Interim Statement as at 31 March 2012

This is an English translation of the Italian original "Resoconto intermedio al 31 marzo 2012" and has been prepared solely for the convenience of the reader. The Italian version takes precedence and will be made available to interested readers upon request to Intesa Sanpaolo S.p.A.

This document contains certain forward-looking statement, projections, objectives, estimates and forecasts reflecting the Intesa Sanpaolo management's current views with respect to certain future events. Forward-looking statements, projections, objectives, estimates and forecasts are generally identifiable by the use of the words "may," "will," "should," "plan," "expect," "anticipate," "estimate," "believe," "intend," "project," "goal" or "target" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts, including, without limitation, those regarding Intesa Sanpaolo's future financial position and results of operations, strategy, plans, objectives, goals and targets and future developments in the markets where Intesa Sanpaolo participates or is seeking to participate.

Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements as a prediction of actual results. The Intesa Sanpaolo Group's ability to achieve its projected objectives or results is dependent on many factors which are outside management's control. Actual results may differ materially from (and be more negative than) those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results and is based on certain key assumptions.

All forward-looking statements included herein are based on information available to Intesa Sanpaolo as of the date hereof. Intesa Sanpaolo undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by applicable law. All subsequent written and oral forward-looking statements attributable to Intesa Sanpaolo or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

Interim Statement as at 31 March 2012

Intesa Sanpaolo S.p.A.
Registered office: Piazza San Carlo, 156 10121 Torino Secondary registered office: Via Monte di Pietà, 8 20121 Milano Share capital 8,545,561,614.72 Euro Registration number on the Torino Company Register and Fiscal Code 00799960158 VAT number 10810700152 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 "Intesa Sanpaolo", included in the National Register of Banking Groups.

Contents

THE INTESA SANPAOLO GROUP

The Intesa Sanpaolo Group: presence in Italy

Banks

INTESA SANPAOLO

BANCA CR FIRENZE
BANCA DELL'ADRIATICO
BANCA DI CREDITO SARDO
BANCA DI TRENTO E BOLZANO | BANK FÜR TRIENT UND BOZEN
Banca FIDEURAM
BANCA IMI
BIIS BANCA INFRASTRUTTURE INNOVAZIONE E SVILUPPO
BANCA MONTE PARMA
BANCA PROSSIMA PER LE IMPRESE SOCIALI E LE COMUNITÀ
BANCO DI NAPOLI
CASSA DEI RISPARMI DI FORLÌ E DELLA ROMAGNA
CASSA DI RISPARMIO DEL FRIULI VENEZIA GIULIA
CASSA DI RISPARMIO DEL VENETO
CASSA DI RISPARMIO DI VENEZIA
CARISBO
INTESA SANPAOLO PRIVATE BANKING
MEDIOCREDITO ITALIANO

NORTH WEST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
1,717	Intesa Sanpaolo Private Banking	59
	Banca Fideuram	38
	Banca Prossima	22
	Banca CR Firenze	7
	BIIS	4
	Mediocredito Italiano	2
	Banca IMI	1
	CR del Veneto	1

CENTRE

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
371	Banca CR Firenze	714
	Banca dell'Adriatico	81
	Banca Fideuram	21
	Intesa Sanpaolo Private Banking	21
	Banca Prossima	9
	Banco di Napoli	3
	BIIS	3
	Mediocredito Italiano	2

NORTH EAST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
17	CR del Veneto	451
	CR in Bologna	209
	CR del Friuli Venezia Giulia	136
	CR Venezia	117
	CR di Forlì e della Romagna	112
	Banca di Trento e Bolzano	83
	Banca Monte Parma	72
	Banca CR Firenze	47
	Intesa Sanpaolo Private Banking	38
	Banca Fideuram	22
	Banca Prossima	13
	BIIS	3
	Mediocredito Italiano	2

SOUTH

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
5	Banco di Napoli	758
	Banca dell'Adriatico	114
	Intesa Sanpaolo Private Banking	20
	Banca Prossima	16
	Banca CR Firenze	12
	Banca Fideuram	11
	BIIS	4
	Mediocredito Italiano	2

ISLANDS

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
188	Banca di Credito Sardo	100
	Banca Prossima	7
	Banca Fideuram	5
	Intesa Sanpaolo Private Banking	5
	BIIS	2
	Mediocredito Italiano	1

Figures as at 31 March 2012

Product Companies

INTESA SANPAOLO VITA
Bancassurance

INTESA SANPAOLO PREVIDENZA
Pension Funds

EurizonCapital
Asset Management

SIREFID
Fiduciary Services

MONETA NEOS FINANCE
Consumer Credit

SETEFI
Electronic Payments

LEASINT
Leasing

MEDIOFACTORING
Factoring

The Intesa Sanpaolo Group: international presence

Banks, Branches and Representative Offices

INTESA SANPAOLO

ALEXBANK بنك الإسكندرية | BANCA C.R.FIRENZE ROMANIA | BANCA DI TRENTO E BOLZANO BANK FÜR TRIENT UND BOZEN | Banca FIDEURAM

BANCA IMI | BANCA INTESA | BANCA INTESA Beograd | BANKA KOPER

BIIS BANCA INFRASTRUTTURE INNOVAZIONE E SVILUPPO | CIB BANK | INTESA SANPAOLO BANK Albania | INTESA SANPAOLO BANK IRELAND

INTESA SANPAOLO BANK Romania | INTESA SANPAOLO BANKA Bosna i Hercegovina | INTESA SANPAOLO PRIVATE BANK SUISSE | PRAVEX-BANK

PRIVREDNA BANKA ZAGREB | Société Européenne de Banque | VÚB BANKA

AMERICA

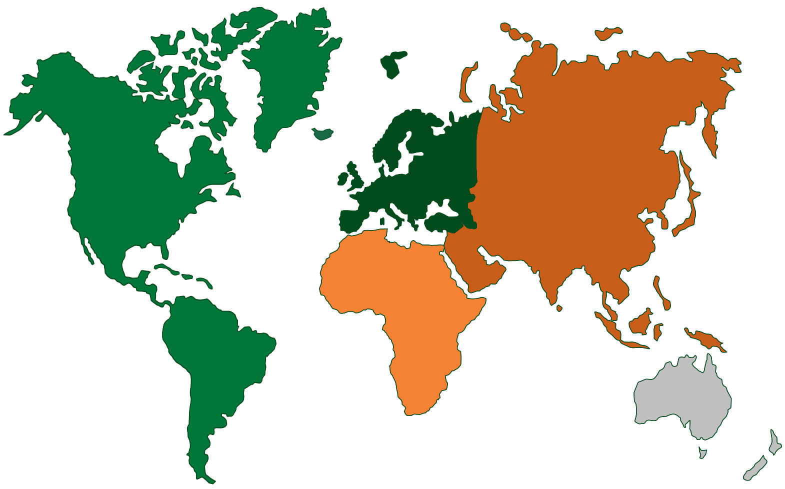
Direct Branches	Representative Offices
George Town	Santiago
New York	São Paulo

ASIA

Direct Branches	Representative Offices
Dubai	Abu Dhabi
Hong Kong	Beijing
Shanghai	Beirut
Singapore	Ho Chi Minh City
Tokyo	Mumbai
	Seoul
	Tehran

EUROPE

Direct Branches	Representative Offices
Amsterdam	Athens(2)
Dornbirn(1)	Brussels(3)
Frankfurt	Istanbul(4)
Innsbruck(1)	London(5)
London	Moscow
Madrid	Paris(5)
Paris	Stockholm
	Warsaw



Country	Subsidiaries	Branches
Albania	Intesa Sanpaolo Bank Albania	31
Bosnia and Herzegovina	Intesa Sanpaolo Banka Bosna i Hercegovina	53
Croatia	Privredna Banka Zagreb	216
Czech Republic	VUB Banka	1
Hungary	CIB Bank	119
Ireland	Intesa Sanpaolo Bank Ireland	1
Luxembourg	Banca Fideuram	1
	Société Européenne de Banque (SEB)	1
Romania	Intesa Sanpaolo Bank Romania	74
	Banca CR Firenze Romania	15
Russian Federation	Banca Intesa	75
Serbia	Banca Intesa Beograd	208
Slovakia	VUB Banka	245
Slovenia	Banka Koper	55
Switzerland	Intesa Sanpaolo Private Bank (Suisse)	1
Ukraine	Pravex-Bank	260
United Kingdom	Banca IMI	1

AFRICA

Representative Offices	Country	Subsidiaries	Branches
Cairo	Egypt	Bank of Alexandria	200
Casablanca			
Tunis			

Figures as at 31 March 2012
(1) Branches of Italian subsidiary Banca di Trento e Bolzano
(2) Representative offices of Intesa Sanpaolo and Banca IMI
(3) International Regulatory and Antitrust Affairs and Intesa Sanpaolo Eurodesk
(4) Representative offices of Intesa Sanpaolo and BIIS
(5) Representative office of BIIS

Product Companies

CONSUMER FINANCE HOLDING | INTESA SANPAOLO CARD

Consumer Credit, E-money and Payment Systems

CIB INVESTMENT FUND MANAGEMENT | EurizonCapital s.a. | FIDEURAM Asset Management (Ireland) | PBZ INVEST | VÚB ASSET MANAGEMENT

Asset Management

CIB LEASING | INTESA LEASING Beograd | PBZ LEASING | VÚB LEASING

Leasing

INTESA SANPAOLO LIFE

Insurance

Supervisory Board, Management Board, General Management, Manager responsible for preparing the Company's financial reports and Independent Auditors

Supervisory Board

Chairman	Giovanni BAZOLI
Deputy Chairman	Mario BERTOLISSI
Members	Luigi Arturo BIANCHI Rosalba CASIRAGHI Franco DALLA SEGA Jean-Paul FITOUSSI Pietro GARIBALDI Guido GHISOLFI Giulio Stefano LUBATTI Marco MANGIAGALLI Gianni MARCHESINI Fabio PASQUINI Eugenio PAVARANI Gianluca PONZELLINI Gian Guido SACCHI MORSIANI Marco SPADACINI Livio TORIO Riccardo VARALDO

Management Board

Chairman	Andrea BELTRATTI
Senior Deputy Chairman	Marcello SALA
Deputy Chairman	Giovanni COSTA
Managing Director and Chief Executive Officer	Enrico Tommaso CUCCHIANI
Members	Aureliano BENEDETTI Paolo CAMPAIOLI Elio CATANIA Roberto FIRPO Emilio OTTOLENGHI

General Managers	Enrico Tommaso CUCCHIANI Carlo MESSINA Gaetano MICCICHÈ Marco MORELLI (*)
Manager responsible for preparing the Company's financial reports	Ernesto RIVA
Independent Auditors	KPMG S.p.A.

(*) Deputy to the CEO

OVERVIEW OF THE FIRST QUARTER 2012

Income statement figures and alternative performance measures

Consolidated income statement figures (millions of euro)	31.03.2012	31.03.2011	Changes amount	Changes %
Net interest income	2,501	2,392	109	4.6
Net fee and commission income	1,317	1,395	-78	-5.6
Profits (losses) on trading	716	280	436	
Income from insurance business	258	120	138	
Operating income	4,813	4,205	608	14.5
Operating costs	-2,207	-2,242	-35	-1.6
Operating margin	2,606	1,963	643	32.8
Net adjustments to loans	-973	-682	291	42.7
Income after tax from discontinued operations	-	-	-	-
Net income (loss)	804	661	143	21.6

Main income statement figures by business area (millions of euro)

	Operating income 31.03.2012	Operating income 31.03.2011	Operating costs 31.03.2012	Operating costs 31.03.2011
Banca dei Territori	2,502	2,391	1,394	1,417
Corporate and Invest. Banking	1,188	1,008	248	239
International Subsidiary Banks	549	590	288	286
Eurizon Capital	62	69	29	32
Banca Fideuram	222	201	84	87

	Operating margin 31.03.2012	Operating margin 31.03.2011	Net income (loss) 31.03.2012	Net income (loss) 31.03.2011
Banca dei Territori	1,108	974	215	255
Corporate and Invest. Banking	940	769	465	438
International Subsidiary Banks	261	304	24	86
Eurizon Capital	33	37	17	18
Banca Fideuram	138	114	59	52

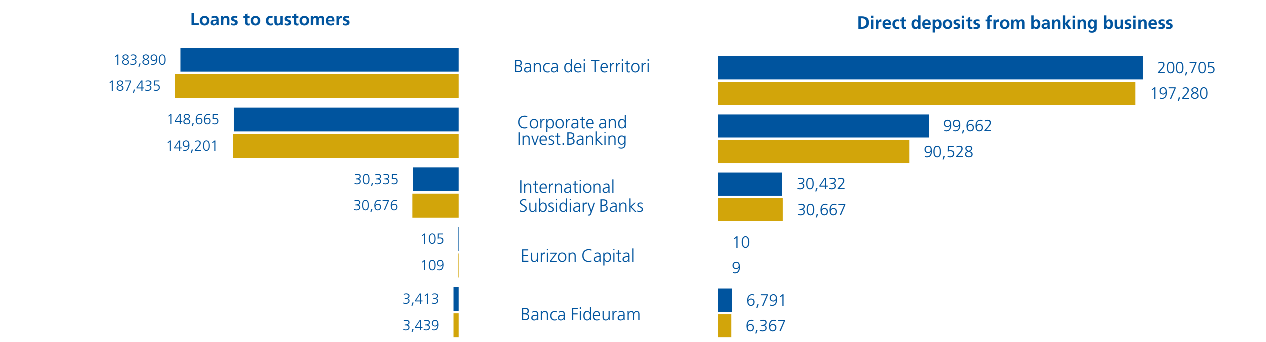
Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

31.03.2012
31.03.2011

Balance sheet figures and alternative performance measures

Consolidated balance sheet figures (millions of euro)			Changes amount	Changes %
Financial assets	183,789	165,614	18,175	11.0
of which: Insurance Companies	*76,969*	*73,926*	*3,043*	*4.1*
Loans to customers	378,050	376,744	1,306	0.3
Total assets	652,630	639,221	13,409	2.1
Direct deposits from banking business	371,555	359,991	11,564	3.2
Direct deposits from insurance business and technical reserves	77,003	73,119	3,884	5.3
Indirect deposits:	415,688	405,727	9,961	2.5
of which: Assets under management	*226,901*	*221,889*	*5,012*	*2.3*
Shareholders' equity	49,345	47,040	2,305	4.9

Main balance sheet figures by business area (millions of euro)



Operating structure	31.03.2012	31.12.2011	Changes amount
Number of employees	**99,504**	**100,118**	**-614**
Italy	69,012	69,162	-150
Abroad	30,492	30,956	-464
Number of financial advisors	**4,922**	**4,850**	**72**
Number of branches [(a)]	**7,219**	**7,246**	**-27**
Italy	5,648	5,581	67
Abroad	1,571	1,665	-94

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

[(a)] Including Retail Branches, Private Banking Branches, SME Branches and Corporate Branches.

31.03.2012
31.12.2011

Other alternative performance measures

Consolidated profitability ratios (%)	31.03.2012	31.03.2011
Cost / Income	45.9	53.3
Net income / Average shareholders' equity (ROE) [(a)]	5.5	4.9

Earnings per share (euro)	31.03.2012	31.03.2011
Basic earnings per share (basic EPS) [(b)]	0.05	0.05
Diluted earnings per share (diluted EPS)	0.05	0.05

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

[(a)] Ratio between net income and average of share capital, share premium reserve, reserves and valuation reserves. The figure for the period with the exception of non-recurring components, has been annualised.

[(b)] Net income (loss) attributable to holders of ordinary shares compared to the weighted average number of outstanding ordinary shares. The figure for comparison has not been restated.

31.03.2012
31.03.2011

Consolidated risk ratios (%)

	31.03.2012	31.12.2011
Net doubtful loans / Loans to customers	2.4	2.4
Cumulated adjustments on doubtful loans / Gross doubtful loans to customers	62.9	64.0

Consolidated capital ratios (%) [c]

	31.03.2012	31.12.2011
Tier 1 capital [d] net of ineligible instruments / Risk-weighted assets (Core Tier 1)	10.5	10.1
Tier 1 capital [d] / Risk-weighted assets	11.5	11.5
Total capital [e] / Risk-weighted assets	14.2	14.3
Risk-weighted assets (millions of euro)	319,942	325,206

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

[c] Ratios are determined using the methodology set out in the Basel 2 Capital Accord. The figure for comparison has not been restated.

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

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

Executive summary

The macroeconomic context

The economy and the financial and currency markets

The world economy showed signs of stabilisation after the slowdown in the second half of 2011. Global economic indicators remained stable between January and March, following on from the improvements at the end of last year. The economic situation appeared to be more solid in the United States, where the orientation of monetary and fiscal policy remained relatively accommodative, as well as Japan.
The Eurozone benefited from a temporary alleviation of the financial crisis, favoured by the success of the two long-term financing operations implemented by the European Central Bank in December and at the end of February. The funds raised from European banks reduced the credit crunch risk and stimulated demand for government bonds, resulting in a general reduction in risk premiums. The yield on ten-year Italian bonds, which was still at 7.15% on 9 January, fell to 4.8% in March, despite renewed increases from 20 March. However, the benefits for the real economy were more than offset by other recessionary pressures. Economic austerity measures imposed by the debt crisis continued to depress domestic demand in much of the outlying European countries. Several countries have already announced corrective measures for 2012 and have also revised their economic forecasts downwards for the next two years.
Fiscal consolidation efforts continue to prove insufficient to restore investor confidence, which is still being undermined by the lack of a credible protection mechanism for the Member States. In this regard, the Eurozone has decided to bring the establishment of the European Stability Mechanism forward to July 2012, to provide a total financing capacity from then on of around 500 billion euro. In addition, the International Monetary Fund has approved an increase in its resources, which may be used in part to strengthen the European safety network. Support programs to Member States in difficulty are having varying degrees of success. While the programs in Ireland and Portugal are proceeding without difficulties, doubts remain over the sustainability of the adjustment program established for Greece, which completed the planned restructuring of debt held by private owners. The brunt of the crisis has now shifted to Spain, which has been affected by problems in its banking system and delays by the new government in tackling the deterioration in public finances.

European economic indicators edged up marginally in January and February, but are still at levels reflecting a renewed contraction in economic activity. In Italy, confidence indices and economic surveys of businesses showed no signs of recovery in the first quarter, clearly signalling that economic activity had declined significantly in the first quarter of 2012. Consumer confidence remained low, reflecting the general reduction in disposable income and worsening employment prospects. The Italian economy continues to be supported by demand from outside Europe, which is driving a strong expansion in exports in nominal terms; however, the contribution from this trade surplus has not been sufficient to offset the intensity of the decline in domestic demand. On the fiscal front, the government has revised the 2012 deficit target to 1.7%, a level still consistent with the achievement of a strong primary surplus.
The trend in interest rates reflects conditions of excess liquidity, weak economic activity and scepticism about a speedy resolution of the debt crisis in Europe. Although the rate on the main refinancing operations remained unchanged at 1%, the monthly Euribor rate gradually declined from 1.01% to 0.419%. Medium-term rates also fell, as did yields on German government bonds. Ten-year swap rates fluctuated around a stable average. Despite the rapid decline during the first quarter, yield spreads between Eurozone sovereign issuers were still exceptionally large by historical standards.

International stock markets began the year 2012 with a significant upward shift, which was justified in the United States by a situation of economic growth and a moderate improvement in company profits. In the Eurozone, the recovery was mainly driven by liquidity (as a result of the European Central Bank's two Long Term Refinancing Operations - LTRO) and progress in the management of the sovereign debt crisis, with the successful conclusion to the restructuring of Greek debt and better coordination of fiscal measures by the EU countries. This resulted in a partial reduction in investor risk aversion and allowed share indices to achieve positive performance, driven in Europe by the banking and financial sectors, which were more responsive to the easing of tensions on sovereign debt, with highs for the period reached around mid-March.
However, in the final weeks of the quarter, profit taking was triggered by uncertainties about the prospects of economic recovery in the Eurozone, also as a result of sharp increases in Brent oil prices, due to renewed fears about the solidity of public finances in certain peripheral eurozone countries, which led to a correction in prices, although values were still up at the end of the quarter.
Over the three months, the S&P 500 index rose by 12%. The main European stock exchanges performed positively, although at different rates. The Euro Stoxx 50 ended the quarter up 6.9%, while the CAC 40 rose by 8.4% during the period. Performance of the DAX 30 was very strong, with an increase of 17.8% as at the end of March. For the UK FTSE 100 performance was more moderate, with a rise of 3.5%. Of note, lastly, was the negative performance in Spain, with the IBEX 35 recording a decline of 6.5%, due to renewed fears about the country's public finances.

Despite the general upward trend in the stock exchanges, the Italian stock market performed slightly worse than the major European markets, reflecting continued weakness of the domestic economy, as well as renewed investor concerns about the sovereign debt crisis towards the end of the quarter. The FTSE MIB ended the period up 5.9%, after reaching a peak of 13.5% on 19 March, with the FTSE Italia All Share recording a slightly higher increase (+7.25). Mid-cap stocks out-performed blue chips, with the FTSE Italia STAR index ending the period up 17.6%.

The European corporate bond market ended the first three months of the year with a significant narrowing of risk premiums, which affected both the cash and derivative segments. The easing of the European sovereign debt crisis, largely due to the positive effect of liquidity injected into the system by the ECB through the two three-year auctions, led to a sharp recovery in bond markets, with particularly strong performance for the riskier financial and high yield asset classes, which had suffered the most in 2011. The agreement on Greek debt, which took place during a very positive market phase and ended with the swap of public debt securities together with the activation of CDSs, was also received with calm by the market.
In particular, in the Investment-Grade cash segment the reduction in risk aversion led to a stronger recovery in financial-sector securities compared to industrial-sector stocks, with a general steepening of the credit yield curve by maturity. This trend was even more positive in the speculative segment, with a sharper tightening in the lower credit ratings (rated CCC & Lower).
The overall reduction in risk aversion was also reflected in the derivatives segment, which was the most heavily affected in the last quarter of 2011. The credit default swap derivative indices (such as the iTraxx) showed a general reduction in the cost of protection from insolvency risk, particularly for speculative issuers and subordinated financials.
Towards the end of the quarter there was a gradual renewal of strains in the financial markets, with partial profit taking, due to renewed fears linked to the current economic slowdown and the solidity of European public finances, especially in the peripheral countries burdened by severe austerity measures.

The emerging economies and markets

For the emerging economies, the indicators signalled a general weakening in economic performance in the early months of 2012, although at different rates. In February industrial production, despite a slowdown, still grew at around 11% in China, but by only just over 2% in India and Russia, and in Brazil there was a 3.9% decline.
With regard to the countries where the Intesa Sanpaolo Group operates, during the initial months of the year industrial production slowed down overall in the countries of South Eastern Europe (SEE) and the Confederation of Independent States (CIS), particularly in Serbia and Ukraine, but increased slightly in the CEE countries, including Slovakia where manufacturing activity was up 11.3% in February.
In Egypt, there was a strong recovery in production in February (+36.5%), however, this was mainly due to the positive comparison with the initial months of 2011 when production activities stopped in various sectors during the political upheaval.
Overall, inflation in the emerging countries continued to slow down. The inflation trend rate for a sample that includes the major emerging economies fell from 5.2% in December 2011 to 4.5% in March 2012. Inflation was at record lows in Russia (3.7%) and Ukraine (1.9%), owing in part to the postponement of fee increases for certain services that were due to be implemented in the first half of the year. The worsening economic situation, in an environment of reduced price pressures, led to new monetary easing measures by central banks in Latin America (Brazil) and the Emerging Europe countries (Albania, Romania and Serbia). However, the Central Bank of Egypt implemented an interest rate rise to support its currency.

In the financial markets, the MSCI composite index of emerging markets rose by little over 10% during the quarter, in line with the Eurostoxx (+9.5%) and the S&P USA (+12%). Of note was the significant recovery in Egypt (+36% in the quarter) and the rises in indices for Russia (+18.5%), Romania (+24%) and Turkey (+21%). The partial alleviation of strains in the Eurozone favoured a general tightening of spreads on sovereign debt, although with some exceptions including Ukraine and Egypt (where spreads were around 600 and 800 basis points, respectively). In those countries the markets are still waiting for an agreement with the IMF to support the financing of expected foreign funding needs for 2012, when there will be a partial renewal of maturing debt by private investors.
Performance of the major Asian stock markets was very varied. The Chinese market's SSE Composite Index ended the first quarter up slightly by 2.9%, reflecting expectations of slower economic growth, while the Nikkei 225 index rose by 19.3%.
During the quarter most emerging country currencies appreciated against the US dollar. The most substantial gains were made by certain Latin American currencies (Mexico, Colombia and Chile) and Eastern European currencies, including the Russian rouble, Polish zloty and the Turkish lira, which were also up against the Euro (around 5/6%). In Ukraine and Egypt, with regard to the semi-fixed exchange rate with the US dollar, central banks responded to exchange rate pressures by draining part of their official reserves, particularly in Egypt. Certain Eastern European countries, particularly Slovakia, Slovenia, Hungary and Ukraine, were affected by cuts in their rating or outlook by the rating agencies.

The banking system

Rates and spreads

In the first quarter of 2012 there was a partial easing of strains on the cost of funding experienced in 2011, also accompanied by a relaxation of rates on new loans.
The marginal cost of rates declined for all types of funding, especially the more costly forms. For rates on new time deposits and repurchase agreements there was a turnaround after the surge in 2011. The rate on fixed-rate bond issues fell back down from the high reached in January 2012 and there was a shaving of rates on current accounts. Overall, the deposit rate was still up slightly, as a result of the increased influence of the more costly components. Similarly, the rate on total customer deposits was higher than in previous quarters, due to the knock on effect of increases in 2011.
The easing of strains on bank liquidity and longer-term funding started to have an impact on conditions in the credit markets. The average rate on new loans to non-financial companies fell from the level reached at the end of 2011. Rates on new loans to households saw a slowdown in increases, as a result of repricing more evenly spread out over time compared to the sharper adjustments made to the rates applied to non-financial companies in 2011. The initiation of a phase of rate reductions on the loans is consistent with the fall in money rates and the decrease in risk premium on Italian debt, which is a fundamental condition for normalisation of credit markets. Rates on outstanding loans also showed signs of reduction during the quarter, compared to the highs reached at the end of 2011-beginnig of 2012. The average rate on the stock of loans to households and non-financial companies decreased slightly on a monthly basis, although quarterly averages remained essentially stable.
Given the rising cost of funding and the beginning of a reduction in loan rates, the overall margin on lending and deposit collection activities has started to fall again, after the improvement in the second half of 2011. The spread between average interest rates on the amounts of loans and deposits fell (to a quarterly average of 2.10% compared to 2.25% for last quarter of 2011), returning to the lows recorded in the first part of 2011. In the initial months of 2012, the spread on funding, measured on short-term rates, continued to decline gradually falling to its lowest historic levels, reflecting a significant reduction in Euribor rates (narrowing of the mark-down[1] on 1-month Euribor by more than half a point compared to the 0.66% average for the last quarter of 2011). The mark-up[2] on the 1-month Euribor continued the rising trend already seen in the second half of 2011 (average of 4.72% in the first three months of 2012 compared to 3.86% in the fourth quarter of 2011 and 3.23% in the first quarter of 2011). This level of margin, at the maximum for the historical series available from 2003, reflects the exceptionally high risk premium on Italian debt reached in the last part of 2011, which, however, fell back down in the early months of 2012. As a result of these trends, the short-term spread exceeded the levels reached in 2011 (4.82% average for the first three months of 2012, from 4.52% for the fourth quarter of 2011).

Loans

Lending activity continued to slow down at the beginning of 2012. After the significant decline in December 2011, loans to non-financial companies remained weak, with a steady slowdown in the growth rate. This performance reflected the significant slowdown in short-term loans, which emerged in the latter part of 2011, and the stagnation in medium-/long-term loans, adversely affected by the weakness of business investment. In contrast to the sudden halt in the growth in loans to businesses, loans to households held firm, supported by mortgage loans, although with a gradual slowdown as already witnessed in 2011. As a whole, loans to households and businesses slowed down significantly, but nevertheless still continued to grow.
The weak performance of bank loans reflected the fall in demand linked to the economic recession and the deterioration during 2011 of the factors influencing supply, including the strains in the market for government bonds and on bank liquidity. Supply difficulties were partially alleviated in the early months of 2012, although there was renewed period of market turmoil between March and April. The perception of a less restrictive credit environment has gradually started to spread, as a result of the effectiveness of measures implemented by the ECB to support bank lending and liquidity. Business surveys have reported an impression of slight but steady improvement in conditions of access to credit, compared to the considerable tightening in the latter part of 2011.

Direct deposits

Bank funding showed some elements of improvement, but remained weak overall. First of all, Italian customer deposits held up, after the slight fall in 2011, with a moderate recovery in the early months of 2012, supported by household deposits. The continued reduction in current accounts was offset by the success of term deposits, whose increase more than compensated for the decline in demand deposits. Bonds were affected by the issues of government-backed securities used by banks as collateral for refinancing operations in the Eurosystem. Excluding bonds held in the portfolio, the stock of securities issued by banks suffered a further weakening. However, improved market conditions in the initial months of the year allowed the major Italian banks to return to the international market of institutional investors with senior unsecured bond issues, after more than six months of inactivity in the wholesale segment. For Italian banks the institutional issues in early 2012 represented an important first step towards the reopening of a major source of structural funding.
The continued absence of foreign wholesale funding was offset by a significant contribution to funding from the two three-year refinancing operations by the Eurosystem at the end of December 2011 and in February 2012. The two operations injected a net amount of liquidity into the Italian banking system of 60 billion euro and 80 billion euro, respectively. As a result, the use by Italian banks of refinancing through the Eurosystem further increased to a total of around 270 billion euro as at March 2012.

[1] Difference between the 1-month Euribor and interest rates on household and business current accounts.
[2] Difference between the interest rates applied to households and businesses on loans with maturity below one year and the 1-month Euribor.

Indirect deposits and asset management

With regard to assets under administration by banks, the positive trend that emerged in 2011 continued, although with some signs of slowdown, probably due to the decline in yields on government bonds. In particular, there was a slowdown in the growth in debt securities held in custody for consumer households, after the high recorded at the end of 2011-beginning of 2012. Securities held in custody for businesses showed similar signs of weakening.
With regard to assets under management, in the first quarter of 2012 the Italian market for open-ended mutual funds was again characterised by higher redemptions than subscriptions. Although the overall result for the period was negative, in March there was a significant improvement, with a return to net inflows of 2.4 billion euro. Within the overall performance for the quarter, Italian mutual funds were again affected by outflows, while foreign funds achieved net inflows for the quarter, largely due to the recovery in March. The overall negative balance was mainly related to the monetary, flexible and equity funds, while bond funds recorded inflows. At the end of March open-ended mutual fund assets stood at 435 billion euro, up on the end of December 2011 (419 billion euro), as a result of the performance of the markets.
For the insurance segment, in the first quarter of 2012 there was no halt to the slowdown in new business in the life insurance segment (-27% compared to the first three months of 2011), for both traditional products and, to a lesser extent, for products with a higher financial component. The slowdown in inflows was again sharper for policies placed through bank and post offices (-36.7% year on year) compared to those placed through other distribution channels.

Intesa Sanpaolo in the first three months of 2012

Consolidated results

As reported above, the first quarter of 2012 saw a temporary alleviation of the Eurozone financial crisis and the easing of strains on the liquidity and funding of financial institutions, however, this was accompanied, particularly in Italy and other peripheral countries, by a decline in economic activity and a crisis in confidence among consumers, forced to deal with a general reduction in available income and worsening employment prospects.
Against this background, the Intesa Sanpaolo Group's results for the first quarter of 2012 were positive. Indeed, the Group ended the first three months of the year with net income of 804 million euro, up 21.6% on the 661 million euro for the first quarter of 2011. The positive performance was attributable to the increase in operating income, in relation to the margin on money management, income from insurance business and, above all, profits on trading, which also benefitted from non-recurring income linked to the repurchase of the Bank's securities.
Operating margin also benefited from structural cost containment measures.
Those benefits were partly absorbed at the level of income before tax from continuing operations due to the greater need for provisions and adjustments, particularly due to the deterioration in credit quality resulting from the weakening of the real economy.

In terms of breakdown of the items of operating income, the income statement for the first quarter showed net interest income of 2,501 million euro, up 4.6% on the first three months of 2011 in relation to the increase in mark-up.
The services segment generated net fee and commission income of 1,317 million euro, down 5.6% due to the component relating to management and dealing of financial instruments (-10.5%), whereas commissions for retail banking activities were up slightly (+0.6%).
Profits on trading, amounting to 716 million euro, were up significantly on the 280 million euro for the first quarter of 2011, having benefited from the effects of the buy back by the Parent Company of subordinated Tier 1 notes (274 million euro, 183 million euro net of tax effect) and the positive performance of interest rate transactions.
Income from insurance business, which aggregates specific costs and revenues of the insurance business of the Group companies operating in the life and non-life segments, also made a greater contribution increasing to 258 million euro from 120 million euro for the first three months of the previous year due to the improvement in the net investment result.
As a result of the above trends, operating income for the first quarter of 2012 came to 4,813 million euro, an increase of 14.5%.
Operating costs, which are continually and carefully monitored to ensure structural cost containment, showed a decrease (-1.6% to 2,207 million euro) attributable to both personnel expenses (-1.2%) and administrative expenses (-3.7%), whereas adjustments were up slightly (+5.4%).
The operating margin amounted to 2,606 million euro, up 32.8% on the first three months of 2011.
Adjustments and provisions for risks, as a whole, were up around 50%, largely due to greater net adjustments to loans (973 million euro, around +43%), attributable in particular to the general deterioration in credit quality as a result of the worsening economic situation. The amount of adjustments also reflected a further marginal impact (29 million euro) of the measurement of Greek government bonds partly already exchanged in March following the agreement reached with the Eurogroup in February this year. Income before tax from continuing operations came to 1,531 million euro, up over 21% on the first three months of the previous year.
After recognition of income tax for the period of 626 million euro, charges for integration and exit incentive of 14 million euro and the effects of purchase price allocation of 73 million euro, as well as minority interests of 14 million euro, the Group's income statement for the first quarter closed, as already noted, with a net income of 804 million euro, up 21.6% on the first three months of 2011.

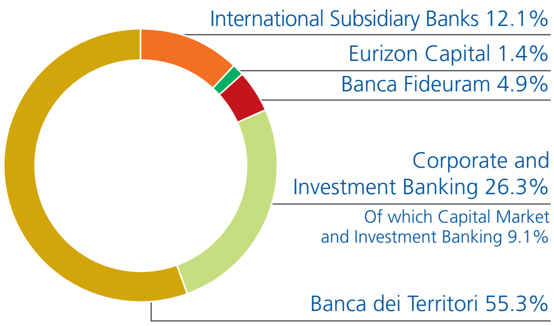
The comparison of the results for the first quarter of 2012 with the previous quarter shows an increase in operating income (+12.8%), as a result of higher profits from trading (716 million euro compared to 173 million euro for the fourth quarter of 2011), also attributable to the repurchase of the Bank's securities already mentioned above, and the greater contribution of income from insurance business (258 million euro compared to 205 million euro for the fourth quarter of 2011). The decrease in operating costs (-6.7%), attributable to the reduction in administrative expenses (-17.5%), albeit that these are generally higher in the final quarter of the year, enabled a 37% increase in the operating margin. At the level of income before tax from continuing operations and net income the comparison with the previous quarter has little significance due to the exceptionally high net adjustments to loans and other assets made during the final quarter of the previous year, and, above all, the considerable goodwill impairment that resulted in a significant loss.

The performance of the balance sheet aggregates confirms the Group's sound financial position.
Loans to customers totalled around 378 billion euro (+0.3% over the end of 2011). The substantial stability of current accounts and mortgages (-0.5% and -0.7%, respectively) was compensated for by a reduction in advances and other loans (-4.2%), offset in the amount of the increase in repurchase agreements. The performance outlined above also reflected the increase in non-performing loans, which involved substandard loans in particular, as a result of the worsening of the general economic situation, as well as past due loans, following the reduction by the Bank of Italy of the period for their classification under non-performing loans from 180 to 90 days with effect from 1 January 2012.
With regard to funding, direct deposits from banking business were up on the end of 2011 (+3.2% to 372 billion euro).
The increase involved all the deposit types that make up this aggregate. In detail, there were increases in the demand component represented by current accounts and deposits (+2%), bond funding (+1.2%), certificates of deposit (+22.5%) and other deposits (+1.6%). The reduction in the amount of subordinated notes was largely attributable to the buy back already mentioned above. The performance of the aggregate was also positively affected by the increase in repurchase agreements.
The performance of direct deposits from insurance business, which also include technical reserves, was also positive (+5.3% to 77 billion euro).
The overall increase was driven by both the higher value of financial liabilities of the insurance business designated at fair value, particularly for the unit-linked products, and the increase in technical reserves, which represent the amount owed to customers who have taken out traditional policies. The new business for the quarter for Intesa Sanpaolo Vita (the company created from the merger of Intesa Vita, EurizonVita, Sud Polo Vita and Centrovita), Intesa Sanpaolo Life and Fideuram Vita, including pension products, amounted to around 2.5 billion euro.
Indirect deposits were up compared to the end of 2011 (+2.5% to around 416 billion euro), both for assets under administration (+2.7% to 189 billion euro) and assets under management (+2.3% to 227 billion euro). These increases reflected the appreciation in value of the portfolio assets linked to the performance of the markets during the period.

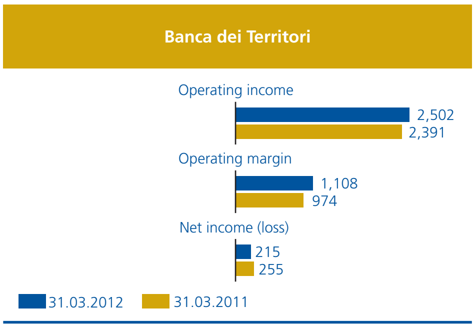
Results of the business units

The breakdown of the contribution to operating income in the first quarter of 2012 for the Group's five business units shows that the greatest contribution continues to come from retail banking activities in Italy (approximately 55% of operating income), although there was also a significant contribution from corporate and investment banking activities (approximately 26%) and international retail banking activities (12%).

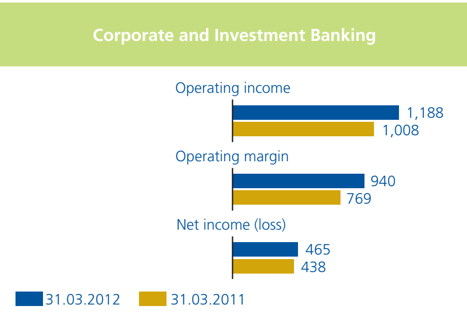
Operating income:
Breakdown by business area [1]



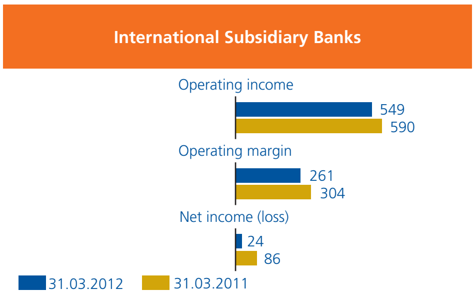
[1] Excluding Corporate Centre



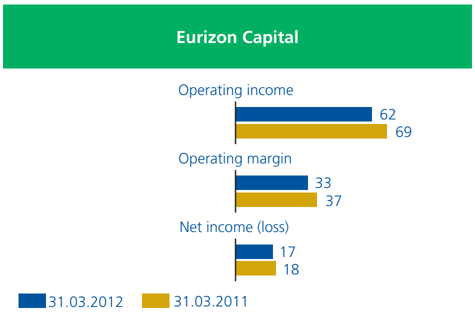
In the first quarter of 2012, Banca dei Territori – which oversees the traditional lending and deposit collecting activities in Italy and related financial services – reported operating income of 2,502 million euro, up 4.6% compared to the first quarter of the previous year. In detail, the increase in net interest income (+4.9%), essentially due to the higher contribution from loans to customers, was offset by a lower contribution from net fee and commission income (-8.6%), particularly in the asset management segment, and the loss of up-front commissions due to the decision to favour the placement of own bond issues. However, the reduction in fee and commission income was fully offset by the positive trend in income from the insurance business, largely attributable to the improvement in the net investment result. Following the recognition of lower operating costs (-1.6%), the operating margin rose to 1,108 million euro, up 13.8% on the first three months of 2011. Income before tax from continuing operations, however, was negatively affected by higher net adjustments to loans, related to the general deterioration in credit quality already mentioned above. Net result, which includes adjustments for taxes of 249 million euro, economic effects of purchase price allocation of 42 million euro and charges for integration and exit incentives of 12 million euro, came to 215 million euro (-15.7%).
The balance sheet figures show a slight decrease in loans to customers (-1.9% to 184 billion euro). For direct customer deposits, there were increases in both the banking component (+1.7% to 201 billion euro) and the insurance component (+4.6% to 66 billion euro).



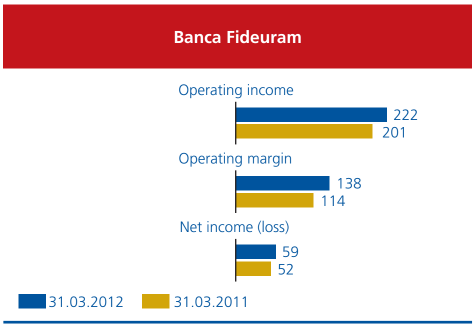
The Corporate and Investment Banking Division – which deals with corporate banking, investment banking and public finance in Italy and abroad – achieved operating income of 1,188 million euro, up (+17.9%) on the first quarter of 2011, due to the positive performance of net interest income (+6.6%) attributable to the increase in mark-up, as well as net fee and commission income (+14.8%) and, above all, profits from trading (+52.1%), attributable to higher returns from the capital markets. The increase in operating costs (+3.8%) was attributable to higher administrative expenses. As a result of these trends, the operating margin, amounting to 940 million euro, increased by 22.2%. Income before tax from continuing operations, amounting to 706 million euro, was also up (+6.2%), despite higher net adjustments to loans and other assets. Lastly, net income came to 465 million euro, up 6.2% on the first three months of the previous year.
As for balance sheet figures, loans to customers were substantially stable (-0.4% to 149 billion euro), whilst direct deposits from banking business were up (+10.1% to 100 billion euro), mainly attributable both to amounts due to customers (+19.6%) and securities issued (+3.7%).



In the first quarter of 2012, operating income of the Division – which oversees the Group's commercial operations on international markets through subsidiary and associated banks – came to 549 million euro, down 6.9% compared to the corresponding period in the previous year, primarily due to the decline in net interest income (-5.5%) and lower contributions from net fee and commission income (-6.5%) and profits on trading (-26.3%).
Operating costs, amounting to 288 million euro, were up slightly (+0.7%) compared to the first three months of 2011. As a result of the trends in revenues and costs described above, the operating margin fell 14.1% to 261 million euro. Income before tax from continuing operations of 49 million euro was down 60.2% compared to the corresponding period of the previous year, mainly due to higher net adjustments to loans. The Division closed the first quarter of 2012 with net result of 24 million euro (-72.1%).
The Division's intermediated volumes were down slightly compared to the end of December 2011 with respect to both loans to customers (-1.1% to 30 billion euro) and direct customer deposits (-0.8% to 30 billion euro).



In the first quarter of 2012, the asset management segment was again affected by the difficult operating context. For Eurizon Capital, operating income, amounting to 62 million euro, was down 10.1% on the first three months of 2011, due to the lower contribution from net fee and commission income (-9.4%). However operating costs decreased significantly (-9.4%) as a result of targeted cost containment measures. As a result of the above revenue and cost trends, the operating margin came to 33 million euro, a decrease of 10.8%. Eurizon Capital closed the first quarter of 2012 with net income of 17 million euro, down 5.6%.
Overall, total assets managed by Eurizon Capital as at the end of March 2012 stood at 136.8 billion euro, up 4.8% from the beginning of the year, mainly due to the performance of the financial markets, which increased the value of the assets under management. During the quarter there were net outflows of 0.4 billion euro.



For Banca Fideuram – specialising in the creation, management and distribution of financial products and services to customers with medium to high savings potential – the operating margin for the first quarter of 2012 came to 138 million euro, up 21.1% on the corresponding period of the previous year, as a result of higher operating income (+10.4%) and lower operating costs (-3.4%). The revenue performance was essentially attributable to the higher contribution of net interest income (+25%) and, above all, of income from insurance business, which more than doubled, offset by a decline in net fee and commission income (-4.1%), attributable to lower volumes. As a result of higher provisions for risks and charges and net adjustments to other assets, income before tax from continuing operations was up 3.8% to 110 million euro. Lastly, after recognition of purchase price allocation effects of 22 million euro, Banca Fideuram closed out its income statement for the quarter with a net income of 59 million euro (+13.5%).
At the end of March, assets under management of the Banca Fideuram Group were up (+5.3% to around 75 billion euro, of which around 55 billion euro in assets under management and around 20 billion euro in assets under administration), attributable to the performance of the markets and, in part, to net inflows for the period.

Highlights in the quarter

In January, a 1.5 billion eurobond issue was launched on the euromarket targeted at international markets via the subsidiary Intesa Sanpaolo Bank Ireland plc, guaranteed by the Parent Company to optimise its treasury management. This bond was issued under the Euro Medium Term Notes Programme of Intesa Sanpaolo. It is an 18-month, fixed rate issue with a coupon, payable in arrears on 8 August 2012 and 8 August 2013, equal to 4% (first short coupon from 8 February 2012 up to 8 August 2012). Considering its 99.832% offer price, the yield to maturity is 4.132% per annum and the total spread for the investor is equal to the mid swap rate + 295 basis points.
On 20 February 2012, this first transaction was followed by a 1 billion euro bond issue on the euromarket also targeted at international markets. The five-year, fixed-rate bond was also issued as part of Intesa Sanpaolo’s Euro Medium Term Notes Programme. It is the first senior unsecured benchmark issue from a eurozone peripheral bank with a longer maturity than the ECB’s three-year Long Term Refinancing Operation. The 5% coupon is payable in arrears on 28 February of each year. Considering its 99.254% offer price, the yield to maturity is 5.173% per annum and the total spread for the investor is equal to the two-year mid swap rate + 355 basis points.
Neither issues were targeted at the Italian retail market. Rather, they were targeted at professional investors and international financial intermediaries and are listed on the Luxembourg Stock Exchange as well as being traded over-the-counter.

On 14 February, the Management Board approved the sale without recourse of a doubtful loan portfolio totalling - gross of net adjustments - approximately 1,640 million euro, for a cash price of the sale equal to the book value net of adjustments, i.e., approximately 270 million euro. The transaction was completed in March.

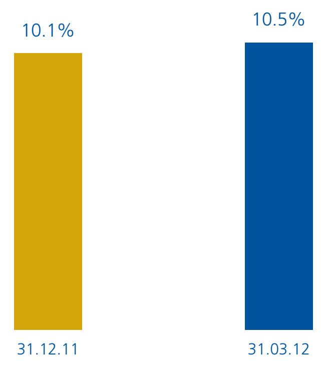
On 20 February Intesa Sanpaolo finalised the buy back of its subordinated notes for a total nominal value of 1,226 million euro. The transaction involved innovative and non-innovative Tier 1 capital instruments placed through public transactions. As a result of the buy back, regulatory Core Tier 1 Capital was increased by virtue of the capital gain deriving from the purchase of the notes at a price lower than their nominal value. The transaction was also aimed at optimising the structure of Regulatory Capital through the repurchase of instruments which – pursuant to the Capital Requirements Directive (CRD IV) approved by the European Commission – will be subject to grandfathering and, thus, progressively excluded from Additional Tier 1 Capital. As a result of the finalisation of the buy back, the Intesa Sanpaolo Group income statement for the first quarter of 2012 registered a benefit, including the positive impact of the unwinding of interest rate derivatives, of 274 million euro (183 million euro net of taxes).

Main risks and uncertainties

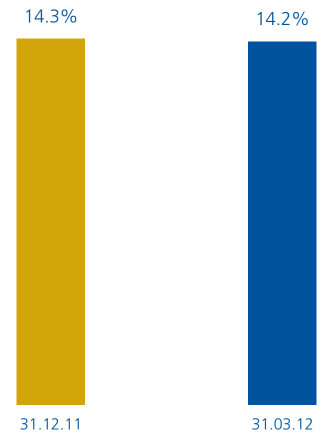
The ongoing macroeconomic uncertainty and high volatility of the financial markets continue to require constant oversight of the factors that enable the Bank to pursue sustainable profitability in the medium and long term: high liquidity, funding capacity, low leverage and adequate capital base.
The Bank’s liquidity remained high. At the end of March 2012, unencumbered eligible assets available with the Central Banks (net of haircuts) rose to 59 billion euro (37 billion euro at the end of 2011). The use of refinancing through the European Central Bank (largely aimed at replacing funding raised in international markets through short-term paper) was maintained at 36 billion euro (from 37.5 billion euro at the end of 2011) as a result of 24 billion euro in funding from the three-year auction by the monetary authorities at the end of February (in addition to the 12 billion euro take-up in the previous three-year auction at the end of 2011).
With regard to funding, the quarter was characterised by an increase in direct customer deposits of the various business units, with particularly strong performance for the savings deposits placed by Banca dei Territori. The branch network continued to be a stable and reliable source of funding: 79% of direct deposits from banking business derive from retail operations (293 billion euro). In addition, during the first three months of the year bond placements were made in international markets totalling 2.5 billion euro.
The increase in customer deposits and the decision to maintain the level of use of ECB funding at a substantially stable level contributed to creating room for significant improvement in the marketable component of the liquidity reserves. As a result, the total amount of liquidity reserves eligible with the various Central Banks, at the end of March, increased to a total of 109 billion

euro, of which 59 billion euro was available spot (net of the haircut), providing a solid and ample cushion to deal with potential liquidity stress.
The leverage of the Intesa Sanpaolo Group continues to be at lower levels than its main competitors, while the ratio of risk-weighted assets to total assets is among the highest, given the significant prevalence of retail banking activities within the Group.
The capital base also remains solid and was up compared to the end of 2011: the Total Capital Ratio is 14.2%, Tier 1 is 11.5% and Core Tier 1 is 10.5%.

Core Tier 1 ratio



Total Capital Ratio



The Group's risk profile remained at relatively low levels - despite an increase mainly resulting from the volatility of spreads in the Italian government segment - in line with the Group's intention to continue to privilege the retail banking activity. The trend in operational VaR, shown in the chart, reflects and is a consequence of the evolution of the crisis in the sovereign markets of the Eurozone.

Market risks trend:
operational VaR (millions of euro)

The difficult macroeconomic environment and high volatility of the financial markets make the assessment of credit risk and measurement of financial assets increasingly complex.
Intesa Sanpaolo has developed a set of instruments which ensures analytical control over the quality of the loans to customers and financial institutions, and loans subject to country risk.
Risk measurement uses rating models that are differentiated according to the borrower's segment (Corporate, Small Business, Mortgage, Personal Loans, Sovereigns, Italian Public sector entities, Financial institutions). These models make it possible to summarise the credit quality of the counterparty in a measurement, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. Statistical calibrations have rendered these ratings fully consistent with those awarded by rating agencies, forming a single scale of reference.
Ratings and mitigating credit factors (guarantees, technical forms and covenants) play a fundamental role in loan granting and monitoring process.
The methods used for the classification of non-performing loans and for the measurement of those loans and performing loans ensure that the impacts of negative developments in the economic situation are promptly accounted for. As the crisis has deepened and expanded at an alarmingly fast pace, it has become necessary to constantly review the value of both the loans already showing signs of distress and those still free from evidence of impairment. All categories of non-performing loans were assessed using the usual criteria of prudence, as pointed out by the substantial average provisioning percentages for doubtful loans (approximately 63%) and substandard loans (over 20%). Within the performing loans, despite the classification of loans past due by over 90 days under non-performing loans, the "collective" adjustments provide a coverage ratio of 0.8%, in line with the coverage in the 2011 financial statements.
Significant attention has been given to the measurement of financial investments. The majority of financial assets (88%) are classified as held for trading using the fair value option, under assets available for sale, or are represented by hedging derivatives. As a result these assets are measured at fair value.
The fair value measurement of financial assets was carried out as follows: 62% using the effective market quotes method (level 1), 36% using the comparable approach (level 2) and only 2% using the mark-to-model approach (level 3). Among the financial liabilities designated at fair value through profit and loss, most of the financial instruments (93%) were measured using the comparable approach (level 2).
With regard to intangible assets and goodwill, no problem issues were identified during the quarter requiring the remeasurement of their recoverable values, which were subject to significant adjustments in the 2011 financial statements.

Forecast for the whole 2012

Some International Organisations and Research Institutions have forecast that the economic recession will continue in Italy for the whole of 2012, while for the Eurozone as a whole it could come to an end in the second half of the year. Although there are risks on several fronts, global economic growth is expected to continue for the rest of the year. The strains in the market for government bonds will remain high, at least until there is firm evidence that the consolidation strategy of certain countries whose finances are under observation is achieving concrete results. In this context, there may still be a need for further measures by the Central Bank or the mobilisation of European funding support to compensate for insufficient private capital flows to the countries of the European periphery. Official interest rates should remain stable, while excess liquidity is expected to push down money market rates. In addition there are still political uncertainties, mainly attributable to the situation of confusion in Greece.
In the emerging countries there are continued expectations of a slowdown in economic activity for the year, although overall economic performance should still be above the level in the advanced economies. The International Monetary Fund, in its April Forecast Report, indicates a 2012 GDP growth rate for emerging countries of 5.7%, a significant slowdown compared to 2011, but with some recovery compared to the forecast in January. With specific reference to the overall group of CEE and SEE countries (the IMF's analysis also includes the Baltic Republics and Turkey in this aggregate), this year it forecasts GDP growth of 1.9%, a significant slowdown compared to 2011 (5.3%), but also in this case, slightly above expectations in January (1.1%). Within the area, moreover, growth is expected to be slower in the SEE countries than the CEE countries. Indeed, the SEE countries, in addition to the contagion from the European economy, will also be affected by the more intense process of internal adjustment of current account balances and private sector debt. Among the other countries of the Group, production is only expected to slow down slightly in Russia (4% compared to 4.3% in 2011), as a result of a still positive oil cycle, and recover in Egypt (1.5% for the financial year ending in June 2012 compared to -0.8% for the calendar year ended in December) with a gradual stabilisation of the new political regime.

The operating scenario in the Italian banking industry will remain strongly influenced by the development of the sovereign debt crisis. Normalisation of the cost of funding and, as a consequence, of lending rates will only be possible if the reduction in the risk premium on Italian debt recorded at the beginning of 2012 is maintained. The accommodative monetary policy conditions, the extraordinary measures implemented by the Eurosystem to boost credit and liquidity, low interest rates and money market all favour the normalisation of bank interest rates. The weakness in demand and the deterioration in the creditworthiness of borrowers will continue to influence the performance of loans, together with the effects over time of the strains on supply factors that emerged in late 2011, including the need for capital strengthening among certain intermediaries. Looking ahead, the greater relaxation of conditions of access to credit will support the recovery of loans if economic activity is able to find its way back to a path of growth. Customer deposits will continue to see a lively competitive environment, with investor portfolios shifting towards higher-yield investments.

In 2012 the Intesa Sanpaolo Group will continue to prioritise sustainable profitability through efficient liquidity allocation, attentive management of all risks and constant pursuit of efficiency and productivity.
In the light of the positive revenue performance in the first quarter, 2012 operating performance is expected to remain broadly stable, net of last year's non-recurring items, also as a consequence of ongoing cost containment actions and constant monitoring of asset quality, which will allow the Group to maintain the cost of credit under control - albeit still at a high level due to deteriorated economic conditions.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet

(millions of euro)

Assets	31.03.2012	31.12.2011	Changes amount	Changes %
Financial assets held for trading	60,328	59,963	365	0.6
of which: Insurance Companies	*1,331*	*1,341*	*-10*	*-0.7*
Financial assets designated at fair value through profit and loss	35,971	34,253	1,718	5.0
of which: Insurance Companies	*35,015*	*33,391*	*1,624*	*4.9*
Financial assets available for sale	85,224	68,777	16,447	23.9
of which: Insurance Companies	*40,623*	*39,194*	*1,429*	*3.6*
Investments held to maturity	2,266	2,621	-355	-13.5
Due from banks	32,431	35,865	-3,434	-9.6
Loans to customers	378,050	376,744	1,306	0.3
Investments in associates and companies subject to joint control	2,672	2,630	42	1.6
Property, equipment and intangible assets	20,465	20,577	-112	-0.5
Tax assets	12,340	14,702	-2,362	-16.1
Non-current assets held for sale and discontinued operations	26	26	-	-
Other assets	22,857	23,063	-206	-0.9
Total Assets	**652,630**	**639,221**	**13,409**	**2.1**

Liabilities and Shareholders' Equity	31.03.2012	31.12.2011	Changes amount	Changes %
Due to banks	75,744	78,644	-2,900	-3.7
Due to customers and securities issued	368,657	357,410	11,247	3.1
of which: Insurance Companies	*343*	*403*	*-60*	*-14.9*
Financial liabilities held for trading	47,907	48,740	-833	-1.7
of which: Insurance Companies	*23*	*29*	*-6*	*-20.7*
Financial liabilities designated at fair value through profit and loss	24,496	22,653	1,843	8.1
of which: Insurance Companies	*23,637*	*21,955*	*1,682*	*7.7*
Tax liabilities	3,149	4,064	-915	-22.5
Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-
Other liabilities	24,640	24,225	415	1.7
Technical reserves	53,023	50,761	2,262	4.5
Allowances for specific purpose	4,945	4,966	-21	-0.4
Share capital	8,546	8,546	-	-
Reserves	41,800	49,982	-8,182	-16.4
Valuation reserves	-1,805	-3,298	-1,493	-45.3
Minority interests	724	718	6	0.8
Net income (loss)	804	-8,190	8,994	
Total Liabilities and Shareholders' Equity	**652,630**	**639,221**	**13,409**	**2.1**

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

Quarterly development of the consolidated balance sheet

(millions of euro)

Assets	2012	2011			
	31/3	31/12	30/9	30/6	31/3
Financial assets held for trading	60,328	59,963	69,934	60,584	61,141
of which: Insurance Companies	*1,331*	*1,341*	*1,371*	*1,625*	*1,690*
Financial assets designated at fair value through profit and loss	35,971	34,253	35,212	36,303	36,349
of which: Insurance Companies	*35,015*	*33,391*	*34,345*	*35,354*	*35,230*
Financial assets available for sale	85,224	68,777	70,950	69,007	64,845
of which: Insurance Companies	*40,623*	*39,194*	*40,733*	*41,837*	*41,137*
Investments held to maturity	2,266	2,621	2,872	2,865	3,021
Due from banks	32,431	35,865	40,449	43,258	40,449
Loans to customers	378,050	376,744	381,192	374,979	377,252
Investments in associates and companies subject to joint control	2,672	2,630	2,732	2,694	2,817
Property, equipment and intangible assets	20,465	20,577	30,876	30,798	30,903
Tax assets	12,340	14,702	11,259	7,886	8,079
Non-current assets held for sale and discontinued operations	26	26	30	38	35
Other assets	22,857	23,063	21,816	19,182	20,703
Total Assets	**652,630**	**639,221**	**667,322**	**647,594**	**645,594**

Liabilities and Shareholders' Equity	2012	2011			
	31/3	31/12	30/9	30/6	31/3
Due to banks	75,744	78,644	72,978	50,182	51,087
Due to customers and securities issued	368,657	357,410	369,459	389,511	392,736
of which: Insurance Companies	*343*	*403*	*216*	*230*	*237*
Financial liabilities held for trading	47,907	48,740	53,952	38,216	37,431
of which: Insurance Companies	*23*	*29*	*76*	*43*	*42*
Financial liabilities designated at fair value through profit and loss	24,496	22,653	23,558	24,729	25,201
of which: Insurance Companies	*23,637*	*21,955*	*22,814*	*23,969*	*24,403*
Tax liabilities	3,149	4,064	4,857	3,299	3,342
Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-
Other liabilities	24,640	24,225	26,697	24,330	23,765
Technical reserves	53,023	50,761	52,217	52,887	51,896
Allowances for specific purpose	4,945	4,966	4,978	4,405	4,561
Share capital	8,546	8,546	8,546	8,546	6,647
Reserves	41,800	49,982	49,906	49,924	47,920
Valuation reserves	-1,805	-3,298	-2,827	-937	-766
Minority interests	724	718	1,072	1,100	1,113
Net income (loss)	804	-8,190	1,929	1,402	661
Total Liabilities and Shareholders' Equity	**652,630**	**639,221**	**667,322**	**647,594**	**645,594**

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

Consolidated income statement

(millions of euro)

	31.03.2012	31.03.2011	Changes	
			amount	%
Net interest income	2,501	2,392	109	4.6
Dividends and profits (losses) on investments carried at equity	26	7	19	
Net fee and commission income	1,317	1,395	-78	-5.6
Profits (Losses) on trading	716	280	436	
Income from insurance business	258	120	138	
Other operating income (expenses)	-5	11	-16	
Operating income	**4,813**	**4,205**	**608**	**14.5**
Personnel expenses	-1,356	-1,372	-16	-1.2
Other administrative expenses	-694	-721	-27	-3.7
Adjustments to property, equipment and intangible assets	-157	-149	8	5.4
Operating costs	**-2,207**	**-2,242**	**-35**	**-1.6**
Operating margin	**2,606**	**1,963**	**643**	**32.8**
Net provisions for risks and charges	-37	-14	23	
Net adjustments to loans	-973	-682	291	42.7
Net impairment losses on other assets	-59	-17	42	
Profits (Losses) on investments held to maturity and on other investments	-6	14	-20	
Income (Loss) before tax from continuing operations	**1,531**	**1,264**	**267**	**21.1**
Taxes on income from continuing operations	-626	-496	130	26.2
Charges (net of tax) for integration and exit incentives	-14	-4	10	
Effect of purchase price allocation (net of tax)	-73	-86	-13	-15.1
Goodwill impairment (net of tax)	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-14	-17	-3	-17.6
Net income (loss)	**804**	**661**	**143**	**21.6**
Basic EPS - euro	**0.05**	**0.05**		
Diluted EPS - euro	**0.05**	**0.05**		

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

Quarterly development of the consolidated income statement

(millions of euro)

	2012	2011			
	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	2,501	2,541	2,479	2,368	2,392
Dividends and profits (losses) on investments carried at equity	26	5	26	34	7
Net fee and commission income	1,317	1,339	1,322	1,410	1,395
Profits (Losses) on trading	716	173	-74	541	280
Income from insurance business	258	205	50	165	120
Other operating income (expenses)	-5	2	-3	-3	11
Operating income	**4,813**	**4,265**	**3,800**	**4,515**	**4,205**
Personnel expenses	-1,356	-1,348	-1,324	-1,375	-1,372
Other administrative expenses	-694	-841	-752	-766	-721
Adjustments to property, equipment and intangible assets	-157	-177	-159	-153	-149
Operating costs	**-2,207**	**-2,366**	**-2,235**	**-2,294**	**-2,242**
Operating margin	**2,606**	**1,899**	**1,565**	**2,221**	**1,963**
Net provisions for risks and charges	-37	-106	-18	-80	-14
Net adjustments to loans	-973	-2,043	-695	-823	-682
Net impairment losses on other assets	-59	-360	-635	-57	-17
Profits (Losses) on investments held to maturity and on other investments	-6	-139	7	19	14
Income (Loss) before tax from continuing operations	**1,531**	**-749**	**224**	**1,280**	**1,264**
Taxes on income from continuing operations	-626	976	894	-464	-496
Charges (net of tax) for integration and exit incentives	-14	-53	-483	-12	-4
Effect of purchase price allocation (net of tax)	-73	-67	-83	-85	-86
Goodwill impairment (net of tax)	-	-10,233	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-	-
Minority interests	-14	7	-25	22	-17
Net income (loss)	**804**	**-10,119**	**527**	**741**	**661**

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

REPORT ON OPERATIONS

Economic results

The first quarter of 2012 was characterised by a temporary alleviation of the Eurozone financial crisis and the easing of strains on the liquidity and funding of financial institutions, on one hand, but, on the other hand, especially in Italy and other peripheral countries, a decline in economic activity and a crisis in consumer confidence. Against this background, the Intesa Sanpaolo Group achieved a significant increase in operating income, resulting in a strong increase in operating margin, up 32.8% on the same period of the previous year, and, due to net adjustments still on the increase, a 21.1% rise in income before tax compared to the first quarter of 2011. As a result, the Group recorded net income of 804 million euro, up 21.6% compared to the corresponding period of 2011.

Operating income

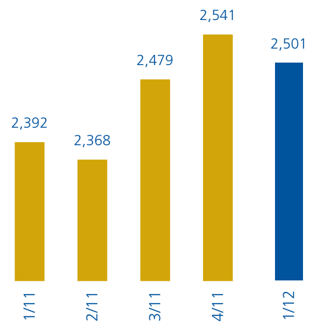
The Group reported operating income of 4,813 million euro, up 14.5% over the figure for the first three months of 2011 and 12.8% over the fourth quarter of that year.
The trend that emerges from the comparison was mainly attributable to the increase in profits on trading, as well as the rise in income from insurance business and net interest income, only partly offset by the decline in fee and commission income.

Net interest income

(millions of euro)

	31.03.2012	31.03.2011	Changes	
			amount	%
Relations with customers	2,997	2,758	239	8.7
Securities issued	-1,415	-1,327	88	6.6
Differentials on hedging derivatives	333	433	-100	-23.1
Customer dealing	**1,915**	**1,864**	**51**	**2.7**
Financial assets held for trading	139	147	-8	-5.4
Investments held to maturity	24	28	-4	-14.3
Financial assets available for sale	278	139	139	
Financial assets	**441**	**314**	**127**	**40.4**
Relations with banks	**-71**	**11**	**-82**	
Non-performing assets	**230**	**222**	**8**	**3.6**
Other net interest income	**-14**	**-19**	**-5**	**-26.3**
Net interest income	**2,501**	**2,392**	**109**	**4.6**

Quarterly development Net interest income



Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

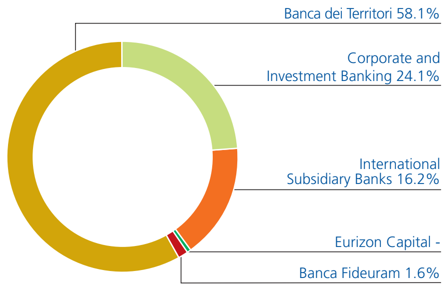
In the first quarter of 2012 net interest income, favoured by a slight increase in spreads driven by the greater contribution from loans, came to 2,501 million euro, up 4.6% over the corresponding period in 2011. During the same period, interbank market rates, after an increase in the first three quarters of 2011, began falling again to levels even lower than the first quarter of 2011.
Net interest from operations with customers, which also includes interest on securities issued and differentials on hedging derivatives, stood at 1,915 million euro, up 2.7% over the same period of the previous year, despite higher interest expense on securities issued. The decrease in hedging differentials was offset by the positive performance of margins on relations with customers.
Compared to the first quarter of 2011, interest on financial assets increased 40.4% owing to the growth in assets available for sale (+139 million euro), which more than offset the performance of financial assets held for trading (-8 million euro) and investments held to maturity (-4 million euro).
Net interest on the interbank market reported a negative balance of 71 million euro, compared to net interest income of 11 million euro in the first quarter of 2011, reflecting in particular the increase in the exposure to the ECB, from the third quarter of 2011.
Net interest income was down 1.6% compared to the fourth quarter of 2011, due to the effect of a lower number of business days and the lower contribution from deposits which were not sufficiently offset by increase in the mark-up on loans.

(millions of euro)

	31.03.2012	31.03.2011	Changes	
			amount	%
Banca dei Territori	1,478	1,409	69	4.9
Corporate and Investment Banking	614	576	38	6.6
International Subsidiary Banks	413	437	-24	-5.5
Eurizon Capital	-	-	-	-
Banca Fideuram	40	32	8	25.0
Total business areas	**2,545**	**2,454**	**91**	**3.7**
Corporate Centre	-44	-62	-18	-29.0
Intesa Sanpaolo Group	**2,501**	**2,392**	**109**	**4.6**

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

Business areas



Banca dei Territori, which accounts for 58% of business area results, recorded a 4.9% increase in net interest income, mainly due to the greater contribution from loans to customers offset by smaller margins on deposits and lower benefits from the hedging of demand loans and deposits. Corporate and Investment Banking also recorded a 6.6% increase in the interest margin, attributable to the increase in the mark-up, particularly on Mid, Large Corporate Italy and Mediofactoring counterparties and on BIIS' public entities segment, in addition to the positive contribution of the assets relating to Banca IMI's trading and AFS portfolio, which benefited from higher interest and active management in the finance and capital management segment. Banca Fideuram also made a positive contribution, with a 25% increase in interest income, largely attributable to the higher return on new investments achieved through a change in asset allocation. Conversely, net interest income for the International Subsidiary Banks was down (-5.5%).

Dividends and profits on investments carried at equity

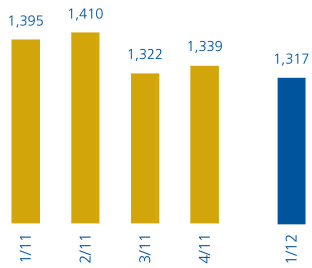
In the first quarter of 2012 share dividends and profits on investments carried at equity came to 26 million euro, entirely related to associates carried at equity, particularly Bank of Qingdao (8 million euro) and Sia S.p.A. (7 million euro). The item recorded an increase compared to the 7 million euro in profits reported in the same period of the previous year. The dividends relate to companies not consolidated line-by-line. Dividends on shares held for trading and securities available for sale, on the other hand, are reclassified to Profits (Losses) on trading.

Net fee and commission income

(millions of euro)

	31.03.2012	31.03.2011	Changes	
			amount	%
Guarantees given	85	96	-11	-11.5
Collection and payment services	75	77	-2	-2.6
Current accounts	227	212	15	7.1
Credit and debit cards	108	107	1	0.9
Commercial banking activities	**495**	**492**	**3**	**0.6**
Dealing and placement of securities	140	106	34	32.1
Currency dealing	14	14	-	-
Portfolio management	276	314	-38	-12.1
Distribution of insurance products	141	204	-63	-30.9
Other	23	26	-3	-11.5
Management, dealing and consultancy activities	**594**	**664**	**-70**	**-10.5**
Other net fee and commission income	**228**	**239**	**-11**	**-4.6**
Net fee and commission income	**1,317**	**1,395**	**-78**	**-5.6**

Quarterly development
Net fee and commission income



Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

Net fee and commission income for the quarter under review, which makes up over one-third of operating income, came to 1,317 million euro, down 5.6% compared to the corresponding period in 2011.

Fees and commissions on commercial banking activities were up slightly (+0.6%). The positive performance of fee and commission income on current accounts and on credit and debit cards offset the decrease for guarantees given and collection and payment services. The reduction in fee and commission income on guarantees given (-11.5%) was attributable to the impact in the first quarter of 2012 of the cost for the government guarantee on the Bank's bonds placed with the ECB at the end of December 2011.

Management, dealing and consultancy activities overall generated net fee and commission income of 594 million euro, compared to 664 million euro for the first quarter of 2011. The increase in security dealing and placement commissions (+34 million euro) was not sufficient to offset the fall in fee and commission income from the distribution of insurance products (-63 million euro) and individual and collective portfolio management schemes (-38 million euro), as well as management and dealing commissions (-3 million euro).

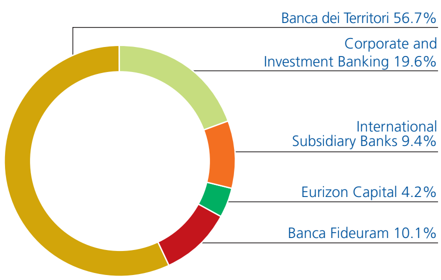
Other net fee and commission income, which mainly consists of commissions on loans issued and factoring services, decreased 11 million euro to 228 million euro compared to the first quarter of 2011.
Compared to the fourth quarter of 2011, net fee and commission income for the first quarter of 2012 fell slightly by 1.6%, entirely due to the impact of the cost for the government guarantee on the Bank's bonds noted above. The fall in fees and commissions on commercial banking activities (-39 million euro) and from other net fee and commission income (-32 million euro) was offset by the increase in fees and commissions on management, dealing and consultancy activities (+49 million euro).

(millions of euro)

	31.03.2012	31.03.2011	Changes	
			amount	%
Banca dei Territori	782	856	-74	-8.6
Corporate and Investment Banking	271	236	35	14.8
International Subsidiary Banks	130	139	-9	-6.5
Eurizon Capital	58	64	-6	-9.4
Banca Fideuram	139	145	-6	-4.1
Total business areas	**1,380**	**1,440**	**-60**	**-4.2**
Corporate Centre	-63	-45	18	40.0
Intesa Sanpaolo Group	**1,317**	**1,395**	**-78**	**-5.6**

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

Business areas



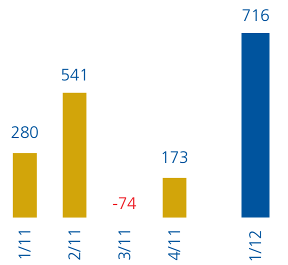
By business sector, all business units, except Corporate and Investment Banking, experienced a decline. In particular, Banca dei Territori, which accounts for 57% of the fee and commission income of the business units, recorded the most significant decline (-8.6%), due to the fall in fees and commissions on asset management and bancassurance products, mortgage insurance commissions and up-front fees and commissions on bond placements. Smaller declines in absolute value were recorded for Eurizon Capital (-9.4%), due to a reduction in assets under management and a higher proportion of low margin captive insurance products with respect to retail funds, as well as the International Subsidiary Banks (-6.5%) and Banca Fideuram (-4.1%), mainly as a result of the fall in recurring fee and commission income due to the reduction in the average assets under management. Conversely, net fee and commission income performance for the Corporate and Investment Banking Division was strong (+14.8%), due to higher income related to commercial banking services, particularly for loans, guarantees and factoring.

Profits (Losses) on trading

(millions of euro)

	31.03.2012	31.03.2011	Changes	
			amount	%
Interest rates	345	193	152	78.8
Equity instruments	38	40	-2	-5.0
Currencies	15	27	-12	-44.4
Structured credit products	20	26	-6	-23.1
Credit derivatives	-74	-32	42	
Commodity derivatives	17	9	8	88.9
Trading result	**361**	**263**	**98**	**37.3**
Trading on AFS securities and financial liabilities	**355**	**17**	**338**	
Profits (Losses) on trading	**716**	**280**	**436**	

Quarterly development Profits (losses) on trading



Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

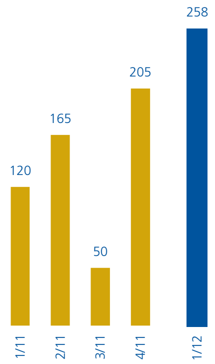
Trading activities, which benefitted from a period of lower uncertainty in the financial markets, yielded a profit of 716 million euro for the first quarter of 2012 compared to 280 million euro for the corresponding period of the previous year.
The positive performance was mainly attributable the increase in trading in AFS securities and financial liabilities (+338 million euro), which benefited from revenues from the buy-back of Tier 1 subordinated notes (274 million euro). A positive contribution also came from interest rate and credit derivative transactions, which should be considered jointly, as they mainly involve transactions undertaken to hedge credit risk on investments in debt securities. This contribution was driven by the strong performance of Banca IMI's investment banking operations and was attributable to trading income already largely realised and, to a lesser extent, to valuations. Net of the capital gain on the buy back of subordinated notes, the margin would have increased 57.9% over the first quarter of 2011.
It should be noted that the subcaption "Trading on AFS securities and financial liabilities" incorporates, in addition to dividends and proceeds on the trading of securities classified as available for sale, the effects of the measurement at fair value of financial liabilities issued associated with an assessment of creditworthiness in accordance with the fair value option.
Compared to the fourth quarter of 2011, profits on trading more than trebled.

Income from insurance business

(millions of euro)

Captions (a)	**31.03.2012**			**31.03.2011**			**Changes**	
	Life	Non-life	**Total**	Life	Non-life	**Total**	**amount**	**%**
Technical margin	**17**	**6**	**23**	**28**	**16**	**44**	**-21**	**-47.7**
Net insurance premiums (b)	1,088	37	1,125	3,387	44	3,431	-2,306	-67.2
Net charges for insurance claims and surrenders (c)	-1,739	-16	-1,755	-1,392	-9	-1,401	354	25.3
Net charges for changes in technical reserves (d)	-62	-	-62	-2,074	-	-2,074	-2,012	-97.0
Gains (losses) on investments pertaining to insured parties on insurance products (e)	735	-	735	196	-	196	539	
Net fees on investment contracts (f)	33	-	33	32	-	32	1	3.1
Commission expenses on insurance contracts (g)	-57	-14	-71	-120	-19	-139	-68	-48.9
Other technical income and expense (h)	19	-1	18	-1	-	-1	19	
Net investment result	**230**	**5**	**235**	**74**	**2**	**76**	**159**	
Operating income from investments	2,127	5	2,132	209	2	211	1,921	
Net interest income	*535*	*3*	*538*	*434*	*2*	*436*	*102*	*23.4*
Dividends	*13*	*-*	*13*	*12*	*-*	*12*	*1*	*8.3*
Gains/losses on disposal	*307*	*1*	*308*	*260*	*-*	*260*	*48*	*18.5*
Valuation gains/losses	*1,473*	*1*	*1,474*	*-509*	*-*	*-509*	*1,983*	
Portfolio management fees paid (i)	*-42*	*-*	*-42*	*-39*	*-*	*-39*	*3*	*7.7*
Profit/loss pertaining to third party underwriters of mutual funds (j)	*-159*	*-*	*-159*	*51*	*-*	*51*	*-210*	
Gains (losses) on investments pertaining to insured parties	-1,897	-	-1,897	-135	-	-135	1,762	
Insurance products (k)	*-661*	*-*	*-661*	*-218*	*-*	*-218*	*443*	
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (l)	*-74*	*-*	*-74*	*22*	*-*	*22*	*-96*	
Investment products (m)	*-1,162*	*-*	*-1,162*	*61*	*-*	*61*	*-1,223*	
Income from insurance business	**247**	**11**	**258**	**102**	**18**	**120**	**138**	

Quarterly development Income from insurance business



Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

[(a)] The table illustrates the economic components of the insurance business broken down into those regarding:
- products considered to be insurance products according to IAS/IFRS, which include contracts where the risk insured is considered significant or in which the decision of the return on the contracts is not market-based but depends on the insurance company's choices;
- investment products, which include financial products without a significant insurance risk. The latter are accounted for in the consolidated financial statements as financial movements.

[(b)] The caption includes premiums issued only for products considered to be insurance products according to IAS/IFRS, net of the portions ceded to reinsurers. For the non-life insurance business, the change in the premiums reserve is also included.

[(c)] The caption includes the amounts paid (claims, surrenders and maturities) and the change in claims reserves and reserves for amounts to be paid, net of portions ceded to reinsurers.

[(d)] The caption includes the change in technical reserves, net of the portions ceded to reinsurers.

[(e)] The caption includes the portion of the profit/loss from investments (for insurance products) pertaining to insured parties, including the impact of shadow accounting.

[(f)] The caption includes net fees on investment products; specifically, charges paid by customers, management fees received by the financial units and fee expenses reversed by the insurance companies to the sales network and management companies.

[(g)] The caption includes commission expenses on insurance products (including unit and index-linked insurance products and pension funds) paid to the sales network.

[(h)] Residual caption comprising fee income on insurance product management (unit and index-linked insurance products and pension funds), rebates, net interest income on current accounts of the insurance company and on subordinated loans and other income and technical charges.

[(i)] The caption includes fees paid to management companies for the management of traditional insurance products (separate management) portfolios and pension funds. This also includes fees from consolidated funds underlying insurance units.

[(j)] The caption includes profit/loss pertaining to third party underwriters of consolidated mutual funds which are not wholly-owned by the Group.

[(k)] The caption includes the portion of the profit/loss from investments (for insurance products) pertaining to insured parties, without the impact of shadow accounting.

[(l)] The caption includes the portion of unrealized capital gains/losses pertaining to insured parties on insurance products (shadow accounting).

[(m)] The caption refers to the valuation of financial liabilities designated at fair value which represent the amount payable to insured parties for investment products.

During the first quarter of 2012, income from the insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, was 258 million euro, more than double the 120 million euro for the same period of the previous year. The sector's positive performance was primarily driven by the recovery in the financial markets and, in particular, by the partial rallying of government bond prices, which were reflected in the recognition of net capital gains.

In the life insurance segment the technical margin was down slightly due to the combined effect of the significant decline in net premiums and the increase in charges for insurance claims and surrenders, on one hand, and the reduction in charges for changes in reserves and for commission expenses, as well as the increase in gains pertaining to insured parties, on the other hand. The net investment result for the life insurance segment increased significantly, however, as a result of the improvement in operating income from investments, which only partly pertained to insured parties.

Income from non-life business was down 7 million euro, mainly due to the decrease in net insurance premiums and the increase in charges for insurance claims and surrenders.

Income from the insurance business for the first quarter of 2012 was up, as a result of the financial component, also compared to the last quarter of the prior year, when the strongest results in 2011 were recorded at a total of 205 million euro, including both the life and non-life insurance business.

(millions of euro)

	31.03.2012				31.03.2011
	Periodic premiums	**Single premiums**	**Total**	*of which new business*	
Life insurance business	**72**	**1,016**	**1,088**	*1,016*	**3,389**
Premiums issued on traditional products	58	957	1,015	*957*	3,228
Premiums issued on unit-linked products	6	12	18	*12*	89
Premiums issued on capitalisation products	-	-	-	-	1
Premiums issued on pension funds	8	47	55	*47*	71
Non-life insurance business	**11**	**27**	**38**	*14*	**45**
Premiums issued	11	38	49	*38*	58
Change in premium reserves	-	-11	-11	*-24*	-13
Premiums ceded to reinsurers	**-**	**-1**	**-1**	-	**-3**
Net premiums from insurance products	**83**	**1,042**	**1,125**	***1,030***	**3,431**
Business on index-linked contracts	-	-	-	-	-
Business on unit-linked contracts	48	1,489	1,537	*1,490*	1,373
Total business from investment contracts	**48**	**1,489**	**1,537**	***1,490***	**1,373**
Total business	**131**	**2,531**	**2,662**	***2,520***	**4,804**

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

Business in the insurance segment reached a total of 2,662 million euro in premiums, compared to total inflows of 4,804 million in first quarter of the previous year. Premiums issued for traditional life insurance policies decreased, while business from unit-linked contracts grew. New business came to 2,520 million euro, around 60% of which was attributable to business on unit-linked contracts.

Other operating income (expenses)

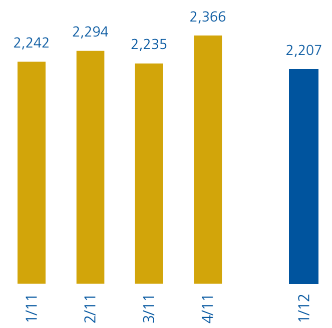
Other operating income (expenses) is a residual caption comprising various types of income and expenses that cannot be recognised in other operating income captions, except expense, tax and duty recoveries that have been directly deducted from the corresponding sub-captions of administrative expenses. In the first quarter of 2012 this caption showed a loss of 5 million euro, compared to 11 million euro in income for the corresponding period in 2011.

Operating costs

(millions of euro)

	31.03.2012	31.03.2011	Changes amount	Changes %
Wages and salaries	945	964	-19	-2.0
Social security charges	242	250	-8	-3.2
Other	169	158	11	7.0
Personnel expenses	**1,356**	**1,372**	**-16**	**-1.2**
Information technology expenses	162	170	-8	-4.7
Management of real estate assets expenses	183	183	-	-
General structure costs	111	115	-4	-3.5
Professional and legal expenses	74	100	-26	-26.0
Advertising and promotional expenses	23	29	-6	-20.7
Indirect personnel costs	33	26	7	26.9
Other costs	85	80	5	6.3
Indirect taxes and duties	160	151	9	6.0
Recovery of expenses and charges	-137	-133	4	3.0
Administrative expenses	**694**	**721**	**-27**	**-3.7**
Property and equipment	93	94	-1	-1.1
Intangible assets	64	55	9	16.4
Adjustments	**157**	**149**	**8**	**5.4**
Operating costs	**2,207**	**2,242**	**-35**	**-1.6**

Quarterly development Operating costs



Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

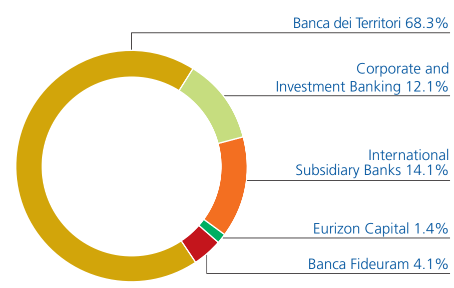
Operating costs totalled 2,207 million euro, down 1.6% on the figure recorded in the same period of 2011, with an even more significant reduction with respect to the figure for the fourth quarter of last year (-6.7%).
Personnel expenses, totalling 1,356 million euro, decreased 1.2% as a result of the reduction in the average workforce (-2.2%), only partially offset by the cost of seniority increases and bonuses, and the impact of the recent pension reforms on the accrual of certain benefits and the increase in the cost within the Group's international scope.
Administrative expenses amounted to 694 million euro, down 3.7%: this result was shaped in particular by the decrease in professional and legal expenses (-26 million euro), accompanied by the reduction in information technology expenses (-8 million euro), advertising and promotional expenses (-6 million euro) and general structure costs (-4 million euro).
Amortisation and depreciation totalled 157 million euro, up 5.4% on the first three months of the previous year, mainly due to higher investments in intangible assets, particularly in software application components.
As a result of the combined performance of revenues and costs, the cost/income ratio for the period was 45.9%, down compared to the 53.3% recognised for the first quarter of 2011.

(millions of euro)

	31.03.2012	31.03.2011	Changes	
			amount	%
Banca dei Territori	1,394	1,417	-23	-1.6
Corporate and Investment Banking	248	239	9	3.8
International Subsidiary Banks	288	286	2	0.7
Eurizon Capital	29	32	-3	-9.4
Banca Fideuram	84	87	-3	-3.4
Total business areas	**2,043**	**2,061**	**-18**	**-0.9**
Corporate Centre	164	181	-17	-9.4
Intesa Sanpaolo Group	**2,207**	**2,242**	**-35**	**-1.6**

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

Business areas



The fall in Group operating costs (-1.6%) was driven by Banca dei Territori (-1.6%), which accounts for 68% of business area costs, Eurizon Capital (-9.4%) and Banca Fideuram (-3.4%). Savings in these business areas were related primarily to other administrative expenses. Costs for the International Subsidiary Banks were essentially stable (+0.7%) but were up for Corporate and Investment Banking (+3.8%). The Corporate Centre's costs were down (-9.4%) due to lower personnel expenses.

Operating margin

The operating margin in the first quarter of 2012 was 2,606 million euro, up 32.8% on the same period of the previous year. This trend was generated by the strong increase in revenues (+14.5%), accompanied by a reduction in operating costs (-1.6%). Compared to the fourth quarter of 2011, operating margin was up 37.2%.

Adjustments to/write-backs on assets

Net provisions for risks and charges

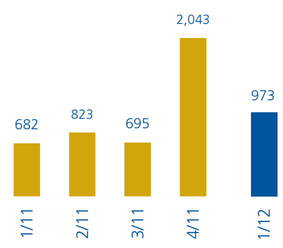
In the first quarter of 2012 net provisions for risks and charges amounted to 37 million euro, largely attributable to provisions made by Banca Fideuram in relation to obligations towards its private bankers. This total compares with 14 million euro recorded in the same period of 2011 and 106 million euro for the fourth quarter of that year.

Net adjustments to loans

(millions of euro)

	31.03.2012	31.03.2011	Changes	
			amount	%
Doubtful loans	-454	-395	59	14.9
Substandard loans	-397	-231	166	71.9
Restructured loans	-10	-8	2	25.0
Past due loans	-113	-47	66	
Performing loans	3	-4	7	
Net impairment losses on loans	**-971**	**-685**	**286**	**41.8**
Net adjustments to guarantees and commitments	**-2**	**3**	**-5**	
Net adjustments to loans	**-973**	**-682**	**291**	**42.7**

Quarterly development Net adjustments to loans



Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

Since 2011 the steady worsening of the general economic situation has resulted in a significant deterioration in loan portfolio quality, with a consequent increase in net adjustments to loans. This trend continued in the first quarter of 2012, with net adjustments to loans of 973 million euro, a significant increase over the same period in 2011 (+42.7%), but down 52.4% compared to the last quarter of 2011, which reflected the effects of non-recurring charges, as noted in the 2011 Annual Report,

including the strengthening of the coverage of performing loans, extraordinary adjustments on certain corporate restructured loans and provisions for foreign currency mortgages of CIB Ungheria. Doubtful positions required total net impairment adjustments of 454 million euro, a 14.9% increase compared to the first three months of 2011, with an average coverage ratio of 62.9%. Net impairment losses on substandard loans, totalling 397 million euro, increased 71.9% compared to the first quarter of 2011, with a coverage ratio of 20.5%. Net impairment losses on restructured loans were substantially stable compared to the corresponding period of the previous year and remained low, while net impairment losses on past due loans increased significantly also due to the reduction of the limit to over 90 days for classification under non-performing loans.
Lastly, within performing loans, there was a recovery in value of 3 million euro, with a coverage ratio of 0.8%. This figure compares with 425 million euro in adjustments made in the fourth quarter of 2011, as a result of the worsening of the economic situation, particularly in the last part of the year.

Net impairment losses on other assets
For the first three months of 2012, net impairment losses on other assets totalled 59 million euro, 29 million euro of which was attributable to the further impairment of Greek government bonds held by the Group and 22 million euro to impairment losses on other securities. This compares to the figure of 17 million euro recorded in the corresponding period of the previous year.

Profits (Losses) on investments held to maturity and on other investments
Investments held to maturity and other investments generated a loss of 6 million euro, compared to the 14 million euro profit reported in the same period of 2011.

Income before tax from continuing operations
Income before tax from continuing operations came to 1,531 million euro, up 21.1% compared to the same period in 2011. The 749 million euro loss recorded in the fourth quarter of the previous year was influenced by the significant increase in net impairment losses on loans and other assets.

Other income and expense captions

Taxes on income from continuing operations
Current and deferred income tax totalled 626 million euro compared to 496 million euro for the corresponding period in 2011 (+26.2%), with a tax rate of 40.9%, slightly higher than the rate for the first quarter of 2011. The tax rate was influenced by the recent increase in the base IRAP tax rate for banks and insurance companies, implemented half way through 2011, and the effect of the non-deductibility, in calculating regional income tax, of higher impairment adjustments on loans.

Charges (net of tax) for integration and exit incentives
This caption amounted to 14 million euro, compared 4 million euro reported for the first quarter of 2011.

Effect of purchase price allocation (net of tax)
This caption comprises charges attributable to the revaluation of loans, debts, real estate and the recognition of new intangible assets, in application of IFRS 3, upon recognition of acquisition transactions. These charges amounted to 73 million euro in the first quarter of 2012, down from 86 million euro compared to the same period in 2011.

Income (Loss) from discontinued operations (net of tax)
No income or loss on discontinued operations was recorded either for the first quarter of 2012 or for 2011.

Net income (loss)
The Group closed the first quarter of 2012 with a net income of 804 million euro, up 21.6% over the net income of 661 million euro recorded for the same period in 2011. This result is not comparable with the result for the fourth quarter of 2011, which closed with a net loss of over 10 billion euro in relation to the goodwill impairment.

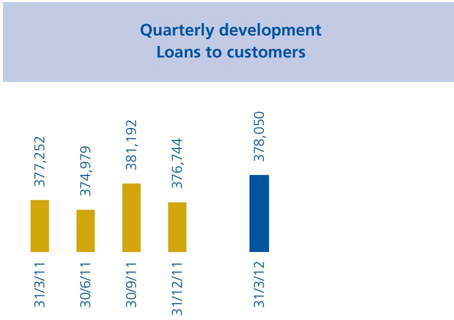
Balance sheet aggregates

Intesa Sanpaolo's consolidated assets recorded a moderate increase in the first quarter of 2012 (+2.1%). With regard to assets, the increase in financial assets available for sale (+16.4 billion euro), was only partly offset by the decrease in loans to banks (-3.4 billion euro) and tax assets (-2.4 billion euro). As regards liabilities, there was an increase in customer deposits and securities issued (+11.2 billion euro) and insurance company technical reserves (+2.3 billion euro) offset by a reduction in bank funding (-2.9 billion euro).

Loans to customers

(millions of euro)

	31.03.2012		31.12.2011		Changes	
		% breakdown		% breakdown	amount	%
Current accounts	33,648	8.9	33,832	9.0	-184	-0.5
Mortgages	163,698	43.3	164,845	43.7	-1,147	-0.7
Advances and other loans	126,193	33.4	131,783	35.0	-5,590	-4.2
Commercial banking loans	**323,539**	**85.6**	**330,460**	**87.7**	**-6,921**	**-2.1**
Repurchase agreements	**11,875**	**3.1**	**5,302**	**1.4**	**6,573**	
Loans represented by securities	**17,979**	**4.8**	**18,286**	**4.9**	**-307**	**-1.7**
Non-performing loans	**24,657**	**6.5**	**22,696**	**6.0**	**1,961**	**8.6**
Loans to customers	**378,050**	**100.0**	**376,744**	**100.0**	**1,306**	**0.3**



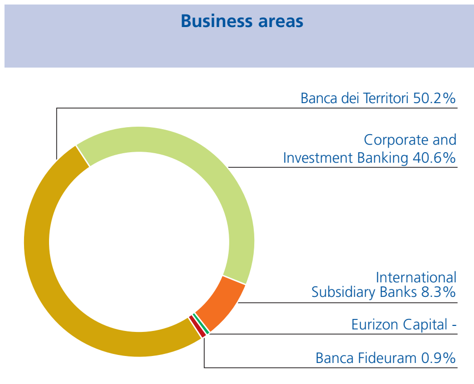
Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

As at 31 March 2012, Intesa Sanpaolo Group loans to customers exceeded 378 billion euro, representing a slight increase (+0.3%) on the figure at the end of the previous year.
The increase in loans compared to the beginning of the year was mainly attributable to the growth in repurchase agreement transactions (+6.6 billion euro), more than double the figure as at 31 December 2011, offset by a 6.9 billion euro reduction in commercial banking loans (-2.1%). The decline in this aggregate was mainly attributable to the 5.6 billion euro reduction in advances and other loans (-4.2%), and, to a lesser extent, the 1.1 billion euro decrease in mortgages (-0.7%). For current accounts there was a minor reduction (-0.5%). The overall change was also influenced by the 2 billion euro increase in non-performing loans (+8.6%) and the decrease in loans represented by securities (-1.7%). In the domestic medium-/long-term loan market, in the first quarter of 2012 disbursements to households (including the small business and non-profit segments) totalled around 2.5 billion euro and disbursements to businesses under the Banca dei Territori amounted to over 1.3 billion euro. In the same period, medium/long-term disbursements to Mid Corporate and Large Corporate Italy customers totalled 5.1 billion euro.
As at 31 March 2012, the Group's share of the domestic market (calculated on the harmonised time-series established for countries in the Eurozone) was 15.8% for total loans, up one-tenth of a percentage point compared to December 2011.

(millions of euro)

	31.03.2012	31.12.2011	Changes	
			amount	%
Banca dei Territori	183,890	187,435	-3,545	-1.9
Corporate and Investment Banking	148,665	149,201	-536	-0.4
International Subsidiary Banks	30,335	30,676	-341	-1.1
Eurizon Capital	105	109	-4	-3.7
Banca Fideuram	3,413	3,439	-26	-0.8
Total business areas	**366,408**	**370,860**	**-4,452**	**-1.2**
Corporate Centre	11,642	5,884	5,758	97.9
Intesa Sanpaolo Group	**378,050**	**376,744**	**1,306**	**0.3**

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.



The breakdown of loans by business areas shows a general decrease. Banca dei Territori, which accounts for approximately half the aggregate of the Group's business areas, recorded a decrease in loans to customers of 1.9% compared to the end of the previous year, particularly to companies and small businesses. The Corporate and Investment Banking loans, which include Public Finance, were essentially stable (-0.4%), with a reduction in the use of cash by Large and International Corporate counterparties almost entirely offset by the increase in Banca IMI's repurchase agreement transactions. The loans of the International Subsidiary Banks fell 1.1%, while Banca Fideuram loans, amounting to a modest total overall, were down slightly (-0.8%), mainly due to lower levels of repurchase agreement transactions with institutional customers.

The increase in Corporate Centre loans, almost double compared to the end of the previous year, was attributable to the completion of repurchase agreements entered into by the Treasury with Cassa di Compensazione e Garanzia.

Loans to customers: loan portfolio quality

(millions of euro)

	31.03.2012		31.12.2011		Change
	Net exposure	% breakdown	Net exposure	% breakdown	Net exposure
Doubtful loans	9,000	2.4	8,998	2.4	2
Substandard loans	10,056	2.7	9,126	2.4	930
Restructured loans	3,466	0.9	3,425	0.9	41
Past due loans	2,135	0.5	1,147	0.3	988
Non-performing loans	**24,657**	**6.5**	**22,696**	**6.0**	**1,961**
Performing loans	335,414	88.7	335,762	89.1	-348
Loans represented by performing securities	17,979	4.8	18,286	4.9	-307
Loans to customers	**378,050**	**100.0**	**376,744**	**100.0**	**1,306**

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

As at 31 March 2012, the Group recorded an increase in non-performing loans, net of adjustments, of 8.6% compared to the end of the previous year. This trend led to a higher ratio of non-performing loans on total loans to customers, increasing from 6% to 6.5%. Coverage of non-performing loans came to 43.1%, slightly lower than the level at the end of 2011 (45.7%), due to the sale to third parties of a portfolio of doubtful loans for a gross amount of 1,640 million euro at a price - corresponding to the net carrying value - of around 270 million euro. The adjustments were deemed adequate to account for expected losses, also considering the guarantees securing the positions. Net of that sale and without the effects of the regulatory changes relating to the classification criteria for past due loans, the coverage ratio of non-performing loans would have been essentially stable from the beginning of the year.

In particular, at the end of the first three months of 2012, doubtful loans remained stable at 9 billion euro, as a result of the above-mentioned sale, and represented 2.4% of total loans, with a coverage ratio of 62.9%. Substandard loans were up significantly (+10.2%) compared to 31 December 2011 to over 10 billion euro, and their proportion as a percentage of total loans to customers increased to 2.7%, with a coverage ratio stable at around 20.5%. Restructured loans stood at 3,466 million euro, with no significant changes compared to the end of the previous year and also essentially stable in terms of coverage ratio (15%) and proportion of total loans (0.9%). Past due loans totalled 2,135 million euro, having almost doubled since the beginning of the year. This increase was essentially due to the effects of the inclusion in this category of loans past due from 90 to 180 days in accordance with the new Bank of Italy regulations, and their coverage ratio stood at 9.5%. Previously, in the absence of other issues related to the loans, these positions were kept under performing loans.

Customer financial assets

(millions of euro)

	31.03.2012		31.12.2011		Changes	
		% breakdown		% breakdown	amount	%
Direct deposits from banking business	371,555	47.2	359,991	47.0	11,564	3.2
Direct deposits from insurance business and technical reserves	77,003	9.7	73,119	9.5	3,884	5.3
Indirect customer deposits	415,688	52.8	405,727	53.0	9,961	2.5
Netting [(a)]	-76,694	-9.7	-73,009	-9.5	3,685	5.0
Customer financial assets	**787,552**	**100.0**	**765,828**	**100.0**	**21,724**	**2.8**

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

[(a)] Netting refers to components of indirect deposits which are also included in direct customer deposits (financial liabilities of the insurance business designated at fair value, life business technical reserves and fund-based bonds designated at fair value issued by Group companies and placed with its customers).

Customer financial assets exceeded 787 billion euro as at 31 March 2012, up 2.8% since the beginning of the year, due to the overall effect of all the components of this aggregate. Direct deposits from banking business increased 11.6 billion euro (+3.2%) due to the positive performance of the main deposit types. Indirect customer deposits increased 10 billion euro (+2.5%) due to the positive performance of the assets under management and under administration, and direct deposits from insurance business were up 3.9 billion euro (+5.3%) as a result of both life insurance business technical reserves linked to traditional policies and insurance liabilities associated with unit and index linked products.

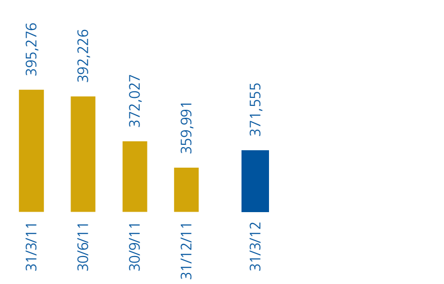
Direct deposits from banking business

The table below sets out amounts due to customers, securities issued, including those designated at fair value, and securitised capital-protected certificates.

(millions of euro)

	31.03.2012		31.12.2011		Changes	
		% breakdown		% breakdown	amount	%
Current accounts and deposits	187,536	50.5	183,773	51.0	3,763	2.0
Repurchase agreements and securities lending	10,996	3.0	4,640	1.3	6,356	
Bonds	134,065	36.1	132,480	36.8	1,585	1.2
of which designated at fair value (*)	*859*	*0.2*	*698*	*0.2*	*161*	*23.1*
Certificates of deposit	7,873	2.1	6,425	1.8	1,448	22.5
Subordinated liabilities	17,677	4.8	19,481	5.4	-1,804	-9.3
Other deposits	13,408	3.5	13,192	3.7	216	1.6
of which designated at fair value (**)	*2,382*	*0.6*	*2,286*	*0.6*	*96*	*4.2*
Direct deposits from banking business	**371,555**	**100.0**	**359,991**	**100.0**	**11,564**	**3.2**

Quarterly development
Direct deposits from banking business



Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

(*) Figures included in the Balance sheet under Financial liabilities designated at fair value through profit and loss.

(**) Figures included in the Balance sheet under Financial liabilities held for trading.

The total of direct deposits from banking business was up 3.2% since the beginning of the year, due to the positive performance of the main deposit types. In particular repurchase agreements almost doubled with respect to the end of the previous year as a result of the completion of significant transactions with institutional counterparties. Current accounts and deposits increased by 3.8 billion euro (+2%) as a result of the interest shown by customers in forms of time deposit such as savings accounts. Bonds were up 1.6 billion euro (+1.2%) confirming their importance to the Group's overall funding. Certificates of deposit grew by more than 1.4 billion euro (+22.5%), whereas subordinated liabilities decreased by 1.8 billion euro (-9.3%), following the repurchase of Tier 1 securities in February already mentioned above.

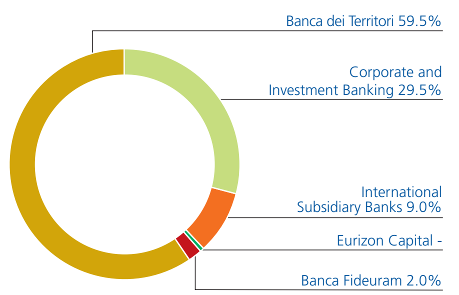
At the end of the first quarter of 2012 the Group's share of direct deposits on the domestic market (according to the ECB's harmonised definition) totalled 17.4%, up half a percentage point on the figure recorded at the end of December 2011.

(millions of euro)

	31.03.2012	31.12.2011	Changes	
			amount	%
Banca dei Territori	200,705	197,280	3,425	1.7
Corporate and Investment Banking	99,662	90,528	9,134	10.1
International Subsidiary Banks	30,432	30,667	-235	-0.8
Eurizon Capital	10	9	1	11.1
Banca Fideuram	6,791	6,367	424	6.7
Total business areas	**337,600**	**324,851**	**12,749**	**3.9**
Corporate Centre	33,955	35,140	-1,185	-3.4
Intesa Sanpaolo Group	**371,555**	**359,991**	**11,564**	**3.2**

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

Business areas



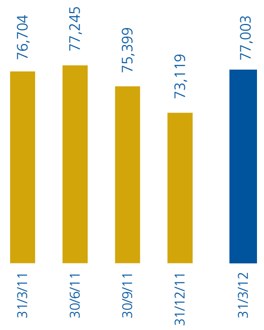
The breakdown by Group business areas shows that Banca dei Territori's direct deposits from banking business, which make up over half of the total aggregate attributable to the business areas, were up over the beginning of the year (+1.7%) as a result of the increase in both amounts due to customers and securities funding. Corporate and Investment Banking, which includes Public Finance, recorded an increase of 9.1 billion euro (+10.1%), attributable to both amounts due to customers and securities issued. The increase in amounts due was related to the increase in short-term deposits of financial institutions counterparts and repurchase agreement transactions by Banca IMI. The increase in securities issued involved leading financial institutions and bond placements. Banca Fideuram's funding was also up (+6.7%) as a result of the increase in amounts due to ordinary and institutional customers. In contrast, the International Subsidiary Banks recorded a slight decrease in funding (-0.8%). The reduction recorded by the Corporate Centres (-3.4%) was due to the maturity of bonds that were not renewed, as well as the repurchase of the Bank's Tier 1 securities, only partly offset by repurchase agreements with Cassa di Compensazione e Garanzia.

Direct deposits from insurance business and technical reserves

(millions of euro)

	31.03.2012	% breakdown	31.12.2011	% breakdown	Changes amount	%
Financial liabilities of the insurance business designated at fair value (*)	**23,637**	**30.7**	**21,955**	**30.0**	**1,682**	**7.7**
Index-linked products	*1,699*	*2.2*	*1,564*	*2.1*	*135*	*8.6*
Unit-linked products	*21,938*	*28.5*	*20,391*	*27.9*	*1,547*	*7.6*
Technical reserves	**53,023**	**68.9**	**50,761**	**69.4**	**2,262**	**4.5**
Life business	52,665	68.4	50,419	69.0	2,246	4.5
Mathematical reserves	*44,701*	*58.1*	*44,895*	*61.4*	*-194*	*-0.4*
Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds	*9,097*	*11.8*	*9,053*	*12.4*	*44*	*0.5*
Other reserves	*-1,133*	*-1.5*	*-3,529*	*-4.8*	*-2,396*	*-67.9*
Non-life business	358	0.5	342	0.4	16	4.7
Other insurance deposits (***)	**343**	**0.4**	**403**	**0.6**	**-60**	**-14.9**
Direct deposits from insurance business and technical reserves	**77,003**	**100.0**	**73,119**	**100.0**	**3,884**	**5.3**

Quarterly development
Direct insurance deposits and technical reservese



Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

(*) Figures included in the Balance sheet under Financial liabilities designated at fair value through profit and loss.

(**) This caption includes unit- and index-linked policies with significant insurance risk.

(***) Figures included in the Balance sheet under Due to customers and securities issued.

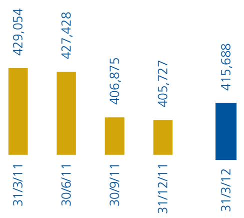
Direct deposits from insurance business came to 77 billion euro at the end of March 2012, up 5.3% from the beginning of the year. Technical reserves, which represent the amount owed to customers who have taken out traditional policies, showed a net increase of 2.3 billion euro (+4.5%), as a result of the improvement in deferred liabilities to policyholders, included under other reserves, attributable to the recovery in prices in equity and bond markets during the first quarter of 2012. Financial liabilities of the insurance business designated at fair value improved by 1.7 billion euro (+7.7%), mainly due to the contribution of unit-linked products.

Indirect customer deposits

(millions of euro)

	31.03.2012	% breakdown	31.12.2011	% breakdown	Changes amount	%
Mutual funds (*)	58,698	14.1	58,310	14.4	388	0.7
Open-ended pension funds and individual pension plans	2,708	0.7	2,939	0.7	-231	-7.9
Portfolio management	76,143	18.3	73,279	18.1	2,864	3.9
Life technical reserves and financial liabilities	78,853	19.0	77,322	19.0	1,531	2.0
Relations with institutional customers	10,499	2.5	10,039	2.5	460	4.6
Assets under management	**226,901**	**54.6**	**221,889**	**54.7**	**5,012**	**2.3**
Assets under administration and in custody	**188,787**	**45.4**	**183,838**	**45.3**	**4,949**	**2.7**
Indirect customer deposits	**415,688**	**100.0**	**405,727**	**100.0**	**9,961**	**2.5**

Quarterly development
Indirect deposits



Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

(*) The caption includes mutual funds established and managed by Eurizon Capital, Banca Fideuram and several international companies. The caption does not include funds held by Group insurance companies and managed by Eurizon Capital, whose values are included in technical reserves, or the contribution of funds established by third parties and managed by Banca Fideuram, whose value is included in assets under administration and in custody.

As at 31 March 2012, indirect customer deposits totalled around 416 billion euro, up 2.5% over the end of the previous year. This increase was driven by the good performance of assets under administration (+2.7%) and assets under management (+2.3%), both of which were up by around 5 billion euro, as a result of the positive performance associated with the appreciation in value of the portfolio assets.

Assets under management, which account for more than half of the aggregate, came to 227 billion euro. The growth from the end of December 2011 was primarily driven by portfolio management, up 2.9 billion euro (+3.9%), and insurance policies, which increased by 1.5 billion euro (+2%). Mutual funds held firm (+0.7%) as a result of positive performance that offset the impact of significant redemptions during the period, and there was an increase in relations with institutional customers (+4.6%). In the insurance business, new life insurance business written by Intesa Sanpaolo Vita (the company formed by the merger of the insurance companies Intesa Sanpaolo Vita - formerly Intesa Vita, EurizonVita, Sud Polo Vita and Centro Vita Assicurazioni), Intesa Sanpaolo Life and Fideuram Vita, including pension products, amounted to 2.5 billion euro for the first quarter of 2012.

The increase in assets under administration in the first quarter was attributable to retail customers and the appreciation in value of debt securities, particularly government bonds, in the investor portfolios.

Financial assets and liabilities

(millions of euro)

	31.03.2012		31.12.2011		Changes	
		of which Insurance Companies		*of which Insurance Companies*	amount	%
Financial assets held for trading	60,328	*1,331*	59,963	*1,341*	365	0.6
of which derivatives at fair value	*40,835*	*23*	*41,789*	*25*	*-954*	*-2.3*
Financial assets designated at fair value through profit and loss	35,971	*35,015*	34,253	*33,391*	1,718	5.0
Financial assets available for sale	85,224	*40,623*	68,777	*39,194*	16,447	23.9
Investments held to maturity	2,266	-	2,621	-	-355	-13.5
Total financial assets	**183,789**	***76,969***	**165,614**	***73,926***	**18,175**	**11.0**
Financial liabilities held for trading (*)	**-45,525**	***-23***	**-46,454**	***-29***	**-929**	**-2.0**
of which derivatives at fair value	*-42,513*	*-23*	*-44,172*	*-29*	*-1,659*	*-3.8*

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

(*) The amount of the item does not include capital protected securitised derivatives (certificates) which are included in the direct customer deposits table.

The table above illustrates the breakdown of financial assets and the total financial liabilities held for trading. Financial liabilities designated at fair value, referring to insurance business, certain bond issues designated at fair value and capital-protected certificates, are not represented as these are included in the direct deposits aggregates.
Total financial assets increased by 11%, primarily due to the growth in financial assets available for sale, which rose from 69 billion euro to 85 billion euro (+23.9%). This performance was attributable to the increase in bonds and other debt securities held by the Parent Company and the Group's insurance companies. Assets designated at fair value recorded a more moderate increase (+5%) and assets held for trading only showed a minor change (+0.6%). Investments held to maturity, however, were down 13.5%.

Financial instrument reclassification

The table below shows the stock of securities subject to reclassification, as permitted by the amendments to IAS 39 made in October 2008, included in the portfolio as at 31 March 2012, together with the effects on the income statement and shareholders' equity reserves of the transfer from designation at fair value to measurement at amortised cost or from designation at fair value through profit and loss to fair value through shareholders' equity.

(millions of euro)

Type of financial instrument	Previous portfolio	New portfolio	Book value at 31.03.2012	Fair value at 31.03.2012	Income components in case of no transfer (before tax)		Annual income components (before tax)	
					Valuation	Other	Valuation	Other
Debt securities	Financial assets held for trading	Loans	2,373	2,126	67	17	4	15
Debt securities	Financial assets held for trading	Financial assets held to maturity	10	9	-	-	-	-
Debt securities	Financial assets held for trading	Financial assets available for sale	-	-	-	1	-	2
Shares and funds	Financial assets held for trading	Financial assets available for sale	38	38	-1	-	-	-
Debt securities	Financial assets available for sale	Loans	6,035	4,336	546	47	10	49
Loans	Financial assets available for sale	Loans	124	118	6	1	-1	1
TOTAL			**8,580**	**6,627**	**618**	**66**	**13**	**67**

If the Group had not elected to reclassify the foregoing financial assets, a total of 605 million euro in income and 1 million euro in other negative components would have been recognised. No portfolio transfers were made in 2012.

Net interbank position

The net interbank position came to a negative 43.3 billion euro as at 31 March 2012, essentially stable compared to the figure at the end of 2011. The negative imbalance between amounts due from/due to banks was also influenced by loans entered into with the Central European Bank. At the end of the first quarter of 2012, Intesa Sanpaolo's exposure to the ECB amounted to 36 billion euro, essentially in line with the levels at the end of the previous year.

Sovereign risk exposure

The Intesa Sanpaolo Group had a total of 116 billion euro in exposure to sovereign debtors, of which 91 billion euro was represented by debt securities and 25 billion euro by other loans. In further detail, the exposure to the Italian government came to 99 billion euro as at 31 March 2012, of which 77 billion euro was represented by securities and 22 billion euro by other loans.

The following table illustrates the book value of Intesa Sanpaolo Group exposures to sovereign risk.

(millions of euro)

	DEBT SECURITIES							LOANS
	Banking Group					Insurance companies (*)	Total	
	Loans and Receivables	Financial assets available for sale	Investments held to maturity	Financial assets designated at fair value through profit and loss	Financial assets held for trading			
EU Countries	**8,194**	**35,804**	**1,487**	**151**	**8,474**	**31,845**	**85,955**	**23,078**
Austria	-	24	3	-	57	65	149	-
Belgium	-	36	-	-	28	66	130	-
Bulgaria	-	-	-	-	1	-	1	-
Cyprus	19	-	-	-	-	-	19	-
Czech Republic	-	28	-	-	-	-	28	26
Denmark	-	-	-	-	-	-	-	-
Estonia	-	-	-	-	-	-	-	-
Finland	-	-	-	-	1	10	11	16
France	112	3	-	-	46	260	421	20
Germany	86	65	-	-	623	1,167	1,941	-
Greece	44	3	-	-	31	15	93	-
Hungary	219	801	20	-	134	-	1,174	192
Iceland	-	-	-	-	2	-	2	-
Ireland	-	136	-	-	-	105	241	-
Italy	7,147	32,911	405	151	6,875	29,435	76,924	21,809
Latvia	25	-	-	-	-	-	25	62
Liechtenstein	-	-	-	-	-	-	-	-
Lithuania	-	21	-	-	3	-	24	-
Luxembourg	-	93	-	-	245	326	664	-
Malta	-	-	-	-	-	-	-	-
Netherlands	-	3	-	-	13	232	248	-
Norway	-	-	-	-	66	-	66	-
Poland	71	21	-	-	17	9	118	-
Portugal	-	19	-	-	-	14	33	34
Romania	10	155	-	-	1	-	166	15
Slovakia	-	1,376	1,059	-	237	-	2,672	143
Slovenia	-	101	-	-	-	-	101	171
Spain	461	6	-	-	43	106	616	590
Sweden	-	2	-	-	51	29	82	-
United Kingdom	-	-	-	-	-	6	6	-
North African Countries	**-**	**106**	**13**	**-**	**1,122**	**-**	**1,241**	**37**
Algeria	-	-	-	-	-	-	-	37
Egypt	-	106	13	-	1,122	-	1,241	-
Libya	-	-	-	-	-	-	-	-
Morocco	-	-	-	-	-	-	-	-
Tunisia	-	-	-	-	-	-	-	-
Japan	**-**	**-**	**-**	**-**	**303**	**-**	**303**	**-**
Other Countries	**884**	**1,052**	**343**	**38**	**1,269**	**64**	**3,650**	**1,334**
TOTAL	**9,078**	**36,962**	**1,843**	**189**	**11,168**	**31,909**	**91,149**	**24,449**

(*) Debt securities held by Insurance companies are classified as follows: 31.4 billion euro as available for sale, 0.3 billion euro among securities designated at fair value through profit and loss and 0.2 billion euro as held for trading.

Exposure to Greece

As at 31 March 2012 the Intesa Sanpaolo Group's total exposure to Greece amounted to 445 million euro in terms of nominal value, with a book value of 93 million euro, consisting of:

- 216 million euro in terms of nominal value relating to the original exposure to Greece, recognised at a book value of 49 million euro at the end of the first quarter of 2012;
- 229 million euro in terms of nominal value relating to new securities issued by the Greek government and received in implementation of the agreement of 21 February 2012, recognised at a book value of 44 million euro at the end of the first quarter of 2012.

Implementation of the agreement also involved, as described below, the allocation of warrants linked to the gross domestic product of the Greek Republic. As at 31 March 2012 nominal value of these warrants was 212 million euro and they were recognised at a book value of 1 million euro.

In addition to this exposure, the Group has an investment in the Hellenic Railways bond, a private placement guaranteed by the Greek government and forming part of the measurement of the Greek public debt, for a nominal value of 200 million euro and a book value, as at 31 March 2012, of 43 million euro.

The agreement, established on 21 February 2012 with the Greek authorities, provided for the issue of new bonds and warrants linked to the gross domestic product of the Greek Republic with the following characteristics:

1. the nominal value of each bond eligible for exchange held by private creditors was decreased by 53.5%;
2. the residual value was distributed as follows:
    a. 31.5% exchanged with 20 new Greek bonds (new GGBs) set to mature within 11 to 30 years (in order to replicate a 5% annual amortisation plan starting from 2023);
    b. 15% exchanged with short-term securities (1-2 years) issued by the European Financial Stability Facility (EFSF);
    c. GDP warrants, for a nominal value equal to the securities in item a) but separated from the new government bond, indexed on gross domestic product; if Greece's growth outperforms current estimates, they could provide a moderate increase in yield. A cap has also been set to avoid excessive costs for the Greek government over time;
3. the new Greek securities shall be part of a co-financing structure with the loan of 30 billion euro disbursed by the EFSF: the payment dates for interest and principal are aligned with the foregoing in order to permit equal standing for the new Greek securities and the EFSF loan;
4. the interest accrued through the time of the exchange on existing securities is paid through short-term EFSF notes;
5. the coupon on new Greek bonds shall be structured so as to increase over time in order to limit the debtor's borrowing costs: the planned rate is 2% for the three years from February 2013 to February 2015, and then 3% for the following five years (from 2016 to 2020), 3.65% for the coupon set to mature in 2021 and 4.3% for the periods from 2022 to 2042.

The new securities, the warrants linked to Greek GDP and the EFSF loan are governed by English law in order to protect the holders from unilateral actions by the sovereign debtor.

In March the custodians holding the Intesa Sanpaolo Group securities to be exchanged were given instructions, differing according to the type of security, to deliver the original securities and register the deposit of the new securities obtained in implementation of the agreement. In particular, in March only the securities originally governed by Greek law were actually exchanged. As at 31 March 2012, however, only part of the original exposure to the Greek government and to Hellenic Railways, included under the agreement, had already been exchanged. The remaining securities were exchanged in April.

Given that, once the swaps have been completed, an active market should be created and the prices quoted by that market can be considered as effective market prices (level 1 of the fair value hierarchy), the Group has decided not to recognise them in the loan portfolio. As a consequence, the securities, originally classified under different IFRS portfolios, have been recognised in the trading book at their fair value, measured on the date of exchange primarily using prices identified in accordance with the rules established in internal policies. With regard to the warrants linked to Greece's gross domestic product, since these are derivatives, they have been recognised in the trading book and, on initial recognition, they have been allocated a value of close to nil.

The table below provides a summary of the nominal values and the impacts of this initial phase of exchange, with a comparison between the original position and the position created after the exchange.

(millions of euro)

	Greek bonds exchanged Nominal value as at 31.12.2011	Greek bonds received 31.5% of nominal value (*)	EFSF bonds received 15% of nominal value (*)	Warrants linked to the Greek GDP 31.5% of nominal value (*)
New Greek bonds - Exchanged on 12 March 2012				
Government bonds	642	212	101	212

(*) The agreement envisaged exchange percentages of 15% and 31.5% of the original nominal value for EFSF bonds and Greek bonds, respectively. Some securities in the portfolio as at 31 December 2011 provided for capital reimbursement index-linked to inflation, which was recognised on exchange. The effect of index-linking resulted in a higher nominal value of the EFSF bonds and Greek bonds received for 14 million euro.

In addition to the EFSF bonds with a nominal value of 20 million euro as consideration for interest accrued as at 12 March 2012 on the original Greek bonds.

As at 31 March 2012, the measurement of the new Greek securities, obtained under the exchange and classified in the trading book, resulted in the impacts summarised in the table below.

(millions of euro)

	Nominal value as at 31.03.2012	Book value before valuation (net of accruals)	Profits (losses) on trading/Income from insurance business (*)	Book value as at 31.03.2012 (net of accruals)
New Greek bonds - Position as at 31 March 2012				
Government bonds				
Financial assets held for trading	229 (1)	49	-5	44
Warrants linked to the Greek GDP				
Financial assets held for trading	212	2	-1	1

(*) Includes -2 million euro comprised in Profits/(Losses) on trading and -4 million euro comprised in Income from insurance business in the reclassified income statement.

(1) This amount also includes 17 million euro in Greek bonds purchased by Banca IMI for ordinary trading.

With regard to Greek securities not yet exchanged by 31 March 2012, the Intesa Sanpaolo Group opted to measure these securities using a comparable approach which aligns their book values to the market value, as at 31 March 2012, of the new securities issued. This approach resulted in the recognition of additional adjustments of 29 million euro, which mainly affected securities classified under the loan portfolio.
The table below shows the position of the old Greek government bonds held by the Group and Hellenic Railways bond with the measurements made in the Quarterly Report as at 31 March 2012.

(millions of euro)

	Nominal value as at 31.03.2012	Amortised cost	Book value before valuation (net of accruals)	Profits (losses) on trading/Income from insurance business (*)	Impairment as at 31.03.2012	Book value as at 31.03.2012 (net of accruals)
Greek bonds not yet exchanged						
Government bonds						
Loans and receivables	192	64	64	-	-20	44
Financial assets available for sale	19	6	6	-3 (1)	-2	4
Financial assets held for trading	5	-	1	-	-	1
Total government bonds	**216**	**70**	**71**	**-3**	**-22**	**49**
Bonds issued by public entities						
Hellenic Railways						
Loans and receivables	200	50	50	-	-7	43
Total other securities	**200**	**50**	**50**	**-**	**-7**	**43**
GRAND TOTAL	**416**	**120**	**121**	**-3**	**-29**	**92**

(*) Entirely comprised in Income from insurance business in the reclassified income statement.

(1) Economic effect of the exchange of AFS bonds, equal to the difference between the value of the new bonds received and the value of the bonds exchanged as at 31 December 2011.

In addition to the above exposures, the Group has exposures in bonds of other public and private entities resident in Greece for a nominal value of 49 million euro, with a book value of 36 million euro (20 million euro under Loans and receivables, and 16 million euro under Financial assets available for sale) and with a fair value of the same amount, for which the measurement criteria applied as at previous reporting dates remained unchanged, without any recognition of impairment losses. Furthermore, loans to Greek parties (banks and other customers) have been disbursed for 93 million euro, in addition to margins available on irrevocable credit lines of 35 million euro.

Shareholders' equity

As at 31 March 2012, the Group's shareholders' equity, including net income for the year, came to 49,345 million euro compared to the 47,040 million euro at the end of the previous year. The change in shareholders' equity, amounting to 2.3 billion euro, was mainly due to the net income for the period and the reduction in the negative balance of valuation reserves (+1.5 billion euro).

Valuation reserves

(millions of euro)

	Valuation reserves as at 31.12.2011	Change in the period	Valuation reserves as at 31.03.2012	
				% breakdown
Financial assets available for sale	-2,352	1,558	-794	44.0
of which: Insurance Companies	*-975*	*766*	*-209*	*11.6*
Property and equipment	-	-	-	-
Cash flow hedges	-933	-55	-988	54.7
Legally-required revaluations	344	-	344	-19.1
Other	-357	-10	-367	20.4
Valuation reserves	**-3,298**	**1,493**	**-1,805**	**100.0**

As at 31 March 2012 the negative balance of the Group’s share of valuation reserves fell to -1,805 million euro from -3,298 million euro reported at the end of 2011. The change for the period was mainly attributable to the appreciation in value of financial assets available for sale (+1,558 million euro), particularly debt securities. Cash flow hedges and other reserves recorded relatively small changes (-55 million euro and -10 million euro, respectively), while legally-required revaluations remained stable.

Regulatory capital

(millions of euro)

Regulatory capital and capital ratios	31.03.2012	31.12.2011
Regulatory capital		
Tier 1 capital	36,922	37,295
of which: instruments not included in Core Tier 1 ratio (*)	*3,272*	*4,498*
Tier 2 capital	11,782	12,201
Minus: items to be deducted (**)	-3,240	-3,144
REGULATORY CAPITAL	**45,464**	**46,352**
Tier 3 subordinated loans	-	-
TOTAL REGULATORY CAPITAL	**45,464**	**46,352**
Risk-weighted assets		
Credit and counterparty risks	270,975	277,498
Market risks	19,564	17,488
Operational risks	24,825	24,825
Other risks (***)	4,578	5,395
RISK-WEIGHTED ASSETS	**319,942**	**325,206**
Capital ratios %		
Core Tier 1 ratio	10.5	10.1
Tier 1 ratio	11.5	11.5
Total capital ratio	14.2	14.3

(*) This caption includes preferred shares and, as of 31 December 2010, savings shares and preference ordinary shares.

(**) In compliance with the provisions of the Bank of Italy Circular 263/2006, in the calculation of capital ratios, elements to be deducted from total regulatory capital have been deducted separately and for an equal amount from Tier 1 and Tier 2 capital, with the exception of the contributions deriving from the insurance business that refer to contracts which arose prior to 20 July 2006 and continue to be deducted from total capital.

(***) In relation to risk-weighted assets, this caption includes further specific capital requirements as provided for by the Supervisory Authority to the various Group entities. It also includes the supplement for the floor relating to the calculation of capital requirements for the credit risk according to IRB approaches.

As at 31 March 2012, total regulatory capital came to 45,464 million euro, compared to risk-weighted assets of 319,942 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
The decrease in risk-weighted assets in the quarter was mainly due to ordinary business activities and optimisation processes. Regulatory capital, in addition to ordinary operations, also takes account of the buy back of subordinated Tier 1 notes (+6 basis points in terms of Core tier ratio) and includes an estimate of the dividends to be paid on 2012 net income, the amount of which has been determined on a conventional basis as one-quarter of the dividend proposed for the year 2011 (through the distribution of reserves) corresponding to 0.05 euro per ordinary and savings shares.
The Total capital ratio stood at 14.2%, while the Group’s Tier 1 ratio was 11.5%. The ratio of Tier 1 capital net of ineligible instruments to risk-weighted assets (Core Tier 1) was 10.5%.
Lastly, in a Regulation published on 18 May 2010, the Bank of Italy provided new supervisory instructions concerning the prudential treatment of reserves associated with debt securities issued by the central governments of EU countries and classified among “Financial assets available for sale”. In particular, the Regulation allows the capital gains and losses recognised through

such reserves associated with the foregoing securities to be completely neutralised effective 1 January 2010, as an alternative to the already established asymmetrical approach (full deduction of the net capital loss from Tier 1 capital and partial inclusion of the net capital gain in Tier 2 capital). The Intesa Sanpaolo Group has elected to apply this approach. Accordingly, the regulatory capital and capital ratios as at 31 March 2012 account for this measure (the effect on the Core Tier 1 ratio is +16 basis points).

Breakdown of consolidated results by business area

The organisational model of the Intesa Sanpaolo Group is based on five Business Units. In addition there is the Corporate Centre, which is charged with providing guidance, coordination and control for the entire Group.

The Intesa Sanpaolo Group

Banca dei Territori

Corporate and Investment Banking

International Subsidiary Banks

Eurizon Capital

Banca Fideuram

Corporate Centre (*)

(*) Includes the Group's Treasury.

The Intesa Sanpaolo Group's segment reporting is based on the elements that the management uses to make its own operating decisions (the "management approach") and is therefore consistent with the disclosure requirements of IFRS 8.
In addition to reflecting the operating responsibilities assigned according to the Group's organisational structure, the business areas are an aggregation of business lines similar in the type of products and services they sell.
The table below shows the main data summarising the trend of the business areas of the Intesa Sanpaolo Group in the first quarter of 2012.
The following itemised analysis of the business areas contains a description of the products and services offered, the type of customers served and the initiatives carried out in the first quarter; it also illustrates income statement figures and the main balance sheet aggregates.
It should be noted that Division figures for the comparative periods have been restated to reflect the changes in scope of the Business Units, where necessary.

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Eurizon Capital	Banca Fideuram	Corporate Centre	Total
Operating income							
31.03.2012	2,502	1,188	549	62	222	290	4,813
31.03.2011	2,391	1,008	590	69	201	-54	4,205
% change [(a)]	4.6	17.9	-6.9	-10.1	10.4		14.5
Operating costs							
31.03.2012	-1,394	-248	-288	-29	-84	-164	-2,207
31.03.2011	-1,417	-239	-286	-32	-87	-181	-2,242
% change [(a)]	-1.6	3.8	0.7	-9.4	-3.4	-9.4	-1.6
Operating margin							
31.03.2012	1,108	940	261	33	138	126	2,606
31.03.2011	974	769	304	37	114	-235	1,963
% change [(a)]	13.8	22.2	-14.1	-10.8	21.1		32.8
Net income (loss)							
31.03.2012	215	465	24	17	59	24	804
31.03.2011	255	438	86	18	52	-188	661
% change [(a)]	-15.7	6.2	-72.1	-5.6	13.5		21.6
Loans to customers							
31.03.2012	183,890	148,665	30,335	105	3,413	11,642	378,050
31.12.2011	187,435	149,201	30,676	109	3,439	5,884	376,744
% change [(b)]	-1.9	-0.4	-1.1	-3.7	-0.8	97.9	0.3
Direct deposits from banking business							
31.03.2012	200,705	99,662	30,432	10	6,791	33,955	371,555
31.12.2011	197,280	90,528	30,667	9	6,367	35,140	359,991
% change [(b)]	1.7	10.1	-0.8	11.1	6.7	-3.4	3.2

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

[(a)] The change expresses the ratio between 31.03.2012 and 31.03.2011.

[(b)] The change expresses the ratio between 31.03.2012 and 31.12.2011.

BUSINESS AREAS

Banca dei Territori

(millions of euro)

Income statement	31.03.2012	31.03.2011	Changes	
			amount	%
Net interest income	1,478	1,409	69	4.9
Dividends and profits (losses) on investments carried at equity	-	-	-	-
Net fee and commission income	782	856	-74	-8.6
Profits (Losses) on trading	27	25	2	8.0
Income from insurance business	214	100	114	
Other operating income (expenses)	1	1	-	-
Operating income	**2,502**	**2,391**	**111**	**4.6**
Personnel expenses	-829	-822	7	0.9
Other administrative expenses	-563	-593	-30	-5.1
Adjustments to property, equipment and intangible assets	-2	-2	-	-
Operating costs	**-1,394**	**-1,417**	**-23**	**-1.6**
Operating margin	**1,108**	**974**	**134**	**13.8**
Net provisions for risks and charges	-6	-9	-3	-33.3
Net adjustments to loans	-583	-433	150	34.6
Net impairment losses on other assets	-1	-2	-1	-50.0
Profits (Losses) on investments held to maturity and on other investments	-	-	-	-
Income (Loss) before tax from continuing operations	**518**	**530**	**-12**	**-2.3**
Taxes on income from continuing operations	-249	-222	27	12.2
Charges (net of tax) for integration and exit incentives	-12	-3	9	
Effect of purchase price allocation (net of tax)	-42	-50	-8	-16.0
Goodwill impairment (net of tax)	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**215**	**255**	**-40**	**-15.7**

(millions of euro)

	31.03.2012	31.12.2011	Changes	
			amount	%
Loans to customers	183,890	187,435	-3,545	-1.9
Direct deposits from banking business	200,705	197,280	3,425	1.7
Direct deposits from insurance business and technical reserves	66,373	63,457	2,916	4.6

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

Banca dei Territori closed the first quarter of 2012 with operating income of 2,502 million euro, representing 52% of the Group's consolidated revenues, up 4.6% on the same period in 2011. In further detail, there was growth in net interest income (+4.9%) which had as one of its main causes the greater contribution from loans to customers, against lower margins on deposits and lower benefits deriving from hedging of demand loans and deposits. Conversely, net fee and commission income was down (-8.6%), in particular, that from asset management and bancassurance products and, to a lesser extent, mortgage insurance commissions and up-front commissions on bond placements. Other income components reported an increase in income from insurance business, from 100 million euro to 214 million euro, mainly due to the improvement in net investment result, which benefited from a more favourable performance of the markets in the first three months of 2012. Operating costs, amounting to 1,394 million euro, fell (-1.6%) compared to the same period of the previous year. The operating margin amounted to 1,108 million euro, up 13.8% on the first quarter of 2011. On the contrary, income before tax from continuing operations decreased by 2.3%, amounting to 518 million euro, penalised by higher adjustments to loans (+34.6%). Lastly, after allocation to the Division of charges for integration of 12 million euro and the economic effects of purchase price allocation for 42 million euro, net income amounted to 215 million euro, down 15.7%.

Analysing quarterly development, the first quarter of 2012 reported an operating margin up 2.1% on the fourth quarter of 2011, thanks to significant savings on operating costs. Income before tax from continuing operations almost tripled as a result of the decrease in net adjustments to loans.

The balance sheet figures at the end of March 2012 showed loans to customers of 183,890 million euro, down 1.9% on the previous year-end mainly as a result of the decrease in loans to business and small business customers. Direct deposits from banking business, amounting to 200,705 million euro, on the contrary, recorded growth (+1.7%) attributable to both amounts due to customers and funding through securities. Direct deposits from insurance business showed an increase of 4.6%, mainly attributable to technical reserves.

Business	Traditional lending and deposit collection operations in Italy and associated financial services
Mission	To serve household, personal, small business, private banking and small and medium enterprise customers, creating value through: – widespread local coverage – a focus on the specific qualities of local markets – exploitation of the brands of banks and the centrality of the roles of the officers responsible for the Regional Governance Centres, Area Governance Centres, Banks and Branches as points of reference for the Group at local level – exploitation of the companies specialised in medium-term lending, consumer credit and pensions and insurance, reporting to the Business Unit
Organisational structure	
Retail Marketing Department	Manages the Household (individual customers with financial assets under 100,000 euro) and Personal (individual customers with financial assets of 100,000 euro - 1 million euro) segments
Small Business Marketing Department	Manages businesses with a turnover under 2.5 million euro and Group loan facilities under 1 million euro
Business Marketing Department	Manages companies with a turnover of between 2.5 and 150 million euro
Intesa Sanpaolo Private Banking	Devoted to private customers whose financial assets exceed 1 million euro.
Product companies	Specialised in medium-term credit (Mediocredito Italiano), consumer credit (Moneta and Neos Finance) the management of electronic payments (Setefi) and trust services (Sirefid)
Banca Prossima	Serves non-profit organisations
Insurance and Pension companies	Specialised in offering pension and personal and asset protection services
Distribution structure	Approximately 5,500 branches, including retail, business and private-banking branches, distributed broadly throughout Italy. The territorial structure is divided into 7 Regional Governance Centres that coordinate 28 Areas/Network Banks, designed to guarantee optimum territorial coverage and standardised sizing in terms of numbers of branches and resources assigned

In order to strengthen oversight of operations and relations with the reference territory, in the first quarter of 2012, as an important step in the strategy of reorganisation of the Banca dei Territori brands, which will entail a single brand at local level and the simplification of operational units, the redefinition of the scope of responsibility of the Territorial Areas (increased to 28 from 27 at the end of December 2011) and the Regional Governance Centres (decreased from 8 to 7) continued.

During the quarter, the scope of the Banca dei Territori Division changed due to the assignment to the division of Banca Monte Parma, which adopted Intesa Sanpaolo's organisational processes and internal, operational and IT regulations, as well as its distribution and organisational model and criteria for allocating customers to portfolios.

Retail Marketing Department

Investment	During the first quarter of 2012, the offering of investment products has been expanded with the launch of: – "Eurizon Strategia Protetta I Trimestre 2012", an Italian registered mutual fund which, through active selection of the weightings of the various components of the portfolio, aims to provide capital protection at maturity and growth in invested capital over a six-year time period; – two new sub-funds of the Luxembourg fund "Investment Solution by Epsilon". The first, "Cedola x 4 02/2012", aims at achieving an annual average return, over the recommended investment horizon, higher than the six-year swap rate and distributing an annual coupon estimated at the beginning of the investment period. The second, "Forex Coupon 2017-2", focused on investing in foreign currency, mainly from emerging markets, with the twofold objective of achieving a return higher than the five-year swap rate and distributing an annual coupon estimated at the beginning of the period of exposure to foreign currencies; – "Base Più 11/2017", a new internal fund with a duration of 5 and a half years, which enriches the Innovation Area of the "Intesa Sanpaolo Life Prospettiva" policy, created for the purpose of increasing the value of the quotas invested by customers, ensuring capital protection on maturity. With a view to updating the range of products, the multi-segment "Eurizon EasyFund" was reorganised into three investment lines: Limited Tracking Error, Active Strategy Line and Active Market Line.
Superflash	The "Superflash" brand, reserved for young people between the ages of 18 and 35, was extended to offer telephone and internet connectivity with advantageous tariffs for mobile voice, text messaging and data traffic. In March, a new Superflash Store was opened in Padova, featuring an innovative, interactive environment suitable for hosting musical events, training sessions and events of interest for young people, with banking transactions carried out solely using self-banking equipment.
Mortgages	The module-based platform "Mutuo Domus" which, through numerous combinations of repayment plans, flexibility options and accessories, provides a structured offer of personalised solutions that fully meet the needs of customers purchasing a home, was expanded during the quarter with the offer of the "Abitazione&Famiglia" policy, in combination with disbursement of the mortgage.

Small Business Marketing Department

Deposit products	For legal persons which are part of the Public Administration, "Soluzione Business PA" has been created. This is a time deposit for the purpose of keeping liquidity of public entities under custody and optimising its management. This new threshold has a minimum entrance threshold of 500,000 euro, and only two terms (6 or 12 months). It does not require the opening of a dedicated account for entities which are already customers, and allows customers to withdraw the amounts deposited at any time, offering a minimum return equal to that of a current account. At the end of February "Conto BusinessInsieme" was introduced. This is a new modular range of transactional products and services (current account, collection and payment services) dedicated to small economic operators, small businesses and professionals, which can be customised based on the characteristics, needs and operations of each customer. The new product is market by: – flexibility: customers select only the services which actually interest them; – cost transparency: the monthly fee is comprehensive and determined by the sum of the costs of the selected products/services; – clarity of the commercial proposal: customers receive a specially-configured quote for the product; – rewarding of virtuous conduct: the fee for the current account can be reduced based on ownership of a specific number of products, identified within a defined basket. "Conto BusinessInsieme" is also highly innovative in terms of its commercial approach: structured analysis of customer's needs; definition of recommended baskets of products/services based on the customer's characteristics and economic sector; new commercial process which assists the customer in identifying the products and services that best match his/her needs; innovative pricing mechanisms, through a comprehensive monthly fee and rewards based on product ownership, with the option of choosing from four monthly fees designed to meet all levels and types of customer operations.

Loans	During the quarter, "Finanziamento Energie Rinnovabili" was launched, which is a loan for businesses and energy service companies, which take on the financial risk of energy works and participate in the economic benefits of the work generated over time, falling within the small business segment. The loan covers up to 100% of investments designed for the construction of new plants for energy generation from renewable sources other than photovoltaic sources, specifically agricultural/forest biomass and mini wind energy. With an amount from 20,000 euro to 750,000 euro and a duration of 2 to 12 years, with the option of pre-financing up to 80% and up to 12 months with the decentralised option, the loan requires a mandatory guarantee represented by the with-recourse assignment of the receivable due from the GSE (a government-owned promoter of alternative energy projects), channelling the GSE incentives into a "suspense account" exclusively reserved for managing instalments and unavailable until it reaches the amount of the instalment due. The projects regarding biomass plants must be validated by Agriventure, which conducts an overall technical assessment on the type of plant. In the area of farming credit, "Progetto Radici", launched in 2011, was extended to the entire country. This project focuses on retail branches with a greater agricultural business, and is aimed at boosting the development of agribusiness and strengthening close relationships with local businesses, with an approach that can be modulated based on each Area's needs and specific characteristics.
Agreements	Intesa Sanpaolo and Unionfidi signed an agreement to guarantee new resources to SMEs in the Northwest of Italy. The planned credit limit, amounting to 20 million euro, guaranteed by Unionfidi, will finance both ordinary operations of businesses, with credit lines of up to 18 months, and medium/long-term investments with a view to growth or for the possible need to consolidate debts owed to the Intesa Sanpaolo Group.

Business Marketing Department

Loans	An innovative instrument for SMEs that intend to develop a strategy to leverage their models and designs is provided by the Italian National Innovation Fund (FNI), created by the Ministry of Economic Development (MED). The Fund allows SMEs to access medium-/long-term loans backed by a portfolio provided by the MED. Intesa Sanpaolo has participated in this initiative through Mediocredito Italiano, which was awarded a significant portion of the funds of the NIF, creating "Nova+ Disegni FNI", a dedicated solution which offers loans at advantageous conditions without any personal guarantees, collateral or insurance guarantees in addition to that already provided by the FNI. 50 million euro is available for designs and models, and 115 million euro for patents.
Internationalisation	To support the international development plans of Italian SMEs, Intesa Sanpaolo and Mediocredito signed an agreement with SACE (Italian export credit insurance company) to finance companies that invest in international projects, without requiring collateral, making available a maximum amount of 500 million euro for businesses with turnover of less than 250 million euro, of which at least 10% generated outside of Italy. The loans, in amounts from 250,000 euro to 5 million euro and duration of 3 to 5 years, will benefit from the SACE guarantee for up to 70% and will be disbursed by Mediocredito Italiano through the new product" International+ con garanzia SACE".
Agreements	Intesa Sanpaolo signed an agreement with Federturismo Confindustria (Italian National Travel and Tourism Industry Federation) aimed at growth of the hotel tourism sector, which involves the development of partnerships in the following areas: renovation and development of the hotel system; aggregations and growth in size; training and retraining of human capital; energy efficiency and ecosustainability; and innovation, research and technological development. The partnership, which involves the structuring of the agreement at local level, with the establishment of local commissions, aims at leveraging the synergies among the successful elements of the "Made in Italy" concept, meaning tourism, art, culture, environment and the agrofood sector.

Intesa Sanpaolo Private Banking

In the first quarter of 2012, Intesa Sanpaolo Private Banking operations developed according to the following strategic guidelines: innovating commercial offerings, developing customers and a focused cost reduction policy.
Assets managed rose from 71 billion euro to 75 billion euro during the quarter, thanks to the effective commercial action of the network and the excellent results achieved by asset management products, with specific reference to portfolio management.
During the period, the enhancement of direct customer deposits and assets under administration (accounts granted under special conditions, securities lending, advisory) also continued. Specifically, for-pay private advisory services saw increasing demand from the network and customers. The Private Advisory service dedicated to top level customers has been subscribed by 150 customers, with approximately 700 million euro in assets. In addition, the plan to extend the service to mid-level customers has almost been completed, with the launch planned starting from the second quarter. The range of asset management products was expanded with the launch of Franklin Templeton funds and a new private equity fund.
As regards placement, the Enel public offering was successful, in addition to the usual placement of Group bonds and of certificates in collaboration with Banca IMI.
A specific initiative was launched aimed at developing synergies with the business segment of Banca dei Territori in order to identify new opportunities to increase the customer base. The positive development of volumes and cost containment action resulted in a reduction in the cost/income ratio and the costs/volumes indicator, which is among the best in Europe.

Intesa Sanpaolo Private Banking earned net income of 37 million euro in the first three months of 2012, up 55.6% compared to the same period of 2011, mainly as a result of the good performance of revenues (+23.2%), boosted by interest income and net fee and commission income, as well as by cost savings (-2.9%).

Product companies

In the first quarter of 2012 Mediocredito Italiano disbursed a total of 460 million euro in loans, reporting a drop of more than 10% compared to the same period of 2011. Nonetheless, the trend in disbursements in the quarter showed growth linked to the reduction in interest rates, which had reached extremely high levels in December 2011 and January 2012, leading customers to postpone taking out loans. Operations of the Specialised Desks continued during the period: specifically, loan applications for approximately 400 million euro were received and approximately 177 million euro was disbursed (80% of which for the renewable energies sector).
During the quarter, Mediocredito sold doubtful loans to the Parent Company and third parties, for a total of approximately 1,700 million euro, thereby significantly reducing assets at the greatest risk. The operating margin amounted to 36 million euro, down by 41 million euro on the first three months of 2011. This trend is mainly attributable to a fall in the interest margin due to fewer positive income components linked to assets sold, which were not fully offset by the lower cost of funding and lower administrative costs for managing assets. As a result of the reduction in the cost of credit due to the decrease in assets at risk, the quarter closed with net income of 0.3 million euro compared to a net loss of 3.5 million euro in the same period of 2011.

Consumer credit activities are carried out through Moneta and Neos Finance.
During the quarter there was a generalised downturn in disbursements in the consumer credit market. In this context, the Banca dei Territori distribution network disbursed loans relating to the subsidiary Moneta totalling 345 million euro, down by 25.7% compared to the same period of the previous year (personal loans -24.1%, loans against assignment of one-fifth of salary -25%). Moneta's income before tax from continuing operations amounted to 8 million euro (compared to 2.5 million euro in the first quarter of 2011) due to the growth in operating income, mainly attributable to the sharp decrease in fee and commission expense reversed to the network banks, to be attributed to different tariff agreements in the two periods compared, which more than offset the increase in adjustments to loans.
Neos Finance closed the first quarter of 2012 with a total amount financed of 316 million euro, down 34.3% compared to the same period of the previous year. However, during the quarter it showed an upward trend, leading to an amount disbursed of 126 million euro in March 2012, compared to 92 million euro in January and 98 million euro in February.
The operating margin of Neos Finance amounted to 19 million euro, down 26.6% compared to the first three months of 2011 due to lower net interest income and net fee and commission income. The higher adjustments to loans carried out during the quarter resulted in a loss before tax from continuing operations and a net loss.

Setefi specialises in managing electronic payment systems, and is registered in the Payment Institutes Registry kept by the Bank of Italy.
The company is an independent business unit for acquiring and a hub for concentrating all activities relating to cards and POS.
Setefi also carries out processing for payment cards on behalf of the banks in the Intesa Sanpaolo Group and, though total volumes are marginal, also issuing of own payment cards, typically relating to fidelity cards.
Almost all of the 10.9 million cards managed by Setefi as at 31 March 2012 are cards issued directly by the Parent Company and the Group banks (+12.3% compared to the first three months of 2011). The number of POS installed at the end of March 2012 amounted to approximately 290,000, an increase of 11.5% on the same period of the previous year. In the first quarter of 2012 volume of transactions handled increased (transactions on Setefi POS and transactions on cards issued by Group banks on other POS) as well as the total amount transacted compared to the same period of 2011. The main actions implemented during the quarter included: the expansion and development of the “Move and Pay” platform (implemented with Setefi's contribution as part of the “Superflash” initiatives) and “Mobile Proximity Payment” projects, in collaboration with the Bank; the implementation of the cross-border acquiring management project; development of the project aimed at concentrating the activities relating to Bancomat/Pagobancomat card authorisation system (including ATM withdrawals) within Setefi; and upgrading of the channel and e-commerce services with the activation of the new portal and the launch of customer migration.
In the first quarter of 2012 Setefi recorded a significant increase in operating margin, which rose to 45 million euro (+17.8% compared to the same period of 2011) and net income, amounting to 30 million euro (+16.4%), as a result of the increase in operations in terms of handling of credit cards issued, volumes transacted and number of POS installed.

Banca Prossima

During the quarter, Banca Prossima, which operates in the non-profit sector with 67 local branches and 140 specialists distributed across the country, continued to acquire new customers for the Group. As at 31 March 2012 Banca Prossima had over 18,000 customers (almost 64% of which new to the Group). As at the same date, financial assets amounted to 4.1 billion euro, of which over 905 million euro in direct customer deposits, and lending operations had achieved an approved amount of about 1.2 billion euro. In the first quarter of 2012 the company reported revenues of 8.6 million euro (+46% compared to the same period of 2011), achieving an operating margin of 3.3 million euro and net income of 2 million euro. In the first quarter of 2012 Banca Prossima's commercial initiatives mainly regarded the acquisition of new customers, leveraging the range of current accounts and short-term financial solutions offered, as well as developing existing customers by supporting a new method of profiling organisations in order to estimate market potential and identify "physiological" financial needs by segment.

Insurance and Pension companies

Intesa Sanpaolo Vita, the new insurance company of the Intesa Sanpaolo Group created from the merger by incorporation of Sud Polo Vita, Intesa Sanpaolo Vita (formerly Intesa Vita) and Centrovita Assicurazioni into EurizonVita, has been operational since 1 January 2012. Intesa Sanpaolo Vita offers an extensive range of products and services covering insurance investment, family protection and supplementary pensions, and makes use of a widespread distribution structure based on numerous channels: branches of Group banks which offer the entire range of products, private bankers of Banca Fideuram and Sanpaolo Invest for pension products, Neos Finance branches for insurance products covering personal loans, consumer credit and assignment of one-fifth of salary. The Intesa Sanpaolo Vita insurance group also includes: Intesa Sanpaolo Assicura, which operates in the non-life business; Intesa Sanpaolo Life, a company incorporated under Irish law, operating under the free provision of services in the life business; EurizonVita (Beijing) Business Advisory, a company incorporated under Chinese law, which performs instrumental activities relating to the minority investment held by Intesa Sanpaolo Vita in Union Life Insurance Limited Company.
In the first quarter of 2012 Intesa Sanpaolo Vita reported income before tax from continuing operations of 180 million euro, a significant increase on 57 million euro of the same period of 2011, especially due to the favourable performance of financial margin attributable to the improvement in listed prices on financial markets, which resulted in the recognition of write-backs on investments. At the end of March 2012 the portfolio of policies came to 68,000 million euro, up 0.9% from the beginning of the year. In the first three months of 2012, gross life premiums underwritten for both insurance products and policies with investment content amounted to 1,816 million euro, compared to 4,637 million euro in the same period of the previous year. New life business amounted to 1,748 million euro (4,545 million euro in the first three months of 2011).

As at 31 March 2012 the assets managed by Intesa Sanpaolo Previdenza came to 1,437 million euro, of which 1,181 million euro consisted of open-ended pension funds established by the company (+4.3% compared to the end of December 2011) and 256 million euro of closed-end funds (up by 3.2% from the beginning of the year). Net inflows for the quarter were positive for both types of funds. At the end of March 2012, Intesa Sanpaolo Previdenza had about 247,000 pension positions under management, of which 143,000 attributable to administration mandates granted by third parties.

Corporate and Investment Banking

(millions of euro)

Income statement	31.03.2012	31.03.2011	Changes	
			amount	%
Net interest income	614	576	38	6.6
Dividends and profits (losses) on investments carried at equity	12	-	12	-
Net fee and commission income	271	236	35	14.8
Profits (Losses) on trading	286	188	98	52.1
Income from insurance business	-	-	-	-
Other operating income (expenses)	5	8	-3	-37.5
Operating income	**1,188**	**1,008**	**180**	**17.9**
Personnel expenses	-108	-111	-3	-2.7
Other administrative expenses	-139	-127	12	9.4
Adjustments to property, equipment and intangible assets	-1	-1	-	-
Operating costs	**-248**	**-239**	**9**	**3.8**
Operating margin	**940**	**769**	**171**	**22.2**
Net provisions for risks and charges	-2	-3	-1	-33.3
Net adjustments to loans	-188	-90	98	
Net impairment losses on other assets	-36	-9	27	
Profits (Losses) on investments held to maturity and on other investments	-8	-2	6	
Income (Loss) before tax from continuing operations	**706**	**665**	**41**	**6.2**
Taxes on income from continuing operations	-241	-226	15	6.6
Charges (net of tax) for integration and exit incentives	-	-1	-1	
Effect of purchase price allocation (net of tax)	-	-	-	-
Goodwill impairment (net of tax)	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**465**	**438**	**27**	**6.2**

(millions of euro)

	31.03.2012	31.12.2011	Changes	
			amount	%
Loans to customers	148,665	149,201	-536	-0.4
Direct deposits from banking business [(a)]	99,662	90,528	9,134	10.1

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

[(a)] The item includes capital protected securitised derivatives (certificates) classified under financial liabilities held for trading.

In the first quarter of 2012, the Corporate and Investment Banking Division (including BIIS) earned 1,188 million euro in operating income (representing 25% of the Group’s consolidated figure), up by 17.9% over the same period of 2011.

In detail, net interest income, amounting to 614 million euro, reported a positive trend (+6.6%) attributable the increased mark-up mainly on Italian corporate relationships (Large Corporate Italy and Mid Corporate segments), on Mediofactoring and on the public entities segment of BIIS. A positive contribution was also provided by the assets relating to Banca IMI's HFT & AFS portfolio, which benefited from higher interest and active management of the finance and capital management segment. Conversely, average volumes of loans to customers decreased slightly compared to the first quarter of 2011. In terms of liabilities, both the mark-down and volumes of customer deposits were lower than those of the same period of the previous year. Net fee and commission income, amounting to 271 million euro, improved by 14.8%, due to higher income linked to commercial banking services, particularly loans, guarantees and factoring, in relation to slightly decreasing investment banking fees and commissions (including BIIS project finance). Profits on trading, amounting to 286 million euro, reported significant growth (+52.1%), attributable to higher revenues in the capital markets area of Banca IMI deriving from risk trading as well as higher income from the proprietary trading portfolio due to the positive performance of structured credit products and hedge funds. Operating costs amounted to 248 million euro, up 3.8% compared to the same period of 2011, due to higher administrative expenses. As a result of the trend in revenues and costs described above, the operating margin, amounting to 940 million euro, increased 22.2%. Income before tax from continuing operations, amounting to 706 million euro, also grew 6.2% despite greater adjustments to loans and to other assets, the latter generated by impairment of Greek government bonds. Lastly, net income came to 465 million euro, up 6.2% on the first three months of the previous year.

At the quarterly level, operating income grew significantly in the first quarter of 2012 (+48.7%) compared to the fourth quarter of 2011, essentially due to profits on trading and, in particular, to higher revenues from capital markets operations of Banca IMI.

Revenue performance, along with the decrease in operating costs (-2.1%), resulted in a sharp increase in operating margin (+72.4%). Income before tax from continuing operations came to 706 million euro compared to the loss in the last quarter of the previous year, which was affected by considerable adjustments to loans, financial assets and other investments.
The Division's intermediated volumes grew compared to the end of December 2011 (+3.6%). In detail, direct deposits from banking business increased 10.1%, attributable to both amounts due to customers (+19.6%) and securities issued (+3.7%). The increase in amounts due to customers should be viewed in relation to the increase in short-term deposits of financial institutions and repurchase agreement transactions by Banca IMI. The growth in securities transactions involved leading financial institutions and bond placement, specifically by Banca IMI. Loans to customers remained essentially stable (-0.4%), with a reduction in the use of cash by Large and International Corporate counterparties almost entirely offset by the increase in Banca IMI's repurchase agreement transactions.

Business	Corporate, Investment Banking and Public Finance, in Italy and abroad
Mission	To act as a global partner in supporting companies and financial institutions in achieving balanced, sustainable growth, including at the international level, through a specialised network of branches, representation offices and subsidiaries that engage in corporate banking operations To foster collaboration between the public and private sectors with the aim of supporting the creation of infrastructure and the modernisation of the public administration by pursuing international growth opportunities in countries of strategic interest to the Group
Organisational structure	
Banca Infrastrutture Innovazione e Sviluppo	BIIS serves central governments, public entities, local authorities, universities, public utilities, general contractors, and public and private healthcare providers
Large Corporate Italy	The Department is charged with managing relationships with Italian large corporate customers through identification, development and launch of wholesale products and services, commercial banking, cash management, corporate banking, investment banking and capital markets
Mid Corporate	The Department is responsible for handling companies with turnover in excess of 150 million euro by means of a global and integrated offer of products and services overseen by all Divisions and the Group product companies
International	The Department is charged with relationships with international customers and international large corporate customers with subsidiaries in Italy, and is responsible for international branches, representation offices and corporate firms and provides specialist assistance in support of the internationalisation of Italian firms and the development of exports, the management and development of relations with financial institution counterparties on emerging markets, the promotion and development of cash management instruments and trade services
Global Banking & Transaction	The Department is responsible for relations with Financial Institutions, management of transactional services related to payment systems, trade and export finance products and services, custody and settlement of Italian securities (local custody)
Merchant Banking	The Department operates in the private-equity segment, including through its subsidiaries by acquiring investments in the venture capital, notably medium-/long-term investments (of an institutional and development nature with a business logic), of private equity companies and specialist funds (restructuring, mezzanine, venture capital)
Structured Finance	Responsible for creating structured finance products through Banca IMI
Proprietary Trading	The Service is responsible for management of the proprietary portfolio and/or risk through direct access to markets or indirect access, via relevant internal functions, in order to carry out trading, arbitrage and long/short positions on capital markets products, cash and derivatives
Investment Banking, Capital Market and primary market	The scope of the Division also includes the M&A and advisory, capital markets and primary markets (equity and debt capital market) performed by Banca IMI
Factoring and Leasing	Factoring is overseen by Mediofactoring and leasing by the companies Leasint and Centro Leasing
Distribution structure	In Italy, it draws on 56 branches dedicated to corporate customers and 16 branches serving public customers. At the international level, the Corporate and Investment Banking Division operates in 29 countries in support of the cross-border operations of its customers through a specialised network of branches, representative offices and subsidiaries that engage in corporate banking activity. The Division also has three representative offices (Istanbul, London and Paris) to support BIIS' operations

Banca Infrastrutture Innovazione e Sviluppo

In the first quarter of 2012, to support and promote the development of large national infrastructures, the activity on large motorway projects continued, including the BreBeMi project (Brescia-Bergamo-Milano motorway), the Milan East outer ring road and the Pedemontana Lombarda motorway.

In support of healthcare services, universities and scientific research, BIIS funded the IRCCS Cà Granda Foundation for the modernisation of the Ospedale Maggiore Policlinico of Milano; to increase the efficiency of the healthcare system in the Lazio and Campania Regions, it continued the without recourse factoring of receivables due to contracted healthcare facilities and suppliers of Healthcare Companies and Hospitals; and it renewed the agreement for purchase without recourse of certified receivables due to Università Cattolica del Sacro Cuore from suppliers of the Policlinico Gemelli.
In the area of improvement of public services and utilities, initiatives in the multiutility sector included: the loan to the Azienda Speciale Brescia, which manages part of the water service for the province, for the construction of a new purification plant, and the renewal of the bridge loan to Società Multiservizi, to finance the investments envisaged in Environmental Plan of the Marche-based company operating in the integrated water cycle and gas distribution sectors. In the alternative, low-environmental-impact energy sector, the bank is involved in various wind farm and photovoltaic projects, also on agricultural greenhouses, specifically in Abruzzo, Calabria, Basilicata and Puglia, funded both through the distribution of project finance loans and under financial lease of public property.
In order to support the financial balance of the public sector, disbursements continued for the funding of the long-term investment expenses of various local entities (including the Province of Modena and the Municipalities of La Spezia and Como). Moreover, in the area of government-subsidised loans, a short-term loan was granted to the special commissioner of Fadalti, a Friuli-based construction company with a long history.
Urban and local development projects included the loan granted to Brescia Infrastrutture for the completion of construction works on the automatic light underground railway line which will connect the neighbourhoods north of Brescia with those in the southeast area and the loan granted through finance lease of public property for the construction of the "Cittadella degli Studi di Fabriano" academic complex in the Province of Ancona, the largest campus within the province, which includes three schools and a professional training centre, and fulfils the need to redevelop academic construction in the area, with low-environmental-impact buildings without architectural barriers.
In the field of international public & infrastructure finance, structuring activities continued for several of the main infrastructural works launched in Turkey with the contribution of Italian construction companies.
Net income came to 23 million euro, down compared to 51 million euro in the first quarter of 2011.

Large Corporate Italy and Mid Corporate

At the end of March 2012, total volumes used by corporate customers fell slightly on the beginning of the year, in line with the trend reported in the system. Conversely, short-term trade, financial and international credit lines reported growth. The level of use of these credit lines was higher than the industry average, both for the Mid Corporate and Large Corporate Italy segments, confirming the preference for the Group shown by corporate firms. Constant assessment of risk, as well as a balanced policy of development in loans to customers, resulted in an increase in the total share of wallet to over 25% for the amounts used.
In the first quarter of 2012, despite the difficult market scenario, 10 structured finance and investment banking transactions were undertaken in the Mid-Corporate Department, compared to 12 transactions undertaken in the first three months of 2011.
During the period, the new commercial approach to the Division's customers was implemented, by segmenting customers of all Departments based on historically generated EVA and the outlook on cross-selling, and the related coverage models are being implemented. The “Start-Up Initiative” continued, through which the Group intends to confirm its role in supporting the development of Italian and international technology companies, as an impartial player able to coordinate energies and efforts to support micro-businesses that create innovation, by encouraging investment and aggregation actions while reducing the costs and timing of research and development processes. Since the launch of the initiative, 32 editions have been held, including 6 during the quarter, in Italy, the United Kingdom, Germany, France and the United States, involving thousands of business owners and investors operating in various areas of technological innovation. The finalisation of the Technology Opportunity Proposal (T.O.P.) project for Large and International Corporate customers continued by offering a dedicated service for each customer and opportunities for investment and/or industrial agreements with growing companies that meet needs for technological innovation demonstrated by customers. Lastly, the development of customer relationship management instruments continued, for use by the commercial units, aimed at encouraging synergies and generating cross-business between the Division's various products, including a commercial monitoring system that promotes collaboration between the various product areas and monitors the generation of cross-selling among products, together with a management dashboard which, in addition to data on the Division's earnings and operating performance, also shows the results generated by the interaction between various products. This initiative, developed for relations with Mid, Large and International Corporate customers, and recently extended to Banca IMI and the foreign hubs, will involve all structures of the Division in future.

International

The International unit directly covers 29 countries through 12 wholesale branches, 18 representative offices, 2 subsidiary banks and one advisory firm. In the first quarter of 2012 the internationalisation strategy was strengthened by the opening of the representative office in Abu Dhabi. International coverage was pursued by fostering the internationalisation of Italian firms and building relationships with major multinationals through a model for managing international network customers that is consistent throughout the Group’s international network.
The Department is responsible for:
– Société Européenne de Banque, which recorded net income of 48 million euro in the first quarter of 2012, up 44% on the same period of the previous year, thanks to growth in revenues (+40.5%), attributable to the positive trend in net interest income and profits on trading, which more than offset greater costs;
– Intesa Sanpaolo Bank Ireland, which reported net income of 14 million euro, down 41.1% compared to the same period of 2011, mainly due to the fall in operating income (-38.5%), penalised by lower net interest income.

Global Banking & Transaction

The first quarter of 2012 was marked by the easing of strains on liquidity which considerably fixed the levels of funding needed by customers, resulting in a slight decrease in spreads on outstanding short-term loans. In this scenario, commercial operations were mainly focused on the dynamic management of short-term loans and the search for lending opportunities, in relation to selected customers, linked to opportunities to sell commission-based products and those with higher added value. In Trade Finance, the actions aimed at increasing foreign-on-foreign operations continued, specifically through funded activities with Turkish, Chinese and Indian banks. Furthermore, cross-selling initiatives with Banca IMI also continued in Eastern Europe, within the capital market.
In the Structured Export Finance sector, the strategy to favour medium-/long-term Italian operations continued. Specifically, operations backed by SACE also progressed through the increasing role in the Export Bank Agreement (Cassa Depositi e Prestiti), to favour the creation of a national system to support exports capable of competing with the best international initiatives. The commitment to supporting trade flows between emerging markets (south-south trade) and to expand the range of products with structured commodity finance instruments continued.
As regards Transaction Banking, marketing campaigns were implemented to market transactional services dedicated to insurance customers and SEPA clearing services dedicated to small and medium-sized banks, both local and international. In addition, new business opportunities were created with recently-established payment institutions, which are entering the payment sector, for which a customised offering was designed to support their operations.
Lastly, commercial initiatives of the Local Custody office focused on cross-selling with Banca IMI, aimed at acquiring integrated execution and custody mandates and providing several leading customers with complementary services for transfer of collateral to the Bank of Italy, to allow these counterparties to access monetary policy funding from the Central Bank.

Merchant Banking

As at 31 March 2012, the portfolio held by the Merchant Banking Department, directly and through subsidiaries, amounted to 2.7 billion euro, of which 2.2 billion euro was invested in companies and 0.5 billion euro in private equity funds. In the first quarter of 2012, through its subsidiary IMI Investimenti, Intesa Sanpaolo participated in the reserved share capital increase of PIANOFORTE Holding, for an amount of 40 million euro, equal to 10% of share capital. The holding company holds 100% investments in the two companies that own the Yamamay and Carpisa brands, respectively operating in the lingerie and leather goods and luggage sectors. Private equity fund management activity, carried out by the subsidiary IMI Fondi Chiusi SGR, continued investing in the new national Atlante Private Equity fund, dedicated to small and medium-sized enterprises, and in venture capital funds.

Structured Finance

In the first quarter of 2012, numerous transactions were implemented to support lending by the Parent Company to corporate customers, as this activity significantly recovered compared to the previous year. The transactions concluded for the Large Corporate Italy segment in which Banca IMI acted as MLA (Mandated Lead Arranger), included: structuring the revolving credit line of 150 million euro to fund Tecnimont's contract portfolio; refinancing for a total of 205 million euro in favour of Zodiak Media Group; refinancing of 600 million euro in favour of Edizione, including a tranche dedicated to the tender offer on its subsidiary Benetton.
Regarding Project & Acquisition Finance, the contribution to the origination and structuring of credit facilities continued, in collaboration with the relevant relations units of the Corporate Division, for transactions that are expected to be carried out during 2012. These included credit facilities aimed at (i) supporting the acquisition of the operating business line Bitolea Chimica Ecologica (Italy) by the Clessidra private equity fund; (ii) supporting the acquisition of 70% of the share capital of Edipower by Delmi and refinancing Edipower's outstanding debt; and (iii) supporting the acquisition of Alpitour (Italy) by a consortium of financial investors headed by the Wisequity and ILP Funds private equity funds.
In the first quarter of 2012 Banca IMI confirmed its leadership in the structuring of loans in all market segments, by offering a comprehensive range of financial products dedicated to real estate and providing specialist advisory services for the property segment. In particular, in the capacity of MLA, Banca IMI finalised credit facilities amounting to 127 million euro, including facilities of 116 million euro for Centro Sviluppo Ostiense, to support the renovation and real estate development project for the former Mercati Generali area in Rome. With regard to advisory services, a mandate was acquired to enhance the value of a hotel located in Venezia and the mandate to analyse and identify the best financial structure for Beni Stabili SIIQ.

Proprietary Trading

In the first quarter of 2012, the Proprietary Trading segment recorded positive performance in terms of income for structured credit products, recovering slightly compared to the negative market conditions which marked the last quarter of 2011, thanks to a contraction in credit spreads, under conditions of greater liquidity in the system. Risk exposure decreased from 2,772 million euro as at 31 December 2011 to 2,562 million euro as at 31 March 2012. The hedge fund portfolio, which amounted to 676 million euro at the end of March 2012 compared to 665 million euro at the beginning of the year, provided a positive contribution to revenues, mainly due to the recovery in the values of positions in the banking and energy sectors, as well as the divestment of several positions.

Investment Banking, Capital Market and Primary Markets

In the first quarter of 2012, Banca IMI confirmed its position as leading operator in the market, along with UniCredit, in the debt capital market segment. In the financial institutions segment, Banca IMI was the leader in the placement of bonds issued by Italian banks and is consolidating its positioning with European customers, though in the presence of highly unfavourable market conditions for this category of issuers. In Italy, the bank acted as bookrunner for the eurobonds issued by Banca Monte dei Paschi di Siena and Intesa Sanpaolo. It acted as bookrunner for international customers, for the issues by Raiffeisen Bank International and Société Générale. Moreover, as dealer manager, it participated in the liability management transactions of Banca Popolare di Vicenza, Banca Popolare dell'Emilia Romagna and Intesa Sanpaolo. With regard to corporate customers, the Bank acted as bookrunner for the issues by Iberdrola, Fiat Auto and MAN SE. The coordination of the placement syndicate for the exchange tender offer on Enel bonds, placed among the general public in Italy, is worthy of note. For issuers in the sovereign, supranational & agencies segment, Banca IMI acted as dealer manager for the innovative bond "BTP Italia" of the Republic of Italy, designed for retail customers, but also open to institutional investors. As co-lead manager, the Bank also took part in three issues of the European Financial Stability Fund (EFSF) and, as dealer manager, participated in the repurchase offer of two covered bonds of Cassa Depositi e Prestiti.
In the quarter, Banca IMI maintained its leadership in the Italian equity capital market in terms of both volumes and number of transactions. Specifically, it acted as joint bookrunner for the share capital increase offered in option by UniCredit and in Terna's accelerated bookbuilding, while internationally, it participated in Peugeot's capital increase. In the tender offer/delisting segment the bank oversaw the voluntary tender offer by Edizione on Benetton Group shares, as financial advisor and intermediary responsible for coordinating subscriptions. At the end of March 2012 Banca IMI was specialist or corporate broker for 39 companies quoted on the Italian market.
In its M&A Advisory activity, Banca IMI concluded significant transactions, confirming its leadership in the Italian market. Specifically, the Bank advised: Italy1 Investment SA in the industrials sector, in the merger by incorporation of IVS; Clessidra in the pharma sector, in its acquisition of a stake in Euticals; Edizione in the consumer & retail sector, in the voluntary tender offer for 100% of Benetton shares (transaction concluded on 30 April); and, in the energy & utilities sector, Iren in the reorganisation of the chain of control of Edipower and Greentech in the acquisition of the Spanish company Fersa (transaction to be concluded next quarter).

Factoring and Leasing

In the first three months of 2012 Mediofactoring reported a turnover of 12.6 billion euro, a 5.7% increase on the same period of 2011, allowing it to remain the number-one domestic factoring provider by turnover, with a market share of 30.3%, up 29.6% on the end of 2011. This performance may be attributed to its transactions without recourse, up by 6.1% on the first quarter of 2011. Compared to 31 December 2011, the outstanding receivables, equal to 11.3 billion euro, decreased by 4.4%, period-end loans came to 9.3 billion euro, down 5.3%, while average loans grew to 7.1 billion euro (8.9%). In terms of income statement figures, the operating margin for the first quarter of 2012, amounting to 47 million euro, was up 29.1% compared to the same period of the previous year as a result of the increase in operating income (+23.2%), driven by net interest income which benefited from the positive performance of volumes and net fee and commission income. Net income amounted to 23 million euro, up 13.1% on the first quarter of 2011.

Intesa Sanpaolo is the number-one leasing provider in the Italian market with a share of 16.6% (17.9% at the end of December 2011). The Bank operates in this sector through Leasint and Centro Leasing, which carry out their role within the Leasing Hub, focusing the distribution of products on captive bank customers and non-captive customers, respectively.
In the first quarter of 2012 Leasint entered into 1,685 new contracts for a total value of 465 million euro, down compared to the first quarter of 2011, but in line with market trend. The amount outstanding of 18.4 billion euro was stable compared to December 2011. The energy, property and automotive leasing sectors recorded decreases in line with competitors, while the instrumental leasing segment showed a downturn that was less than that of the market. During the period, the new product Leasenergy 20-200 was fine-tuned, to finance photovoltaic plants with capacity of 20 to 200 kw. In terms of income statement figures, Leasint's net income amounted to 1.1 million euro, a significant decrease compared to 12 million euro in the first three months of 2011, mainly due to the fall in revenues (-22.6%), penalised by lower interest income (-19.5%) and the increase in adjustments to loans (+13%).
Centro Leasing entered into contracts for over 150 million euro in the first three months of 2012, down compared to the same period of 2011. Business concentrated mainly on the development of the energy sector. In terms of income statement figures, the company reported a net loss of 6.5 million euro (compared to income of 0.9 million euro in the first quarter of 2011), attributable to the reduction in operating income (-23.2%), penalised by lower net interest income (-24.8%) and higher adjustments to loans (+22.8%).

International Subsidiary Banks

(millions of euro)

Income statement	31.03.2012	31.03.2011	Changes	
			amount	%
Net interest income	413	437	-24	-5.5
Dividends and profits (losses) on investments carried at equity	9	5	4	80.0
Net fee and commission income	130	139	-9	-6.5
Profits (Losses) on trading	14	19	-5	-26.3
Income from insurance business	-	-	-	-
Other operating income (expenses)	-17	-10	7	70.0
Operating income	**549**	**590**	**-41**	**-6.9**
Personnel expenses	-151	-143	8	5.6
Other administrative expenses	-104	-109	-5	-4.6
Adjustments to property, equipment and intangible assets	-33	-34	-1	-2.9
Operating costs	**-288**	**-286**	**2**	**0.7**
Operating margin	**261**	**304**	**-43**	**-14.1**
Net provisions for risks and charges	-4	4	-8	
Net adjustments to loans	-205	-186	19	10.2
Net impairment losses on other assets	-4	-1	3	
Profits (Losses) on investments held to maturity and on other investments	1	2	-1	-50.0
Income (Loss) before tax from continuing operations	**49**	**123**	**-74**	**-60.2**
Taxes on income from continuing operations	-25	-37	-12	-32.4
Charges (net of tax) for integration and exit incentives	-	-	-	-
Effect of purchase price allocation (net of tax)	-	-	-	-
Goodwill impairment (net of tax)	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**24**	**86**	**-62**	**-72.1**

(millions of euro)

	31.03.2012	31.12.2011	Changes	
			amount	%
Loans to customers	30,335	30,676	-341	-1.1
Direct deposits from banking business	30,432	30,667	-235	-0.8

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

The International Subsidiary Banks Division is responsible for the Group's activities in foreign markets through commercial banking subsidiaries and associates, mainly active in retail banking.

In the first quarter of 2012, the Division's operating income was down 6.9% compared to the same period of the previous year, amounting to 549 million euro. A detailed analysis shows that net interest income came to 413 million euro, a decrease compared to 437 million euro in the first three months of 2011 (-5.5%), mainly due to the trends reported by CIB Bank (-29 million euro), Privredna Banka Zagreb (-12 million euro) and Banka Koper (-2 million euro), only partly absorbed by the increase recorded by Bank of Alexandria (+20 million euro). Net fee and commission income recorded a decrease of 6.5%, largely attributable to CIB Bank (-6 million euro). Profits on trading, amounting to 14 million euro, also decreased (-26.3%) due to lower contributions from VUB Bank (-7 million euro) and CIB Bank (-3 million euro), which more than offset the increases of Bank of Alexandria (+2 million euro) and Privredna Banka Zagreb (+1 million euro).
Operating costs, amounting to 288 million euro, increased slightly (+0.7%) compared to the first three months of 2011. Due to the trends in revenues and costs described above, the operating margin reported a drop of 14.1%, amounting to 261 million euro.
Income before tax from continuing operations, amounting to 49 million euro, was down 60.2% compared to the same period of the previous year, mainly due to higher adjustments to loans, increasing from 186 million euro to 205 million euro. The latter were largely affected by CIB Bank, which specifically recorded provisions on the retail segment and the small and medium enterprises segment. The Division closed the first quarter of 2012 with net income of 24 million euro (-72.1%).
On a quarterly basis, the first quarter of 2012 reported an operating margin down 9.6% on the fourth quarter of 2011, due to lower revenues (-8.4%). Conversely, income before tax from continuing operations reported sharp growth compared to the fourth quarter of the previous year, which was penalised by the posting of high adjustments to loans.

The Division's intermediated volumes decreased slightly compared to the end of December 2011 (-0.9%) owning to the trend in loans to customers (-1.1%) as well as amounts due to customers under direct deposits (-0.8%).
It is worth mentioning that the negative performance of the Division in the first quarter of 2012, compared to the first quarter of 2011 is largely attributable to the negative performance of the subsidiary CIB Bank, which was harshly affected by the negative economic scenario in Hungary.
The subsidiary's size in relation to the size of the International Subsidiary Banks Division make these effects significant.
Just consider that the decrease of 41 million euro in Division revenues is comprised of 38 million euro relating to CIB Bank, the decrease of 43 million euro in operating costs is comprised of only 5 million relating to CIB Bank and the decrease of 74 million euro in income before tax is comprised of 53 million euro relating to CIB Bank.
More than half (38 million euro) of the decrease of 62 million euro in Division income is attributable to the Hungarian bank.

Business	It is responsible for the Group's operations on the international markets through commercial bank subsidiaries and associates
Mission	Guidance, coordination and support for international subsidiaries, which engage primarily in retail banking operations. The Division is responsible for setting the Group's strategic development guidelines in terms of its direct presence on international markets, involving systematic exploration and analysis of new growth opportunities on markets already served and new markets, the coordination of international subsidiary banks' operations and the management of the relationships between international subsidiary banks and the Parent Company's central units and the branches and other foreign offices of the Corporate and Investment Banking Division
Organisational structure	
South-Eastern Europe	Presence in Albania, Bosnia-Herzegovina, Croatia, Romania and Serbia
Central-Eastern Europe	Presence in Slovakia, Slovenia and Hungary
Commonwealth of Independent States & South Mediterranean	Presence in Egypt, the Russian Federation and Ukraine
Distribution structure	1,552 branches in 12 countries

South-Eastern Europe

In the first quarter of 2012, the operating income of the Privredna Banka Zagreb Group, including ISP Card, amounted to 124 million euro (-8.4% compared to the same period of the previous year), primarily due to the decrease in net interest income. Operating costs increased slightly, amounting to 59 million euro. This resulted in operating margin of 65 million euro, down 15.5% on the first three months of 2011. Income before tax from continuing operations, amounting to 48 million euro, reported a smaller decrease (-0.9%) benefiting from the sharp reduction in adjustments to loans (-47.9%), while net income amounted to 38 million euro (-2.3%).

Banca Intesa Beograd, including Intesa Leasing Beograd, recorded an operating margin of 36 million euro, a 5.1% decrease on the first quarter of 2011. Operating income fell by 2.7%, mainly as a result of the performance of net interest income, offset by growth in net fee and commission income and profits on trading. Operating costs rose by 1.3%, as a result of the increase in personnel expenses. Net income amounted to 20 million euro, compared to 24 million euro for the same period in the previous year (-16.1%).

Intesa Sanpaolo Banka Bosna i Hercegovina ended the first quarter of 2012 with an operating margin of 3.1 million euro, down 3.5% on the same period of 2011. This trend is due to the increase in operating costs (+4.6%), not fully offset by the increases in revenues (+1.2%) and, in particular, net interest income (+1.7%) due to the increase in average volumes, and in net fee and commission income (+3.5%). With adjustments to loans stable, net income dropped to 1.6 million euro from 1.7 million euro in the first quarter of 2011.

Intesa Sanpaolo Bank Albania reported an operating margin of 5.9 million euro, substantially stable compared to the same period of 2011, as a result of revenues and costs essentially in line with those of the first quarter of the previous year. Net income amounted to 3.5 million euro, down compared to 5.9 million euro in the first three months of 2011, mainly due to higher adjustments to loans (increased from 0.5 million euro to 2 million euro).
The companies operating in Romania (Intesa Sanpaolo Bank Romania, Banca CR Firenze Romania and ISP Leasing Romania) posted a total operating margin of 3.3 million euro, up 18.9% on the same period of the previous year. In particular, operating income increased by 3% due to growth in profits on trading. Operating costs decreased (-2%) due to lower administrative

expenses and adjustments. The companies closed the first quarter of 2012 with a net loss of 14 million euro, worsening compared to the -2.5 million euro in the same period of 2011, mainly due to higher adjustments to loans (+9 million euro).

Central-Eastern Europe

Banka Koper, including Finor Leasing, reported operating income of 22 million euro, down 14.6% on the first quarter of 2011. This decrease was the result of the declining trend in all main components and, specifically, in interest margin, net fee and commission income and profits on trading. Operating costs grew slightly due to the increase in all cost captions. Net income came to 2.3 million euro, up by over 50% compared to the same period of the previous year.

The VUB Banka Group achieved an operating margin of 59 million euro, down 18.1% compared to the first three months of 2011, due to a decrease in operating income (-9.4%), attributable to the downturn in profits on trading and net fee and commission income and an increase in operating costs, specifically in personnel expenses. Net income, amounting to 31 million euro compared to 43 million euro in the first quarter of 2011, was also penalised by the increase in net adjustments to loans.

The CIB Bank Group showed operating income of 71 million euro, down 35% on the same period of 2011. This performance was attributable to the decreases in net interest income (-39.2%) and net fee and commission income (-21.3%), as well as the lower contribution from profits on trading (-52.9%). Operating costs decreased by 11.1% as a result of savings on all expense items. The increase in adjustments to loans was affected by the write-downs to the retail and small and medium enterprises portfolio. Net income showed a negative balance of 78 million euro, compared to a net loss of 40 million euro posted in the first quarter of the previous year.
CIB has been harshly affected by the negative economic scenario in Hungary and the laws and taxes imposed on the banking system. Specifically, the law that allows customers to repay mortgages in CHF at a fixed exchange rate of 180 HUF/CHF compared to the market exchange rate of 250 resulted in a significant loss in the 2011 income statement, while in 2012 it resulted in a decrease of approximately 10% in volumes of performing loans, with a sharp impact on the interest margin. The interest margin was also negatively affected by the cost of funding and the increase in risk of the country, which caused increases in the cost of swaps required to hedge foreign exchange risk, which reached 300 basis points for 2-year maturities (155 basis points in January 2011).

Commonwealth of Independent States & South Mediterranean Area

Banca Intesa closed the income statement for the first quarter of 2012 with net income of 7.8 million euro, compared to 2.8 million euro in the same period of 2011. Operating income rose (+5.1%) due to the increases in net interest income (+4.7%) and in net fee and commission income (+13.6%) in addition to profits on trading (+20.6%). Operating costs decreased by 2.8%, specifically due to administrative expenses. Net adjustments to loans of 3 million euro were down by over 60% compared to the same period of 2011, when the loan portfolio deteriorated severely in connection with the Russian market crisis.

The operating margin of Pravex Bank in the first quarter of 2012 was a negative 0.6 million euro (compared to a positive 1.6 million euro in the same period of 2011) due to a decrease in operating income (-16.9%) across all main components. Operating costs fell 1.8% due to lower adjustments and administrative expenses. After net adjustments to loans of 8.1 million euro (compared to 3 million euro in recoveries in the first three months of 2011), Pravex Bank closed the first quarter of 2012 with a net loss of 8.9 million euro, compared to net income of 2.5 million euro in the first quarter of the previous year.

Bank of Alexandria reported an operating margin of 37 million euro, up by 15 million euro (+68.1%) compared to the same period of 2011. Operating income, amounting to 70 million euro, increased by 21 million euro, mainly due to net interest income (+20 million euro) and profits on trading (+2.1 million euro). Operating costs reported growth (+23.1%), specifically attributable to personnel expenses as a result of rises linked to the renewal of the company labour agreement. After net adjustments to loans of 10 million euro, down 35.4% compared to the same period of the previous year, net income amounted to 18 million euro compared to 6.7 million euro generated in the same period of 2011.

Eurizon Capital

(millions of euro)

Income statement	31.03.2012	31.03.2011	Changes	
			amount	%
Net interest income	-	-	-	-
Dividends and profits (losses) on investments carried at equity	3	4	-1	-25.0
Net fee and commission income	58	64	-6	-9.4
Profits (Losses) on trading	1	1	-	-
Income from insurance business	-	-	-	-
Other operating income (expenses)	-	-	-	-
Operating income	**62**	**69**	**-7**	**-10.1**
Personnel expenses	-13	-14	-1	-7.1
Other administrative expenses	-16	-18	-2	-11.1
Adjustments to property, equipment and intangible assets	-	-	-	-
Operating costs	**-29**	**-32**	**-3**	**-9.4**
Operating margin	**33**	**37**	**-4**	**-10.8**
Net provisions for risks and charges	-	-	-	-
Net adjustments to loans	-	-	-	-
Net impairment losses on other assets	-	-	-	-
Profits (Losses) on investments held to maturity and on other investments	-	-	-	-
Income (Loss) before tax from continuing operations	**33**	**37**	**-4**	**-10.8**
Taxes on income from continuing operations	-7	-9	-2	-22.2
Charges (net of tax) for integration and exit incentives	-	-	-	-
Effect of purchase price allocation (net of tax)	-9	-10	-1	-10.0
Goodwill impairment (net of tax)	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**17**	**18**	**-1**	**-5.6**

(millions of euro)

	31.03.2012	31.12.2011	Changes	
			amount	%
Assets under management	136,806	130,497	6,309	4.8

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

Overall, total assets managed by Eurizon Capital as at the end of March 2012 stood at 136.8 billion euro (net of duplications), up 4.8% from the beginning of the year, mainly due to the positive performance of the financial markets, which increased the value of assets under management by 6.7 billion euro. Net outflows for the three months came to -0.4 billion euro, due to outflows from Italian mutual funds, retail portfolio management schemes and institutional mandates, only partly offset by net inflows achieved by Luxembourg funds and captive insurance products. Eurizon Capital's share of assets under management was 17.1% as at 31 March 2012 (gross of duplications and including individual asset management within Intesa Sanpaolo Private Banking's portfolio) compared to 17% at the end of December 2011, due to a performance effect that was more favourable than that for the sector nationally.

Operating income for the first quarter of 2012, amounting to 62 million euro, was down 10.1% on the same period of 2011. Specifically, net fee and commission income decreased (-9.4%), due to average assets under management lower than the first quarter of 2011 and a higher incidence of captive insurance products with low profitability for Eurizon Capital compared to retail funds and portfolio management. The contribution of the subsidiary Penghua Fund Management Company Limited, consolidated at equity, also posted a decline. Operating costs fell (-9.4%) thanks to cost containment measures. As a result of the above revenue and cost trends, the operating margin came to 33 million euro, down 10.8%. Eurizon Capital closed the first quarter of 2012 with net income of 17 million euro, down 5.6%.

On a quarterly basis, the first quarter of 2012 showed a decrease in income before tax from continuing operations of 10.6% compared to the fourth quarter of 2011, mainly due to a drop in operating income (-6%) and, significantly, in profits (losses) on trading, and growth in operating costs (+8.8%).

Business	Asset management
Mission	To provide collective and individual asset management products to the Group's internal banking networks and develop its presence on the open market through specific distribution agreements with other networks and institutional investors
Organisational structure	
Eurizon Capital SGR	Specialised in asset management on behalf of both retail customers (mutual funds and portfolio management schemes) and institutional customers, to which it offers a wide range of specific investment products and services
Eurizon Capital SA (Luxembourg)	Specialised in managing Luxembourg mutual funds with low tracking error
Epsilon Associati SGR	Specialised in managing structured credit products and mutual funds using quantitative methods and 51% owned by Eurizon Capital and the remaining 49% by Banca IMI
Penghua Fund Management Company Limited	Chinese fund manager 49% owned by Eurizon Capital SGR

As regards Italian mutual funds, following the expiry of the "Eurizon Focus Garantito II semestre 2006" sub-fund at the end of 2011, at the start of 2012 its name was changed to "Eurizon Strategia Protetta I Trimestre 2012" as well as the investment policy and classification of the fund, from "guaranteed" to "protected".

With regard to international mutual funds, as part of the strengthening of the joint venture Epsilon SGR established between Eurizon Capital and Banca IMI, the placement of the range of capital protected products continued within the Investment Solution by Epsilon" umbrella fund to be managed by Epsilon SGR. In the first quarter of 2012, two "Forex Coupon 2017" sub-funds were placed, which aim at achieving an expected yield in euro, over a time horizon of five years, higher than a fixed rate of the same duration, as well as two "Cedola x 4 (12/2011 e 02/2012)" sub-funds, with the goal of obtaining, over a time horizon of six years, an annual average return higher than the 6-year swap rate for the euro. Lastly, in the area of Irish unit-linked funds managed by Eurizon Capital SA via mandate, two new products were launched ("EL Base 24" and "EL Base Più"), which combine Group bonds and mutual funds into a package that provides customers with better conditions than the standard offer. As at 31 March 2012 assets under management of these unit-linked funds amounted to approximately 700 million euro.

Banca Fideuram

(millions of euro)

Income statement	31.03.2012	31.03.2011	Changes	
			amount	%
Net interest income	40	32	8	25.0
Dividends and profits (losses) on investments carried at equity	-	-	-	-
Net fee and commission income	139	145	-6	-4.1
Profits (Losses) on trading	2	4	-2	-50.0
Income from insurance business	41	19	22	
Other operating income (expenses)	-	1	-1	
Operating income	**222**	**201**	**21**	**10.4**
Personnel expenses	-35	-37	-2	-5.4
Other administrative expenses	-46	-47	-1	-2.1
Adjustments to property, equipment and intangible assets	-3	-3	-	-
Operating costs	**-84**	**-87**	**-3**	**-3.4**
Operating margin	**138**	**114**	**24**	**21.1**
Net provisions for risks and charges	-18	-8	10	
Net adjustments to loans	-	-	-	-
Net impairment losses on other assets	-10	-	10	-
Profits (Losses) on investments held to maturity and on other investments	-	-	-	-
Income (Loss) before tax from continuing operations	**110**	**106**	**4**	**3.8**
Taxes on income from continuing operations	-29	-29	-	-
Charges (net of tax) for integration and exit incentives	-	-	-	-
Effect of purchase price allocation (net of tax)	-22	-25	-3	-12.0
Goodwill impairment (net of tax)	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**59**	**52**	**7**	**13.5**

(millions of euro)

	31.03.2012	31.12.2011	Changes	
			amount	%
Assets under management	54,534	51,977	2,557	4.9
Direct deposits from banking business	6,791	6,367	424	6.7
Direct deposits from insurance business and technical reserves	10,629	9,661	968	10.0

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

The scope of the Business Unit includes Banca Sara, following the acquisition of total control from Sara Assicurazioni, but does not include Fideuram Bank (Suisse), as a result of the sale of the investment to Banca Credinvest. Both transactions were completed in June 2011. The figures shown in the table and commented on below were reconstructed on a like-for-like basis, adjusting historical figures as appropriate to reflect the effects of these transactions retroactively.

Assets under management of the Banca Fideuram Group at the end of March 2012 amounted to 74.7 billion euro (of which 54.5 billion euro in assets under management and 20.2 billion euro in assets under administration), up 5.3% since the beginning of the year. This trend is attributable to the good performance of the markets and partly to positive net deposits for the period. In detail, assets under management, which represent almost three quarters of the aggregate, were up 4.9%, thanks to the positive trend in mutual funds and life insurance. Assets under administration also posted an increase compared to the volume as at 31 December 2011 (+6.3%). In the first quarter of 2012 net inflows of assets under management, amounting to 269 million euro, decreased by 227 million euro compared to inflows generated in the same period of 2011. A breakdown of the aggregate shows that assets under management reported a positive balance of 51 million euro compared to 144 million euro in the first quarter of the previous year. Assets under administration showed a positive balance of 218 million euro, compared to 352 million euro in the same period of 2011.
Direct deposits from banking business amounted to 6,791 million euro, up 6.7% from the beginning of the year, as a result of the increase in amounts due to ordinary and institutional customers.
Direct deposits from insurance business, amounting to 10,629 million euro, also increased (+10%), entirely attributable to the trend in financial liabilities of the insurance segment designated at fair value.

The number of private bankers rose from 4,850 at the end of 2011 to 4,922 as at 31 March 2012.
The operating margin for the first quarter of 2012 stood at 138 million euro, up 21.1% compared to the same period of the previous year, driven by the development of operating income (+10.4%), and the fall in operating costs (-3.4%).
The performance of revenues is essentially attributable to the increase in net interest income (+25%) and income from insurance business attributable to the insurance company Fideuram Vita, which posted a significant increase during the quarter, from 19 million euro to 41 million euro. The positive performance of the interest margin is largely attributable to the higher profitability of new investments, achieved through a change in asset allocation and realised without increasing the overall risk profile of the portfolio and, to a lesser extent, to the expansion of lending to customers. Quarterly analysis shows substantial stability in profit compared to the fourth quarter of 2011 despite the declining trend in the 3-month Euribor during the period. Conversely, net fee and commission income reported a downturn (-4.1%). In particular, recurring fee and commission income, i.e. fee and commission income correlated with assets under management, which represents the most important component of fee and commission income, declined compared to the first three months of 2011 owing to the decrease in average assets under management. Nonetheless, in the first three months of 2012, recurring net fee and commission income bucked the previous year's trend, recording significant growth compared to the last quarter of the previous year (+5.6%). Front-end net fee and commission income, associated with the placement of securities, funds and insurance policies and the receipt and transmission of orders, which represents 9% of net fee and commission income, decreased, mainly due to the effect of reduced placement of mutual funds and bonds, only partly offset by the positive results achieved in the placement of insurance products. Fee and commission expense, essentially related to incentives for the network for attracting new money, reported a slight increase due to greater incentives paid and allocated to the network of private bankers during the period. Among other income components, profits on trading decreased (-2 million euro) in relation to the realised losses on bonds in the AFS portfolio. Provisions for risks and charges more than doubled, mainly due to higher contractual indemnities to private bankers and oversight of the new disputes that arose during the period.
Income before tax from continuing operations amounted to 110 million euro, up 3.8%. Lastly, following the attribution of the effects of purchase price allocation on the income statement (22 million euro), Banca Fideuram closed the first quarter of 2012 with net income of 59 million euro (+13.5%).

Business	Asset-gathering activity through financial advisors networks at the service of customers with medium/high savings potential
Mission	To aid customers with informed management of their assets, beginning with a thorough analysis of their true needs and risk profile. To advise on financial and pension issues with the aid of highly qualified professionals in a fully transparent manner and in full compliance with the rules
Distribution structure	97 branches in Italy with 4,922 private bankers

The development of new products and services by Banca Fideuram in the first quarter of 2012 was focused on consolidating its leadership on the reference market, by exploiting the product companies and paying careful attention to increasing the level of service provided to customers. These activities involved the entire range of products and services, from financial assets under management to insurance assets, to assets under administration to banking.

Corporate Centre

The Corporate Centre is responsible for direction, coordination and control of the whole Group, as well as for Treasury.
The Corporate Centre Departments (essentially the Treasury Department) generated operating income of 290 million euro in the first quarter of 2012, compared to a loss of 54 million euro for the corresponding period of the previous year. This improvement was mainly the result of profits on trading, which benefited from less uncertainty regarding the financial markets, as well as the buy back of subordinated notes, which generated income of 274 million euro. Income before tax from continuing operations amounted to 115 million euro (-197 million euro in the first three months of 2011). Net income amounted to 24 million euro, compared to a net loss of 188 million euro posted in the same period of the previous year.

Treasury services

The Treasury Department includes treasury services in euro and foreign currencies, and the integrated management of liquidity requirements/surpluses, financial risks and settlement risks. With regard to the wholesale euro payments system, in the first quarter 2012 Intesa Sanpaolo maintained its Target2 market share in Italy and Europe. The Bank of Italy again confirmed Intesa Sanpaolo's status as "critical participant", and, as at the beginning of every year, sent the request to the ECB for official recognition. In the area of Target2-Securities, the new Eurosystem platform securities settlement which will be launched in mid-2015, Intesa Sanpaolo is launching an internal implementation project in which it will be a leading player migration window along with the Italian banking system. Lastly, the "X-COM" project is taking shape. This is the new Triparty Repo platform managed by Monte Titoli, in which Intesa Sanpaolo is actively involved as a pilot bank.

The money market was characterised by sharp signs of easing of tension following the first of the extraordinary refinancing operations conducted by the ECB in December 2011. As a result of the injection of 489 billion euro into the system over three years (with the option of repayment after the first year) the 523 counterparties that took part in the auction were able to benefit from special conditions to mitigate their funding costs and improve conditions on the credit market as well as, more generally, in liquidity, in line with the intentions of the Eurosystem.
After recording a relative high of 527 points in the first ten days of January, the BTP-Bund spread - used as the main "thermometer" to measure stress on the markets - started a virtuous trend which brought it to a minimum of 276 points on 19 March, a few weeks after the second 3-year refinancing transaction, which awarded additional liquidity of 530 billion euro, index-linked to the main refinancing rate.
The easing climate reduced the tensions on government bonds of peripheral countries in the Eurozone and, only at the end of March did a slowdown begin in the virtuous trend triggered by the ECB's extraordinary transactions with full allotment. The main beneficiary of the renewed stability was the European short-term securities market, where, from the minimum amounts at the end of January, the Bank recorded a moderate recovery, with growth of approximately 20% in outstanding securities. Similarly, the increase in excess liquidity in the system failed to specifically boost the interbank market, where exchanges remained largely confined to very short-term maturities. At the end of the quarter, despite Intesa Sanpaolo's participation in both auctions of 3-year financing, its debt with the Central Bank stood at the same levels as the end of 2011.

The fluctuations in the spread of Italian government bonds against Bunds also impacted the securities portfolio, which recorded a sharp decline in yields in the first quarter of 2012. In this context, the Treasury Departments operations in sovereign debt focused mainly on purchasing 3-year Italian securities, with a sharp increasing in the existing banking book. The above mentioned extraordinary transactions of the ECB decreased funding needs of European banks (specifically those in "peripheral" countries"), reducing recourse to the unsecured senior and covered bonds markets. Investment opportunities in the primary market were highly limited and concentrated on the medium and long-term segments. The Treasury Department's participation concerned those French securities which still offered satisfactory yields without extending the duration of the portfolio. Measures implemented on the secondary market were aimed at reducing the risk profile through the sale of Italian covered bonds with 5-7 year maturity and the purchase of 2-3 year bonds on the BTP curve which still have premiums.
The corporate segment was also rewarded by a significant decrease in credit spreads, favoured by system liquidity and the reduced activities in the primary market as a result of low funding needs of companies. In this context, operations on the secondary market were contained, awaiting better investment opportunities.

Operating ACM and Structured Operations

With regard to Asset & Liability Management, operational management of the interest rate risks of the Group's banking book – in the segment over 18 months – is handled by the ALM structure under the supervision of the Risk Management Department. Interest rate risk is monitored and managed mainly by examining the sensitivity of the market value of the various positions in the banking book to parallel shifts in the interest rate curve at the various maturities; moreover specific scenario analysis techniques on rate developments are used, as well as performance scenarios for specific positions. The strategic choices on interest rate risk are made by the Group's Financial Risks Committee, within limits established by the Management Board. The ALM structure actively supports the Committee's decision-making activity by formulating analyses and proposals. Despite the sharp drop in short-term interest rates over the last few months, the reduction in mark-down on demand deposits was significantly offset by the decisions made to protect the interest margin, benefiting the business units. The structural component of liquidity risk is managed by identifying expected liquidity mismatches by maturity bands, on the basis of liquidity policies defined internally at the Group level. Mismatch analysis on medium-/long-term maturities provides input for planning bond funding, in order to anticipate possible pressures on short-term funding

Funding

Medium-/long-term funding transactions were affected by the general situation described above. The continuing tensions in terms of European sovereign risk, the lowering of the rating of the Republic of Italy, the downgrade of the Italian banking system with resulting high costs of international funding suggested a more cautious funding policy, on both the domestic and international markets.
In the domestic market, the total issues of Group securities placed in the first quarter of 2012 through its own and third-party networks amounted to 5.9 billion euro, 83.3% of which through plain vanilla securities and the remaining 16.7% through structured bonds (mainly structured interest rate securities). A breakdown by average maturity shows a concentration of 2-year maturities (with a weight of 63.4%), whilst 15.5% is represented by 3-year securities, 19.6% by 5-year securities and the remaining 1.5% by 4 and 6-year bonds.

In the first quarter, approximately 2.9 billion euro of unsecured institutional funding transactions were completed, 1.5 billion euro of which in the form of 18-month bond issues on the Euromarket and 1 billion euro in 5-year bond issues on the international market. Therefore, compared to total international funding, private unsecured placements amounted to approximately 0.4 billion euro.
In February, a Liability Management transaction was conducted on Tier 1 hybrid equity instruments. The buyback transaction, which regarded all outstanding instruments placed through public transactions, regarded a total amount of securities of approximately 1.2 billion euro, and generated income of approximately 274 million euro, including the positive impact of the unwinding of interest rate risk derivatives, amounting to 183 million euro net of taxes.
In the area of securitisations, in the first quarter Intesa Sanpaolo bought back the Class A securities of the 1st series of the Adriano Finance securitisation from the vehicle ISP CB Ipotecario (approximately 4.3 billion euro). Therefore, in order to offset the reduction in the cover pool deriving from this buy back, and taking account of the overcollateralisation and the requirement of compliance with the tests envisaged by the issue programme secured by mortgages, several series of retained CB issued at the time and valid on that programme, amounting to 5.85 billion euro, were subject to early redemption (for the same amount).
Lastly, on 23 February, all CB issues under the programme were subject to a second downgrading by Moody’s, from Aa1 to Aa2 due to the fact that, following the downgrading of the Republic of Italy from A2 to A3, an Aa1 rating on covered bonds of an Italian bank could no longer be retained.

Risk management

BASIC PRINCIPLES

Intesa Sanpaolo Group policies relating to risk acceptance are defined by the Parent Company's Supervisory Board and Management Board with support from specific Committees, particularly the Control Committee, and the aid of the Group Risk Governance Committee and the Chief Risk Officer, who reports directly to the Chief Executive Officer.

The Parent Company is in charge of overall direction, management and control of risks. Group companies that generate credit and/or financial risks are assigned autonomy limits and each has its own control structure. A service agreement governs the risk control activities performed by the Parent Company's functions on behalf of the main subsidiaries. These functions report directly to the subsidiaries' Management Bodies.

The risk measurement and management tools contribute to define a risk-monitoring framework at Group level, capable of assessing the risks assumed by the Group from a regulatory and economic point of view. The level of absorption of economic capital, defined as the maximum "unexpected" loss that could be borne by the Group over a period of one year, is a key measure for determining the Group's financial structure, risk appetite and for guiding operations, ensuring a balance between risks assumed and shareholder returns. It is estimated on the basis of the current situation and also as a forecast, based on the Budget assumptions and projected economic scenario under ordinary and stress conditions. The assessment of capital is included in business reporting and is submitted quarterly to the Group Risk Governance Committee, the Management Board and the Control Committee, as part of the Group's Risks Tableau de Bord. Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures.

BASEL 2 REGULATIONS AND THE INTERNAL PROJECT

The goal of the Basel 2 Project is the adoption of advanced approaches for credit and operating risks by the main Group companies.

The credit risk situation differs by portfolio:

- for the Corporate segment, authorisation has been obtained from the Supervisory Authority for the use of the AIRB approach on a scope that extends to the Parent Company, the network banks, Banca Infrastrutture Innovazione e Sviluppo and Mediocredito Italiano (effective 31 December 2010; the FIRB approach had been in use since December 2008) and the foreign company Intesa Sanpaolo Bank Ireland Plc. (effective reporting as at 31 December 2011). In January 2012, an application was submitted for authorisation for the use of the AIRB approach with internal LGD estimates for the Corporate segment in relation to the product companies Leasint and Mediofactoring (where the FIRB method has been used since December 2008). The foreign bank VUB Banka obtained permission to use the FIRB approach effective from the report as at 31 December 2010. An application for authorisation to use the AIRB approach was submitted in April 2012 for Banca IMI;
- for the Retail Mortgage segment, permission was granted for the use of the IRB approach effective June 2010 and extended to the former Casse del Centro network banks effective the report as at 31 December 2011. The application for authorisation of the extension to VUB Banka was submitted in December 2011;
- an application for authorisation of transition to the IRB approach for the SME Retail segment is expected to be submitted in the first half of 2012.

The Group is also proceeding with development of the rating models for the other segments and the extension of the scope of companies for their application in accordance with a plan presented to the Supervisory Authority.

With regard to Operational Risk, the Group obtained authorisation to use the Advanced Measurement Approaches (AMA – internal model) to determine the associated capital requirement for regulatory purposes, with effect from the report as at 31 December 2009. The scope of application of the advanced approaches is being progressively expanded in accordance with the roll out plan presented to the Management and to the Supervisory Authorities. For additional details see the section on operational risk.

In April 2012 the Group presented its Annual Internal Capital Adequacy Assessment Process Report as a "class 1" banking group, according to Bank of Italy classification, based on the extensive use of internal approaches for the measurement of risk, internal capital and total capital available.

As part of its adoption of Basel 2, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled "Basel 2 - Pillar 3" or simply "Pillar 3".

The document is published on the website (group.intesasanpaolo.com) each quarter, inasmuch as Intesa Sanpaolo is among the groups that have adopted validated internal approaches for credit, market and operational risk.

CREDIT RISK

The Group's strategies, powers and rules for the granting and managing of loans are aimed at:

- achieving the goal of sustainable growth consistent with the Group's risk appetite and value creation objectives, whilst guaranteeing and improving the quality of its lending operations;
- diversifying the portfolio, limiting the concentration of exposures to counterparties/groups, economic sectors or geographical areas;
- efficiently selecting economic groups and individual borrowers through a thorough analysis of their creditworthiness aimed at limiting the risk of insolvency;

– given the current economic climate, favouring lending business aimed at supporting the real economy and production system and at developing relationships with customers;
– constantly monitoring relationships and the related exposures, through the use of both IT procedures and systematic surveillance of positions that show irregularities with the aim of detecting any symptoms of deterioration in a timely manner.

The Intesa Sanpaolo Group has developed a set of techniques and tools for credit risk measurement and management which ensures analytical control over the quality of loans to customers and financial institutions, and loans subject to country risk.
In particular, with respect to loans to customers, risk is measured using internal rating models which change according to the counterparty's operating segment.

Credit quality

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.
The overall non-performing loan portfolio is subject to a specific management process which, inter alia, entails accurate monitoring through a predetermined control system and periodic managerial reporting. In particular, this activity is performed using measurement methods and performance controls that allow the production of synthetic risk indicators. They allow timely assessments when any anomalies arise or persist and interact with processes and procedures for loan management and for credit risk control.
Within the Group, in accordance with preset rules, positions which are attributed a persistent high-risk rating are intercepted (manually or automatically) and included in a unique operational category based on their risk profile. In accordance with the Supervisory Authority instructions, they are classified in the following categories: doubtful loans, exposures to borrowers in default or in similar situations; substandard loans, exposures to borrowers in temporary difficulty, deemed likely to be settled in a reasonable period of time and exposures which satisfy the conditions objectively set by the Supervisory Authority ("objective substandard loans"), although they do not meet the requirements to be classified under doubtful loans; restructured loans, positions for which, due to the deterioration of the economic and financial position of the borrower, the bank (or pool of banks) agrees to modify the original contractual terms giving rise to a loss. Lastly, non-performing loans also include past due positions that cannot be considered mere delays in reimbursements, as established by the Bank of Italy.
With regard to past due positions, the exemption granted by the Supervisory Authority has expired that, for exposures to Italian counterparties and solely for certain regulatory portfolios, allowed for those positions to be calculated using a time limit of 180 days. From 1 January 2012, the Group has applied the limit of 90 days to all of its regulatory portfolios, which has resulted in the transformation of part of the performing loan portfolio (past due from over 90 to 180 days) into non-performing loans (past-due).

(millions of euro)

	31.03.2012			31.12.2011			Changes
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure
Doubtful loans	24,234	-15,234	9,000	24,961	-15,963	8,998	2
Substandard loans	12,651	-2,595	10,056	11,486	-2,360	9,126	930
Restructured loans	4,081	-615	3,466	4,032	-607	3,425	41
Past due loans	2,359	-224	2,135	1,319	-172	1,147	988
Non-performing loans	**43,325**	**-18,668**	**24,657**	**41,798**	**-19,102**	**22,696**	**1,961**
Performing loans	338,065	-2,651	335,414	338,467	-2,705	335,762	-348
Performing loans represented by securities	18,933	-954	17,979	19,220	-934	18,286	-307
Loans to customers	**400,323**	**-22,273**	**378,050**	**399,485**	**-22,741**	**376,744**	**1,306**

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

The above table shows an increase in non-performing loans for the first three months of 2012, net of adjustments, of 1,961 million euro (+8.6%), compared to the end of the prior year. This trend led to a higher incidence of non-performing loans on total loans to customers, increasing from 6% to 6.5%. Coverage of non-performing loans came to approximately 43.1%, lower than the level at the end of 2011 (45.7%), but nevertheless deemed adequate to account for expected losses, also considering the guarantees securing the positions. The reduction in the percentage coverage, as described in more detail below, is related to both the sale without recourse of a doubtful loan portfolio, which had a high risk provision, and the inclusion under non-performing loans of positions past due by over 90 to 180 days, which have a low level of risk.
In particular, as at 31 March 2012, doubtful loans net of adjustments totalled 9 billion euro, unchanged from the beginning of the year. The level of doubtful loans was influenced by a sale without recourse for a net amount of 270 million euro (1,640 million euro gross value) essentially offset by the addition of new positions. Doubtful loans represented 2.4% of total loans, with a coverage ratio of 62.9%.
Compared to 31 December 2011, substandard loans increased 10.2% to 10,056 million euro. Substandard loans as a proportion of total loans to customers increased from 2.4% to 2.7% in the first three months of the year, and the coverage ratio, adequate for the risk intrinsic to this portfolio, was 20.5%, in line with the figure at the end of the prior year.
Restructured loans stood at 3,466 million euro, remaining substantially stable compared to the beginning of the year (+1.2%), with a coverage ratio of 15.1%, unchanged compared to the end of the prior year. Past due loans increased 988 million euro to 2,135 million euro from 1,147 million euro for the prior year. The sharp increase was essentially attributable to the change in regulations that, as already reported above, require exposures past due by more than 90 days to be classified under non-performing loans with effect from 1 January 2012. Previously the limit was 180 days, for Italian counterparties and for certain regulatory portfolios. As a consequence, the percentage of this type of non-performing loans increased to 0.6% from 0.3% at the end of December. The coverage ratio fell to 9.5% from the previous 13%, due to the lower risk on loans past due less than 180, which were not included under non-performing loans at the end of the prior year.

Performing exposures remained essentially stable at 335 billion euro. In this context, the cumulated collective adjustments on these loans totalled 0.8% of the gross exposure to customers, a value that is essentially unchanged compared to the figure recorded at the end of 2011.

MARKET RISKS

TRADING BOOK

The quantification of trading risks is based on daily and periodic VaR of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors:

- interest rates;
- equities and market indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABSs);
- commodities.

A number of the other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 3% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading books were interest rates and foreign exchange rates, both relating to linear pay-offs.

For some of the risk factors indicated above, the Supervisory Authority has validated the internal models for the reporting of the capital absorptions of both Intesa Sanpaolo and Banca IMI.

In particular, the validated risk profiles for market risks are: (i) generic on debt securities and generic/specific on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of funds underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI, (iii) position risk on dividend derivatives and (iv) position risk on commodities for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.

The requirement for stressed VaR is included when determining capital absorption effective 31 December 2011. The requirement derives from the determination of the VaR associated with a market stress period. This period was identified considering the following guidelines, on the basis of the indications presented in the Basel document "Revision to the Basel II market risk framework":

- the period must represent a stress scenario for the portfolio;
- the period must have a significant impact on the main risk factors for the portfolios of Intesa Sanpaolo and Banca IMI;
- the period must allow real historical series to be used for all portfolio risk factors.

In keeping with the historical simulation approach employed to calculate VaR, the latter point is a discriminating condition in the selection of the holding period. In fact, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.

As at the date of preparation of the document, the period relevant to the measurement of stressed VaR had been set as:

- 1 July 2008 to 30 June 2009 for Banca IMI;
- 1 October 2010 to 30 September 2011 for Intesa Sanpaolo.

The analysis of market risk profiles relative to the trading book uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).

VaR estimates are calculated daily based on simulations of historical time-series, a 99% confidence level and 1-day holding period.

The following paragraphs provide the estimates and evolution of VaR, defined as the sum of VaR and of the simulation on illiquid parameters, for the trading book of Intesa Sanpaolo and Banca IMI.

In the first quarter of 2012, market risks generated by Intesa Sanpaolo and Banca IMI increased slightly with respect to the averages for the last quarter of 2011. The average VaR for the period totalled 97 million euro.

Daily VaR of the trading book for Intesa Sanpaolo and Banca IMI[(a)]

(millions of euro)

	2012			2011			
	average 1st quarter	minimum 1st quarter	maximum 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	24,1	23,2	25,3	25,0	21,4	15,3	18,7
Banca IMI	72,9	56,7	92,1	70,6	45,3	21,1	17,4
Total	**97,0**	**80,3**	**115,4**	**95,6**	**66,7**	**36,4**	**36,1**

(a) Each line in the table sets out past estimates of daily VaR calculated on the quartely historical time-series respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for the two companies are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

During the first three months of 2012, market risks generated by Intesa Sanpaolo and Banca IMI increased with respect to the values for 2011.

(millions of euro)

	2012			2011		
	average 1st quarter	minimum 1st quarter	maximum 1st quarter	average 1st quarter	minimum 1st quarter	maximum 1st quarter
Intesa Sanpaolo	24.1	23.2	25.3	18.7	16.3	21.5
Banca IMI	72.9	56.7	92.1	17.4	13.6	24.3
Total	**97.0**	**80.3**	**115.4**	**36.1**	**31.1**	**42.5**

[a] Each line in the table sets out past estimates of daily VaR calculated on the historical time-series of the first nine months of the year respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for the two companies are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

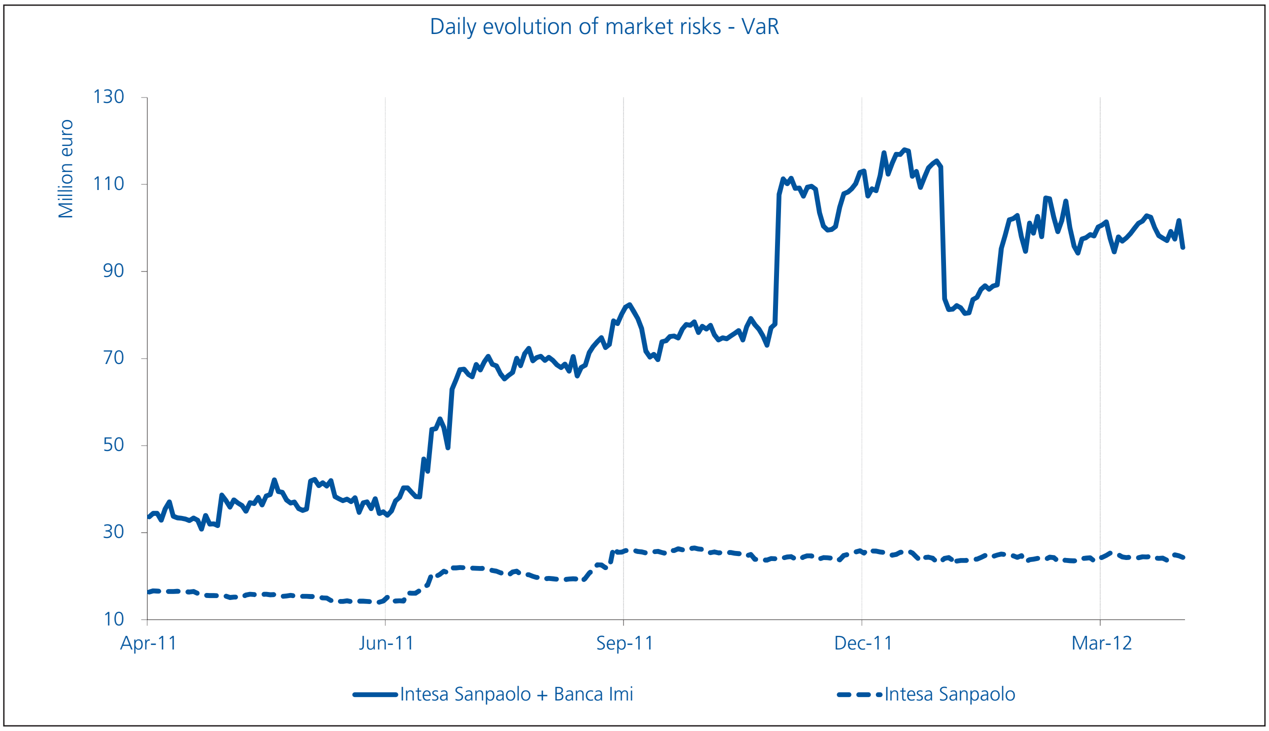
For Intesa Sanpaolo the breakdown of risk profile in the first quarter of 2012 with regard to the various factors shows the prevalence of the hedge fund risk, which accounted for 42% of total VaR; for Banca IMI credit spread risk was the most significant, representing 76% of total VaR.

Contribution of risk factors to overall VaR [a]

1st quarter 2012	Shares	Hedge funds	Rates	Credit spreads	Foreign exchange rates	Other parameters	Comodities
Intesa Sanpaolo	0%	42%	16%	33%	3%	6%	0%
Banca IMI	3%	0%	1%	76%	4%	5%	3%
Total	**2%**	**11%**	**13%**	**64%**	**2%**	**5%**	**3%**

[a] Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the first half of 2011, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall capital at risk.

VaR in the last twelve months is set out below. During the first quarter of 2012 VaR initially decreased as a result of the rolling effect in the historical simulation, relating in particular to the spreads in Italian government bonds. VaR subsequently increased, particularly for Banca IMI, both due to purchases made in the Italian government sector to take advantage of market opportunities and the increase in activity in the trading book.



Risk control with regard to the trading activity of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. The impact on the income statement of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads, foreign exchange rates and commodity prices at the end of March is summarised as follows:

– on stock market positions, a bullish scenario, that is a 5% increase in stock prices with a simultaneous 10% decrease in volatility would have led to a 5 million euro loss;

– on interest rate exposures, a parallel +25 basis point shift in the yield curve would have led to a 35 million euro loss, whereas a parallel -25 basis point shift would have led to a 43 million euro gain;
– on exposures sensitive to credit spread fluctuations, a 25 basis point widening in spreads would have led to a 92 million euro loss, 5 million euro of which due to structured credit products (SCPs), whereas a 25 basis point tightening of the spreads would have led to a 96 million euro gain, 5 million euro of which due to SCPs;
– on foreign exchange exposures (main position on Euro/USD), the portfolio would have recorded a 4 million euro gain in the event of exchange depreciation (-10%). The negative effect in case of foreign exchange appreciation (+10%) would have been 4 million euro;
– lastly, on commodity exposures a 4 million euro loss would have been recorded in the event of a 50% decrease in prices.

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITY	
	volatility +10% and prices -5%	volatility -10% and prices +5%	-25bp	+25bp	-25bp	+25bp	-10%	+10%	-50%	+50%
Total	6	-5	43	-35	96	-92	4	-4	-4	4
of which SCP					*5*	*-5*				

BANKING BOOK

Market risk originated by the banking book arises primarily in the Parent Company and in the other main Group companies that carry out retail and corporate banking. The banking book also includes exposure to market risks deriving from the equity investments in quoted companies not fully consolidated, mostly held by the Parent Company and by Equiter, IMI Investimenti and Private Equity International.
The following methods are used to measure financial risks of the Group's banking book:
– Value at Risk (VaR);
– Sensitivity Analysis.
Value at Risk is calculated as the maximum potential loss in the portfolio's market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR).
Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the main risk factors (interest rate, foreign exchange, equity). For interest rate risk, an adverse movement is defined as a parallel and uniform shift of ±100 basis points of the interest rate curve. The measurements include an estimate of the prepayment effect and of the risk originated by customer demand loans and deposits.
Furthermore, interest margin sensitivity is measured by quantifying the impact on net interest income of a parallel and instantaneous shock in the interest rate curve of 100 basis points, over a period of 12 months. This measure highlights the effect of variations in interest rates on the portfolio being measured, excluding assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a predictor of the future levels of the interest margin.

Hedging of interest rate risk is aimed at (i) protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve or (ii) reducing the volatility of future cash flows related to a particular asset/liability. The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates stipulated with third parties or with other Group companies. The latter, in turn, cover risk in the market so that the hedging transactions meet the criteria to qualify as IAS-compliant for consolidated financial statements.
Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods. A first method refers to the fair value hedge of specifically identified assets or liabilities (micro-hedging), mainly consisting of bonds issued or acquired by Group companies and loans to customers. In addition, macro-hedging is carried out on the stable portion of on demand deposits and in order to hedge against fair value changes intrinsic to the instalments under accrual generated by floating rate operations. The Group is exposed to this risk in the period from the date on which the rate is set and the interest payment date.
Another hedging method used is the cash flow hedge, which has the purpose of stabilising interest flow on both variable rate funding, to the extent that the latter finances fixed-rate investments, and on variable rate investments to cover fixed-rate funding (macro cash flow hedges). In other cases, micro cash flow hedges are applied to specific assets or liabilities (micro cash flow hedge).
The Risk Management Department is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting.

In the first three months of 2012, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, registered an average value of 411 million euro, settling at 423 million euro at the end of March, almost entirely concentrated on the euro currency; this figure compares with 482 million euro at the end of 2011.
Interest margin sensitivity – assuming a 100 basis point change in interest rates – amounted to 316 million euro at the end of March 2012 (240 million euro at the end of 2011).
Interest rate risk, measured in terms of VaR, averaged 122 million euro during the first three months of 2012 (139 million euro at the end of 2011), with a maximum value of 130 million euro and a minimum value of 113 million euro, reflected in the figure at the end of March. Price risk generated by minority stakes in listed companies, mostly held in the AFS (Available for Sale) category and measured in terms of VaR, recorded an average level of 112 million euro in the first three months of 2012 (102 million euro at the end of 2011), with a maximum value of 130 million euro and a minimum of 96 million euro, recorded at the end of March.
Lastly, an analysis of banking book sensitivity to price risk, measuring the impact on Shareholders' Equity of a price shock on the above quoted assets recorded in the AFS category shows sensitivity to a 10% negative shock equal to -68 million euro at the end of March 2012.

LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to procure funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).
Preparing an adequate management and monitoring system for this risk is of fundamental importance in maintaining stability, not only at the level of each individual bank, but also of the market at large, given that imbalances within a single financial institution may have systemic repercussions. Such a system must be integrated into the overall risk management system and provide for incisive controls consistent with developments in the context of reference.
The "Guidelines for Group Liquidity Risk Management" approved by Intesa Sanpaolo's corporate bodies in 2011, in addition to the significant changes adopted by the Group relating to the management and monitoring of liquidity risk introduced in the "New regulations for the prudential supervision of banks and banking groups" – Circular 263 of 27 December 2006 (4th update of 13 December 2010), describe the tasks of the various company departments, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. The key principles underpinning the Liquidity Policy of the Intesa Sanpaolo Group are:

- the existence of liquidity management guidelines approved by senior management and clearly disseminated throughout the bank;
- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- the constant availability of an adequate amount of liquidity reserves in relation to the pre-determined liquidity risk tolerance threshold;
- the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time and the quantitative and qualitative adequacy of liquidity reserves;
- the adoption of a fund internal transfer pricing system that accurately incorporates the cost/benefit of liquidity, on the basis of the Intesa Sanpaolo Group's funding conditions.

From an organisational standpoint, a detailed definition is prepared of the tasks assigned to the strategic and management supervision bodies and reports are presented to the senior management concerning certain important formalities such as the approval of measurement methods, the definition of the main assumptions underlying stress scenarios and the composition of warning indicators used to activate emergency plans.
The departments of the Parent Company that are in charge of ensuring the correct application of the Guidelines are, in particular, the Treasury Department, responsible for liquidity management, and the Risk Management Department, directly responsible for measuring liquidity risk on a consolidated basis.

With regard to liquidity risk measurement metrics and mitigation tools, in addition to defining the methodological system for measuring short-term and structural liquidity indicators, the Group also formalises the maximum tolerance threshold (risk appetite) for liquidity risk, the criteria for defining liquidity reserves and the rules and parameters for conducting stress tests.
The short-term Liquidity Policy is aimed at ensuring an adequate, balanced level of cash inflows and outflows the timing of which is certain or estimated to fall within a period of 12 months, in order to respond to periods of tension, including extended periods of tension, on the various funding sourcing markets, also by establishing adequate liquidity reserves in the form of liquid securities on private markets and securities eligible for refinancing with Central Banks. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of two short-term indicators for holding periods of one week (cumulative projected imbalance in wholesale operations) and of one month (Short Term Gap).
The aim of Intesa Sanpaolo Group's structural Liquidity Policy is to control and manage the risks deriving from the mismatch of the medium to long-term maturities of the assets and liabilities and involves the adoption of internal limits for the transformation of maturity dates aimed at preventing the medium to long-term operations from giving rise to excessive imbalances to be financed in the short term.
The Guidelines also call for the periodic preparation of an impact estimate in an acute combined stress scenario (including both stresses specific to the Group and at the level of the market) and the introduction of a target threshold for the stressed short-term gap, aimed at establishing an overall level of reserves suitable to meeting greater cash outflows during a period of time adequate to take the required operating measures to restore the Group to balanced conditions.
The Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and the intervention measures for the resolution of emergencies. The pre-warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Risk Management Department.

In the first quarter of 2012, the Group's liquidity position remained well within the risk limits established in the Group's Liquidity Policy both in terms of short-term and structural liquidity indicators. Regular information regarding the development of market conditions and the position of the Bank and/or Group has been provided to company bodies and internal committees in order to ensure full awareness and manageability of the prevalent risk factors.

INFORMATION ON FINANCIAL PRODUCTS

In line with the requests for utmost transparency made by supranational and national Supervisory Authorities, the following information is provided on the fair value measurement methods adopted, structured credit products, activities performed through Special Purpose Entities (SPE), leveraged finance transactions, hedge fund investments and transactions in derivatives with customers.

DETERMINATION OF THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

General principles

This chapter summarises the criteria used by the Group to measure the fair value of financial instruments. These criteria are unchanged with respect to those adopted for the previous year financial statements, details of which can be found in the Annual Report 2011.

Fair value is the amount for which an asset may be exchanged or a liability settled between knowledgeable, willing counterparties in an arm's length transaction. Underlying the definition of fair value is an assumption that an entity is a going concern without any need to liquidate or curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value reflects the credit quality of the instrument since it incorporates counterparty risk.

The fair value of financial instruments is determined through the use of prices obtained from financial markets in the case of instruments quoted on active markets or via internal valuation techniques for other financial instruments.

A market is regarded as active if quoted prices, representing actual and regularly occurring market transactions considering a normal reference period, are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency.

When no quote on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-offer spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price of a hypothetical arm's length transaction, motivated by normal business considerations, as at the measurement date. Such techniques include:

- reference to market values indirectly connected to the instrument to be valued and deduced from products with the same risk profile (Comparable Approach);
- valuations performed using – even partially – inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the valuator (Mark-to-Model).

The choice between the aforesaid methodologies is not optional, since they must be applied according to a hierarchy: absolute priority is attributed to effective market quotes (level 1) for valuation of assets and liabilities or for similar assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instruments quotes (Comparable Approach - level 2) and a lower priority to assets and liabilities whose fair value is determined using valuation techniques based on non-observable and, therefore, more discretional inputs (Mark-to-Model Approach - level 3).

The valuation technique defined for a financial instrument is adopted over time and is modified only following significant changes in market conditions or the subjective conditions related to the issuer of the financial instrument.

The valuation process of financial instruments ("Fair Value Policy") entails the following phases:

- identification of the sources for measurements: for each asset class, the Market Data Reference Guide establishes the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
- certification and treatment of market data for measurements: this stage consists of the accurate verification of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means;
- certification of pricing models and Model Risk Assessment: this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the pricing models used and at determining any adjustments necessary for measurement;
- monitoring consistency of pricing models over time: periodical monitoring of the adherence to the market of the pricing model in order to discover any gaps promptly and start the necessary verifications and interventions.

The Fair Value Policy also provides for adjustments to reflect the model risk and other uncertainties relating to valuation. In particular, model risk is represented by the possibility that the valuation of a complex instrument is materially influenced by the model chosen. Indeed, it is possible that models using price elementary instruments with the same quality may give rise to different prices for exotic instruments. In these cases, where possible, alternative models are compared, and where necessary, model inputs are subjected to stress tests, thus obtaining useful elements to quantify fair value adjustments, expressed in terms of measurable financial indicators (vega, delta, correlation shift), and periodically reviewed. These fair value adjustments, due to model risks, are part of a Mark to Market Adjustment Policy adopted for the purpose of considering, in addition to model risk described above, also other factors eligible to influence valuation and essentially attributable to:

- high and/or complex risk profile;
- position illiquidity determined by temporary or structural market conditions or in relation to the entity of exchange values held (in case of excessive concentration) and
- valuation difficulties due to the lack of liquid and observable market parameters.

For additional details on the Fair Value Policy and the fair value measurement criteria see the disclosure provided in the 2011 Annual Report.

Fair value hierarchy

The table below shows financial assets and liabilities designated at fair value through profit and loss broken down by fair value hierarchy levels.

(millions of euro)

Financial assets / liabilities at fair value	31.03.2012			31.12.2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	12,516	46,887	925	10,525	48,076	1,362
2. Financial assets designated at fair value through profit or loss	29,698	6,067	206	27,727	6,335	191
3. Financial assets available for sale	77,728	5,382	2,114	61,878	4,920	1,979
4. Hedging derivatives	-	10,740	2	-	10,247	1
Total	**119,942**	**69,076**	**3,247**	**100,130**	**69,578**	**3,533**
1. Financial liabilities held for trading	5,031	42,107	769	4,250	43,534	956
2. Financial liabilities designated at fair value through profit or loss	-	24,496	-	-	22,653	-
3. Hedging derivatives	-	9,176	12	-	8,567	9
Total	**5,031**	**75,779**	**781**	**4,250**	**74,754**	**965**

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

As shown above, level 3 instruments, which have more discretion in fair value measurement, still account for a limited portion of the financial instruments portfolio and the relevant balances were slightly down on those at 2011 year end. Conversely, approximately 62% of the financial assets measured at fair value are determined based on market prices and therefore without any discretion by the valuator.

The sensitivity analysis of level 3 financial assets and liabilities shows a 16 million euro[1] decrease in fair value, relating to complex credit derivatives, when the following parameters change:

– risk-neutral probability of default derived from market spreads (10%);
– recovery rate (from 5% to 25%, based on the type of risk of the underlying product);
– correlation between the value of collaterals present in the structure (from 25% to 80%, based on the type of risk of the underlying product);
– expected residual life of the contract (one-year increase over the expected term).

[1] This amount is shown net of adjustments to valuations relating to the main input parameters which were already considered to determine the fair value of financial instruments.

STRUCTURED CREDIT PRODUCTS

During the first three months of 2012, the portfolio management strategy continued to focus on gradually reducing exposure to the portion held in assets originated in the United States, whilst also repositioning towards Asset Backed products with European underlyings, particularly assets originated in Italy. In the first three months of 2012 the contribution to profit/loss was an overall profit of 23 million euro, compared to 55 million euro as at 31 December 2011 and 26 million euro for the first quarter of 2011.

The risk exposure to structured credit products amounted to 2,562 million euro as at 31 March 2012 with respect to funded and unfunded ABSs/CDOs, compared to 2,772 million euro as at 31 December 2011, in addition to an exposure of 36 million euro with respect to structured packages (41 million euro as at 31 December 2011). The slight reduction in the exposure during the first quarter of 2012 was related to the termination of a funded/unfunded structure partly included within the subprime exposures and partly within the "Contagion Area", with a risk exposure of 74 million euro, and the termination of an unfunded position included within the "Other structured credit products – Super Senior CDO positions" amounting to around 40 million euro.

As at 31 March 2012, around 26% of the outstanding positions had suffered a reduction in creditworthiness, compared to 3.5% as at 31 December 2011. This significant deterioration was almost entirely attributable to the downgrade from triple A to double A of a large number of positions as a consequence of the downgrading of sovereign debt, particularly in the PIGS area. Despite the downgrade, however, these positions are still Investment grade.

The situation of the structured credit product portfolio at the end of the first three months of 2012 is described by the following indicators:

- 69% of exposure was Investment Grade, essentially in line with the figure as at 31 December 2011 (70%);
- 16% had a AAA rating and 36% had a AA rating;
- 31% had a BBB rating or less, compared to 30% as at 31 December 2011;
- 9% of the exposure has a pre-2005 vintage[2];
- 32% has a 2005 vintage;
- only 9% of exposure related to the US Residential segment, and 17% to the US Non-Residential segment;
- the remaining exposure (74% of the total) is almost entirely (71%) European.

In terms of underlying contract types, slightly less than half the exposure consisted of CLOs (24%) and CDOs (20%); the rest was almost entirely made up of ABSs (15%), RMBSs (34%) and CMBSs (7% of the total).

As concerns valuation methods, of "long" positions, approximately 41% are measured using the mark-to-model (100% of unfunded positions, 31% of funded positions, 100% of positions in funds, 100% of the monoline risk and the non-monoline "packages"), 46% with the comparable approach (54% of funded positions) and 13% are measured using effective market quotes (15% of funded positions). Of the "short" positions, 28% are measured using the mark-to-model (100% of unfunded positions) and 72% are measured using effective market quotes (100% of CMBX-CDS hedges).

In the summary tables provided below, table (a) sets out risk exposure as at 31 March 2012 and income statement captions (sum of realised charges and profits, write-downs and write-backs) in the first quarter of 2012, compared with the corresponding values recorded as at 31 December 2011.

Table (b) sets out figures related to structured packages, normally made up of a security whose credit risk is entirely hedged by a specific credit default swap. Risk exposure in the table refers to the protection seller and not to the issuer of the security hedged.

Values expressed in USD as at 31 December 2011 were translated at an exchange rate of 1.2939 euro per dollar, and as at 31 March 2012 at an exchange rate of 1.3356 euro per dollar.

[2] Date of generation of the collateral underlying the securitisation. It is an important factor in the assessment of the risk of the mortgages underlying securitisations since, especially in the US, the phenomenon of mortgages granted to entities with inadequate income and with low prior assessment of documentation became significant as of 2005.

Structured credit products: summary tables

a) Exposure in funded and unfunded ABSs/CDOs

(millions of euro)

Financial assets held for trading	**31.03.2012**		**31.12.2011**	
	Risk exposure (*) (including write-downs and write-backs)	**Income Statement** Profits (Losses) on trading	**Risk exposure** (*) (including write-downs and write-backs)	**Income Statement** Profits (Losses) on trading
US subprime exposure	**9**	**-2**	**28**	**8**
Contagion area	**115**	**1**	**162**	**24**
- Multisector CDOs	43	1	87	11
- Alt-A	-	-	-	-
- TruPS	72	-	75	13
- Prime CMOs	-	-	-	-
Other structured credit products	**770**	**11**	**769**	**12**
- European/US ABS/CDOs	647	12	625	1
- Unfunded super senior CDOs	136	2	155	4
- Other unfunded positions	-13	-3	-11	7
Total	**894**	**10**	**959**	**44**
in addition to:				
Positions of funds	-	5	-	-5
Total Financial assets held for trading	**894**	**15**	**959**	**39**

(millions of euro)

Loans	**31.03.2012**		**31.12.2011**	
	Risk exposure (**) (including write-downs and write-backs)	**Income Statement**	**Risk exposure** (**) (including write-downs and write-backs)	**Income Statement**
US subprime exposure	**3**	**-**	**3**	**-**
Contagion area	**57**	**-**	**63**	**-1**
- Multisector CDOs	9	-	9	-1
- Alt-A	32	-	36	-
- TruPS	-	-	-	-
- Prime CMOs	16	-	18	-
Other structured credit products	**1,608**	**3**	**1,747**	**7**
- Funded European/US ABS/CDOs	1,217	1	1,280	-9
- Funded super senior CDOs	391	2	467	16
- Other Romulus funded securities	-	-	-	-
Total	**1,668**	**3**	**1,813**	**6**
in addition to:				
Positions of funds	-	-	-	-
Total Loans	**1,668**	**3**	**1,813**	**6**
TOTAL	**2,562**	**18**	**2,772**	**45**

(*) The column "Risk exposure" sets out: for securities, fair value; for derivatives, the nominal value of the contract, net of write-downs and write-backs recorded at reference date. Such amounts correspond, for "long" positions, to the maximum potential loss (in the event of a 100% default and a recovery rate of 0). For "short" positions, vice versa, they indicate the maximum potential gain (in the same scenario in terms of default and recovery levels).

(**) For assets reclassified to loans, exposure to risk is provided by the carrying amount of the security, equal to its fair value at the reclassification date, plus accrued interest calculated at the effective interest rate net of net value adjustments to the portfolio.

b) Exposure in packages

(millions of euro)

	31.03.2012		31.12.2011	
	Credit exposure to monoline insurers (CDS fair value post write-down for CRA)	**Income Statement** Profits (Losses) on trading	**Credit exposure to monoline insurers** (CDS fair value post write-down for CRA)	**Income Statement** Profits (Losses) on trading
Monoline risk	27	5	25	9
Non monoline packages	9	-	16	1
TOTAL	**36**	**5**	**41**	**10**

From an income statement perspective, structured credit products generated a net income of 23 million euro as at 31 March 2012 compared to +55 million euro for 2011.

The exposure in funded and unfunded ABSs/CDOs had an effect on "Profits (Losses) on trading – Caption 80" of +15 million euro. The profit on this segment was a result of the effects of:

– unfunded Super Senior CDO positions included in "Other structured credit products" (+2 million euro as at 31 March 2012); the profit in this segment remained positive, although the reduction in the positive contribution already seen in 2011 continued during the first quarter of 2012, attributable to a widening of the spreads of European issuers;
– European and US funded ABSs/CDOs (+12 million euro) and other unfunded positions (-3 million euro), also included in the area "Other structured credit products";
– the US Subprime exposure (-2 million euro), entirely attributable to unfunded positions included in the segment;
– instruments included in the "Contagion Area"; in detail, only the Multisector CDOs recorded a positive contribution of 1 million euro, which increased as a result of the positive contribution (+5 million euro) from the positions in related funds.

The securities reclassified to the loan portfolio had an overall positive impact on the income statement, as at 31 March 2012, of 3 million euro, consisting of the gain from the market sale of positions in reclassified debt securities, of which 1 million euro was attributable to the subsidiary Banca IMI and 2 million euro to the Parent Company.

As at 31 March 2012 the loan portfolio contained ABSs issued by parties resident in EU countries in situations of financial difficulty (known as "PIGS"). In particular, these consist of:

– 228 million euro in nominal value of securities issued by parties resident in Spain; as at 31 March 2012 these securities had a book value of 191 million euro and a fair value of 141 million euro;
– 35 million euro in nominal value of securities issued by parties resident in Portugal; as at 31 March 2012 these securities had a book value of 33 million euro and a fair value of 19 million euro;
– 8 million euro in nominal value of securities issued by parties resident in Greece; as at 31 March 2012 these securities had a book value of 6 million euro and a fair value of 4 million euro;
– 3 million euro in nominal value of securities issued by parties resident in Ireland; as at 31 March 2012 these securities had a book value of 2 million euro and a fair value of 1 million euro.

The "Monoline risk" and "Non-monoline packages" made a positive contribution of 5 million euro as at 31 March 2012, down compared to the +10 million euro recorded at the end of 2011.

It should be noted that the "Structured credit products" aggregate was identified in 2007, immediately following the outbreak of the "subprime phenomenon" and, in disclosure to the market, has been kept essentially constant.

As at 31 March 2012, the aggregate included bonds reclassified as loans, as permitted by the amendments to IAS 39 made in October 2008, which are summarised in the tables below.

(millions of euro)

	Nominal value	**Risk exposure** (*) (including write-downs and write-backs)	**Fair value as at 31.03.2012**	**Benefit from the reclassification as at 31.03.2012**	**Effect on Shareholders' Equity**
Reclassified securities:					
- from financial assets available for sale to loans	160	134	57		77
- from financial assets held for trading to loans	1,417	1,334	1,139	195	
Total Securities reclassified to loans	**1,577**	**1,468**	**1,196**	**195**	**77**
Securities classified under loans on initial recognition	204	200			
Total securities classified under loans on initial recogni	**204**	**200**			
TOTAL LOANS	**1,781**	**1,668**	**1,196**	**195**	**77**

(*) For assets reclassified to loans, exposure to risk is provided by the carrying amount of the security, equal to fair value at the reclassification date, plus accrued interest calculated at the effective interest rate net of net value adjustments to the portfolio.

(millions of euro)

Negative economic effect without reclassification for 2008	-299
Negative economic effect without reclassification for 2009	-7
Positive economic effect without reclassification for 2010	117
Negative economic effect without reclassification for 2011	-25
Positive economic effect without reclassification for 1st quarter 2012	19
BENEFIT FROM THE RECLASSIFICATION AS AT 31.03.2012	**-195**

In addition to the structured credits identified during the subprime crisis, the Group continues to invest in this type of security as part of its normal customer lending operations. In particular, securities were recorded in the loan portfolio of the conduit Duomo for a nominal value of 1,103 million euro, with underlyings originated in recent years, but not impacted by the 2007 crisis. As at 31 March 2012, there were no signs of impairment of the collateral of the structured products in question.

INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPEs)

For the purpose of this analysis, legal entities established to pursue a specific, clearly defined and limited objective are considered Special Purpose Entities (raising funds on the market, acquiring/selling/managing assets both for asset securitisations and acquisition of funding through self-securitisations, developing and/or financing specific business initiatives, undertaking leveraged buy-out transactions, or managing credit risk inherent in an entity's portfolio).
The sponsor of the transaction is normally an entity which requests the structuring of a transaction that involves the SPE for the purpose of achieving certain objectives. In some cases the Bank is the sponsor and establishes a SPE to achieve one of the objectives cited above. There have not been any changes in the consolidation criteria compared to those reported in the 2011 financial statements.

Funding SPEs

These are entities established abroad to raise funds on specific markets. The SPEs issue financial instruments, guaranteed by Intesa Sanpaolo, and transfer the funds raised to the Parent Company. The change in Italian law which enables the Parent Company Intesa Sanpaolo to directly issue hybrid notes eliminated the funding activities carried out through these methods.
There were no significant changes in the investments in this type of SPE compared to 31 December 2011.

SPEs for insurance products

These are entities (UCITS) established for the purpose of investing internal funds of unit-linked and index-linked products of the Group's insurance companies. The latter retain the majority of the risks and rewards of the companies in question and, as a consequence, are consolidated pursuant to IAS 27/SIC 12.
There were no significant changes in this segment compared to the situation reported as at 31 December 2011.

Securitisation SPEs

These are SPEs that enable an entity to transfer assets from its balance sheet assets, transforming them in securities which can be placed on the market. The crisis which began in 2007 caused a sharp slowdown in this type of transactions, which were replaced by structures used for raising funds through securitisations of a portion of assets owned by the transferor. In particular, this involves the spin-off of a package of balance sheet assets (generally loans) and its subsequent transfer to a vehicle which, to finance the purchase, issues securities later placed on the market (traditional securitisations) or purchased in full by the issuer (self-securitisations). In the first case, the funds raised in this way are reversed to the seller, whereas the commitments to the subscribers are met using the cash funds generated by the loans sold. This category also includes SPEs used by Intesa Sanpaolo to implement the Obbligazioni Bancarie Garantite (covered bond) issue programme.
SPEs of this type, which were included in the scope of consolidation as at 31 March 2012, are the same as those reported in the financial statements as at 31 December 2011. The securitised assets of vehicles in this category are represented by performing mortgages, non-performing mortgages and lease-related performing mortgages. For the Augusto, Colombo and Diocleziano vehicles the assets were made up of land financing or receivables for public works.
During the first quarter of 2012, Intesa Sanpaolo repurchased the class A of the Adriano Finance (series 1) securitisation from the vehicle ISP CB Ipotecario for 4.3 billion euro. As a consequence, to compensate for the reduction in the cover pool resulting from this repurchase and in consideration of the overcollateralisation and the requirement for compliance with the tests established under the programme secured by mortgages, certain Obbligazioni Bancarie Garantite (covered bond) series were terminated ahead of maturity that were originally purchased under the programme, for a total amount of 5.6 billion euro.
In February all the Obbligazioni Bancarie Garantite (covered bond) issues under the programme were downgraded by Moody's (from Aa1 to Aa2) because, after Italy's downgrading from A3 to A2, it was no longer possible to maintain a Aa1 rating on covered bonds issued by an Italian bank.

Financial Engineering SPEs

These SPEs carry out investment and funding transactions that achieve better risk/return combinations than those generated by standard transactions, through their special structures aimed at optimising accounting, tax and/or regulatory aspects. These structures have been set up to respond to the needs of primary customers and provide solutions that offer financing at competitive interest rates and investments with higher returns.
As at 31 March 2012, the situation of the only vehicle of this kind controlled by Intesa Sanpaolo, Intesa Investimenti S.p.A., was exactly the same as that described as at 31 December 2011. The Lunar Funding vehicle is still included in the scope of consolidation.

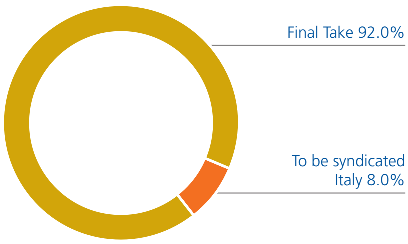
Other unconsolidated Special Purpose Entities

With regard to the other unconsolidated SPEs (Project Financing, Asset Backed and Credit Derivatives) reference should be made to the financial statements as at 31 December 2011. For the Asset Backed SPEs in which the Group has the majority of voting rights, held by just one international subsidiary, total assets fell to 46 million euro (44 million euro in December 2011). In fact, almost all the SPEs in this category were merged by incorporation into the subsidiary holding the related equity investments.
For operations involving the vehicles used for Leveraged & Acquisition Finance transactions a description is provided in the sections below.

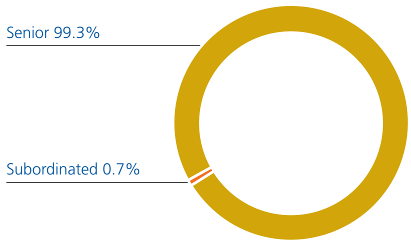
LEVERAGED FINANCE TRANSACTIONS

Since there is no univocal and universally agreed-upon definition of leveraged finance transactions, Intesa Sanpaolo decided to include in this category the exposures (loans granted and disbursed in relation to structured financing operations, normally medium/long term) to legal entities in which the majority of share capital is held by private equity funds.
These are mainly positions in support of Leveraged Buy Out projects (therefore with high financial leverage), i.e. linked to the full or partial acquisition of companies through recourse to SPEs created for this purpose. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.
None of these SPEs is consolidated, since the guarantees to support the transaction are solely instrumental for the granting of the financing and are never directed to the acquisition of direct or indirect control over the vehicle.
As at 31 March 2012, 114 transactions for a total amount granted of 4,434 million euro met the above definition.
These exposures are classified under the loans portfolio. They also include the portions of syndicated loans underwritten or under syndication. In line with disclosure requirements, breakdown of exposures by geographical area, economic sector and by level of subordination is set out below.

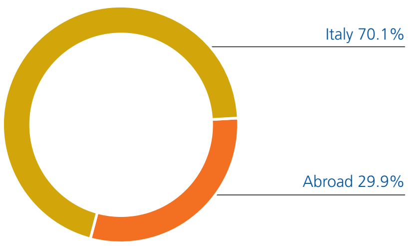
Breakdown by type of risk



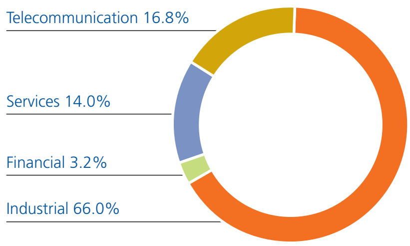
Breakdown by subordination level



Breakdown by geographical area



Breakdown by economic sector



INFORMATION ON INVESTMENTS IN HEDGE FUNDS

As at 31 March 2012, the Hedge Funds portfolio totalled 679 million euro, compared to the 665 million euro recorded at year-end 2011. Against a reduction in value in foreign currency positions, there was a recovery in the value of the outstanding positions. The combination of these two factors resulted in an increase in the value of the portfolio in the first quarter of 2012.
As at the same date, there was an overall gain of 43 million euro, a sharp improvement compared to the end of 2011 (-114 million euro) and the end of the first quarter of 2011 (2 million euro).
The 43 million euro of net profit, recognised as at 31 March 2012 under "Profits (Losses) on trading – caption 80", included:
- 5 million euro related to net profits realised during the first three months on the trading of the funds;
- 40 million euro from net write-ups of positions outstanding at the end of March 2012 (including 5 million euro in the structured credit products disclosure);
- 2 million of losses on foreign exchange transactions.

Net write-ups on the final residual amount (40 million euro) were spread across 42 positions, 25 of which with capital gains (43 million euro) and 17 with capital losses (-3 million euro).
The positive performance of the portfolio on a quarterly basis (+5.6%) was primarily attributable to the partial easing of the strains in the financial markets as a result of a series of positive quarterly figures for the US economy, a more accommodating monetary policy by the FED and the ECB and the controlled default by Greece. There were no significant changes in the portfolio's strategic asset allocation during the first quarter.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering only relations with customers, as at 31 March 2012, the Intesa Sanpaolo Group presented, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), a positive fair value, not having applied netting agreements, of 4,165 million euro (3,818 million euro as at 31 December 2011). The notional value of such derivatives totalled 51,676 million euro (50,708 million euro as at 31 December 2011). Please note that the positive fair value of structured contracts outstanding with the 10 customers with the highest exposures was 1,720 million euro (1,517 million euro as at 31 December 2011).
Conversely, negative fair value determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 875 million euro as at 31 March 2012 (960 million as at 31 December 2011). The notional value of such derivatives totalled 14,083 million euro (14,751 million euro as at 31 December 2011).
The fair value of derivative financial instruments stipulated with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Credit Risk Adjustment"). With regard to contracts outstanding as at 31 March 2012, this led to a negative effect of 8 million euro being recorded under profits (losses) on trading in the income statement. Adjustments are recorded, for every single contract, on the market value determined using the risk free curves.

OPERATIONAL RISK

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual, out-of-contract responsibilities or other disputes; strategic and reputation risks are not included.
The Intesa Sanpaolo Group has for some time defined the overall operational risk management framework by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.
With regard to Operational Risk, the Group has adopted the Advanced Measurement Approaches (AMA – internal model) to determine the associated capital requirement for regulatory purposes:

- effective 31 December 2009, for an initial set including the Organisational Units, Banks and Companies of the Banca dei Territori Division (excluding network banks belonging to Cassa di Risparmio di Firenze Group, but including Casse del Centro), Leasint, Eurizon Capital and VUB Banka;
- effective 31 December 2010, for a second set of companies within the Corporate and Investment Banking Division, in addition to Setefi, the remaining banks of the Cassa di Risparmio di Firenze Group and PBZ Banka;
- effective 31 December 2011, for a third set including Banca Infrastrutture Innovazione e Sviluppo.

The remaining companies, currently using the Standardised approach (TSA), will migrate progressively to the Advanced approaches starting from the end of 2012, based on the roll-out plan presented to the Management and Supervisory Authorities.
The control of the Group's operational risks was attributed to the Management Board, which identifies risk management policies, and to the Supervisory Board, which is in charge of their approval and verification, as well as of the guarantee of the functionality, efficiency and effectiveness of the risk management and control system.
The tasks of the Group Compliance and Operational Risk Committee include periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies.
The Group has a centralised function within the Risk Management Department for the management of the Group's operational risk. This Function is responsible for the definition, implementation, and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.
In compliance with current requirements, the individual Organisational Units are responsible for identifying, assessing, managing and mitigating risks. Specific officers and departments have been identified within these business units to be responsible for Operational Risk Management (collection and structured census of information relative to operational events, scenario analyses and evaluation of the business environment and internal control factors).
The Integrated self-assessment process, conducted on an annual basis, has allows the Group to:

- identify, measure, monitor and mitigate operational risk; and
- create significant synergies with the specialised functions of the Organisation and Security Department that supervise the planning of operational processes and business continuity issues and with control functions (Compliance and Audit) that supervise specific regulations and issues (Legislative Decree 231/01, Law 262/05) or conduct tests of the effectiveness of controls of company processes.

In 2011, the analysis had also identified a good overall level of control of operational risks and had contributed to enhancing the dissemination of a business culture focused on the ongoing monitoring of these risks.
The process of collecting data on operational events (in particular operational losses, obtained from both internal and external sources) provides significant information on the exposure. It also contributes to building knowledge and understanding of the exposure to operational risk, on the one hand, and assessing the effectiveness or potential weaknesses of the internal control system, on the other hand.
The internal model for calculating capital absorption is conceived in such a way as to combine all the main sources of quantitative (operational losses) and qualitative information (self-assessment).
The quantitative component is based on an analysis of historical data concerning internal events (recorded by organisational units, appropriately verified by the central function and managed by a dedicated IT system) and external events (by the Operational Riskdata eXchange Association).
The qualitative component (scenario analyses) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by management (subsidiaries, Parent Company's business areas, the Corporate Centre) with the objective of assessing the potential economic impact of particularly serious operational events. Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case); Capital-at-risk is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%; the methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the business environment, to take account of the effectiveness of internal controls in the various organisational units.
Operational risks are monitored by an integrated reporting system, which provides management with the information necessary for the management and/or mitigation of the operational risk.
In order to support the operational risk management process on a continuous basis, a structured training programme was fully implemented for employees actively involved in the process of managing and mitigating operational risk.
In addition, the Group has activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft and theft damage, cash and valuables in transit losses, computer fraud, forgery, earthquake and fire, and third-party liability), which contributes to mitigating exposure to operational risk, although it does not have an impact in terms of capital requirements. The deductible and limit of liability levels have already been changed and the internal model insurance mitigation component will be submitted for regulatory approval in 2012.
To determine its capital requirements, the Group employs a combination of the methods allowed under applicable regulations. The capital absorption resulting from this process amounts to approximately 1,986 million euro as at 31 March 2012, essentially unchanged compared to 31 December 2011.

Legal risks

Legal risks are thoroughly and individually analysed by both the Parent Company and the individual Group companies concerned. Provisions are made to the Allowances for risks and charges when there are legal obligations that are likely to result in a financial outlay and where the amount of the disbursement may be reliably estimated.
During the first three months of 2012, no new significant legal procedures were commenced and there were no important developments with respect to those underway. Reference should be made to the Notes to the 2011 consolidated financial statements for a detailed description of litigation regarding bonds in default, the insolvency of the Cirio Group, the tax-collection litigation with former Gest Line, the litigation between Banca Infrastrutture Innovazione e Sviluppo and the Municipality of Taranto, the class actions by Codacons and Altroconsumo, the Angelo Rizzoli litigation, the Allegra Finanz AG dispute, and labour litigation.

With regard to the dispute relating to anatocism in particular, after March 1999, the Italian Court of Cassation reversed its stance and found the quarterly capitalisation of interim interest payable on current accounts to be unlawful, on the grounds that the relevant clauses in bank contracts do not integrate the contract with a "regulatory" standard practice, but merely with a "commercial" practice, and therefore such clauses are not adequate to derogate from the prohibition of anatocism pursuant to Art. 1283 of the Italian Civil Code.
The subsequent Legislative Decree 342 of 1999 confirmed the legitimacy of interim capitalisation of interest on current accounts, as long as interest is calculated with the same frequency on deposits and loans. From April 2000 (the date on which this regulation came into effect), quarterly capitalisation of both interest income and expense was applied to all current accounts.
Therefore the dispute on this issue concerns only those contracts which were stipulated before the indicated date.
In the judgment of the Joint Sections of 4 November 2004, the Court of Cassation again excluded the possibility that said use may be considered regulatory for the period prior to 2000.
In the judgment no. 24418 handed down by its Joint Sections on 2 December 2010, the Court of Cassation again made its voice heard on the matter, finding any form of capitalisation of interest to be unlawful and further ruling that the ten-year term of prescription applicable to account-holders' entitlement to reimbursement of unduly paid interest begins to toll on the date the account is closed, if the account had an overdraft facility and the facility's limit was respected, or on the date on which deposits were made to cover part or all of previous interest debits if the account was drawn beyond such limits or did not have an overdraft facility.
With Law Decree 225 of 29 December 2010, enacted, with amendments, as Law 10/2011, the legislator set forth an official interpretation, establishing that the term of prescription of rights arising from account entries begins to toll on the date of the entry itself (and thus, for anatocistic interest, on the date of each individual account debit), thus putting to rest any remaining uncertainty on this point.
The constitutionality of this regulation was subsequently challenged.
On 5 April 2012 the Constitutional Court ruled the challenged regulation to be unconstitutional. As a result, the matter in question is once again governed by the legislative principles expounded by judgment no. 24418/2010 of the Joint Sections of the Court of Cassation.
The overall number of pending cases is at a non significant level in absolute terms, and is the subject of constant monitoring. The risks related to these disputes are covered by specific, adequate provisions to the allowances for risks and charges. Although the application of such principles is limited to contracts entered into prior to 2000, it is not believed possible to prepare a general, a priori estimate of the impact that this judgment may have on ongoing litigation, given that a case-by-case assessment is instead required.

With regard to other judicial and administrative proceedings involving the New York branch – as already previously disclosed – a criminal investigation is underway in the United States, instigated by the New York District Attorney's Office and the Department of Justice, aimed at verifying the methods used for clearing through the United States of payments in dollars to/from countries embargoed by the U.S. government in the years from 2001 to 2008.
The investigation involves the treatment of payment orders in dollars generally issued in the SWIFT interbank payments settled through U.S. banks, and the alleged omission or alteration of the information relating to the originators and beneficiaries of these payments. The Bank is cooperating in full with this investigation. A parallel administrative proceeding is also underway, initiated in March 2007 by the U.S. banking supervisory authorities that, having found certain weaknesses in 2006 in the anti-money laundering systems of the New York branch, requested a series of actions (already implemented) to strengthen the anti-money laundering procedures and an examination of the payment traffic of the first half of 2006 by an independent consultant to verify the existence of any violations of the local anti-money laundering and embargo regulations. In the 2011 Annual Report it was disclosed that although a settlement involving the payment of a fine by ISP is possible, available information did not allow for a forecast of the timing, outcome and amount of the possible fine.
On 3 April, the Bank was notified that the Department of Justice had decided to drop the proceedings, having found no evidence of federal crimes. As regards the New York District Attorney's Office investigation, to date the Bank has received no notifications. With regard to these operations, the Bank is still subject to assessments by the U.S. Office of Foreign Assets Control (OFAC).

Tax litigation

With regard to pending tax litigation and the related risks and provisions, detailed information is provided in the Notes to the 2011 consolidated financial statements (Part E).
As regards the first quarter of 2012, there are two events to report.
The first relates to the negative ruling by the Tax Committee of Milan, which upheld the claim by the Agenzia delle Entrate, in the amount of around 342 million euro, for IRES tax, penalties and interest, in relation to the sale without recourse of loans to the company Castello Finance carried out in 2005 by Banca Intesa and Intesa Gestione Crediti, on the grounds that the conditions of certainty and finality required under Article 101 of the Consolidated Income Tax Act had not been satisfied. This claim by the financial authorities was disclosed in the Notes to the 2010 consolidated financial statements. An appeal against this questionable first instance ruling is in the process of being filed with the Regional Tax Committee.

The second event, on the other hand, involves the positive outcome at appeal, after a negative first instance ruling, before the Regional Tax Committee of Turin, in the matter of the stamp duty in relation to the compulsory accounting figures for the years 2005 and 2006, with regard to which the legitimacy has finally been recognised of the Bank's actions in preparing a hard copy of the journal ledger for the daily totals of the individual general ledger accounts, whereas the individual entries recorded in the computerised records where considered absolutely irrelevant for such purpose. The unfounded claim by the financial authorities for a total of around 15 million euro, as tax, penalty and interest, was disclosed in the Notes to the 2008 consolidated financial statements.
There are no new events of particular significance to report in relation to the other Group companies.

INSURANCE RISKS

Life business

The typical risks of a life insurance portfolio can be divided into three main categories: premium risks, actuarial and demographic risks and reserve risks.
Premium risks are managed initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on the sustainability and profitability (both at product level and at portfolio level, including liabilities).
Actuarial and demographic risks are guarded against by a regular statistical analysis of the evolution of liabilities, divided by type of risks and through simulations of expected profitability on the assets which cover technical reserves.
Reserve risk is managed through the exact calculation of mathematical reserves, with a series of detailed checks as well as overall verifications, by comparing results with the estimates produced on a monthly basis.
The mathematical reserves are calculated on almost the entire portfolio, on a contract-by-contract basis, and the methodology used to determine the reserves takes account of all the future commitments of the company.

Non-life business

The risks of the non-life insurance portfolio are essentially premium risk and reserve risk.
Premium risks are managed initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities).
Reserve risk is guarded against through the exact calculation of technical reserves.

Financial risks

In line with the growing focus in the insurance sector on the issues of value, risk and capital in recent years, a series of initiatives has been launched with the objective of both strengthening risk governance and managing and controlling financial risks.
With reference to investment portfolios, set up both as coverage of obligations with the insured and in relation to free capital, the Investment Framework Resolution is the main control and monitoring instrument for market and credit risks.
The Resolution defines the goals and the operating limits that are needed to distinguish the investments in terms of eligible assets and asset allocation, breakdown by rating classes and credit risk, concentration risk by issuer and sector, market risks, in turn measured in terms of sensitivity to variations in risk factors and Value at Risk on a 1-year holding period.

Investment portfolios

The investments of the insurance companies of Intesa Sanpaolo Group (Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Intesa Sanpaolo Life and Fideuram Vita) are made with their free capital and to cover contractual obligations with customers. These essentially refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.
As at 31 March 2012, the investment portfolios of Group companies, recorded at book value, amounted to 77,807 million euro; of these, the share regarding traditional revaluable life policies, non-life policies and free capital (Class C portfolio or portfolio at risk) amounted to 44,875 million euro, while the other component (Class D portfolio or portfolio with total risk retained by the insured) mostly comprised investments related to pension funds, index- and unit-linked policies and totalled 32,932 million euro.
Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the assets included in the "portfolio at-risk".
In terms of breakdown by asset class, net of derivative positions, 94.5% of assets, i.e. approximately 42,647 million euro, were bonds, while assets subject to equity risk represented 1.4% of the total and amounted to 661 million euro. The remaining part (1,838 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (4.1%).
The carrying value of derivatives came to approximately -271 million euro, almost entirely relating to hedging derivatives, with effective management derivatives[3] only amounting to around -16 million euro.
At the end of the first three months of 2012, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 2,225 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 86 million euro.
The modified duration of the bond portfolio, or the synthetic financial term of assets, is approximately 5.2 years. The reserves relating to the revaluable contracts under Separate Management have an average modified duration of approximately 5.7 years. The related portfolios of assets have a modified duration of around 4.8 years.
The breakdown of the bond portfolio in terms of fair value sensitivity to interest rate changes showed that a +100 basis points parallel shift in the curve leads to a decrease of approximately 2,078 million euro. On the basis of this hypothetical scenario, the value of hedging derivatives in the portfolio undergoes an approximate 116 million euro rise which partly offsets the corresponding loss on the bonds.

[3] ISVAP Regulation 36 of 31/01/2011 on investments defines effective management derivatives as all derivatives aimed at achieving pre-established investment objectives in a faster, easier, more economical or more flexible manner than would have been possible acting on the underlying assets.

The investment portfolio has a high credit rating. AAA/AA bonds represented approximately 9.4% of total investments and A bonds approximately 76.6%. Low investment grade securities (BBB) were approximately 7% of the total and the portion of speculative grade or unrated was minimal (approximately 1.5%). The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by Governments and Central banks approximately made up 70.5% of the total investments, while financial companies (mostly banks) contributed almost 19.6% of exposure and industrial securities made up approximately 4.4%.

At the end of the first quarter of 2012, the fair value sensitivity of bonds to a change in issuer credit rating, intended as a market credit spread shock of +100 basis points, was 2,291 million euro, with 1,843 million euro due to government issuers and 448 million euro to corporate issuers (financial institutions and industrial companies).

ACCOUNTING POLICIES

Criteria for the preparation of the Interim statement

General preparation principles

The "Interim Statement as at 31 March 2012" has been prepared, in consolidated form, in compliance with art. 154-ter, Legislative Decree 58 of 24 February 1998 and in application of the IAS/IFRS issued by the International Accounting Standards Board (IASB) and related International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Commission as provided for by EC Regulation 1606 of 19 July 2002.
The accounting principles adopted in preparation of the Consolidated interim report on operations, with regard to the classification, recognition, measurement and derecognition of asset and liability captions, and the recognition methods for revenues and costs, have remained unchanged with respect to those adopted for the Intesa Sanpaolo Group Annual Report 2011, to which reference should be made for further details.
The Consolidated Interim Statement was not subject to auditor review and comprises the condensed Balance sheet and Income statement, accompanied by Explanatory notes to the report on operations. It is prepared in euro as the operating currency. The amounts indicated in the Financial statements and Explanatory notes are expressed in millions of euro, unless otherwise specified.
The financial statements are presented in condensed/reclassified format, based on the most appropriate presentation criteria for the captions according to standard operating principles. For the Income statement, the content of captions refers to Bank of Italy instructions laid down in Circular 262/2005, including aggregations/reclassifications as follows:

- net interest includes: profits (losses) on trading relating to net interest; the reversal in time value on loans, based on the amortised cost criterion in the absence of changes in expected future cash flows; the time value of employee termination indemnities and provisions for risks and charges;
- profits (losses) on trading records: dividends on shares classed as financial assets available for sale and as assets held for trading; fair value adjustments in hedge accounting; profits and losses on disposal or repurchase of financial assets available for sale and of financial liabilities; profits (losses) on financial assets and liabilities designated at fair value;
- the contribution from insurance companies to net income is conventionally recorded in the specific caption "Income from insurance business" rather than line by line. For the insured parties' portion the adjustment effect of the technical reserve associated with the impairment of securities available for sale in the portfolio of the Group's insurance companies was also attributed to this caption;
- administrative expenses are stated net of recoveries of expenses, taxes and duties from customers; direct taxes, based on the entity's taxable capacity rather than calculated on the basis of parameters other than current taxable income, have been reclassified to Taxes on income from continuing operations;
- net adjustments to loans include profits (losses) on disposal or repurchase of loans and net impairment losses on other financial activities related to guarantees, commitments and credit derivatives;
- net impairment losses on other assets include – in addition to net impairment losses on financial assets available for sale, investments held to maturity and other financial activities – any impairment of property, equipment and intangible assets. In addition, impairment losses on Greek government and other public entities bonds were recognised to this caption, regardless of their balance sheet classification (Financial assets available for sale or loans);
- profits (losses) on investments held to maturity and on other investments include profits (losses) on disposal of investments in associates and companies subject to joint control and profits (losses) on disposal of investments; conversely net income from investments carried at equity is recorded in a specific caption of net operating income along with dividends;
- charges for integration and exit incentives are recorded in a specific caption net of the tax effect;
- the economic effect of purchase price allocation, net of the tax effect, is indicated in a specific caption.

For the Balance sheet, in compliance with Circular 262/2005, aggregation has been performed in certain circumstances, i.e.:

- the inclusion of Cash and cash equivalents in the residual caption Other assets;
- the inclusion of hedging derivatives and fair value change of financial assets/liabilities in hedged portfolios under Other assets/liabilities;
- the inclusion of the technical insurance reserves reassured with third parties under Other assets;
- the aggregation in one single caption of Property and equipment and Intangible assets;
- the aggregation of amounts Due to customers and Securities issued into a single caption;
- the aggregation into one caption of allowances for specific purpose (Employee termination indemnities and Allowances for risks and charges);
- the presentation of Reserves as an aggregate and net of any treasury shares.

With regard to discontinued operations, in the Interim statement as at 31 March 2012, several real-estate units due for imminent disposal were classified separately under non-current assets held for sale and discontinued operations.

As customary, in the interest of a consistent basis of comparison, balance sheet and income statement figures for 2011 have been restated, where necessary, to account for the changes in the scope of consolidation.

Scope of consolidation and consolidation methods

Scope of consolidation

The Consolidated interim statement includes Intesa Sanpaolo and the companies directly and indirectly controlled, jointly controlled or subject to significant influence, also including – as specified by IAS/IFRS – companies operating in sectors dissimilar to that of the Parent Company and private equity investments. Similarly, special purpose entities/vehicles (SPE/SPV) are included when the requisite of effective control recurs, even if there is no direct or indirect stake in the company.
No significant changes have occurred with respect to the position as at 31 December 2011 in the scope of consolidation nor were concluded intragroup transactions of particular importance.

As usual, the equity investment in the Bank of Italy, in which the Intesa Sanpaolo Group holds 42.4%, which - considering its special nature - is maintained at cost and therefore not carried at equity, together with companies for which shares have been pledged with voting rights exceeding 20%, given that the purpose of the pledge is to guarantee loans and not to exercise control and direction of financial and economic policies in order to benefit from an economic return on the shares, are not consolidated.

Consolidation methods

The methods used for line-by-line consolidation of subsidiaries and consolidation by the equity method of associates and companies subject to joint control have remained unchanged with respect to those adopted for the Intesa Sanpaolo Group Annual Report 2011 to which reference should therefore be made.
The financial statements of the Parent Company and of other companies used to prepare the Report as at 31 March 2012 refer to the same date. In certain limited cases, for subsidiaries which are not material, the latest official figures are used.
Where necessary – and always in wholly marginal cases – the financial statements of consolidated 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 non-eurozone companies are translated into euro by applying the spot exchange rate at period-end to assets and liabilities in the Balance sheet, and the average exchange rate for the period to Income statement captions.

Other information

Subsidiaries established and regulated under the laws of non-EU countries

Consob, in accordance with Law 262/2005 governing the protection of savings and the regulation of financial markets, has set certain conditions for the listing of companies that control companies established and regulated under the laws of non-EU countries (art. 36 Market Regulation). Pursuant to Art. 2.6.2, paragraph 12 of the Regulation of Markets managed and organised by Borsa Italiana S.p.A., Borsa Italiana has also required that at the time of approval of the Parent Company's financial statements, the Management Board of a company controlling non-EU companies declares in its Report on operations whether or not the conditions set out in Art. 36, letters a), b) and c) of the Market Regulation are met. Intesa Sanpaolo's declaration to this effect can be found in the Annual Report 2011.
In this respect, no acquisitions were completed in the first quarter of 2012 concerning companies established and registered under the laws of non-EU countries which, considered independently, are of material significance to the regulations in question.

The Management Board

Milan, 15 May 2012

Declaration of the Manager responsible for preparing the Company's financial reports

Pursuant to art. 154-*bis*, subsection 2 of the Italian Consolidated Law on Finance, the Manager responsible for preparing the Company's financial reports, Ernesto Riva, hereby declares that the accounting information contained in this Interim Statement as at 31 March 2012 corresponds to corporate records, books and accounts.

Milan, 15 May 2012

Ernesto Riva
Manager responsible for preparing
the Company's financial reports

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Financial calendar

Approval of the half-yearly report as at 30 June 2012:	3 August 2012
Approval of results as at 30 September 2012:	13 November 2012

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An ability to develop new solutions, attention to and ongoing dialogue with households, businesses, the third sector and public institutions underlie Intesa Sanpaolo's commitment to contribute to Italy's growth.
A role that we carry out with professionalism, a sense of responsibility and passion, offering innovative, personalised products and services and sharing our projects with our customers.
This is the origin of the decision to tell our story through the vivid, positive stories of our customers, representing, with these images, the projects achieved, the spirit of initiative and entrepreneurial determination and ability.

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The Venturino family, Maretto (AT).

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