joint control are

unchanged. These transactions are, normally, regulated at market rates or are aligned with the most favourable conditions applied to personnel.
Also in the first quarter of 2006 activities continued normally as part of the collaboration agreements with the Generali group in the placement of insurance policies and with the Crédit Agricole group in consumer credit and asset management. Likewise, relationships with companies or groups managed by directors continue, also regulated at standard market conditions.

As concerns Lazard & Co. – joint venture with the Lazard group – in which Banca Intesa has a 40% stake, it must be noted that at the end of March Banca Intesa and Lazard Group LLC reached a global agreement over their future relationships. Under this agreement, the joint venture, which was originally scheduled to expire in December 2007, will end upon the closing of the transactions set forth in the agreement. At that time, Lazard will repurchase Banca Intesa's investment in Lazard & Co. S.r.L. (Lazard Italia), for a combination of senior and subordinated promissory notes, issued by Lazard Group LLC, for a total of 146 million dollars and expiring in February 2008.
Instead, Banca Intesa will maintain the investment in Lazard Group LLC through the 150 million dollar subordinated convertible promissory note, which will be amended to be convertible into Class A ordinary shares of the listed company Lazard Ltd. (NYSE: LAZ) at a conversion price of 57 dollars per share. Conversion will be possible in three equal tranches, beginning from 1st July 2008, and until 30th June 2011. The interest rate on the note will be 3.25% and maturity 30th September 2016. Terms of the agreement have no significant effects on Gruppo Intesa's statement of income.

As regards compensation paid to Directors, it must be noted that Banca Intesa's Shareholders Meeting held last 20th April approved the increase of Director compensation from 30,000 euro to 65,000 euro, solely for the members of the Executive Committee, an additional compensation of 35,000 euro (*ex* 15,000 euro) and, for the members of the Internal Control Committee, an additional compensation of 25,000 euro.

Stock price performance

In a weaker economic context than the main European economies – despite certain signs of recovery – the Italian stock market recorded, also in the first quarter of 2006, a positive performance (+9.5%), slightly lower than that of the European index (+10.3% the DJ Euro Stoxx index).
The Italian banking sector recorded in the first quarter of the year an 11.4% rise, almost 2 points higher than the market and in line with the trend recorded in Europe. This trend stemmed from the combined effect of the favourable trend of interest rates and the positive results of the fourth quarter of 2005, which were generally in line with or outperformed expectations.
The quotation of the Banca Intesa ordinary share closed the first quarter of 2006 with a 10.5% rise, after recording a downward trend at the beginning of the year and a more sustained growth rate from the end of January.
The Banca Intesa saving share registered an 11.5% progress, thus reducing its discount with respect to the ordinary share to 6%, from 7% at the end of 2005.
In relation to such trends, the overall market capitalisation of Banca Intesa as at 31st March 2006 increased to 34 billion euro, from 30.7 billion euro as at the end of 2005.

Banca Intesa ordinary shares quotation and banking index(1)

(1) Comit banking index

Earnings per share

The measurement of earnings per share – known as EPS – is regulated by a specific accounting principle, IAS 33. In the table below, the indicator is presented in the two formulations: "basic" and "diluted".

Basic EPS is calculated by dividing net income attributable to holders of ordinary shares (therefore net of the dividend attributed to saving shares and the Allowance for charitable, social and cultural contributions) by the weighted average number of ordinary shares outstanding. Diluted EPS is calculated considering, at the denominator, the dilutive effect of the issue of ordinary shares deriving from the potential exercise of all stock options set out in the plan resolved upon in 2002 by Banca Intesa's Shareholders' Meeting.

The table below provides the annualised net income attributable to holders of ordinary shares, used as numerator in the two ratios, as well as the weighted average number of respectively basic and diluted ordinary shares used as denominator. The ratios converge on identical values, in consideration of both the relatively modest number of shares which may be issued following the aforementioned exercise of the options and the proximity of the event.

	2006			2005		
	Attributable net income (*) (in millions of euro)	**Weighted average number of ordinary shares**	**Euro**	**Attributable net income (*)** (in millions of euro)	**Weighted average number of ordinary shares**	**Euro**
Basic EPS	2,779	5,983,374,287	0.464	2,799	5,955,380,517	0.470
Diluted EPS	2,779	5,983,587,627	0.464	2,799	5,963,635,153	0.469

(*) Net income calculated deducting dividend attributed to saving shares and net income attributed to Allowance for charitable contributions. Net income is not indicative of forecasted net income for the whole of 2006, since obtained by annualising net income for the first quarter.

Price/book value

The index identifies the value attributed by the market to the share capital of a listed company and, therefore, indirectly to the entire value of its activities. Though it is affected by the exogenous factors which influence stock prices, the index, expressed as a multiple of total net shareholders' equity, measures the greater or lower confidence which financial analysts and the financial community have in the profitability prospects and the capital strength of the company.

For Gruppo Intesa the evolution of this indicator – calculated on average annual figures and at the end of the first quarter of 2006 – highlights the positive performance of the share during the year and, more generally, in the last few years which confirms the appreciation of the targets reached following the first 2003-2005 Business Plan.

(in millions of euro)

	31.03.2006	2005	2004	2003	2002	2001
Market capitalisation	33,992	26,258	20,414	17,140	16,856	22,776
Shareholders' equity (*)	16,345	15,337	15,328	14,521	14,061	13,209
Price / book value	**2.08**	**1.71**	**1.33**	**1.18**	**1.20**	**1.72**

(*) Average shareholders' equity for the years previous than 2005 has not been restated to consider IAS/IFRS.

Pay-out ratio

The table below sets out the unit dividend attributed in the last 5 years to ordinary shares and saving shares, in percentage of consolidated net income.

(in millions of euro)

	2005	2004	2003	2002	2001
Net income (*)	3,025	1,884	1,214	200	928
Dividends (**)	1,532	729	330	108	331
Pay-out ratio	**51%**	**39%**	**27%**	**54%**	**36%**

(*) Average shareholders' equity for the years previous than 2005 has not been restated to consider IAS/IFRS.

(**) Dividends in 2003 and 2002 do not consider the countervalue of the free distribution of own shares which using book value of shares in the two financial statements (3.180 euro and 2.049 euro respectively per share) was overall equal to 1,013 million euro in 2003 and 326 million euro in 2002.

Rating

The ratings assigned to Banca Intesa's debt, set out in the following table, remained unchanged compared as at 31st December 2005.

Rating agency	Short-term debt	Medium- and long-term debt
Standard & Poor's	A-1	A+
Moody's	P-1	A1
Fitch	F1	A+

Projections for the whole year

The trend recorded by operations in the first quarter of 2006 was extremely positive and net income particularly satisfactory.
This leads to believe that the targets set out for the current year in the Business Plan may be certainly reached even if current market trends change in the next few months.

The Board of Directors

Milano, 12th May 2006

Attachments

Parent Company's financial statements

Balance sheet

(in millions of euro)

Assets		31.03.2006	31.12.2005	Changes amount	Changes %
10.	Cash and cash equivalents	846	1,098	-252	-23.0
20.	Financial assets held for trading	37,747	38,892	-1,145	-2.9
30.	Financial assets designated at fair value through profit and loss	-	-	-	
40.	Financial assets available for sale	2,725	2,771	-46	-1.7
50.	Investments held to maturity	-	-	-	
60.	Due from banks	43,307	35,725	7,582	21.2
70.	Loans to customers	107,076	110,567	-3,491	-3.2
80.	Hedging derivatives	848	1,047	-199	-19.0
90.	Fair value change of assets in hedged portfolios (+/-)	-	-	-	
100.	Equity investments	12,072	11,568	504	4.4
110.	Property and equipment	1,492	1,509	-17	-1.1
120.	Intangible assets	342	364	-22	-6.0
	of which				
	- goodwill	-	-	-	
130.	Tax assets	2,214	2,258	-44	-1.9
	a) current	*1,349*	*1,330*	*19*	*1.4*
	b) deferred	*865*	*928*	*-63*	*-6.8*
140.	Non-current assets held for sale and discontinued operations	-	-	-	
150.	Other assets	2,272	2,006	266	13.3
Total Assets		**210,941**	**207,805**	**3,136**	**1.5**

Balance sheet

(in millions of euro)

Liabilities and Shareholders' Equity		31.03.2006	31.12.2005	Changes	
				amount	%
10.	Due to banks	37,508	33,182	4,326	13.0
20.	Due to customers	81,010	80,888	122	0.2
30.	Securities issued	55,685	56,974	-1,289	-2.3
40.	Financial liabilities held for trading	12,434	14,136	-1,702	-12.0
50.	Financial liabilities designated at fair value through profit and loss	-	-	-	
60.	Hedging derivatives	1,527	1,320	207	15.7
70.	Fair value change of liabilities in hedged portfolios (+/-)	-	-	-	
80.	Tax liabilities	927	437	490	
	a) current	*764*	*294*	*470*	
	b) deferred	*163*	*143*	*20*	*14.0*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	
100.	Other liabilities	6,528	4,408	2,120	48.1
110.	Employee termination indemnities	870	861	9	1.0
120.	Allowances for risks and charges	1,221	1,348	-127	-9.4
	a) post employment benefits	*129*	*131*	*-2*	*-1.5*
	b) other allowances	*1,092*	*1,217*	*-125*	*-10.3*
130.	Valuation reserves	1,408	1,297	111	8.6
140.	Reimbursable shares	-	-	-	
150.	Equity instruments	-	-	-	
160.	Reserves	2,306	2,284	22	1.0
170.	Share premium reserve	5,510	5,510	-	-
180.	Share capital	3,596	3,596	-	-
190.	Treasury shares (-)	-	-	-	
200.	Net income (loss)	411	1,564	-1,153	
Total Liabilities and Shareholders' Equity		**210,941**	**207,805**	**3,136**	**1.5**

Statement of income

(in millions of euro)

		1st quarter 2006	1st quarter 2005	Changes	
				amount	%
10.	Interest and similar income	1,744	1,582	162	10.2
20.	Interest and similar expense	-1,014	-799	215	26.9
30.	**Interest margin**	**730**	**783**	**-53**	**-6.8**
40.	Fee and commission income	685	670	15	2.2
50.	Fee and commission expense	-62	-58	4	6.9
60.	**Net fee and commission income**	**623**	**612**	**11**	**1.8**
70.	Dividend and similar income	1	40	-39	-97.5
80.	Profits (Losses) on trading	237	41	196	
90.	Fair value adjustments in hedge accounting	3	*-1*	4	
100.	Profits (Losses) on disposal or repurchase of	20	10	10	
	a) loans	*-1*	*-*	*1*	
	b) financial assets available for sale	*19*	*12*	*7*	*58.3*
	c) investments held to maturity	*-*	*-*	*-*	
	d) financial liabilities	2	*-2*	4	
110.	Profits (Losses) on financial assets and liabilities designated at fair value	-	-	-	
120.	**Net interest and other banking income**	**1,614**	**1,485**	**129**	**8.7**
130.	Net losses / recoveries on impairment	-109	-96	13	13.5
	a) loans	*-112*	*-68*	*44*	*64.7*
	b) financial assets available for sale	*-1*	*-*	*1*	
	c) investments held to maturity	*-*	*-*	*-*	
	d) other financial activities	*4*	*-28*	*32*	
140.	**Net income from banking activities**	**1,505**	**1,389**	**116**	**8.4**
150.	Administrative expenses	-853	-831	22	2.6
	a) personnel expenses	*-517*	*-510*	*7*	*1.4*
	b) other administrative expenses	*-336*	*-321*	*15*	*4.7*
160.	Net provisions for risks and charges	-33	-43	-10	-23.3
170.	Net adjustments to / recoveries on property and equipment	-38	-33	5	15.2
180.	Net adjustments to / recoveries on intangible assets	-41	-38	3	7.9
190.	Other operating expenses (income)	103	69	34	49.3
200.	**Operating expenses**	**-862**	**-876**	**-14**	**-1.6**
210.	Profits (Losses) on equity investments	10	18	-8	-44.4
220.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
230.	Goodwill impairment	-	-	-	
240.	Profits (Losses) on disposal of investments	-	2	-2	
250.	**Income (Loss) before tax from continuing operations**	**653**	**533**	**120**	**22.5**
260.	Taxes on income from continuing operations	-242	-220	22	10.0
270.	**Income (Loss) after tax from continuing operations**	**411**	**313**	**98**	**31.3**
280.	Income (Loss) after tax from discontinued operations	-	-	-	
290.	**Net income (loss)**	**411**	**313**	**98**	**31.3**

Changes in shareholders' equity as at 31st March 2006

(in millions of euro)

	1st quarter 2006												
	Share capital		Share premium reserve	Reserves		Valuation reserves				Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity
	ordinary shares	saving shares		retained earnings	other	available for sale	cash flow hedges	legally-required revaluations	other				
AMOUNTS AS AT 1.1.2006	**3,111**	**485**	**5,510**	**2,199**	**85**	**336**	**-26**	**987**	**-**	**-**	**-**	**1,564**	**14,251**
ALLOCATION OF NET INCOME													-
OF THE PREVIOUS YEAR													-
Reserves				**22**								**-22**	**-**
Dividends and other allocations [a]												**-1,542**	**-1,542**
CHANGES IN THE PERIOD													-
Changes in reserves						**41**	**70**						**111**
Operations on shareholders' equity													-
Issue of new shares													-
Purchase of treasury shares													-
Extraordinary dividends													-
Changes in equity instruments													-
Derivatives on treasury shares													-
Stock options													-
Net income (loss) for the period												**411**	**411**
SHAREHOLDERS' EQUITY AS AT 31.03.2006	**3,111**	**485**	**5,510**	**2,221**	**85**	**377**	**44**	**987**	**-**	**-**	**-**	**411**	**13,231**

[a] The caption includes dividends and the amount attributable to the Allowances for charitable contributions.

Changes in shareholders' equity as at 31st March 2005

(in millions of euro)

	1st quarter 2005												
	Share capital		Share premium reserve	Reserves		Valuation reserves				Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity
	ordinary shares	saving shares		retained earnings	other	available for sale	cash flow hedges	legally-required revaluations	other				
AMOUNTS AS AT 1.1.2005	**3,076**	**485**	**5,406**	**1,618**	**85**	**169**	**-6**	**987**	**-**	**-**	**-**	**1,309**	**13,129**
ALLOCATION OF NET INCOME													
OF THE PREVIOUS YEAR													
Reserves				**572**								**-572**	**-**
Dividends and other allocations [a]												**-737**	**-737**
CHANGES IN THE PERIOD													
Changes in reserves						**30**	**-3**						**27**
Operations on shareholders' equity													-
Issue of new shares													-
Purchase of treasury shares													-
Extraordinary dividends													-
Changes in equity instruments													-
Derivatives on treasury shares													-
Stock options				2									2
Net income (loss) for the period												**313**	**313**
SHAREHOLDERS' EQUITY AS AT 31.03.2005	**3,076**	**485**	**5,406**	**2,192**	**85**	**199**	**-9**	**987**	**-**	**-**	**-**	**313**	**12,734**

[a] The caption includes dividends and the amount attributable to the Allowances for charitable contributions.

Statement of cash flows

(in millions of euro)

	31.03.2006	31.03.2005
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**530**	**747**
- net income (-/+)	411	313
- gains/losses on financial assets held for trading and on assets/liabilities designated at fair value through profit and loss (-/+)	-421	-40
- gains/losses on hedging activities (-/+)	-3	1
- net losses/recoveries on impairment (+/-)	159	133
- adjustments to/net recoveries on property, equipment and intangible assets (+/-)	79	71
- net provisions for risks and charges and other costs/revenues (+/-)	60	70
- taxes and duties to be settled (+)	244	221
- net adjustments to/recoveries on disposal groups net of tax effect (-/+)	-	-
- other adjustments (+/-)	1	-22
2. Cash flow from / used in financial assets	**-3,982**	**3,753**
- financial assets held for trading	1,447	1,583
- financial assets designated at fair value through profit and loss	-	-
- financial assets available for sale	-109	158
- due from banks: repayable on demand	80	187
- due from banks: other	-2,133	699
- loans to customers	-3,279	-485
- other assets	12	1,611
3. Cash flow from / used in financial liabilities	**3,432**	**-4,694**
- due to banks: repayable on demand	1,868	2,923
- due to banks: other	2,522	342
- due to customers	1,081	-2,714
- securities issued	-765	-2,066
- financial liabilities held for trading	-1,627	-2,778
- financial liabilities designated at fair value through profit and loss	-	-
- other liabilities	353	-401
Net cash flow from (used in) operating activities	**-20**	**-194**
B. INVESTING ACTIVITIES		
1. Cash flow from	**37**	**153**
- sales of equity investments	36	131
- dividends collected on equity investments	1	22
- sales of investments held to maturity	-	-
- sales of property and equipment	-	-
- sales of intangible assets	-	-
- sales of subsidiaries and business branches	-	-
2. Cash flow used in	**-269**	**-105**
- purchases of equity investments	-230	-52
- purchases of investments held to maturity	-	-
- purchases of property and equipment	-20	-9
- purchases of intangibles assets	-19	-44
- purchases of subsidiaries and business branches	-	-
Net cash flow from (used in) investing activities	**-232**	**48**
C. FINANCING ACTIVITIES		
- issues / purchases of treasury shares	-	-
- share capital increases	-	-
- dividend distribution and other	-	-
Net cash flow from (used in) financing activities	**-**	**-**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**-252**	**-146**
RECONCILIATION		
Cash and cash equivalents at beginning of period	1,098	970
Net increase (decrease) in cash and cash equivalents	-252	-146
Cash and cash equivalents: foreign exchange effect	-	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**846**	**824**

LEGENDA: (+) from (–) used in

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