Banca Intesa

DRAFT

Annual report 2005

Abstract

This abstract is an English translation of the Italian original "Bilanci 2005" and has been prepared solely for the convenience of the reader.
The version in Italian takes precedence and will be made available to interested readers upon written request to Banca Intesa S.p.A.

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Ordinary Shareholders' Meeting of 19th – 20th April 2006

REPORT ON OPERATIONS AND CONSOLIDATED FINANCIAL STATEMENTS 2005

ABSTRACT

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

Contents

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

Board of Directors

Chairman	*	Giovanni BAZOLI
Deputy Chairmen	*	Giampio BRACCHI
		René CARRON
Managing Director and Chief Executive Officer	*	Corrado PASSERA
Directors		Giovanni ANCARANI
		Francesco ARCUCCI
		Benito BENEDINI
		Antoine BERNHEIM
		Jean Frédéric DE LEUSSE
		Gilles DE MARGERIE
		Alfonso DESIATA
	*	Ariberto FASSATI
	*	Giancarlo FORESTIERI
		Paolo FUMAGALLI
		Giangiacomo NARDOZZI
		Georges PAUGET (as of 24/01/2006)
		Eugenio PAVARANI
		Giovanni PERISSINOTTO
		Mariano RIESTRA
		Ugo RUFFOLO
		Eric STRUTZ
		Gino TROMBI

** Members of the Executive Committee*

General Management

General Manager	Corrado PASSERA

Board of Statutory Auditors

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

Independent Auditors RECONTA ERNST & YOUNG

Chairman’s Letter

Distinguished Shareholders.

At the end of a year which certain events have made crucial and at the beginning of another, 2006, which already appears to be just as important for the development of the Italian banking system, I want to repeat certain thoughts which I expressed in my speech at the last Meeting of the Shareholders of the Bank of Italy, regarding the role of banks in the economic and social system in Italy and in the wider context of the European Union. Thoughts which, many months on, still seem extremely actual.

The banking industry must face a new and difficult challenge: competition between banks from the EU Countries in a free market system.
In the last few years, in view of this challenge, Italian banks have undergone profound transformations and are now capable of competing on even terms with international players, in the full respect of market rules.
Further aggregations, which are favoured by many to increase critical mass and therefore competitiveness, must be motivated and justified by precise industrial projects that ensure value for shareholders and advantages for customers. Shareholders must agree with the strategies while customers will decree the success of the transactions.

In today’s Europe, with 25 member Countries, it would be antihistoric to bar the way to the market and free competition for national or local interests. However, it is not possible to consider the attention that banks in every Country pay to the problems of industry and the growth prospects of companies in their local territories an anachronistic defence of particular interests.
Furthermore, we must bear in mind that only today the Italian industrial system is showing signs of recovery – this, at least, is our perception and hope – from a recessive phase which was among the most severe in the last decades during which banks provided companies, with an unfailing attention and in certain cases in a decisive manner, the necessary economic support.

Gruppo Intesa is aware of the great meaning of the new consolidation phase for the Italian banking industry. And it is ready to play the role it is assigned in consideration of its national presence and its heritage, its business potential and its shareholders.

The financial statements which we submit to Your approval are the first prepared using the new international accounting principles. As is generally known these were issued by the International Accounting Standards Board, and were endorsed by the European Commission and by the Italian Legislator and are applied as of 2005 by all companies listed in the markets of the European Union for the purpose of making information provided by companies to the market uniform, comparable and of better quality thus safeguarding investors and favouring market development. The process under way aimed at harmonising regulations – in addition to IAS there is also the new Basel agreement for the determination of capital requirements for banks, which will come into effects as of next year – is a necessary precondition for the market to continue to expand and interrelation between the various players to become increasingly frequent and intense.

Also 2005, as the previous year, presents absolutely positive results. Net income reached, also thanks to extraordinary components, 3,025 million euro, with a 64% growth rate with respect to the previous period.
This enables to propose to the Shareholders' Meeting a significant increase in dividends, in line with the objectives of the 2005 – 2007 Business Plan, approved by the Board last July.

Giovanni Bazoli

Milano, 28th March 2006

Gruppo Intesa - Financial highlights and financial ratios (°)

	2005	2004 including IAS 39 (*)	Changes amount	Changes %
Statement of income (in millions of euro)				
Net interest income	5,285	4,979	306	6.1
Net fee and commission income	3,904	3,473	431	12.4
Profits (Losses) on trading	675	656	19	2.9
Operating income	10,029	9,257	772	8.3
Operating costs	-5,516	-5,507	9	0.2
Operating margin	4,513	3,750	763	20.3
Net adjustments to loans	-715	-806	-91	-11.3
Net income	3,025	1,841	1,184	64.3
Balance sheet (in millions of euro)				
Loans to customers	169,478	159,369	10,109	6.3
Financial assets / liabilities held for trading	29,818	27,777	2,041	7.3
Financial assets available for sale	4,379	4,883	-504	-10.3
Investments	9,181	8,288	893	10.8
Total assets	273,535	274,600	-1,065	-0.4
Direct customer deposits	187,590	180,521	7,069	3.9
Indirect customer deposits	287,800	271,516	16,284	6.0
of which assets under management	*59,045*	*51,014*	*8,031*	*15.7*
Net interbank position	-4,660	-5,655	-995	-17.6
Shareholders' equity	16,705	13,969	2,736	19.6
Operating structure				
Number of employees	60,778	60,476	302	
- Italy	*42,062*	*42,682*	*-620*	
- Abroad	*18,716*	*17,794*	*922*	
Number of branches	3,970	3,929	41	
- Italy	*3,106*	*3,121*	*-15*	
- Abroad	*864*	*808*	*56*	

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

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations, related liabilities and income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

	2005	2004 including IAS 39 [*]
Balance sheet ratios (%)		
Loans to customers / Total assets	62.0	58.0
Investments [a] / Total assets	3.4	3.0
Direct customer deposits / Total assets	68.6	65.7
Assets under management / Indirect customer deposits	20.5	18.8
Statement of income ratios (%)		
Net interest income / Operating income	52.7	53.8
Net fee and commission income / Operating income	38.9	37.5
Operating costs / Operating income	55.0	59.5
Net income / Average total assets (ROA)	1.1	0.7
Net income / Average shareholders' equity (ROE) [b]	22.3	15.8
Adjusted net income / Adjusted average shareholders' equity (adjusted ROE) [c]	24.8	16.9
Income (Loss) before tax from continuing operations / Risk-weighted assets [d]	2.2	1.5
Economic Value Added (E.V.A.) [e] (in millions of euro)	1,752	681
Risk ratios (%)		
Net doubtful loans / Loans to customers	0.7	0.6
Cumulated adjustments on doubtful loans / Gross doubtful loans to customers	69.3	70.7
Capital at Risk (C.a.R.) [f] - average for the year (in millions of euro)	25.6	18.4
Capital at Risk (C.a.R.) [f] - year-end (in millions of euro)	36.6	16.5
Capital ratios (%) [g]		
Tier 1 capital [h] net of preference shares / Risk-weighted assets (Core Tier 1)	7.10	6.69
Tier 1 capital [h] / Risk-weighted assets	7.94	7.64
Total capital [i] / Risk-weighted assets	10.34	11.02
Risk-weighted assets (in millions of euro)	190,038	182,042
Basic earnings per share (basic EPS) [l] **- euro**	**0.470**	**0.292**
Diluted earnings per share (diluted EPS) [m] **- euro**	**0.469**	**0.290**

[*] Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations, related liabilities and income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

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

[b] Ratio between net income and weighted average of share capital, share premium reserve, reserves and valuation reserves.

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

[d] Total risk-weighted assets based on the relevant credit or market risk. The latter have not been restated to consider the change in the consolidation area.

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

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

[g] Figures for 2004 have not been restated to consider the change in the consolidation area.

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

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

[l] Net income attributable to holders of ordinary shares compared to the weighted average number of ordinary shares in circulation.

[m] The dilutive effect is connected to the issue of ordinary shares following the potential exercise of all the stock options set out in the relevant assignment plan.

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

	Retail Division		Italian Subsidiary Banks Division		International Subsidiary Banks Division		Corporate Division	
	2005	2004 including IAS 39 (*)	2005	2004 including IAS 39 (*)	2005	2004 including IAS 39 (*)	2005	2004 including IAS 39 (*)
Statement of income (in millions of euro)								
Operating income	5,358	4,951	1,520	1,415	1,156	984	1,903	1,798
Operating costs	-2,956	-2,981	-765	-739	-657	-595	-798	-820
Operating margin	2,402	1,970	755	676	499	389	1,105	978
Balance sheet (in millions of euro)								
Loans to customers	81,160	75,917	25,472	22,997	11,837	9,534	46,896	43,898
Direct customer deposits	76,577	82,289	26,222	24,614	13,149	11,794	37,187	31,833
Risk-weighted assets	79,451	76,870	26,355	24,302	16,330	13,525	52,454	50,414
Allocated capital	4,919	4,738	1,581	1,458	983	813	3,147	3,025
Statement of income ratios (%)								
Operating costs / Operating income	55.2	60.2	50.3	52.2	56.8	60.5	41.9	45.6
Income (Loss) before tax from continuing operations / Allocated capital	39.5	35.1	34.4	35.5	35.3	30.8	34.6	24.3
Income (Loss) before tax from continuing operations / Risk-weighted assets	2.4	2.2	2.1	2.1	2.1	1.9	2.1	1.5
Economic Value Added (E.V.A.) (in millions of euro)	832	659	166	160	163	100	484	241

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

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations, related liabilities and income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

Gruppo Intesa in 2005 and the Business Plan
Executive summary

Gruppo Intesa in 2005

The positive results achieved in 2005 met the targets of the 2003 – 2005 Business Plan enabling Banca Intesa to maintain the commitments made with shareholders and the market, with customers and collaborators.
The Group's profitability significantly increased, with a consolidated net income exceeding 3 billion euro, up by 64% compared to 2004 restated using IAS/IFRS. Unit dividend proposed for ordinary shares is 22 cents, more than double that of the previous year.
Thanks to increased profitability, improved credit quality and the significant reduction in the risk profile of assets, regulatory capital is at far higher levels than those required by regulations in force.
The results achieved by our Group in the last three years, despite the unfavourable economic context, enable to confirm the profitability targets which the new Business Plan, presented last summer, set for the 2005 – 2007 three-year period.

The 2005 consolidated statement of income recorded operating income amounting to 10,029 million euro, up by 8.3% compared to 9,257 million euro of 2004.
Net interest income amounted to 5,285 million euro, up by 6.1% compared to 4,979 million euro of 2004; net fee and commission income equalled 3,904 million euro, with a 12.4% increase, compared to 3,473 million euro of 2004, driven by placement of insurance products (almost doubled, from 221 million euro to 411 million euro), dealing and placement of securities (from 233 million euro to 470 million euro) and by fees on credit and debit cards (+7.5%), whereas commissions on portfolio management decreased (-5.5%, from 805 million euro to 761 million euro).
Profits on trading amounted to 675 million euro, up by 2.9% with respect to the 656 million euro of 2004.
Operating costs equalled 5,516 million euro, basically in line with the figure for 2004. The increase of personnel expenses, up by approximately 1% following the registration of 63 million euro of charges related to the stock granting programme which entails the assignment, for free, of shares to all employees, was offset by a decrease, also close to 1%, of administrative expenses, following a rise in growth-related expenses and a decline in other structure costs.
Consequently, operating margin amounted to 4,513 million euro, up by 20.3% compared to 3,750 million euro of 2004. The cost/income ratio recorded a significant improvement, from over 59% to 55%.
Net provisions and adjustments (provisions for risks and charges, adjustments to loans and adjustments to other assets) amounted to 1,159 million euro, down by 1.7% with respect to 1,179 million euro of 2004, despite the prudential strengthening of Allowances for risks and charges. Profits (Losses) on investments held to maturity and on other investments recorded a positive balance of 834 million euro – with respect to 217 million euro of 2004 – mostly due to the profit of 682 million euro related to the strategic agreement with Crédit Agricole for asset management activities.
Income before tax from continuing operations equalled 4,182 million euro, up by 50% compared to 2,788 million euro of 2004.
After the registration of taxes for 1,082 million euro, consolidated net income amounted to 3,025 million euro, with a 64.3% increase with respect to the previous year. The Parent Company's net income amounted to 1,564 million euro, compared to 1,234 million euro of the previous year.
EVA® (Economic Value Added), which basically measures value creation resulting from the difference between return on and cost of capital employed, more than doubled and reached 1,752 million euro with respect to 681 million euro of 2004.

As regards consolidated balance sheet aggregates as at 31st December 2005, loans to customers amounted to 169 billion euro, up by 6.3% with respect to as at 31st December 2004 restated using IAS/IFRS and excluding figures related to the sale of doubtful loans.
Customer deposits under administration equalled 475 billion euro, with a 5.1% increase compared to as at 31st December 2004 restated on a consistent basis. Direct deposits amounted to 187 billion euro, up by 3.9% with respect to as at 31st December 2004 and indirect deposits reached 288 billion euro, with a 6% increase compared to as at 31st December 2004. It must also be noted that the agreement with Crédit Agricole for asset management activities led Gruppo Intesa's indirect customer deposits to decline by approximately 20 billion euro, as a result of the deconsolidation of the portion of Nextra's assets under management collected by networks which do not belong to the Group.
Assets under management – which after the closing of the aforementioned agreement no longer includes mutual funds – reached 59 billion euro, with a 15.7% growth rate with respect to as at 31st December 2004 attributable to both individual portfolio management schemes (+12.8%) and bancassurance (in 2005 the Group placed life insurance policies amounting to approximately 8.3 billion euro).
As concerns capital ratios as at 31st December 2005, the Core Tier 1 ratio equalled 7.1% (with respect to 6.7% as at 31st December 2004), the Tier 1 ratio 7.9% (with respect to 7.6%) and the total capital ratio 10.3% (with respect to 11%).

The application of IAS/IFRS and the new structure of financial statements

As of 1st January 2005 companies with securities listed in the markets of the European Union must prepare their consolidated financial statements according to IAS/IFRS. Banca Intesa decided to adopt such principles already starting from the Consolidated report as at 31st March 2005.
The application of the new standards led to important modifications in the representation of transactions, in the valuation of assets and liabilities and in the very structure of the financial statements.
In consideration of the importance of the effects on Gruppo Intesa's financial statements of the changes in accounting principles and in compliance with provisions on the transition to IAS/IFRS, a specific chapter of this Annual report briefly illustrates the new principles and the effects of IAS/IFRS first-time adoption on consolidated financial statements.

The rules which discipline the first-time adoption of IAS/IFRS require the preparation, with the same principles, of at least one comparison period. However, the delay with which IAS 39 – which is by far the most significant for the banking industry – was endorsed led the European legislator to exclude that comparative figures for 2004 need comply with IAS 39. Therefore, figures for 2004 are not comparable with reference to the valuation of financial instruments. However, to permit a comparison as consistent as possible, the effects on figures as at 1st January 2004 and for 2004 of the application of IAS 39 from 1st January of that year have been estimated.

The 2005 – 2007 Business Plan

2005 was the year in which Banca Intesa, having reached all the targets indicated in the previous Plan, set itself the ambitious goal of competing with the best Euro Zone banks, by using synergically the three main drivers identified in the second Business Plan: sustainable growth; strict cost discipline; risk management and capital allocation.
This new Business Plan sets ambitious but credible targets, which are characterised by the key focus on the strategic value of sustainability, intended as the precondition for long-term soundness. The Plan foresees strong, but sustainable, value creation which is based on elements such as the trust of customers, the motivation of collaborators and the valorisation of the role of the Bank in society, in which it feels an important and responsible component.
The positive trend recorded by revenues in 2005 (+8.3% compared to a target of 7.4% average annual growth rate for the three years set out in the Plan) testifies sustainable growth via an attentive policy aimed at valorising resources and a massive investment plan in innovation.

In the new Business Plan, the ***Retail Division*** strengthened and focused the contents and the objectives of its corporate mission, which revolves around three main elements: i) guaranteeing individuals an excellent service level via extensive assistance in valuation, selection and purchase of products and services suited to meet their funding and investment needs with transparent terms, ii) supporting the creation and development of new small and medium-sized ventures promoting innovation, entrepreneurial spirit, social and environmental sustainability, and iii) developing local communities.
Following the guidelines set by the new Plan – which leverages on privileged and long-term relationships with households and businesses – operations in 2005 were guided by the constant endeavour to improve customer satisfaction. This target is monitored by the *Customer Satisfaction Department,* formed last May.
For the retail segment 2005 was characterised by the success of certain products designed to satisfy customer needs: namely, security of their financial flows, new and more flexible funding forms for the purchase of real estate properties, possibility of obtaining substantial loans rapidly, safe investment products to provide for their future. "Non-life" insurance products were favourably accepted by the market, for example Intesa Proteggi Mutuo, the innovative multirisk insurance coverage for mortgage holders and Intesa Rata Sicura which enables holders of floating rate mortgages to hedge interest rate rises. As part of long-term lending, the range of Intesa Soluzioni Casa mortgages was expanded with the introduction of Mutuo 95, which enables to fund up to 95% of the purchase of the first home; again as part of credit products, noteworthy was the commercialisation of PrestIntesa MAXI capable of satisfying higher expenditure needs (up to 75,000 euro in 96 months). Furthermore, the expansion and renovation of the range of asset management services continued (Intesa Garanzia Attiva is the first guaranteed-capital mutual fund in Italy) together with the development of the bancassurance sector.
With reference to the SMEs market, activities continued with the objective of strengthening the Group's leadership position in this segment. Efforts concentrated on improving customer satisfaction levels: i) developing, among others, specific customer relationship management tools, and ii) launching high value added products and services, which are the concrete expression of the support that the Bank offers to innovation, competitiveness of companies and the growth of the entire Country. Examples of new products for SMEs are: IntesaNova, a long-term loan without real guarantees to support innovative projects in which the innovative content of the project is assessed by highly qualified experts from Technical Universities and University Research Centres; IntesaBasilea, a diagnosis service to support companies in understanding the new Basel II regulations; Intesa Export, an initiative dedicated to exporting companies, developed in collaboration with SACE, which provides financing for a maximum period of 5 years, with very competitive terms and without requesting any real guarantees from the company, with a 70% guarantee given by SACE. The loans will subsequently be securitised with the related securities also guaranteed by SACE; Intesa Soluzioni, which enables – via the collaboration with qualified outside partners – the identification and implementation of information technology solutions to support day-to-day activities of companies, favouring growth and the recovery of competitiveness of such companies; lastly, Conto Intesa PMI and Conto Intesa PMI Plus, current accounts dedicated to smaller enterprises.

The ***Corporate Division*** has the objective, within the new Business Plan, of increasingly support the development and strengthen medium and large companies and financial institutions via a wide and integrated offering, by improving advisory activities and further developing the capacity of perceiving customer needs rapidly.
In line with such objectives, noteworthy were the growth recorded by loans granted to high standing counterparties and the adoption of pricing and risk-based lending policies to increase loans and in particular short-term loans. In the Mid Corporate segment a customer-oriented relaunch strategy commenced based on valorisation of their relation, further improving the wide and integrated offering of commercial and wholesale banking products also via risk-based pricing tools – using a Basel II approach – and via the introduction of specific commercial planning processes, integrated to involve all Group companies (leasing, factoring, medium- and long-term lending, etc.). With reference to capital market and investment banking products, for Large and Mid Corporate segments a commercial action on potential and priority customers was activated also via the redefinition of the commercial process; with regard to this aspect the integration between structures led to the progressive growth in the number of deals

closed in structured finance (in particular syndicated lending, acquisition finance and real estate) and investment banking (approximately 90 deals closed with Mid Corporate customers). Consistently with the principles which inspire the Plan, these results have been achieved keeping in mind that utmost attention must be paid to the peculiarities of products offered to customers and transparency concerning risk aspects. Merchant banking activities were of high strategic importance (approximately 85% of the portfolio may be defined as "strategic") in terms of both economic and balance sheet results, and for the role of partner which the Bank plays either as a result of customer requests or in the cases of corporate "distress". The second Business Plan clearly affirms that Banca Intesa wants to work alongside customers, supporting them not only in growth but also in the solution of critical issues.

For the ***Italian Subsidiary Banks Division***, made up of the subsidiaries which carry out retail banking activities (Cariparma, FriulAdria, Banca di Trento e Bolzano, Cassa di Risparmio di Biella e Vercelli and the Saving Banks in Central Italy), the Plan sets the objective of developing the local banks which the Group has decided to maintain autonomous via a significant penetration in reference territories, conserving, always within the Group's strategy, proximity to local institutions and privileged and long-term relationships with households and local entrepreneurs.
In line with this objective, and consistently with the realisations of the other Divisions, the development of new services and products with high value added features and/or with innovative elements continued: IntesaNova, Mutuo 100%, Mutuo Sonni Tranquilli, multirisk insurance coverage for holders of personal loans and mortgages, relaunch of the range of individual portfolio management schemes. Proximity to customers and contact with the local territory have been pursued also via the opening of 14 of the 54 new branches set out by the Plan and the improvement of the service level in traditional and direct channels, realised via the application of the new branch lay-out, the installation of new ATMs, the implementation of websites with new functionalities. The role of employees was also valorised via merit-oriented incentive systems, the definition of new training programmes, the optimisation of support tools and the development of the sense of belonging.
For the purpose of further improving external growth in reference territories, in March Banca Intesa, Banche Popolari Unite (BPU), Banca Popolare di Ancona (BPA, BPU group) and BPA's five minority shareholders signed an agreement for the sale of 99.9% of the share capital of Cassa di Risparmio di Fano held by BPA, for 30% to Intesa Casse del Centro (transaction closed last July) and for 69.9% to a vehicle company, with call/put options. With this transaction, Intesa Casse del Centro significantly strengthens its presence in the Marche territory and the overall presence of Gruppo Intesa in the region in terms of branches' market share reached approximately 10%.

The strategy of the ***International Subsidiary Banks Division*** is oriented mainly at achieving leadership positions in Central-Eastern European Countries, considered the Group's second "domestic" market. Furthermore, the new Business Plan emphasises responsibility in the Countries in which Banca Intesa operates, as concerns the contribution to the economic development of the region. Consistently with respect to these indications, during 2005 Central-European International Bank (CIB) opened 20 of the 42 new branches set out in the Plan, and the agreement with the retailer Tesco brought the bank's presence in all the new outlets opened by the retailer in 2005. As concerns the range of distributed products, particularly noteworthy was the strategic agreement with Generali to facilitate access to insurance products. Also Privredna Banka Zagreb (PBZ) expanded its territorial presence with the opening of 8 of the 20 new branches programmed, and continued to pursue the development of the retail segment via the launch of new products (insurance policies in cooperation with Generali, credit cards, internet banking with additional services such as the possibility of underwriting funds on line, and so on). Particular attention was paid to factoring, a market in which the Croatian bank was always present as one of the main players; in this area operating structures and information technology supports were further strengthened, and a specific advertising campaign was launched. In the Slovakian market the main actions taken by Vseobecna Uverova Banka (VUB) referred to: i) the launch of new retail products/services (mortgages, consumer lending, etc.), ii) the roll out of the new branch lay-out, iii) the consolidation of the private banking offering, and iv) the expansion of the offering to Small and medium-sized enterprises. For corporate customers the bank introduced Local Relationship Managers, specialists dedicated to this customer segment.

As part of the strategy aimed at consolidating the Group's presence in Central-Eastern Europe through external growth, noteworthy were i) the acquisition occurred in August of Delta Banka (subsequently redenominated Banca Intesa Beograd), the second largest bank in Serbia and Montenegro in terms of total assets, ii) the closing of the acquisition of Small Business Credit Bank (KMB), bank active especially in lending and leasing for small enterprises in the Russian Federation, and iii) the acquisition of an approximately 35% stake in UPI Banka in Bosnia and Herzegovina with the subsequent launch, occurred in the first days of January 2006, of the takeover bid for control which was successfully completed on 20th February. Banca Intesa, with a total investment of approximately 37 million euro, acquired 45.93% of UPI Banka's share capital and brought controlling interest to 80.96%.

Again as part of the strategic decisions referred to the Group's presence outside Italy, as set forth in the strategic objectives of the 2003-2005 Business Plan, Banca Intesa's disengagement from Latin America was completed. In December, Banca Intesa signed a share purchase agreement for the sale of its Peruvian subsidiary Banco Wiese Sudameris (BWS) to Scotiabank, a leading Canadian bank currently operating in thirty countries in Central and South America. The agreement provides that Banca Intesa transfers control of BWS to Scotiabank for a consideration consisting of a minority stake of 19.95% in the entity resulting from the subsequent merger of the operations of BWS and Banco Sudamericano, where Scotiabank is currently a 35% shareholder. The agreement further provides for a put/call option on Banca Intesa's stake in the combined entity, beginning from the sixth year immediately following the closing occurred in March 2006, after the approval of regulatory authorities.

Lastly, in February 2006 Banca Intesa signed the share purchase agreement for the acquisition of control of Ukrainian bank, Ukrsotsbank, with an 85.4% stake. Following the completion of a pending share capital increase Banca Intesa will acquire additional shares and increase its equity stake to 88.1%. The closing of the transaction, which will occur in two phases, is forecasted before the end of September. The overall investment is estimated at approximately 975 million euro. As at 31st December 2004 Ukrsotsbank was the fourth largest Ukrainian bank, with total assets of 1.8 billion euro, direct customer deposits of 1.4 billion euro and loans to customers of 1.2 billion euro.

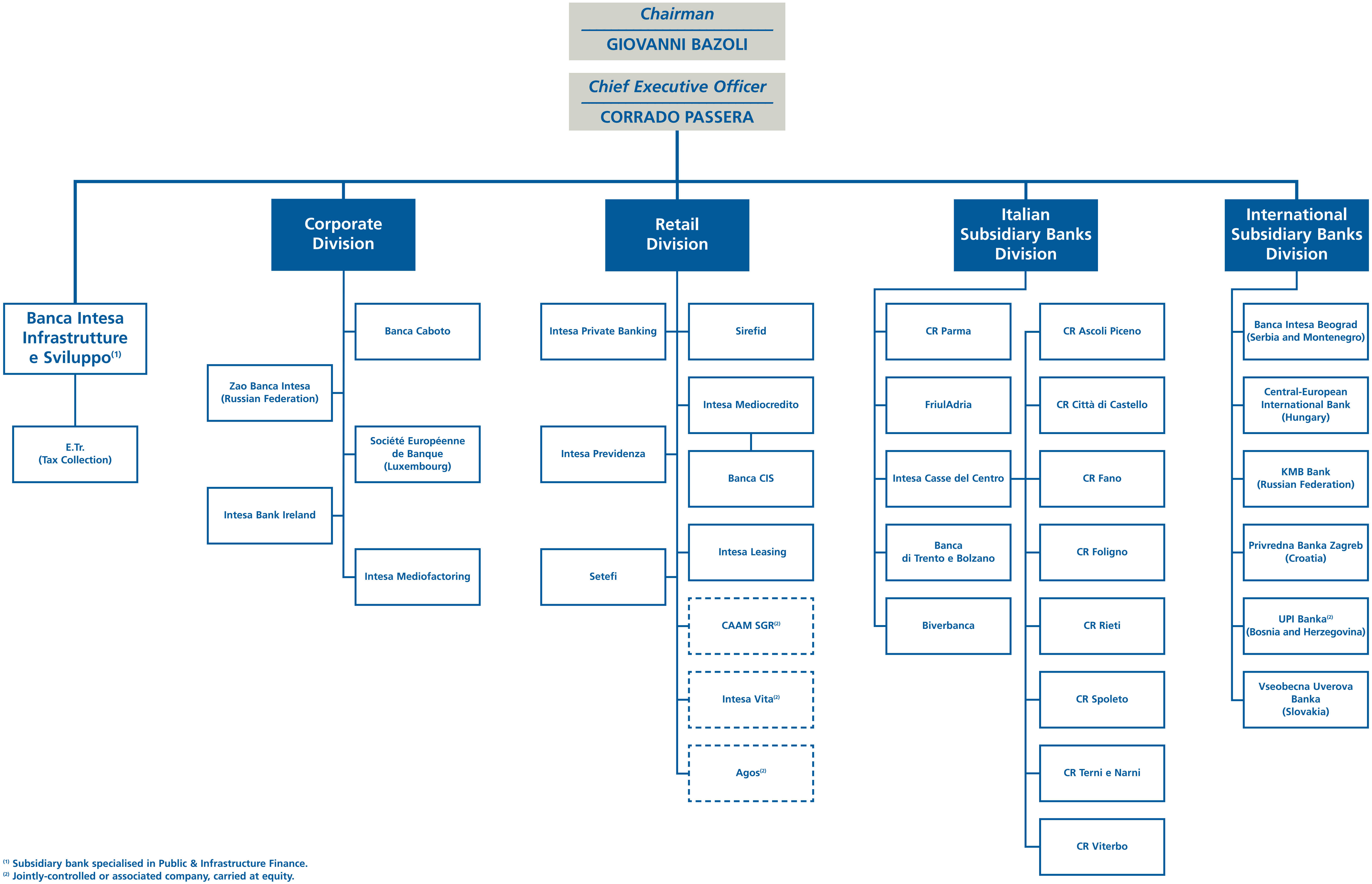
The 2005-2007 Business Plan confirms the need to constantly assess the compatibility of activities carried out with the effective capacity of conducting them in the most effective and efficient way.

From this viewpoint two ***strategic partnership*** decisions are contained in the Business Plan and were already defined in the first months of 2005. The first entailed the strengthening of the offering of managed funds for our customers, achieved by placing Nextra Investment Management (Nextra) – the Group's "SGR", asset management company, which had to that point remained totally at the service of Gruppo Intesa – at the centre of a project aimed at forming one of the largest European asset management players, making the strategic agreement with Crédit Agricole for asset management activities operational. Crédit Agricole Asset Management (CAAM), a subsidiary of Crédit Agricole, acquired 65% of Nextra, company which, as mentioned above, was previously wholly owned by Gruppo Intesa. The latter maintains a 35% stake in the company and under the agreement, in March 2006 acquired 35% of Crédit Agricole Asset Management SGR, the Italian subsidiary of CAAM. The new entity will market its products and services through Gruppo Intesa's network of over 3,000 branches in Italy, based on a 12-year distribution agreement providing close ties between the producer and the distributor, coupled with a 12-year governance agreement. Group banks, however, to satisfy customer diversification needs may place third party products with an open architecture approach. This important operation in addition to significantly improving quality of the offering and service to customers, also has beneficial effects on Gruppo Intesa's distribution structure in managed funds, and also valorises the potential of Nextra as product factory, creating new uses for the Italian assets and know-how outside the domestic market.

The second strategic decision referred to the exit from the doubtful loan recovery business for the purpose of further and structurally reducing operating costs related to loan recovery and exploit the particularly high demand for doubtful loans. The outsourcing project completed last December falls in this logic and enabled Gruppo Intesa to sell without recourse approximately 9 billion euro of gross doubtful loans to a company set up by Fortress and Merrill Lynch. At the same time, Intesa Gestione Crediti (IGC), controlled by Banca Intesa, closed the sale to Fortress and Merrill Lynch of 81% of Castello Gestione Crediti, the company which had previously

received the contribution of the loan servicing business of IGC dedicated to the management of doubtful loans. Gruppo Intesa retained a 19% shareholding in the capital of Castello Gestione Crediti.
The sale of this substantial stock of non-performing loans had the further important consequence of aligning Gruppo Intesa to the best international benchmarks in terms of doubtful loans/loans to customers ratio.
Sustainable growth is based, among other aspects, on ***enhancement of human resources***. The 2005-2007 Plan foresees an on-going training programme, and a total of over 320,000 man-days of training were delivered in 2005 of the 800,000 man-days programmed in the 2005-2007 period in addition to the 590,000 man-days already delivered in 2003 and 2004. This represents an important investment in our people: training is the instrument which enables each collaborator to carry out his/her task with the competence and professionalism necessary to deliver our customers a continuously-improving service. The new Business Plan, aside these important training projects, also sets out other important elements aimed at motivating all collaborators: first of all the constant application of merit, the respect paid to everyone and the accountability of each person, dialogue and the most widespread participation to corporate life and to results achieved. An example of this approach is the approval, that occurred in December, of a stock granting plan which entails the assignment, for free, of shares to employees in service as at 1st June 2006, for a *per capita* countervalue of 2,000 euro. Similarly, other Group companies will assign Banca Intesa shares, for free, to their employees.
From the standpoint of the new Plan, the soundness, and therefore the sustainability, of growth is strongly linked to innovation. There is a specific ***Investment plan in innovation*** and investments amounting to approximately 700 million euro were made in 2005 of the almost 2 billion euro set out in the Plan.
Such investments are aimed at improving customer service quality, with reference to both the sales channel (via for example the development of innovative channels) and the type of services offered (via for example the corporate banking platform for SMEs and Small Businesses).
Strict operating cost discipline, already commenced under the previous plan, continues to be an objective in the current Business Plan. In fact, the pursuit of growth in a competitive market requires a balanced and competitive cost structure. As at 31st December 2005 the Group's cost/income ratio equalled 55%, basically in line with the 50% target for 2007; in particular growth-related expenses increased by approximately 70 million euro corresponding to approximately 30% of the total set out in the Business Plan, offset by cost savings due to increased efficiency of back office and central structures and reduction of costs of management of real estate assets and procurement.
Optimise risk management and capital allocation is the other very important lever of the new Plan to ensure constant value creation. In the last few years, Banca Intesa greatly strengthened the management of all risk categories. The Group's greater capital strength is also confirmed by the upgrading by Standard & Poor's, occurred in October, which increased the rating from A to A+ for long-term debt, and furthermore in December the international agency Fitch increased the individual rating to B (from B/C) and improved outlook for rating assigned to Banca Intesa on medium- and long-term debt (A+), in line with the AA objective set for 2007. Capital ratios remain at absolutely stable levels with the Tier 1 ratio at 7.9% and the Core Tier 1 ratio – that is, the ratio between Tier 1 capital net of preference shares and total risk-weighted assets – which equalled 7.1%. As regards credit risk, it must be noted that the continuous attention paid to loan portfolio quality enabled to achieve the practical stability in the net doubtful loans/loans to customers ratio at 0.7%, in line with the 0.9% target for 2007. Again as concerns this aspect it must be noted that the focus on responsibility and sustainability, typical of this new Plan, cannot but enrich the risk assessment process, to include in this process the valuation of social and environmental impact of lending activities and the connected risks. With regard to market risks, the strengthening of the internal risk management platforms and the effective control at desk level permitted the management of capital absorbed at a level of approximately 1.4 billion euro, compatible with the target set out in the Plan.

Main Group Companies



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

Gruppo Intesa
Report on operations and consolidated financial statements

IAS/IFRS first-time adoption

Introduction

Following the evolution and increasing globalisation of financial markets, the European Commission decided to start a convergence process aimed at making the accounting principles and policies adopted by entities in the preparation of financial statements and financial reporting consistent.

EU regulation

For this purpose, in 2002 the Commission issued a Regulation (1606/02 of 19th July 2002) for the implementation of uniform accounting policies from 2005. EU listed companies are now required to apply IAS/IFRS in the preparation of their consolidated financial statements. This process is aimed at making listed companies' financial information comparable and of a high quality, to enhance competition, favour market expansion and improve investor protection.
IAS/IFRS are issued by the International Accounting Standards Board® (IASB), an independent body set up to develop high-quality accounting standards in the public interest. The aforementioned EU Regulation 1606/02 sets forth that such standards are endorsed by the European Commission and published in the Official Journal of the European Union.
The endorsement process of the new standards has been completed at the end of 2004 with the ratification of IAS 39 which introduces far-reaching innovations in the accounting treatment of financial instruments compared to the accounting principles previously adopted by most European Countries. Its endorsement required considerable effort from EU and national bodies to reach common conclusions. Certain provisions of IAS 39 are still under discussion and have therefore been carved out at the time of endorsement.
The list of IAS/IFRS endorsed by the European Commission before 31st December 2005 and adopted by Gruppo Intesa is included in the attachments.

Italian regulation

The Italian Government approved Legislative Decree 38 of 28th February 2005 introducing the new international financial reporting standards. In line with the powers received from the Parliament, the Decree broadens the scope of application of IAS/IFRS, already required by Community regulations for consolidated financial statements of listed companies, to the separate financial statements (as an option in 2005, mandatory from 2006) of listed companies, banks and other financial institutions subject to supervisory requirements and the consolidated financial statements of banks and other financial institutions subject to supervisory requirements and unlisted insurance companies. Furthermore, all entities required to prepare consolidated financial statements, entities controlled by the latter, by listed companies, banks and other financial institutions subject to supervisory requirements may opt to adopt IFRS.
In addition, a number of statutory and tax provisions had been harmonised in order for entities to be able to apply the new standards in their separate financial statements. Therefore, the Decree included statutory provisions regulating the distribution of dividends and reserves and tax provisions under which the methods for the calculation of the taxable profit, based on criteria of derivation from the statement of income, remain unchanged, thus protecting, as far as possible, the principle of neutrality of taxes with respect to any changes in accounting principles.
These provisions, as a whole, enable entities to use uniform accounting policies for both their consolidated and separate financial statements, which is essential for an understanding of the underlying information.
With respect to financial reporting of banks and financial institutions subject to supervisory requirements, the Decree confirmed the powers already granted to the Bank of Italy with Legislative Decree 87/92, for issues relating to the structure of the financial statements and content of the Notes to the consolidated financial statements.

The Bank of Italy therefore issued Circular 262 of 22nd December 2005 which disciplines detailed requirements of bank financial statements drawn up in compliance with international accounting principles.
In consideration of the significant articulation of information required by the Circular, the Central bank provided for certain transitory norms which permit intermediaries to omit some details contained in the new provisions in the 2005 financial statements.
With another normative intervention, which comes into force from regulatory reporting referred to figures as at 31st December 2005, provisions on consolidated shareholders' equity for supervisory purposes and on consolidated capital requirements have been harmonised with the new accounting principles.
During 2006 also Parent Company regulatory reporting will be harmonised. Before such definitions are disclosed, the Bank of Italy asked banks to continue publishing shareholders' equity for supervisory purposes and capital requirements on the basis of previous national accounting standards or alternatively, for banks which have decided to adopt IAS/IFRS also for separate financial statements, on the basis of IAS/IFRS figures net of first-time adoption effects and considering certain adjustments.
However, for the sake of consistency, in this Report it was decided to calculate the Parent Company's shareholders' equity for supervisory purposes and capital requirements in the same way as the consolidated figures, based on balance sheet figures and net income determined via the application of IAS/IFRS, and in compliance with the aforementioned instructions referred to consolidated figures, where applicable.

Main changes introduced by IAS/IFRS

The transition from local accounting principles, applied to financial statements up to 2004, to IAS/IFRS has an impact on i) criteria for the recognition of transactions, ii) classification of the main financial statement captions, and iii) measurement criteria for assets and liabilities.
The main new features are described below, especially those that have an impact on the presentation of Gruppo Intesa results.

New classification and recognition criteria

IAS/IFRS introduced a number of important changes to the recognition criteria of assets and liabilities, mainly arising from the general principle of economic substance over legal form. IAS/IFRS allow the recognition or derecognition of an item only when the risks and rewards incidental to ownership of the assets being purchased or sold have been actually transferred.
Consequently, if the transaction does not meet the requirement for derecognition, the related assets continue to be recorded in the seller's financial statements, even when title thereto has been transferred.
The effect of the new treatment is particularly significant when applied to finance lease transactions, for which the use of the so-called "financial method" is required. Under such method, the lessor should recognise a receivable while the lessee should recognise the leased asset and related payable. The effect is also significant when the new treatment is applied to securitisation and factoring transactions, for which special attention should be paid to ascertain whether the risks incidental to the assets have been substantially transferred.
Further changes relate to the initial recognition of financial instruments.
Financial assets and liabilities should normally be initially recognised at their fair value adjusted by any transaction costs or revenues, which are therefore capitalised and attributed to profit and loss over the term of the transaction, using the effective interest rate (the so-called "amortised cost"). Any difference between the market value and the consideration paid/received in a transaction should be recognised in the statement of income upon initial recognition.
With reference to combined financial instruments, i.e., those comprising a host contract and an embedded derivative, IAS/IFRS require that the latter be recognised separately from the host contract, if the contract as a whole is not measured at fair value or when the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract.
Changes in the recognition criteria also affect certain types of intangible assets and provisions to the allowances for risks and charges. With reference to the former, under IAS/IFRS, expenses incurred for research, advertising, training, restructuring and internally generated trademarks and other rights do not qualify for recognition as intangible assets. As concerns the allowances for risks and charges, provisions can be made only when it is probable that an outflow of resources will be required to settle an existing obligation and a reliable estimate of the amount of the obligation can be made. Such estimate should also consider presumed payment times.
Recognition of so-called "share-based payments" (usually when an entity's employees or directors are granted options to subscribe the entity's shares as consideration for their services) has changed dramatically under IAS/IFRS. The accounting policies previously applied by the Group did not require that any expense be recognised in the statement of income but rather that an increase in share capital be recognised when options were exercised. IAS/IFRS require that granted options be carried at fair value and that an equivalent amount be recognised in the statement of income as labour cost.
With respect to the classification of assets and liabilities, changes relating to financial instruments are particularly important. IAS/IFRS require loans, payables, securities and derivatives be accounted for on the basis of the purposes for which an entity holds them rather than their nature. The classification of financial instruments should be established upon initial recognition

and can be subsequently modified only under restricted conditions. IAS 39 identifies four categories of financial instruments: financial assets and liabilities designated at fair value through profit and loss (basically, assets and liabilities held for trading purposes, and those assets and liabilities that when certain conditions are met the entity decides to measure at fair value); financial assets available for sale; investments held to maturity; loans and non-traded financial liabilities. The classification of financial instruments is relevant also for the purposes of their valuation, since the first two categories are to be measured at fair value while the other two at cost or amortised cost.
Another significant classification change relates to equity investments. Previous accounting policies allowed an entity to classify any investment in equities as an equity investment. IAS/IFRS permit such classification only for investments in subsidiaries, associates or jointly controlled entities. All other equities should be classified as financial assets designated at fair value through profit and loss or financial assets available for sale.

New measurement criteria

The main changes in measurement criteria relate to financial instruments, property and equipment, intangible assets and post-employment benefits.
As mentioned above, financial instruments are to be measured at fair value, in case of instruments held for trading or available for sale, and at cost or amortised cost, in case of investments held to maturity or loans and payables. Any profits or losses arising from the measurement of trading instruments must be recognised in the statement of income while those relating to assets available for sale are recognised in equity until they are realised.
Since non-hedging financial instruments were already measured at fair value under previous accounting policies, the main change introduced by IAS/IFRS relates to the application of fair value measurement to instruments that are not listed in a regulated market, the fair value of which is determined using internal measurement models that incorporate observable market parameters.
IAS/IFRS require financial instruments other than those classified as financial assets and liabilities designated at fair value through profit and loss to be systematically assessed for impairment (i.e. that the book value of the asset is not fully recoverable). Such assessment must be carried out either individually or collectively (on groups of assets with similar risks). Contrary to previous accounting policies, determination of impairment losses should consider the estimated recovery times as well as the estimated recoverable amounts.
An issue related to financial instrument measurement is the accounting treatment of derivatives hedging financial risks and the related hedged items. Under IAS/IFRS, there are the following three different types of hedging relationship: i) fair value hedges of financial assets and liabilities, where changes in the fair value of both the hedged item and hedging derivative are recognised through profit and loss, and ii) cash flow hedges and hedges of net investments in foreign operations, where changes in the fair value of the hedging derivative are recognised in equity (while the hedged item is carried at cost or amortised cost). This criterion derives from the requirement to measure all derivatives (including hedging derivatives) at fair value. On the contrary, under previous accounting policies, hedging derivatives were carried at cost, in line with the criterion applied to hedged items.
As regards property and equipment and intangible assets, changes relate to the option given to the reporting entity to recognise such items at fair value, as an alternative to the purchase cost, (with changes in fair value recognised in equity, except for those relating to real estate investments, which should be recognised through profit and loss) and the substitution of regular amortisation for intangible assets with indefinite useful lives (as, for instance, goodwill) by the performance of "impairment tests", i.e., an entity shall assess whether the assets have been impaired. IAS/IFRS require property and equipment carried at cost be depreciated on the basis of their useful lives, or separately over the useful lives of the individual components forming them, if different.
Under IAS/IFRS, pension plans, and all post-employment benefits in general, are classified into the following two categories: defined contribution plans, where only contributions due by the entity are recognised, and defined benefit plans, where the allowance should include an actuarially-determined estimate of the amount that the entity will pay upon completion of employment.

First-time adoption of international accounting standards

Since a considerable number of entities are involved in the transition to IAS/IFRS, IASB issued a special standard, named IFRS 1, which regulates first-time adoption in a consistent and coordinated fashion. Such standard requires:

- the preparation of a IAS/IFRS-compliant opening balance sheet at transition date;
- the application of IAS/IFRS in the preparation of the first set of IAS/IFRS-compliant financial statements, also for all comparative figures presented (with a number of exceptions, which are mandatory, and exemptions which are optional, expressly provided for by IFRS 1);
- the preparation of disclosures on the impact of IAS/IFRS adoption.

Therefore, IAS/IFRS should be applied retrospectively with reference to the transition date, that is, 1st January 2004, and at least one set of comparative financial statements for 2004 is required, drawn up according to IAS/IFRS in force as of 1st January 2005. IFRS 1 provides an optional exception: backdated application is not required with reference to IAS 32 and IAS 39 on financial instruments and IFRS 4 on insurance contracts. As already explained these standards were approved by IASB and endorsed by the European Commission only in 2004 and therefore their application from 1st January 2004 is not mandatory. Entities opting to avail of this exemption must convert their accounting balances covered by those standards as of 1st January 2005 and therefore figures for 2004 may not be comparable.

The opening balance sheet as at 1st January 2004, and as at 1st January 2005 for financial instruments and insurance contracts, should be prepared in accordance with IAS/IFRS, by:

- recognising all assets and liabilities whose recognition is required by IAS/IFRS (thus including those not required by local accounting principles);
- erecognising all assets and liabilities which were recognised under local accounting principles but do not qualify for recognition under IAS/IFRS;
- reclassifying all recognised assets and liabilities in line with the new requirements;
- measuring assets and liabilities in accordance with IAS/IFRS.

The effects of IAS/IFRS adjustments to accounting balances should be recognised directly in shareholders' equity upon first-time adoption.

New provisions for consolidated supervision

As already mentioned above, with Letter 1157011 of 1st December 2005 the Bank of Italy issued the general principles which set forth the new discipline on consolidated shareholders' equity for supervisory purposes and capital ratios. Such principles will be included in Circular 155/91 relative to "Instructions on the preparation of reporting on shareholders' equity for supervisory purposes and capital ratios".

New provisions consider so-called "prudential filters" indicated by the Basel Committee in determining the criteria which National supervisors must observe in the harmonisation of new supervisory rules with new financial statements criteria. Such filters, which have the purpose of safeguarding the quality of shareholders' equity for supervisory purposes and reducing the potential volatility induced by the application of the new principles, lead to certain corrections of accounting figures, before their use for supervisory purposes. The new provisions, as concerns to the most significant aspects for Gruppo Intesa, set out that:

- for financial assets held for trading, both unrealised profits and losses are fully recorded;
- for financial assets available for sale, unrealised profits and losses may be offset: the balance, if negative, reduces Tier 1 capital, if positive it contributes for 50% to Tier 2 capital. Furthermore, any unrealised profits and losses on loans classified among assets available for sale are excluded;
- for hedges, unrealised profits and losses on cash flow hedges, recorded in a specific reserve, are sterilised whereas there is no prudential filter on fair value hedges;
- investments in insurance companies are deducted from shareholders' equity for supervisory purposes;
- the stake in the capital of the Bank of Italy is deducted from shareholders' equity for supervisory purposes on a straight-line basis over a period of five years.

Such provisions, for the aspects already known at the beginning of fiscal year 2005, have been applied by Gruppo Intesa upon IAS/IFRS first-time adoption for the restatement of shareholders' equity for supervisory purposes and capital requirements as at 31st December 2004. The main aspects disclosed with the issue of the aforementioned letter and therefore not applied in the restatement of capital ratios as at 31st December 2004 refer to the deduction from shareholders’ equity for supervisory purposes of equity investments in insurance companies and in the capital of the Bank of Italy.

First-time adoption of IAS/IFRS by Gruppo Intesa

Upon first-time adoption, the Group was required to choose how to classify financial instruments, whether to adopt certain allowed alternative treatments and whether to apply any of the optional exemptions from retrospective application set out in IFRS 1.
Moreover, Gruppo Intesa decided to use the faculty provided for by IFRS 1 and applied IAS 32 and IAS 39 to financial instruments from 1st January 2005. Accordingly, figures as at 31st December 2004 are not comparable as concerns the measurement of financial instruments.
However, in order to make the comparison as consistent as possible, the Group has estimated, on the basis of available data, the effects of the application of IAS 39 from 1st January 2004 on figures as at 1st January 2004 and for the year ended as at 31st December 2004.
Gruppo Intesa reclassified its financial instruments (comprising securities, loans, payables, derivatives and equity investments) in accordance with the classification criteria required by IAS/IFRS under a specific provision of IFRS 1. Such provision allows an entity to use those categories upon first-time adoption, waiving the general rule that provides for using such classification exclusively when the financial instrument is acquired.
Gruppo Intesa decided not to adopt the so-called "fair value option", that is it did not avail itself of the possibility of measuring at fair value through profit and loss, financial assets and liabilities other than those for which IAS 39 requires the application of fair value measurement considering their specific functional destination.
Securities have been mainly classified as financial assets held for trading. With reference to the management of the investment portfolio (now "Investments held to maturity"), the Parent Company and Group Companies revised the relevant standard resolutions leading to a reduction in this portfolio. Certain unlisted securities subscribed for the purpose of providing financing to the issuer have been classified as loans to customers. Those securities that do not qualify for recognition in one of the above categories have been classified as "Financial assets available for sale".
Loans to customers and due from banks have maintained their classification, both when generated by Group companies and when acquired from third parties. Repurchase agreements, trade receivables and finance lease receivables are still classified as loans (for the latter the Group already used the so-called financial method for the consolidated financial statements). On the other hand, with respect to receivables arising from factoring transactions, since IAS/IFRS do not specifically regulate such transactions, especially those where receivables are factored under risk-mitigation clauses (which is a typical contractual characteristic in the Italian market), the Group maintained the recognition of the related financing only to the extent of the amount advanced on the portfolio factored with recourse (which, contrary to previous accounting policies, is now not accounted for since it is recognised by the transferor). Receivables acquired without recourse have been recognised after having verified that no contractual provisions exist such as to make them not eligible for recognition.
Funding from customers and banks have been classified as in the past, as "Due to banks", "Due to customers" and "Securities issued".
Derivatives have been classified, according to their purpose, as trading or hedging derivatives. Trading derivatives have been classified as "Financial assets/liabilities held for trading", respectively based on their positive or negative value. Hedging derivatives, if designated as "effective" hedges, have been recognised as "Hedging derivatives" under assets, if fair value is positive, and under liabilities, if fair value is negative. In the case of "non-effective" hedges, or for hedging relationships that do not qualify for hedge accounting under IAS/IFRS, derivatives have been classified as held for trading.
Equity investments have been broken down in investments in subsidiaries, associates and jointly controlled entities while all other equity investments have been classified as "Financial assets available for sale", except when, in limited cases, the Group was negotiating their disposal and the equities have been classified as "Financial assets held for trading". The stake in the Bank of Italy, even though it does not fall among subsidiaries subject to significant influence, remained in investments in associates and companies subject to joint control and maintained at cost.

In accordance with IAS/IFRS and their interpretations, especially SIC 12, the consolidation area has been revised to include certain subsidiaries for which full consolidation is required. Such subsidiaries were previously excluded from consolidation since they do not carry out banking or financial activities, or, if they do, their total assets are immaterial. In addition to these, two special purpose entities (SPE/SPV), in which the Group has no investment, but which are controlled by the Group under the provisions of SIC 12, are now consolidated.
The Group has opted not to measure real estate assets at fair value, keeping them at purchase cost, net of cumulated depreciation and any impairment losses. However, the carrying amount of land has been separated and the related cumulated depreciation derecognised.
Upon first-time adoption, IFRS 1 provides for a number of optional exemptions. The main exemptions applied by the Group are the following:

– ***business combinations:*** under this exemption, an entity can opt not to apply IAS/IFRS retrospectively to business combinations that occurred before the date of first-time adoption. Accordingly, existing goodwill can be recognised at the last carrying amount under previous accounting policies and thus without the application of the "purchase method";
– ***revalued carrying amount as deemed cost:*** this exemption permits past revaluations to be considered as an integral part of cost upon first-time adoption. This applies to both property and equipment revalued as permitted by specific laws (Monetary revaluation laws) and equity investments, revalued in accordance with Law 218 of 1990 ("Amato" law) as part of the restructuring and privatisation process of the Italian banking system. Real estate assets are not measured at fair value as an alternative to cost;
– ***employee benefits:*** IAS 19 permits the use of the "corridor approach", according to which an entity may opt not to recognise a part of actuarial gains or losses when the change over the previous period is below 10%. Under this exemption, the corridor approach can only be applied prospectively, i.e., only to periods subsequent to first-time adoption and, therefore, all actuarial gains and losses existing on first-time adoption have been recognised;
– ***derecognised assets/liabilities:*** an entity can opt not to recognise financial assets and liabilities disposed of and derecognised under previous accounting policies before 1st January 2004 if such derecognition does not comply with IAS 39 requisites. This involves securitisation transactions carried out by the Group.

As concerns the exemption from the application of IFRS 2 (Share-based payments), Banca Intesa could not apply it for its stock option plan connected to the 2003-2005 Business Plan, since the options were assigned after the effective date for the adoption of the new standard. The new standard was therefore applied as of 1st January 2004.
For the full illustration of new accounting standards adopted please refer to Part A – Accounting policies in the Notes to the consolidated financial statements.

Companies subject to full consolidation following the adoption of IAS/IFRS

IAS/IFRS do not foresee the exclusion from the consolidation area of any subsidiaries. Therefore, with the first-time adoption of international accounting principles, subsidiaries which do not carry out financial activities and vehicle companies in which there is control irrespective of voting rights held have been consolidated.
The companies included for the first time in the consolidation area upon first-time adoption of IAS/IFRS are listed below:

Agricola Investimenti S.p.A. - Milano
Atlantis Sociedad Anonima - Buenos Aires
BWS Fondos S.A. Sociedad Administradora de Fondos - Lima
BWS Sociedad Agente de Bolsa S.A. - Lima
BWS Sociedad Titulizadora S.A. - Lima
CIB Insurance Broker Kft. - Budapest
CIB Inventory Management Limited liability Company - Ujlengyel (Hungary)
Conser S.p.A. - Bari
IAIS4 S.p.A. - Cosenza
Intesa Brasil Empreendimentos S.A. - Saõ Paolo
Intesa Renting S.p.A. - Milano
SATA - Sociedade de Assessoria Técnica e Administrativa S.A. - Saõ Paolo
Scala Advisory S.A. - Luxembourg
SEB Trust Limited - St. Helier Jersey
Servicios, Cobranzas e Inversiones S.A.C. - Lima
SHI-MI S.A. - Luxembourg
ZAO International Business Consulting - Moscow
Duomo Funding plc - Dublin
Romulus Funding Corp. - Delaware

Reconciliation tables and illustration notes

The reconciliation of shareholders' equity at the transition dates (1st January 2005 for IAS 39 and 1st January 2004 for all other standards), as well as the reconciliation of net income for the whole of 2004 are set out below.
The reconciliation tables have been drawn up pursuant to provisions set forth by IFRS 1 and recalled, for the purposes of the preparation of the Consolidated reports as at 31st March 2005 and as at 30th September 2005 and the Half-year report, by Consob in its Regulation 14990 of 14th April 2005. These tables have the purpose of reconciliating the values of the last financial statements prepared using provisions of Legislative Decree 87/92 and values restated on the basis of international accounting principles.
Since, as mentioned above, IAS 39 has been applied from 1st January 2005, for comparative purposes the Group has estimated the effects of IAS/IFRS adoption on financial instruments as at 1st January 2004 and net income for the whole of 2004 on the basis of the available information.
The reconciliation of shareholders' equity as at 1st January 2004 (with the exclusion of estimated impact of IAS 39) and as at 1st January 2005, as well as the reconciliation, excluding IAS 39, of net income as at 31st December 2004 have been audited by the Independent Auditors. The Independent Auditors Report is included at the end of this section.
Based on the analysis of the new standards and their application, the Group identified the impacts on financial statement captions set out in the tables hereafter.
With respect to figures indicated in the 2005 Consolidated and Half-year reports, reconciliation tables for the statement of income and balance sheet *ex* Legislative Decree 87/92 and those using IAS/IFRS have been reclassified to adapt them to the new forms issued by the Bank of Italy with Circular 262/05. Such reclassifications have no impact on consolidated net income and shareholders' equity which remain the same as those indicated in the previous reports.

Reconciliation of shareholders' equity as per Legislative Decree 87/92 to IAS/IFRS shareholders' equity

(in millions of euro)

	01.01.2004 Impact of IAS/IFRS first-time adoption	01.01.2004 Impact of IAS/IFRS first-time adoption (including IAS 39)	31.12.2004 Impact of IAS/IFRS first-time adoption	01.01.2005 Impact of IAS/IFRS first-time adoption (including IAS 39)
Shareholders' equity (as per Legislative Decree 87/92)	**15,093**	**15,093**	**15,564**	**15,564**
RESERVES	**-872**	**-3,400**	**189**	**-2,372**
- Due from banks and loans to customers				
- individual measurement of non-performing loans	-	-1,361	-	-1,328
- collective measurement of performing loans	-	-290	-	-212
- other impacts	-	-106	-	-110
- Financial assets held for trading				
- fair value measurement of trading securities and related derivatives	-	63	-	17
- fair value measurement of derivatives: credit risk adjustment and bid-ask spread	-	-165	-	-179
- fair value measurement of derivatives: separation of embedded derivatives from issued bonds	-	-223	-	-349
- fair value measurement of equity investments classified as held for trading	-	-154	-	-117
- Hedging derivatives				
- fair value hedges: fair value measurement of hedging derivatives and hedged items	-	12	-	6
- hedge accounting adjustments	-	-215	-	-219
- Property, equipment and intangible assets				
- derecognition of depreciation of land	166	166	195	195
- items that do not qualify for recognition as intangible assets	-16	-16	-14	-14
- goodwill impairment	-194	-194	-62	-62
- Allowances				
- collective measurement of guarantees and commitments	-	-75	-	-74
- unrecognised allowances for risks and charges and discounting of provisions	179	183	64	79
- actuarial valuation of employee termination indemnities and allowances for pensions	4	4	12	12
- Other impacts	-1,011	-1,029	-6	-17
VALUATION RESERVES	-	-43	-	83
- Financial assets available for sale				
- fair value measurement of debt securities	-	17	-	44
- fair value measurement of equities	-	6	-	92
- Cash flow hedges				
- cash flow hedges: fair value measurement of derivatives	-	-66	-	-53
Tax	**-106**	**681**	**-112**	**687**
Minority interests	**-9**	**15**	**-6**	**7**
Total impacts of IAS/IFRS first-time adoption	**-987**	**-2,747**	**71**	**-1,595**
IAS/IFRS shareholders' equity	**14,106**	**12,346**	**15,635**	**13,969**

The table above indicates the impact on shareholders' equity of first-time adoption of IAS/IFRS. The caption "Reserves" includes adjustments which do not entail in the years subsequent to first-time adoption a reversal to the statement of income. These adjustments in values, if IAS/IFRS had already been adopted previously, would have determined effects, positive or negative, on the statement of income. However, it must be noted that many of the adjustments recorded in shareholders' equity have been determined by the registration of time value and therefore may lead to determine positive effects on the statement of income in future years.
"Valuation reserves" record the adjustments which are destined to change over time due to the valuation effects of assets and liabilities registered in the balance sheet and which will be recorded through profit and loss only at the time of realisation.
The table below indicates the impact on net income for 2004 determined by the adoption of the new principles.

Reconciliation of net income as per Legislative Decree 87/92 to IAS/IFRS net income

(in millions of euro)

	31.12.2004 Impact of IAS/IFRS first-time adoption	31.12.2004 Impact of IAS/IFRS first-time adoption (including IAS 39)
Net income (as per Legislative Decree 87/92)	**1,884**	**1,884**
Net interest income	-53	185
Net fee and commission income	4	9
Profits (Losses) on trading	1	-234
Other operating income (expenses)	22	22
Operating costs	41	44
Goodwill impairment	130	130
Adjustments and provisions	12	-41
Change in the reserve for general banking risks and other allowances	-163	-163
Taxes and other	-22	5
Total impacts of IAS/IFRS first-time adoption	**-28**	**-43**
IAS/IFRS net income	**1,856**	**1,841**

Due from banks and loans to customers

Individual measurement of non-performing loans

Under IAS/IFRS, financial assets are to be carried at amortised cost based on the present value of estimated future cash flows. Non-performing loans, i.e. those for which there is objective evidence that an impairment loss has been incurred, should be measured individually, also considering their recovery times. Contrary to accounting policies applied until 2004, this entails measuring the present value of the estimated recoverable amounts.
With respect to doubtful loans, the estimated recoverable amounts have been discounted to consider the estimated recovery times using the average rates existing when the loans became doubtful where the original rates were no longer available. Recovery cash flows of the most significant positions have been distributed over time on an individual basis, and on a statistical basis for the remaining positions.
Substandard loans with repayment plans exceeding the short term or that it is very likely will become doubtful have been discounted at their effective rates (most positions bear floating interest rates).
Time distribution has been defined based on the relevant repayment plans or time-series of average recovery times of loans, real estate enforcement proceedings and bankruptcy proceedings.

The restated 2004 statement of income, set out above, includes in net interest income the positive effect of the reduction of time value on non-performing loans of previous years (+202 million euro), while adjustments include the effect of time value on loans posted in substandard loans or doubtful loans for the first time in that year (-169 million euro).

Collective measurement of performing loans

When there is no evidence of any irregularities, loans should be measured "collectively", by grouping them in accordance with the level of risk and calculating the estimated impairment loss for each category on the basis of historical loss data.
At the time of transition to IAS/IFRS the criteria for the determination of provisions on performing loans have been revised identifying the maximum possible synergies (in compliance with the various regulations) with the approach provided for by supervisory reporting requirements, namely the "New Capital Accord" commonly known as Basel II. Specifically, the risk components to be considered under the new supervisory requirements, i.e., the probability of default (PD) and loss given default (LGD), have been used – where available – also for financial statement purposes. Loans have been grouped using, as a starting point, the combination of these two parameters, since they reflect all the main features which should be considered in grouping loans and calculating adjustments under IAS/IFRS. The one-year period used to measure the probability of default approximates the definition of incurred loss, i.e. a loss based on an event that has occurred but has not yet been considered by an entity when reviewing the level of risk of a specific borrower, provided for by international standards.
Adjustments to cover generic risk of performing loans already included the adjustments for the Fiat *convertendo* loan as at 31st December 2004. As required by IAS/IFRS, upon first-time adoption, the option embedded in the loan that lending banks have granted to Fiat, which entails the commitment to subscribe a reserved capital increase, has been separated. The valuation of the loan has been replaced by the value of the option. Therefore, adjustments relating to this loan have been reclassified in the caption relating to the measurement of derivatives, and collective write-downs of loans have been decreased by the same amount.
The overall impact of first-time adoption on performing loans therefore derives both from the new accounting treatment regarding collective measurement and from the above reclassification.
The new collective measurement criteria determined an overall positive effect on the 2004 restated statement of income (+79 million euro).

Other impacts of loan measurement

Other impacts of loan measurement arise from the discounting of certain specific loans whose rates of return are not in line with market rates and from the write-down of overdue interest. Under IAS/IFRS, revenue can only be recognised when it is probable that the future economic benefits arising from the transaction will flow to the entity. Accordingly, overdue interest is recognised only if its recoverability is certain (on a cash basis).
The other effects of loan measurement on the 2004 restated statement of income are mostly attributable to loans measured using amortised cost (-40 million euro in net interest income).

A comparison of the carrying amount of loans to customers as at 31st December 2004 before and after IAS/IFRS adoption is set out in the following table.
The increase in performing loans following the adoption of IAS/IFRS is attributable to the inclusion in the consolidation area of certain vehicle companies (SPE/SPV) and the reclassification in loans of loans represented by securities

(in millions of euro)

Loan portfolio quality (*)	**31.12.2004** before IAS/IFRS adoption	**31.12.2004** after IAS/IFRS adoption	**Difference**
Doubtful loans	***Coverage = 67%***	***Coverage = 76%***	
- gross carrying amount	12,710	12,710	
- adjustments	-8,494	-9,683	1,189
- net carrying amount	4,216	3,027	
Net doubtful loans/Loans to customers	2.7%	1.9%	
Substandard and restructured loans	***Coverage = 23%***	***Coverage = 26%***	
- gross carrying amount	5,006	5,006	
- adjustments	-1,144	-1,283	139
- net carrying amount	3,862	3,723	
Performing loans	***Coverage = 0,56% (**)***	***Coverage = 0,69%***	
- gross carrying amount	150,713	153,764	
- adjustments	-848 (**)	-1,067	219 (***)
- net carrying amount	149,865	152,697	

(*) Figures do not consider the disposal of part of the doubtful loan portfolio illustrated at the beginning of this report.

(**) To enable a consistent comparison with the figure calculated on IAS/IFRS first-time adoption, the figure does not include the adjustment for the Fiat *convertendo* loan (245 million euro).

(***) The figure does not include the write-back of generic adjustments relating to banking counterparties amounting to 7 million euro.

Financial assets held for trading

Fair value measurement of trading securities and related derivatives

Securities classified as financial assets held for trading must be measured at fair value. Contrary to previous accounting policies, this treatment applies also to unlisted securities, leading to the recognition of gains.
The Group has therefore measured the fair value of unlisted securities included in the above categories using market prices made available by information providers or internal measurement models. Likewise, the fair value of the derivatives managed together with these securities has been recognised. Furthermore, for securities already recorded at fair value, compliance with the valuation with respect to IAS/IFRS was also verified.
The new measurement criteria determined a negative impact on the 2004 restated statement of income (-46 million euro), recorded in profits (losses) on financial transactions.

Fair value measurement of derivatives held for trading

IAS/IFRS require that derivatives be measured at fair value. The fair value should be calculated by considering all significant risk components and other observable market data, when using internal measurement models.
Therefore, contrary to previous accounting policies, when recalculating the fair value of derivatives under IAS/IFRS, the Group considered counterparty credit risk determined using the risk adjustment, based on the rating of counterparties, and the bid-ask spread for net open positions.
Fair value of such contracts also includes the valuation (-103 million euro) of options correlated to equity investments recorded, in application of IAS/IFRS, in financial assets available for sale also recorded at fair value.
The new measurement criteria of derivatives held for trading determined a negative impact on the 2004 restated statement of income of 15 million euro, recorded in profits (losses) on financial transactions.

Fair value measurement of derivatives: separation of embedded derivatives from issued bonds

Under IAS/IFRS, derivatives should be recognised separately even when embedded in host financial instruments (so-called combined financial instruments) if the latter are not measured at fair value.
In this case, IAS/IFRS allow an entity to recognise revenues when these products are initially recognised only to the extent that they can be determined as the difference between the sale

price of the financial instrument and its fair value measured using parameters of the same market as that on which the instrument has been sold. In the case of structured bonds, the only parameter available from the placement market must be derived from the retail market (since the Group mainly places these products on this market) and relates to the financial instrument as a whole, rather than its individual components. It would be necessary to make reference to the wholesale market to obtain a parameter to be used in the measurement of the sole embedded component. Therefore, under IAS/IFRS, profits on these products must be allocated over their residual life through the adjustment of the related amortised cost. The different accounting treatment has an impact only on revenues' recognition times and does not affect the overall profitability of such products.
Upon first-time adoption, the residual profits (at transition date) previously recognised have been therefore taken to shareholders' equity, following the recognition at fair value of the hedged item, which considers the cost of funding on the basis of IAS/IFRS.
The 2004 restated statement of income reflects the reversal of up-front revenues received on structured bonds issued (-199 million euro in profits (losses) on financial transactions), which on application of the new principles contributed to the formation of income using the pro rata temporis approach (+74 million euro in 2004 recorded in net interest income).

Measurement of equity investments classified as held for trading

IAS/IFRS require that unconsolidated equity investments be measured at fair value. Therefore, the Group has determined the fair value of certain equity investments classified as assets held for trading, since destined for sale, using methodologies that are normally used in standard market practice (stock exchange quotations, similar transactions, financial ratios and equity, financial and performance measurement models). The equity investments in Banco ABN Amro Real, Bayerische Hypo- und Vereinsbank and Commerzbank have been classified in this category. These last two investments have been sold at the beginning of 2005; the equity investment in Banco ABN Amro-Real was partly sold in the year and the remaining part will be disposed of following the exercise of a put option.
The measurement of such equity investments on the 2004 restated statement of income determined a positive effect (+37 million euro) recorded in profits (losses) on financial transactions.

Hedging derivatives

The application of fair value in the valuation of derivatives also refers to contracts stipulated for hedging financial risks. This leads – in the case of hedging of the variation in the market value of another financial instrument (fair value hedge) – to the need of extending, for the purposes of a consistent valuation method, the same valuation criteria to the hedged item. This principle of consistency may only be maintained in presence of effective hedges, that is hedges in which the changes in fair value offset, within precise thresholds, opposite changes in the value of the hedged item. Instead, in the case of cash flow hedges, IAS 39 requires the valuation at fair value (with recognition of the effect in a reserve in shareholders' equity) of the sole hedging derivative. Furthermore, derivative contracts stipulated between Group companies may no longer be accounted for in consolidated financial statements.
These new rules have led to revise the accounting and valuation criteria of hedges. Hedges have been divided in fair value hedges of specific captions and cash flow hedges of specific captions or portfolios of liabilities. In certain cases it has been necessary to close the contracts in advance, subsequently stipulating new hedges compliant with the requisites of IAS 39.

Fair value hedges: fair value measurement of hedging derivatives and hedged items

For the reasons set out above, upon IAS/IFRS first-time adoption, hedged balance sheet items in a fair value hedge and the related hedging derivatives have been measured at fair value. These items were previously recognised at cost.
The change in fair value which occurred in 2004 generated a negative effect on the 2004 restated statement of income (-5 million euro).

Hedge accounting adjustments (IAS 39)

The Group has revised hedging transactions following the new and stricter rules for hedge accounting. Some of the transactions that did not qualify for hedge accounting under IAS/IFRS

have been reclassified to the trading portfolio, some have been closed in advance (during 2004) and some have been replaced with other contracts that qualify for hedge accounting.
More specifically, previous hedging transactions within Group companies, which, under previous accounting policies, were not eliminated for consolidation purposes, have been closed in advance. Upon first-time adoption, the effects of such early terminations, which were distributed over the original life of the contracts under previous accounting policies, have been recognised in shareholders' equity (to the extent of the deferral as at 31st December 2004). In this way, the Group obtained the same accounting treatment that would have been applied if such intragroup contracts had been derecognised in accordance with IAS 39 upon transition to IAS/IFRS.
Certain derivatives with third parties, which qualified for hedge accounting under previous accounting policies, have been reclassified as held for trading since they did not meet IAS 39 requirements for hedge accounting.

Property and equipment and intangible assets

Derecognition of depreciation of land
Under IAS/IFRS, property and equipment should be depreciated over their useful lives or over the useful lives of the individual components forming them, if different. This means that the carrying amount of a building should be accounted for separately from the carrying amount of the land on which the building stands, based on the assumption that land is not a depreciable asset. Therefore, previous depreciation charged to land is to be derecognised.
Accordingly, for those buildings where the Group owns both the building and the land on which it stands, the Group has accounted for the building and the land separately and has derecognised the portion of accumulated depreciation attributable to such land.
The carrying amount of land has been calculated on the basis of specific expert opinion.
The 2004 restated statement of income benefits from the fact that land is no longer depreciated (+28 million euro).

Items that do not qualify for recognition as intangible assets
Under IAS/IFRS, an item qualifies for recognition as intangible assets only if it is probable that it will generate future economic benefits and its cost can be measured reliably.
In accordance with the above principle, the Group has derecognised those items that do not qualify for recognition as intangible assets, mainly start-up costs.

Goodwill impairment
IAS/IFRS do not permit amortisation of assets with indefinite useful lives, including goodwill. Therefore, an entity should test such intangibles for impairment at least annually by comparing carrying amount with recoverable amount ("impairment test"). As a result, goodwill recorded in accordance with previous accounting policies has been restated under IAS/IFRS, on the basis of its estimated recoverable amount, calculated using the future cash flows expected from the assets which originally determined its recognition.
The reversal of amortisation of goodwill determined a positive effect on the 2004 restated statement of income (+130 million euro).

Allowances

Collective measurement of guarantees and commitments
The accounting treatment adopted for the measurement of loans to customers and on-balance sheet due from banks described above has also been applied to guarantees given. The impact of IAS/IFRS first-time adoption is attributable to the measurement of guarantees and commitments to performing customers.

Unrecognised allowances for risks and charges and discounting of provisions
Under IAS/IFRS, allowances can be recognised when it is probable that an outflow of resources will be required to settle an existing obligation and a reliable estimate of the amount of the

obligation can be made. Therefore, the Group has derecognised allowances previously accounted for which are no longer allowed under international standards.
In addition, where the effect of the time value of money is material, IAS/IFRS require the amount of an allowance be equal to the present value of the expenditures expected to be necessary to settle the obligation. Allowances for which the time value of money is material have been adjusted to take their present value into account.
The 2004 restated statement of income benefited from the lower net present value of provisions required (26 million euro), while net interest income was affected by the related time value (-17 million euro).
The allowances which have been derecognised include the reserve for general banking risks. This derecognition generated a negative effect (-163 million euro) on the 2004 restated statement of income following the reversal of the uses made in that year.

Actuarial valuation of employee termination indemnities and allowances for pensions

IAS/IFRS require defined benefit pension plans be measured on the basis of the actuarially-determined amount that an entity will pay to employees upon termination of the labour agreement.
The Group has verified the valuations of the defined benefit plans recognised in accordance with previous accounting policies and has adjusted provisions if such valuations did not comply with IAS/IFRS requirements.
Italian employee termination indemnities is accounted for as a defined benefit plan, and therefore on the basis of actuarial valuations, rather than as prescribed by relevant Italian legislation.
The new measurement criteria determined a positive effect of 7 million euro on the 2004 restated statement of income.

Other impacts

Other residual impacts of first-time adoption are mainly related to the effects of IAS/IFRS on investments carried at equity, as well as to the derecognition of treasury shares which, pursuant to international principles, have been deducted from shareholders' equity since it is no longer possible to record them among assets. The value of the treasury shares amounted to 1,017 million euro as at 1st January 2004 and decreased to 10 million euro as at 31st December 2004 mostly as a result of the free assignment to Shareholders carried out by the Parent Company at the time of distribution of the dividend for 2003.

Financial assets available for sale

Under IAS/IFRS, financial instruments classified as financial assets available for sale should be measured at fair value. Any gains or losses arising from fair value measurement should be recognised in equity until they are realised.

Fair value measurement of debt securities

Upon first-time adoption of the aforementioned principles, certain debt securities not held for trading which do not qualify for recognition as investments held to maturity or loans have been classified as "Financial assets available for sale". The impact of first-time adoption is due to the measurement of unlisted securities at fair value, rather than at the lower of cost and market value as required by previous accounting policies.

Fair value measurement of equities

Again upon first-time adoption, equity investments acquired by the Group with the intention of establishing or maintaining a long-term operating relationship with the investee, which are not investments in subsidiaries or associates or jointly controlled entities, and those relating to private equity transactions have been classified as "Financial assets available for sale". These equity investments, which were carried at cost under previous accounting policies, have been measured at fair value using methodologies which are standard market practice (stock exchange quotations, similar transactions, financial ratios and equity, financial and performance measurement models).

Cash flow hedges

Cash flow hedges: fair value measurement of derivatives

In the case of cash flow hedges, the Group has determined the fair value of the hedging derivatives, which were previously carried at cost in compliance with Italian accounting principles.

Share-based payments

IAS/IFRS differ from Italian accounting principles and require that the current value of share-based payments (including the so-called stock options), equal to the fair value of the options, be recognised in the statement of income when the options are granted to employees or directors over the vesting period, with a balancing entry in equity. The provisions of IFRS 2 should be applied to all plans granted after 7th November 2002. The stock option plan currently in force as of 1st January 2005 was approved by the Extraordinary Shareholders' Meeting on 17th December 2002 with reference to the years from 2003 to 2005. The Group has determined the fair value of the options granted and for the amount attributable to 2003 it set up a special available reserve to service the plan, while the portion attributable to 2004 was recorded in the statement of income redetermined using IAS/IFRS (-8 million euro registered in personnel expenses), without generating a variation in shareholders' equity.

Tax

IAS/IFRS impact on shareholders' equity has been calculated net of the related tax impact, determined in accordance with relevant legislation (including Legislative Decree 38/2005). In particular:

- the IRES tax has been calculated using a 33% rate;
- allocations to equity have been considered as extraordinary items for IRAP purposes and therefore, generally speaking, irrelevant for this tax, except when they are matched to income or expenses which are relevant for the purpose of taxes relating to previous or subsequent years; the tax rate applied in this case is 4.25% (plus any regionally-required additional tax);
- with respect to foreign subsidiaries, the taxes applicable in the individual Countries have been considered.

No deferred tax liabilities are recorded for reserves which are subject to a suspended tax regime since the size of the available reserves which have already been taxed leads to believe that the Bank will not undertake any transactions which may lead to tax the untaxed reserves.
The overall tax impact on the 2004 restated statement of income was positive (17 million euro).

Summary

In conclusion, IAS/IFRS adjustments applied to equity upon first-time adoption have led to an overall reduction in equity as at 1st January 2005 from 15,564 million euro to 13,969 million euro (-1,595 million euro resulting from gross decreases for a total of 2,282 million euro and a tax effect of 687 million euro). Therefore, the Group has included a specific negative balance item in shareholders' equity, the "IAS/IFRS first-time adoption reserve" of -1,680 million euro and valuation reserves of 85 million euro, both net of the tax effect. The decrease in the carrying amount of shareholders' equity and the consequent reduction in shareholders' equity for supervisory purposes, together with the other first-time adoption impacts have had the following negative effects on capital requirements:

- Core Tier 1 ratio decreased from 7.59% to 6.69%;
- Tier 1 ratio from 8.53% to 7.64%;
- Total capital ratio from 11.60% to 11.02%.

The table below sets out the changes in consolidated shareholders' equity as at 1st January 2005 following IAS/IFRS first-time adoption.

(in millions of euro)

	01.01.2005												
	Share capital		**Share premium reserve**	**Reserves**		**Valuation reserves**				**Equity instruments**	**Treasury shares**	**Net income (loss)**	**Shareholders' equity**
	ordinary shares	saving shares		retained earnings	other	available for sale	cash flow hedges	legally-required revaluations	other				
SHAREHOLDERS' EQUITY AS AT 31.12.2003 (*)	**3,076**	**485**	**5,404**	**3,457**	**85**	**-**	**-**	**356**	**-1**	**-**	**1,017**	**1,214**	**15,093**
CHANGES IN INITIAL BALANCES (Transition to IAS/IFRS - Except IAS 39)	**-**	**-**	**-**	**-35**	**-**	**-**	**-**	**-**	**65**	**-**	**-1,017**	**-**	**-987**
BALANCES AS AT 01.01.2004	**3,076**	**485**	**5,404**	**3,422**	**85**	**-**	**-**	**356**	**64**	**-**	**-**	**1,214**	**14,106**
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR													
Reserves				**879**								**-879**	**-**
Dividends and other allocations				**-2**								**-335**	**-337**
CHANGES IN THE PERIOD													
Changes in reserves			**2**	**-29**				**1**	**38**				**12**
Operations on shareholders' equity													
Issue of new shares													
Purchase of treasury shares											-10		-10
Extraordinary dividends													
Changes in equity instruments													-
Derivatives on treasury shares													
Stock options				8									8
2004 net income (loss)												**1,856**	**1,856**
RESTATED SHAREHOLDERS' EQUITY AS AT 31.12.2004 (§)	**3,076**	**485**	**5,406**	**4,278**	**85**	**-**	**-**	**357**	**102**	**-**	**-10**	**1,856**	**15,635**
CHANGES IN INITIAL BALANCES (Transition to IAS/IFRS - IAS 39)	**-**	**-**	**-**	**-1,751**	**-**	**117**	**-32**	**-**	**-**	**-**	**-**	**-**	**-1,666**
BLANCES AS AT 01.01.2005	**3,076**	**485**	**5,406**	**2,527**	**85**	**117**	**-32**	**357**	**102**	**-**	**-10**	**1,856**	**13,969**

(*) Determined using Italian accounting principles (Legislative Decree 87/92).

(§) Except for IAS 39.

Reconciliation of net income as per Legislative Decree 87/92 to IAS/IFRS net income as at 31st December 2004

(in millions of euro)

	31.12.2004 (A)	**Impact of IAS/IFRS first-time adoption** (except IAS 39) **(B)**	**Impact of IAS/IFRS first-time adoption** (IAS 39) **(C)**	**31.12.2004 IAS/IFRS** (except IAS 39) **(D=A+B)**	**31.12.2004 IAS/IFRS (E=A+B+C)**
Net interest income	4,962	-53	238	4,909	5,147
Dividends and income from investments carried at equity	220	-	-	220	220
Interest margin	**5,182**	**-53**	**238**	**5,129**	**5,367**
Net commissions	3,447	4	5	3,451	3,456
Profits (Losses) on financial transactions	737	1	-235	738	503
Other operating income, net	360	22	-	382	382
Net interest and other banking income	**9,726**	**-26**	**8**	**9,700**	**9,708**
Administrative costs	-5,247	15	3	-5,232	-5,229
of which - Payroll	*-3,147*	*29*	*-*	*-3,118*	*-3,118*
- Other	*-2,100*	*-14*	*3*	*-2,114*	*-2,111*
Adjustments to fixed assets and intangibles	-583	26	-	-557	-557
Operating costs	**-5,830**	**41**	**3**	**-5,789**	**-5,786**
Operating margin	**3,896**	**15**	**11**	**3,911**	**3,922**
Adjustments to goodwill arising on consolidation and on application of the equity method	-130	130	-	-	-
Provisions for risks and charges	-167	17	11	-150	-139
Net adjustments to loans and provisions for possible loan losses	-887	-5	-58	-892	-950
Net adjustments to financial fixed assets	-19	-	-6	-19	-25
Income from operating activities	**2,693**	**157**	**-42**	**2,850**	**2,808**
Extraordinary income (loss)	-61	-34	-	-95	-95
Income taxes for the period	-805	-10	27	-815	-788
Change in the reserve for general banking risks and other reserves	163	-163	-	-	-
Minority interests	-106	22	-	-84	-84
Net income for the period	**1,884**	**-28**	**-15**	**1,856**	**1,841**

Restatement of the statement of income as per Legislative Decree 87/92 to IAS/IFRS statement of income (except IAS 39) as at 31st December 2004

(in millions of euro)

IAS/IFRS / Legislative Decree 87/92	Statement of income *ex* Legislative Decree 87/92	Interest margin	Net fee and comm. income	Dividend and similar income	Profits (Losses) on trading	Profits (Losses) on disposal of assets / liabilities	Net losses / recoveries on impairment of other financial activites	Admin. expenses	Net provisions for risks and charges	Net adjustments to / recoveries on property, equipment and intangible assets	Other operating expenses (income)	Profits (Losses) on investments in associates and companies subject to joint control	Profits (Losses) on disposal of investments	Taxes on income from continuing operations	Minority interests	Net income (loss)
Interest income and similar revenues	9,470	9,470														
Interest expense and similar charges	-4,535	-4,535														
Dividends and other revenues	502			502												
Commission income	4,031		4,031													
Commission expense	-584		-584													
Profits (Losses) on financial transactions	313				313											
Gross returns (losses) on investment of the allowances for pensions and similar commitments	6							6								
Administrative costs																
- payroll	*-3,147*							*-3,147*								
- other	*-2,100*							*-2,100*								
Allocation (Use) of net returns (losses) on investment of the allowances for pensions and similar commitments	-6							-6								
Adjustments to fixed assets and intangibles	-713									-713						
Provisions for risks and charges	-172								-172							
Adjustments to loans and provisions for guarantees and commitments	-1,700															
Write-back of adjustments to loans and provisions for guarantees and commitments	711															
Total adjustments to / write back of	**-989**						-989									
Provisions for possible loan losses	-1						-1									
Adjustments to financial fixed assets	-43															
Write-back of financial fixed assets	24															
Total adjustments to / write back of financial fixed assets	**-19**				7		-35						9			
Other operating income	519															
Extraordinary income	763															
Other operating expenses	-133															
Extraordinary charges	-716															
Total operating income / expenses	**433**	-10	-8		67	1	-2	-103	-94	-7	354	12	213	10		
Income from investments carried at equity	143											143				
Use of allowance for risks and charges arising on consolidation	68								68							
Change in the reserve for general banking risks	95								95							
Income taxes	-805													-805		
Minority interests	-106														-106	
Net income for the period	1,884															1,884
IAS EFFECT			4				-6	-21	-165	155	-6	-1		-10	22	-28
TOTAL		**4,925**	**3,443**	**502**	**387**	**1**	**-1,033**	**-5,371**	**-268**	**-565**	**348**	**154**	**222**	**-805**	**-84**	**1,856**

The table above illustrates the reconciliation of the 2004 statement of income restated with the application of IAS/IFRS (except IAS 39) and the new form of the statement of income contained in the financial statements in the present Annual report.

Restatement of the reclassified statement of income as per Legislative Decree 87/92 to IAS/IFRS statement of income (including IAS 39) as at 31st December 2004

(in millions of euro)

IAS/IFRS / Legislative Decree 87/92	Net interest income	Dividends and profits on investments carried at equity	Net fee and commission income	Profits (Losses) on trading	Other operating income (expenses)	Operating costs	Net adjustments to loans and other assets	Income (Loss)/ Provisions	Taxes on income from continuing operations	Income (Loss) after tax from discontinued operations	Minority interests	Total
Net interest income	5,129			18								**5,147**
Dividends and income from investments carried at equity		155		65								**220**
Net commissions	-18		3,474									**3,456**
Profits (Losses) on financial transactions				503								**503**
Other operating income, net	14				34	301		33				**382**
Operating costs	-					-5,710	-72	-4				**-5,786**
Adjustments to goodwill arising on consolidation and on application of the equity method												**-**
Provisions for risks and charges								-139				**-139**
Net adjustments to loans and provisions for possible loan losses							-950					**-950**
Net adjustments to financial fixed assets							-25					**-25**
Extraordinary income (loss)	-1		-9	67	-35	-103	-55	32	9			**-95**
Income taxes for the period									-788			**-788**
Minority interests											-84	**-84**
Total	**5,124**	**155**	**3,465**	**653**	**-1**	**-5,512**	**-1,102**	**-78**	**-779**	**-**	**-84**	**1,841**
Discontinued operations	*-190*		*-5*		*-6*	*43*	*216*		*-9*	*-49*		**-**
Contribution of companies consolidated as of 1st October 2005	*45*		*13*	*3*	*1*	*-38*	*3*	*-1*	*-4*		*-22*	**-**
TOTAL	**4,979**	**155**	**3,473**	**656**	**-6**	**-5,507**	**-883**	**-79**	**-792**	**-49**	**-106**	**1,841**

The table above illustrates the reconciliation of the 2004 reclassified statement of income restated with the application of IAS/IFRS, published until last year and the new form of the reclassified statement of income which is commented in the Report on operations in the present Annual report.

Reconciliation of balance sheet as per Legislative Decree 87/92 to IAS/IFRS balance sheet as at 1st January 2004

(in millions of euro)

Assets	31.12.2003 pro forma (*) (A)	Impact of IAS/IFRS first-time adoption (except IAS 39) (B)	01.01.2004 IAS/IFRS (except IAS 39) (C = A+B)
1. Cash and deposits with central banks and post offices	**1,576**	**-98**	**1,478**
2. Loans			
- loans to customers	154,614	1,993	156,607
- due from banks	28,521	163	28,684
3. Trading portfolio	**24,117**	**-146**	**23,971**
of which Own shares	*1,017*	*-1,017*	-
4. Fixed assets			
a) investment portfolio	5,318	75	5,393
b) equity investments	4,908	-11	4,897
c) tangible and intangible	4,274	-525	3,749
5. Goodwill arising on consolidation	**546**	**-194**	**352**
6. Goodwill arising on application of the equity method	**286**	**-**	**286**
7. Other assets	**35,518**	**-833**	**34,685**
Total Assets	**259,678**	**424**	**260,102**

Liabilities and Shareholders' Equity	31.12.2003 pro forma (*) (A)	Impact of IAS/IFRS first-time adoption (except IAS 39) (B)	01.01.2004 IAS/IFRS (except IAS 39) (C = A+B)
1. Debts			
- due to customers	104,676	125	104,801
- securities issued	56,591	2,612	59,203
- due to banks	31,668	174	31,842
2. Allowances with specific purpose	**5,047**	**24**	**5,071**
3. Other liabilities	**35,240**	**-1,535**	**33,705**
4. Allowances for possible loan losses	**25**	**-**	**25**
5. Subordinated and perpetual liabilities	**10,603**	**-**	**10,603**
6. Minority interests	**735**	**11**	**746**
7. Shareholders' equity			
- share capital, reserves and reserve for general banking risks	13,849	-987	12,862
- negative goodwill arising on consolidation	29	-	29
- negative goodwill arising on application of the equity method	1	-	1
- net income for the period	1,214	-	1,214
Total Liabilities and Shareholders' Equity	**259,678**	**424**	**260,102**

(*) Figures restated in order to take into account the changes in the consolidation area occurred in 2004, as published in the Annual report 2004.

Reconciliation of balance sheet as per Legislative Decree 87/92 to IAS/IFRS balance sheet as at 31st December 2004 and as at 1st January 2005

(in millions of euro)

Assets	31.12.2004 (A)	Impact of IAS/IFRS first-time adoption (except IAS 39) (B)	Impact of IAS/IFRS first-time adoption (IAS 39) (C)	31.12.2004 IAS/IFRS (except IAS 39) (D=A+B)	01.01.2005 IAS/IFRS (including IAS 39) (E=A+B+C)
1. Cash and deposits with central banks and post offices	**1,488**	**-18**	**-**	**1,470**	**1,470**
2. Loans					
- loans to customers	157,698	1,870	-1,570	159,568	157,998
- due from banks	28,730	126	21	28,856	28,877
3. Trading portfolio	**33,576**	**908**	**123**	**34,484**	**34,607**
of which Own shares	*10*	*-10*	-	-	-
4. Fixed assets					
a) investment portfolio	5,158	61	390	5,219	5,609
b) equity investments	4,834	-55	-27	4,779	4,752
c) tangible and intangible	4,075	-558	-	3,517	3,517
5. Goodwill arising on consolidation	**484**	**-83**	**-**	**401**	**401**
6. Goodwill arising on application of the equity method	**253**	**68**	**-**	**321**	**321**
7. Other assets	**38,302**	**-782**	**2,250**	**37,520**	**39,770**
Total Assets	**274,598**	**1,537**	**1,187**	**276,135**	**277,322**

Liabilities and Shareholders' Equity	31.12.2004 (A)	Impact of IAS/IFRS first-time adoption (except IAS 39) (B)	Impact of IAS/IFRS first-time adoption (IAS 39) (C)	31.12.2004 IAS/IFRS (except IAS 39) (D=A+B)	01.01.2005 IAS/IFRS (including IAS 39) (E=A+B+C)
1. Debts					
- due to customers	109,542	68	-	109,610	109,610
- securities issued	61,417	2,670	1,185	64,087	65,272
- due to banks	34,214	134	-10	34,348	34,338
2. Allowances with specific purpose	**4,715**	**106**	**667**	**4,821**	**5,488**
3. Other liabilities	**39,121**	**-1,556**	**1,024**	**37,565**	**38,589**
4. Allowances for possible loan losses	**4**	**-4**	**-**	**-**	**-**
5. Subordinated and perpetual liabilities	**9,278**	**-**	**-**	**9,278**	**9,278**
6. Minority interests	**743**	**48**	**-13**	**791**	**778**
7. Shareholders' equity					
- share capital, reserves and reserve for general banking risks	13,649	94	-1,651	13,743	12,092
- negative goodwill arising on consolidation	29	-	-	29	29
- negative goodwill arising on application of the equity method	2	5	-	7	7
- net income for the period	1,884	-28	-15	1,856	1,841
Total Liabilities and Shareholders' Equity	**274,598**	**1,537**	**1,187**	**276,135**	**277,322**

The tables above highlight the effects that first-time adoption of IAS/IFRS would have had on the balance sheet as at 1st January 2004, as at 31st December 2004 and as at 1st January 2005 using the financial statement forms in force at the time.
Column (B) includes, in addition to the effects of the transition to IAS/IFRS with the exclusion of IAS 39, the variations in the consolidation area, the insertion in the relevant caption of accruals and deferrals as well as the reclassification in loans to customers of assets to be leased.
Column (C) includes the effects of the transition to IAS/IFRS attributable to the application of IAS 39.

Restatement of the balance sheet as per Legislative Decree 87/92 to IAS/IFRS balance sheet (except IAS 39) as at 31st December 2004

(in millions of euro)

Legislative Decree 87/92 \ IAS/IFRS	Consolid. financial statements ex Legislative Decree 87/92	Reclassif. IAS (except IAS 39)	Consolid. financial statements IAS (except IAS 39)	Cash and cash equivalents	Financial assets held for trading	Investments held to maturity	Due from banks	Loans to customers	Investments in associates and companies subject to joint control	Property and equipment	Intangible assets	Tax assets	Non-current assets held for sale and discontinued operations	Other assets	Total
ASSETS															
Cash and deposits with central banks and post offices	1,488	-18	1,470	1,470											**1,470**
Loans to customers	157,698	1,870	159,568					159,568							**159,568**
Due from banks	28,730	126	28,856				28,856								**28,856**
Trading portfolio	33,576	908	34,484		34,484										**34,484**
Investment portfolio	5,158	61	5,219			5,219									**5,219**
Equity investments	4,834	-55	4,779		41				4,733				5		**4,779**
Fixed assets and intangibles	4,075	-558	3,517							2,982	473			62	**3,517**
Goodwill arising on consolidation	484	-83	401								401				**401**
Goodwill arising on application of the equity method	253	68	321						321						**321**
Other assets	38,302	-782	37,520	315	23,682			197			39	4,447	2	8,838	**37,520**
TOTAL ASSETS	**274,598**	**1,537**	**276,135**	**1,785**	**58,207**	**5,219**	**28,856**	**159,765**	**5,054**	**2,982**	**913**	**4,447**	**7**	**8,900**	**276,135**

(in millions of euro)

Legislative Decree 87/92 \ IAS/IFRS	Consolid. financial statements ex Legislative Decree 87/92	Reclassif. IAS (except IAS 39)	Consolid. financial statements IAS (except IAS 39)	Due to banks	Due to customers	Securities issued	Financial liabilities held for trading	Tax liabilities	Other liabilities	Employee termination indemnities	Allowances for risks and charges	Valuation reserves	Reserves	Share premium reserve	Share capital	Treasury shares	Minority interests (+/-)	Net income (loss)	Total liabilities and share-holders' equity
LIABILITIES AND SHAREHOLDERS' EQUITY																			
Due to customers	109,542	68	109,610		109,610														**109,610**
Securities issued	61,417	2,670	64,087			64,087													**64,087**
Due to banks	34,214	134	34,348	34,348															**34,348**
Allowances with specific purpose	4,715	106	4,821					1,611	574	1,089	1,547								**4,821**
Other liabilities	39,121	-1,556	37,565				23,952	353	13,260										**37,565**
Allowances for possible loan losses	4	-4	-																**-**
Subordinated and perpetual liabilities	9,278	-	9,278			9,278													**9,278**
Minority interests	743	48	791														791		**791**
Share capital, reserves and reserve for general banking risks	13,649	94	13,743									459	4,327	5,406	3,561	-10			**13,743**
Negative goodwill arising on consolidation	29	-	29										29						**29**
Negative goodwill arising on application of the equity method	2	5	7										7						**7**
Net income for the period	1,884	-28	1,856															1,856	**1,856**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**274,598**	**1,537**	**276,135**	**34,348**	**109,610**	**73,365**	**23,952**	**1,964**	**13,834**	**1,089**	**1,547**	**459**	**4,363**	**5,406**	**3,561**	**-10**	**791**	**1,856**	**276,135**

The tables above illustrate the reconciliation between the balance sheet as at 31st December 2004 restated with the application of IAS/IFRS (excluding IAS 39), and the new balance sheet included in the financial statements in this Annual report.

Impact of first-time adoption of IAS/IFRS on capital for supervisory purposes and on capital ratios as at 31st December 2004

(in millions of euro)

	31.12.2004	01.01.2005 IAS/IFRS (including IAS 39)	Changes
Tier 1 capital	15,564	13,900	-1,664
Tier 2 capital	6,714	6,773	59
Items to be deducted	-1,117	-620	497
Total capital	**21,161**	**20,053**	**-1,108**
Credit risks	13,112	13,046	-66
Market risks	1,210	1,240	30
Tier 3 subordinated loans	-	-	-
Other capital requirements	277	277	-
Capital requirements	**14,599**	**14,563**	**-36**
Excess capital	**6,562**	**5,490**	**-1,072**
Risk-weighted assets	**182,486**	**182,042**	**-444**
Capital ratios %			
Core Tier 1 / Total risk-weighted assets	7.59	6.69	-0.90
Tier 1 / Total risk-weighted assets	8.53	7.64	-0.89
Total capital / Total risk-weighted assets	11.60	11.02	-0.58

Shareholders' equity for supervisory purposes and capital ratios have been calculated on the basis of balance sheet aggregates and net income determined applying IAS/IFRS and the so-called "prudential filters" supplied by the Basel Committee via certain press releases in 2004.

Independent Auditors' Report on the first-time adoption of IAS/IFRS (*)

(*) Document published on first-time adoption of IAS/IFRS and in the subsequent interim reports.

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INDEPENDENT AUDITOR'S REPORT ON THE STATEMENTS OF RECONCILIATION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") WITH THE DESCRIPTION OF THE EFFECTS OF THE TRANSITION TO IFRS

(Translation from the original Italian text)

To the Board of Directors
of Banca Intesa S.p.A.

1. We have audited the accompanying consolidated statements denominated "Reconciliation of balance sheet as per Legislative Decree 87/92 to IAS/IFRS balance sheet" as of January 1, 2004, December 31, 2004 and January 1, 2005 "Reconciliation of net income as per Legislative Decree 87/92 to IAS/IFRS net income" for the year ended December 31, 2004, "Reconciliation of Shareholders' equity as per Legislative Decree 87/92 to IAS/IFRS Shareholders' equity" as of January 1, 2004, December 31, 2004 and January 1, 2005 (hereinafter, the "IFRS Reconciliation Statements") and the related explanatory notes, as presented in the Section denominated "IAS/IFRS first time adoption" to the Consolidated Report as at March 31, 2005. These IFRS Reconciliation Statements are based on the consolidated financial statements of Banca Intesa S.p.A. as of December 31, 2004, prepared in accordance with the Italian regulations governing the criteria for their preparation, which we have previously audited and on which we issued our auditor's report dated March 23, 2005. The IFRS Reconciliation Statements have been prepared as part of the Group's conversion to International Financial Reporting Standards (IFRS) as adopted by the European Commission. These IFRS Reconciliation Statements are the responsibility of Banca Intesa S.p.A.'s management. Our responsibility is to express an opinion on these IFRS Reconciliation Statements based on our audit.

2. We conducted our audit in accordance with generally accepted auditing standards in Italy. In accordance with such standards we planned and performed the audit to obtain the information necessary in order to determine whether the IFRS reconciliations are materially misstated. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS Reconciliation Statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the IFRS Reconciliation Statements identified in paragraph 1. above, taken as a whole, have been prepared in all material respects in accordance with the criteria and principles set out in article 82-bis of CONSOB Regulation no. 11971/1999 as amended by Resolution no. 14990 of April 14, 2005.

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4. We draw your attention to the fact that, as described in the explanatory notes, the data presented in the IFRS Reconciliation Statements will be utilized for inclusion as comparative information in the first complete set of consolidated financial statements as of Decemeber 31, 2005; such data may require adjustments since new IFRS standards or IFRIC interpretations, for which earlier adoption could be allowed, may be effective before the publication of the 2005 consolidated financial statements.

   Moreover, since the IFRS Reconciliation Statements have been prepared as part of the Group's conversion to IFRS in connection with preparation of its first complete set of consolidated financial statements in accordance with IFRS as adopted by the European Commission, they do not include certain tables, comparative data and explanatory notes which would be required for a complete presentation of the financial position and results of operations of the Intesa Group in conformity with IFRS.

Milan, June 8, 2005

Reconta Ernst & Young S.p.A.
Signed by: Massimo Colli, partner

Report on operations

The macroeconomic scenario and lending and deposit collecting activities

The macroeconomic scenario

During 2005 the macroeconomic scenario confirmed the main trends observed the previous year even if with certain discontinuities. Tensions on raw material prices characterised also 2005, as a result of still sustained economic growth rates. Inflation was therefore moderately high both in the United States where it touched 4.7% and in the Euro Zone, where the twelve-month average (2.2%) exceeded the target set by the European Central Bank. However, the trend of prices for manufactured articles remained relatively moderate everywhere and allowed central banks to gradually adjust their monetary policies.

In the United States, where the economy recorded an approximately 3.5% annual average growth rate, the Federal Reserve increased official rates from 2.25% to 4.25%. At the end of the year the Federal Reserve again signalled that new interventions were probable, but the upward cycle is considered by markets near the close. The economy shows certain timid signs of deceleration, even if consensus growth rates for 2006 remain well above 3.0%.

In the Euro Zone monetary policy remained unchanged till the beginning of December, when the ECB decided to increase the rate on main refinancing operations from 2.0% to 2.25% and then to 2.50% in February 2006. This move was broadly prepared by the ECB and reflected the improvement in the European economic situation. Even if the Euro Zone growth rate for 2005 is estimated at 1.4%, lower than the previous year, domestic demand and exports strengthened during the second half, the latter also as a result of more favourable exchange rates.

With regard to Central-Eastern European Countries where Gruppo Intesa is present, economic growth slowed down, compared to 2004, marginally in Croatia, Hungary and Slovakia and more substantially in Russia, whereas the evolution of interest rates showed a widespread downward trend. Exchange rates registered contained fluctuations towards the euro: the Croatian kuna and the Slovakian crown gained respectively 3.8% and 2.3%, whilst the Hungarian forint lost 2.9% from 31st December 2004.

In foreign exchange markets, the increases in American interest rates sustained the dollar and reduced the overvaluation of the euro determined by the strong rises recorded in the 2003-2004 period. The exchange rate between the two currencies highlighted a marked inversion in the trend, down from 1.36 to 1.18. In general, investors preferred currencies characterised by higher interest rates.

In fixed-income markets, the moderate inflation and the perception of a gradual slowdown in the US economy considerably reduced maturity spreads in the yield curve: spreads between 10-year and 3-year yields on the BTP (Italian fixed-rate Government bonds) curve dropped from 120 to 55 basis points, whilst for the American Government securities market the downward slope virtually flattened.

Emerging markets were again sustained by international investors seeking high yields as well as by low levels of issues and by the improvement of financial stability parameters. The EMBI index+ (*Emerging Markets Bond Index*) rose by 12% in 2005, mainly driven by lower risk premiums.

2005 was very positive for world stock markets, that overcame the obstacle posed by the subdued trend in American indices. Noteworthy was the performance of the Nikkei index (+40%), sustained by rising confidence of foreign investors in Japan's relaunch prospects. Also European markets registered solid increases in prices with EuroStoxx closing the year at +23.6%. The Italian market took part in the favourable trend (Mibtel: +14.4%), with only two important correction phases, the first in April and the second in October.

In this generally positive context, the Italian economy began 2005 recording a contraction in GDP for the second consecutive quarter. The middle part of the year registered a rapid and surprising recovery, mainly attributable to domestic demand. Also exports appeared on the rise, benefiting from both foreign demand and declining exchange rates. This fluctuating trend led to no growth, on average over the twelve months, in GDP for 2005, according to the latest ISTAT estimates, but consensus projections anticipate an acceleration in 2006.

Italian lending and deposit collecting activities

After a first half still characterised by a gradual contraction in bank interest rates (particularly in lending rates), reaching new all-time lows, a period of practical stability followed. Only in December, on the wake of the increase in the base rate decided by the ECB, interest rates recorded a clearly upward trend, which could continue during 2006 should market expectations of a further monetary tightening materialise. Estimated yields on loans to households and non-financial companies dropped an average of 19 basis points in 2005 compared to the corresponding figure of 2004, with an impact on the whole structure by maturity. Sector breakdown shows that household loans registered a more marked reduction compared to corporate loans. At the same time, also average interest rates on loans to non-financial companies decreased, though by a lower extent. Funding rates in 2005 were far more stable than lending rates, showing a moderately upward trend during the fourth quarter. At the end of the year, the estimated overall cost of collecting funds from households and non-financial companies rose by 3 basis points from the end of 2004. With regard to intermediation margins, short-term mark-up decreased from 3.21% at the beginning of the year to 2.85% at the end of the year, whereas the contribution margin of on demand funding rose from 1.46% to 1.64%. Consequently, short-term spreads declined by 18 basis points, to 4.49% at the end of the year, whilst the estimated overall spread between lending yield and funding cost dropped 15 basis points to 2.89%.

In line with the Euro Zone, loans granted by Italian banks registered a significant acceleration in 2005. Mainly due to the positive trend in household and corporate demand, sustained by particularly favourable terms, bank loans showed a rise in average volumes higher than that recorded in the previous twelve months.
As in 2004, the growth in the aggregate was almost exclusively sustained by the longer-term component, while short-term activities continued to be affected – especially in the first nine months – by the uncertain economic situation and showed a recovery only in the fourth quarter, that however was not sufficient to take the average growth over the twelve months to positive ground.
The divergent trend by maturity was also attributable to the low cost of long-term loans and the continuation of lending policies more focused on retail customers (from 1999 to now the incidence of household loans on total bank lending rose from 24% to over 30%).
These facts favoured the continuation of a sustained growth rate for household loans with an increasing focus on mortgages and consumer loans to fund the purchase of durable goods and services. However, the growth of the former reflected the effects of a further rise in prices of residential properties and the persistently-prudent attitude of investors towards financial investments, whereas the expansion of consumer loans appears more linked to the gradual convergence of Italian households to consumer models which are well consolidated in more advanced Western Countries. Possible concerns regarding excessive household debt do not appear to be grounded in the evolution of doubtful loans that remained very contained during the whole of the year, nor in the comparison with international figures.
Also demand for corporate loans was robust and in acceleration compared to the previous year. This was due not only to low interest rates that encouraged companies to request funding in advance even without short-term investment plans, but also to syndicated loans granted to certain large groups to fund turnaround programmes.
The growth in corporate loans was mainly sustained by medium- and long-term demand, which determined a further expansion in companies' medium- and long-term liabilities.
During 2005 the overall quality of the loan portfolio remained very high, as a result of a moderate expansion in doubtful loans, due to both the strengthening of the loan granting criteria applied by banks, and to companies' improved financial situation.
Funding activities within the Italian banking system, according to the harmonised definition, registered a marked acceleration in 2005 characterised by a considerable expansion in current accounts, repurchase agreements and bonds.
Despite the good performance of on demand deposits, determined by the still very high degree of uncertainty perceived by investors, in the last months of the year the weight of longer-term assets in financial portfolios increased. In particular, non-money market mutual funds and indirect customer deposits recorded a recovery. This last aggregate returned to register positive growth rates in the second half, after over two years of continued contraction.

Economic results

General aspects

The tables hereafter and the relative comments analyse the results recorded in the statement of income as at 31st December 2005 – drawn up using the new IAS/IFRS – compared to those of 2004, restated using IAS/IFRS, including IAS 39.
For the banking industry the provisions of the latter are by far the most significant and the most complex to apply, since they refer to the classification, recognition and measurement of loans and financial instruments, which make up the ordinary operations of a bank.
In the construction of the comparative figures for 2004, as already indicated in the previous chapters of this Report, estimates have been used where necessary. These are based on reasonable elements and therefore enable a reliable representation of the figures for the previous year.
Again in figures for 2004, income and losses on the doubtful loan portfolio and the loan servicing business of Intesa Gestione Crediti (IGC) sold during 2005 have been estimated and recorded in a specific caption.

Reclassification criteria of the statement of income

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

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

Reclassified consolidated statement of income

(in millions of euro)

	2005	2004 including IAS 39 (*)	Changes amount	Changes %
Net interest income	5,285	4,979	306	6.1
Dividends	12	12	-	-
Profits (Losses) on investments carried at equity	151	143	8	5.6
Net fee and commission income	3,904	3,473	431	12.4
Profits (Losses) on trading	675	656	19	2.9
Other operating income (expenses)	2	-6	8	
Operating income	**10,029**	**9,257**	**772**	**8.3**
Personnel expenses	-3,207	-3,178	29	0.9
Other administrative expenses	-1,795	-1,812	-17	-0.9
Adjustments to property, equipment and intangible assets	-514	-517	-3	-0.6
Operating costs	**-5,516**	**-5,507**	**9**	**0.2**
Operating margin	**4,513**	**3,750**	**763**	**20.3**
Goodwill impairment	-6	-	6	-
Net provisions for risks and charges	-416	-296	120	40.5
Net adjustments to loans	-715	-806	-91	-11.3
Net impairment losses on other assets	-28	-77	-49	-63.6
Profits (Losses) on investments held to maturity and on other investments	834	217	617	
Income (Loss) before tax from continuing operations	**4,182**	**2,788**	**1,394**	**50.0**
Taxes on income from continuing operations	-1,082	-792	290	36.6
Income (Loss) after tax from discontinued operations	32	-49	81	
Minority interests	-107	-106	1	0.9
Net income	**3,025**	**1,841**	**1,184**	**64.3**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

Quarterly development of the reclassified consolidated statement of income

(in millions of euro)

	2005				2004 (*)			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	1,355	1,343	1,307	1,280	1,291	1,267	1,191	1,230
Dividends	-	-	12	-	-	-	12	-
Profits (Losses) on investments carried at equity	41	44	33	33	40	34	36	33
Net fee and commission income	1,001	979	970	954	921	858	865	829
Profits (Losses) on trading	132	179	177	187	238	122	186	110
Other operating income (expenses)	14	-7	11	-16	92	-140	30	12
Operating income	**2,543**	**2,538**	**2,510**	**2,438**	**2,582**	**2,141**	**2,320**	**2,214**
Personnel expenses	-872	-786	-777	-772	-840	-764	-781	-793
Other administrative expenses	-505	-430	-458	-402	-507	-427	-449	-429
Adjustments to property, equipment and intangible assets	-161	-125	-119	-109	-153	-123	-123	-118
Operating costs	**-1,538**	**-1,341**	**-1,354**	**-1,283**	**-1,500**	**-1,314**	**-1,353**	**-1,340**
Operating margin	**1,005**	**1,197**	**1,156**	**1,155**	**1,082**	**827**	**967**	**874**
Goodwill impairment	-6	-	-	-	-	-	-	-
Net provisions for risks and charges	-204	-48	-118	-46	-174	-18	-86	-18
Net adjustments to loans	-239	-155	-133	-188	-260	-139	-311	-96
Net impairment losses on other assets	-21	-	-7	-	-51	-8	1	-19
Profits (Losses) on investments held to maturity and on other investments	709	43	23	59	84	107	29	-3
Income (Loss) before tax from continuing operations	**1,244**	**1,037**	**921**	**980**	**681**	**769**	**600**	**738**
Taxes on income from continuing operations	-64	-348	-316	-354	-143	-248	-146	-255
Income (Loss) after tax from discontinued operations	25	-9	-2	18	-2	-2	-7	-38
Minority interests	-25	-35	-23	-24	-49	-22	-16	-19
Net income	**1,180**	**645**	**580**	**620**	**487**	**497**	**431**	**426**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

In 2005 consolidated net income exceeded the threshold of 3 billion euro (+64.3% on the figure for 2004), realised as a result of both higher operating income, up from 9,257 million euro to 10,029 million euro (+8.3%), and stable operating costs which, at 5,516 million euro were practically in line with 2004. The result for the period also benefited from lower net adjustments to loans, which almost offset higher provisions for risks and charges, and from profits on disposal of investments.

Operating income

The 8.3% growth rate registered by operating income – that, as already mentioned, reached 10,029 million euro – reflected the generalised increase in all income components: net interest income recorded a growth rate exceeding 6%, net fee and commission income rose by 12.4% and profits on trading was also positive, though with a lower growth rate (approximately +3%).

Net interest income

(in millions of euro)

	2005	2004 including IAS 39 (*)	Changes amount	Changes %
Relations with customers	5,887	5,756	131	2.3
Relations with banks	-174	107	-281	
Securities issued	-2,390	-2,230	160	7.2
Differentials on hedging derivatives	424	-102	526	
Financial assets held for trading	978	996	-18	-1.8
Investments held to maturity	123	124	-1	-0.8
Financial assets available for sale	142	129	13	10.1
Non-performing assets	299	250	49	19.6
Other net interest income	-36	-40	-4	-10.0
Interest margin	**5,253**	**4,990**	**263**	**5.3**
Fair value adjustments in hedge accounting	**32**	**-11**	**43**	
Net interest income	**5,285**	**4,979**	**306**	**6.1**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

Net interest income with customers – if considered together with interest on related funding via securities issued and connected differentials on hedging derivatives (equal to 424 million euro in 2005 and 88 million euro in 2004) – recorded a 307 million euro rise in 2005. The greater contribution is related to the rise in intermediated volumes, especially in the retail segment, and the disbursements to public entities and for the funding of infrastructural projects, as well as the significant increase in operations of Group banks operating in Eastern Europe.
Interbank relations registered a negative contribution of 174 million euro, up by 91 million euro with respect to the same figure for 2004, the latter includes the portion of differentials on hedging derivatives (negative for 190 million euro) connected to investments with banking counterparties as part of structured finance transactions carried out in 2004 and almost absent in 2005.
The increase in net interest income on non-performing assets is attributable to the effect of time value and to higher interest collected on overdue payments.
Net interest income also includes the effect of time value on allowances for risks and charges and on employee termination indemnities which recorded a practically immaterial change.
Lastly, the caption includes fair value adjustments in hedge accounting that is the imbalance of positive and negative variations in the fair value of hedging derivatives and the relevant assets and liabilities hedged.
On a quarterly basis, net interest income showed the progressive growth in the first three periods and a slight contraction in the fourth quarter (excluding the contributions of companies consolidated for the first time starting from the fourth quarter).

Dividends and profits on investments carried at equity

The caption Dividends records the profits collected from unconsolidated equity investments, while it does not include dividends on shares held for trading or available for sale, that are posted in Profits (Losses) on trading. In the year dividends, at 12 million euro, confirmed the same figure of the corresponding period of 2004.
A moderate rise was instead registered by profits on investments carried at equity, which summed up to 151 million euro compared to 143 million euro of December 2004.

Net fee and commission income

(in millions of euro)

	2005	2004 including IAS 39 (*)	Changes amount	%
Guarantees given	142	140	2	1.4
Collection and payment services	283	279	4	1.4
Current accounts	748	744	4	0.5
Fees on credit and debit cards	288	268	20	7.5
Commercial banking activities	**1,461**	**1,431**	**30**	**2.1**
Dealing and placement of securities	470	233	237	
Dealing in currencies	40	40	-	-
Portfolio management	761	805	-44	-5.5
Distribution of insurance products	411	221	190	86.0
Other	151	153	-2	-1.3
Management, dealing and consultancy activities	**1,833**	**1,452**	**381**	**26.2**
Tax collection	**277**	**276**	**1**	**0.4**
Other net fee and commission income	**333**	**314**	**19**	**6.1**
Net fee and commission income	**3,904**	**3,473**	**431**	**12.4**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

Net fee and commission income recorded an appreciable rise to over 3,900 million euro (+12.4%), supported by the positive results of placement of insurance and financial products. This confirmed the increasing contribution of commissions generated on management, dealing and consultancy activities (1,833 million euro), with respect to those originated by traditional commercial banking activities (1,461 million euro). In fact, while the latter posted a slightly over 2% rise driven by fees on credit and debit cards, the former recorded a growth rate exceeding 26%, especially due to the increasing contribution from dealing and placement of securities and the distribution of insurance policies, while commissions on individual portfolio management schemes again posted a 5.5% decline. In commissions from services and commissions from commercial banking activities, the most significant contribution in absolute terms came from the Italian network, while the foreign network recorded a more significant growth rate.
It must also be noted that the tax collection sector benefited, also in 2005, from the legislation which set the same level of compensation for tax collection services as in 2004.
Lastly, the rise in other commissions was mostly attributable to medium- and long-term lending.
On a quarterly basis, the contribution of net fee and commission income recorded an upward trend. In particular, in the second half commissions from tax collection services and from the development of insurance products offset the lower contribution of placement activities.

Profits (Losses) on trading

(in millions of euro)

	2005	2004 including IAS 39 (*)	Changes amount	Changes %
Interest rates	-58	128	-186	
Equities	523	334	189	56.6
Foreign exchange	176	111	65	58.6
Credit derivatives (trading book)	12	18	-6	-33.3
Profits (Losses) on trading	**653**	**591**	**62**	**10.5**
Profits (Losses) on disposal of financial assets available for sale and financial liabilities	**22**	**65**	**-43**	**-66.2**
Profits on trading	**675**	**656**	**19**	**2.9**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

Profits (Losses) on trading includes: i) profits and losses on disposal of financial assets held for trading or available for sale, ii) valuation differences on financial assets held for trading designated at fair value, and – as already indicated above – iii) dividends collected on shares held for trading or available for sale. More specifically, the caption was the sum of 653 million euro of profits on trading (+10.5% with respect to the 591 million euro of 2004) and 22 million euro of profits on disposal of financial assets available for sale (*ex* 65 million euro).
As concerns trading activities, trading on equities, mostly attributable to Banca Intesa and Banca Caboto, continued to represent the most significant component (523 million euro, compared to 334 million euro of 2004). This result also includes the disposal and valuation effects of the conversion of the Fiat *convertendo* loan and of Banco ABN Amro Real shares, which totalled approximately 160 million euro.
Profits on foreign exchange activities equalled 176 million euro, with respect to 111 million euro of the previous year, and this result was generated by the Parent Company and also, to a significant extent, by the Eastern-European subsidiaries.
Conversely, interest rate activities posted a negative result (-58 million euro) compared to the 128 million euro profit as at 31st December 2004 which had been influenced by the 38 million euro capital gain realised by Intesa Leasing with the sale of securities from a securitisation transaction.
Furthermore, the result on trading of credit derivatives was only slightly lower than that recorded in 2004 and, in any case, of immaterial absolute amounts.
Lastly, the 22 million euro imbalance of profits on the sale of financial assets available for sale is the result of components of opposite sign, among which the most noteworthy is the negative contribution (amounting to approximately 54 million euro in the consolidated financial statements) referred to the disposal of the equity stake in Banco Comercial Portugues (BCP) which is offset by the approximately 40 million euro profit recorded in profits on sale of investments deriving from the simultaneous sale, again to BCP, of the equity investment in Banco de Investimento Imobiliario (BII). Lastly, the overall result of the transaction must also include approximately 4 million euro of profits from the measurement at equity of BII.
On a quarterly basis, profits (losses) on trading recorded a moderate decline, more marked in the last period of the year.

Other operating income (expenses)

Other operating income (expenses) is a residual caption which comprises income and expenses of various nature. It must also be noted that the caption does not include recovery of expenses and of taxes and duties, which is directly deducted from administrative expenses.
The figure for the period is a net operating income of 2 million euro, compared to a net expense of 6 million euro of 2004. The imbalance recorded in 2005 includes, among income, captions such as rentals, income related to leasing contracts, recovery of insurance costs and taxes and, among expenses, amortisation of leasehold improvements, expenses related to finance leasing contracts, integration and reorganisation charges and those for litigations and for customer restoration.

Operating costs

(in millions of euro)

	2005	2004 including IAS 39 (*)	Changes amount	Changes %
Wages and salaries	2,193	2,213	-20	-0.9
Social security charges	606	608	-2	-0.3
Other	408	357	51	14.3
Personnel expenses	**3,207**	**3,178**	**29**	**0.9**
General structure costs	477	515	-38	-7.4
Information technology expenses	448	452	-4	-0.9
Indirect taxes and duties	379	318	61	19.2
Management of real estate assets	310	316	-6	-1.9
Legal and professional expenses	208	197	11	5.6
Advertising and promotional expenses	135	123	12	9.8
Indirect personnel costs	62	64	-2	-3.1
Other costs	134	103	31	30.1
Recovery of expenses and charges	-358	-276	82	29.7
Administrative expenses	**1,795**	**1,812**	**-17**	**-0.9**
Property and equipment	264	251	13	5.2
Intangible assets	250	266	-16	-6.0
Adjustments	**514**	**517**	**-3**	**-0.6**
Operating costs	**5,516**	**5,507**	**9**	**0.2**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

The stability manifested by operating costs is the result of a slight increase in personnel expenses (+0.9%) and contained contractions in administrative expenses (-0.9%) and adjustments (-0.6%).

With reference to personnel expenses it must be noted that the trend is the result of greater savings achieved by the Parent Company and higher costs sustained by certain bank subsidiaries as a result of both compliance to contractual wage rises and the expansion of activities and the operating network, especially abroad. In the comparison between the two periods, the Parent Company still benefited from the outflow of personnel that took part in the incentive-driven exit plan in 2005 which was only partly absorbed by the higher charges related to the renewal of the national labour contract. "Other personnel expenses" reflected provisions made by Parent Company and by other companies for the assignment, for free, of Banca Intesa's shares to employees, operation resolved upon by the Boards of Directors held last December and which will be submitted to the approval of the Shareholders' Meeting summoned to approve the 2005 financial statements. As set out by international accounting standards, the related charges (63 million euro in the consolidated financial statements) are recorded in the 2005 statement of income. Excluding this component, personnel expenses and, in general, total operating costs would have recorded a decrease close to 1%.

Administrative expenses posted an overall decline, though with differentiated trends. Savings were achieved in general structure costs, in information technology expenses and in management of real estate assets while, as programmed, advertising and promotional expenses and consulting and professional expenses increased, in relation to certain important development projects and the rationalisation of structures and processes.

The rise in indirect taxes and duties was mostly attributable to the increase in tariffs and leads to higher recoveries from customers which – together with other recoveries – are directly deducted from total administrative expenses.

Adjustments to property, equipment and intangible assets summed up to 514 million euro, – practically in line with the previous year (-0.6%) – which is the combined effect of the imbalance between trends of opposite sign (-6% for amortisation of intangible assets and +5.2% for depreciation of property and equipment).

The favourable trends recorded by operating income and costs positively influenced the cost/income ratio which improved from 59% of 2004 to the current 55%.

The various quarters of the year repeated the seasonal trend, with an increase in charges in the last few months of the year. As concerns in particular personnel expenses, the last quarter of 2005 reflected – as already mentioned – provisions for the charges related to the shares to be assigned for free to employees while in other administrative expenses certain types of invoices, especially those related to professional services, are concentrated towards the end of the year.

Operating margin

The satisfactory performance registered by operating income, in addition to the capacity of containing costs even during a growth phase, led operating margin to 4,513 million euro, with a growth rate exceeding 20% compared to the previous year.

Net provisions for risks and charges

Net provisions for risks and charges were considerably strengthened (416 million euro compared to 296 million euro in 2004).
These provisions are allocated for the purpose of covering probable charges deriving from any litigations in course (legal, fiscal, labour contract, etc.). In the 2005 financial statements provisions were increased also for the purpose of facing any negative outcomes of the action promoted during the year by the Extraordinary Commissioner of the Parmalat group for revocatory actions related to payments made by the Parmalat group to Gruppo Intesa in the twelve months before its state of insolvency, as well as payment of any damages caused in the origination of debt instruments and advances of funds. Gruppo Intesa companies taken to court for various motivations, repeat the fairness and legitimacy in their behaviour, but in any case proceeded to increase provisions to the allowance for risks and charges based on the usual prudent criteria.

Net adjustments to loans

Net adjustments to loans summed up to 715 million euro, 11.3% lower than the corresponding figure of 2004 and reflected adjustments of 1,527 million euro and write-backs of 812 million euro.

(in millions of euro)

	2005	2004 including IAS 39 (*)	Changes amount	Changes %
Doubtful loans	489	521	-32	-6.1
Other non-performing loans	249	270	-21	-7.8
Performing loans	14	-	14	
Net impairment losses on loans	**752**	**791**	**-39**	**-4.9**
Net adjustments to guarantees and commitments	**-37**	**15**	**-52**	
Net adjustments to loans	**715**	**806**	**-91**	**-11.3**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

Considering the various non-performing loan categories, net impairment losses on doubtful loans recorded a 6.1% decrease to 489 million euro compared to 521 million euro of 2004, and those relative to other non-performing loans – namely, substandard loans, restructured loans and loans overdue by over 180 days – decreased from 270 million euro of 2004 to 249 million euro (-7.8%), also due to considerable write-backs, in presence of a more contained increase of adjustments. Adjustments reflected provisions (32 million euro) relative to positions overdue by over 180 days which, as provided for by the new instructions issued by the Bank of Italy, are classified in 2005 in non-performing loans.
Write-backs included the rapid return to performing of two important positions classified as substandard in previous years.
Calculations to ensure that the generic coverage of performing loans is maintained at the levels required by the respective risk configurations, evidenced, on a net basis, new adjustments of 14 million euro.

Lastly, net write-backs of 37 million euro were posted on non-cash credit risk relative to guarantees and commitments outstanding, compared to 15 million euro of adjustments of 2004.
Overall, charges related to credit quality equalled 0.44% of loans to customers, percentage in line with the Business Plan.
Development in the various periods of 2005 highlighted that between the first and second half of the year net adjustments increased, even though for both periods on lower levels with respect to the corresponding halves of 2004.

Income (Loss) before tax from continuing operations

The combined effect of all mentioned above led to income before tax from continuing operations of 4,182 million euro, with a 50% rise compared to 2,788 million euro of 2004. In addition to the aforementioned provisions to allowances for risks and charges and net adjustments to loans this also stems from the registration of goodwill impairment of 6 million euro, net impairment losses on other assets of 28 million euro – mostly referred to financial assets available for sale – and gains on measurement or on disposal of investments of 834 million euro, that include 682 million euro relative to the sale of the 65% stake in Nextra to the Crédit Agricole group, and approximately 40 million euro referred to the sale of the equity stake in Banco de Investimento Imobiliario.

Taxes on income from continuing operations

Taxes on income from continuing operations, both current and deferred, referred to the period amounted to 1,082 million euro, with a 290 million euro rise with respect to the figure of 2004 (+36.6%).
The higher absolute value of the tax burden (calculated via the application of regulations in force in the various Countries in which the Group operates) stems from the expansion of taxable income and an approximately 26% tax rate – which benefited from reduced taxation on the capital gain on the sale of Nextra – only slightly lower than that of the previous year.

Income (Loss) on discontinued operations, net of tax

As already illustrated, the sale to Merrill Lynch and Fortress of a portfolio of doubtful loans of nominal value exceeding 9 billion euro and the loan servicing business of Intesa Gestione Crediti dedicated to the management of such loans was completed in 2005. As provided for by IFRS 5, before the closing of the sale, income and losses on such sold assets are posted both in the quarterly reports and in the present annual report in a specific caption in the statement of income.
The difference in the sign in the two periods under comparison (32 million euro, *ex* –49 million euro) mostly stems from the capital gain realised on the sale of the loan servicing business of Intesa Gestione Crediti.

Net income

Net income equalled 3,025 million euro and reflected i) the deduction of current and deferred taxes on income from continuing operations of 1,082 million euro, and ii) the attribution to minority shareholders of the income pertaining to them (107 million euro) as well as iii) the registration in a specific caption of income after tax from discontinued operations of 32 million euro.
Even excluding non-recurring income from net income for the period (the capital gains on the sale of Nextra and the loan servicing business of Intesa Gestione Crediti, the charges for the free stock granting plan in favour of employees and the 250 million euro increase in the Allowance for risks and charges), the rise in profitability would in any case have been substantial (approximately 37%).
Quarterly net income in 2005 showed an upward trend and always exceeded the corresponding figures for the previous year.

Reclassified consolidated pro forma statement of income

IAS/IFRS set out that balance sheet and statement of income components of companies acquired during the year are included in the consolidated financial statements as of the date of acquisition.
The tables below instead set out consolidated results for both comparison periods also inclusive of the statement of income results of acquired companies generated before the date of acquisition by Gruppo Intesa.

(in millions of euro)

	2005	2004 including IAS 39 (*)	Changes amount	Changes %
Net interest income	5,377	5,058	319	6.3
Dividends	12	12	-	-
Profits (Losses) on investments carried at equity	151	143	8	5.6
Net fee and commission income	3,935	3,499	436	12.5
Profits (Losses) on trading	689	666	23	3.5
Other operating income (expenses)	3	-6	9	
Operating income	**10,167**	**9,372**	**795**	**8.5**
Personnel expenses	-3,250	-3,216	34	1.1
Other administrative expenses	-1,823	-1,845	-22	-1.2
Adjustments to property, equipment and intangible assets	-520	-521	-1	-0.2
Operating costs	**-5,593**	**-5,582**	**11**	**0.2**
Operating margin	**4,574**	**3,790**	**784**	**20.7**
Goodwill impairment	-6	-	6	
Net provisions for risks and charges	-416	-297	119	40.1
Net adjustments to loans	-746	-832	-86	-10.3
Net impairment losses on other assets	-28	-77	-49	-63.6
Profits (Losses) on investments held to maturity and on other investments	834	219	615	
Income (Loss) before tax from continuing operations	**4,212**	**2,803**	**1,409**	**50.3**
Taxes on income from continuing operations	-1,089	-799	290	36.3
Income (Loss) after tax from discontinued operations	33	-49	82	
Minority interests	-131	-114	17	14.9
Net income	**3,025**	**1,841**	**1,184**	**64.3**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

The weight of new equity investments, considered in the context of Gruppo Intesa, is not such to significantly modify economic results in 2005.
Operating income, in fact, calculated as mentioned above, equalled 10,167 million euro (+8.5%) due to generalised increases in all income components: net interest income (5,377 million euro; +6.3%), net fee and commission income (3,935 million euro; +12.5%), profits on trading (689 million euro; +3.5%).
Operating costs equalled 5,593 million euro, practically stable with respect to the previous year.
Operating margin totalled 4,574 million euro (+20.7%) and after provisions and adjustments of 1,190 million euro (-1.3%) led to a pre-tax income of 4,212 million euro, with a growth rate exceeding 50%.
Net income for the period equalled 3,025 million euro and reflected the deduction of i) taxes on income from continuing operations of 1,089 million euro, ii) income on discontinued operations of 33 million euro, and iii) the attribution to minority shareholders of both the income pertaining to them and income produced by acquired entities before their consolidation in Gruppo Intesa.

Quarterly development of the reclassified consolidated pro forma statement of income

(in millions of euro)

	2005				2004 (*)			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	1,355	1,374	1,337	1,311	1,291	1,293	1,218	1,256
Dividends	-	-	12	-	-	-	12	-
Profits (Losses) on investments carried at equity	41	44	33	33	40	34	36	33
Net fee and commission income	1,001	988	983	963	921	867	874	837
Profits (Losses) on trading	132	183	182	192	238	125	189	114
Other operating income (expenses)	14	-7	11	-15	92	-140	29	13
Operating income	**2,543**	**2,582**	**2,558**	**2,484**	**2,582**	**2,179**	**2,358**	**2,253**
Personnel expenses	-872	-800	-792	-786	-840	-776	-794	-806
Other administrative expenses	-505	-439	-468	-411	-507	-437	-461	-440
Adjustments to property, equipment and intangible assets	-161	-127	-121	-111	-153	-124	-124	-120
Operating costs	**-1,538**	**-1,366**	**-1,381**	**-1,308**	**-1,500**	**-1,337**	**-1,379**	**-1,366**
Operating margin	**1,005**	**1,216**	**1,177**	**1,176**	**1,082**	**842**	**979**	**887**
Goodwill impairment	-6	-	-	-	-	-	-	-
Net provisions for risks and charges	-204	-48	-118	-46	-174	-19	-86	-18
Net adjustments to loans	-239	-175	-138	-194	-260	-153	-316	-103
Net impairment losses on other assets	-21	-	-8	1	-51	-8	1	-19
Profits (Losses) on investments held to maturity and on other investments	709	43	23	59	84	107	31	-3
Income (Loss) before tax from continuing operations	**1,244**	**1,036**	**936**	**996**	**681**	**769**	**609**	**744**
Taxes on income from continuing operations	-64	-350	-318	-357	-143	-250	-149	-257
Income (Loss) after tax from discontinued operations	25	-8	-2	18	-2	-2	-7	-38
Minority interests	-25	-33	-36	-37	-49	-20	-22	-23
Net income	**1,180**	**645**	**580**	**620**	**487**	**497**	**431**	**426**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

Balance sheet aggregates

General aspects

Balance sheet aggregates as at 31st December 2005, calculated on the basis of IAS/IFRS, are analysed hereafter by comparing them with the figures at the end of 2004, restated to consider the application of the aforementioned principles, including IAS 39.

Reclassified consolidated balance sheet

(in millions of euro)

Assets	31.12.2005	31.12.2004 including IAS 39 (*)	Changes amount	Changes %
Financial assets held for trading	51,067	57,810	-6,743	-11.7
Financial assets available for sale	4,379	4,883	-504	-10.3
Investments held to maturity	2,810	2,454	356	14.5
Due from banks	27,111	28,565	-1,454	-5.1
Loans to customers	169,478	159,369	10,109	6.3
Investments in associates and companies subject to joint control	2,091	2,174	-83	-3.8
Property, equipment and intangible assets	4,280	3,660	620	16.9
Tax assets	3,096	4,697	-1,601	-34.1
Non-current assets held for sale and discontinued operations	2,869	4,267	-1,398	-32.8
Other assets	6,354	6,721	-367	-5.5
Total Assets	**273,535**	**274,600**	**-1,065**	**-0.4**

Liabilities and Shareholders' Equity	31.12.2005	31.12.2004 including IAS 39 (*)	Changes amount	Changes %
Due to banks	31,771	34,220	-2,449	-7.2
Due to customers	187,590	180,521	7,069	3.9
Financial liabilities held for trading	21,249	30,033	-8,784	-29.2
Tax liabilities	1,091	1,356	-265	-19.5
Liabilities associated with non-current asset held for sale and discontinued operations	2,963	2,297	666	29.0
Other liabilities	8,531	8,586	-55	-0.6
Allowances for specific purpose	2,834	2,581	253	9.8
Share capital	3,596	3,561	35	1.0
Reserves	9,255	8,023	1,232	15.4
Valuation reserves	829	544	285	52.4
Minority interests	801	1,037	-236	-22.8
Net income	3,025	1,841	1,184	64.3
Total Liabilities and Shareholders' Equity	**273,535**	**274,600**	**-1,065**	**-0.4**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

Reclassification criteria of the balance sheet

For the purpose of a clearer and more immediate analysis of the balance sheet and financial situation, a condensed table of consolidated assets and liabilities has been prepared, which contains the following reclassifications:

- the inclusion of Cash and cash equivalents in the residual caption Other assets;
- the inclusion of hedging derivatives in Other assets/liabilities;
- the aggregation in just one caption of property and equipment and intangible assets;
- the aggregation of "Customer deposits" and "Securities issued" in just one caption "Due to customers";
- the aggregation in just one caption of allowances for specific purpose (Employee termination indemnities and Allowances for risks and charges);
- the presentation of Reserves as just one aggregate and net of any treasury shares.

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

Loans to customers

(in millions of euro)

	31.12.2005	31.12.2004 including IAS 39 (*)	Changes amount	Changes %
Current accounts	19,370	19,499	-129	-0.7
Mortgages	76,387	70,405	5,982	8.5
Advances and other loans	62,184	57,393	4,791	8.3
Repurchase agreements	3,692	5,660	-1,968	-34.8
Non-performing loans	5,160	4,673	487	10.4
Loans represented by securities	2,685	1,739	946	54.4
Loans to customers	**169,478**	**159,369**	**10,109**	**6.3**
Net value of related fair value hedge derivatives	**17**	**-55**	**72**	
Total	**169,495**	**159,314**	**10,181**	**6.4**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

Loans to customers – inclusive of loans represented by securities issued by customers – reached 169,478 million euro with a 6.3% rise on the figure at the end of 2004. Excluding repurchase agreements, which due to their financial nature are extremely volatile, loans to customers showed an increase close to 8%.

The increase in overall volumes is attributable to almost all lending contracts, with the usual significant rise in medium- and long-term lending through mortgages (+8.5%), which reached 45% of total loans to customers. Also advances and other loans increased (+8.3%) due to i) the sustained growth of loans granted to support infrastructural projects, ii) the considerable expansion of consumer lending, and iii) the expansion in the operations of subsidiaries in Eastern Europe. The demand for short-term funding in overdrafts on current accounts, which had decreased somewhat during the year, at year-end practically returned to the figure of December 2004. Loans granted via the underwriting of securities also increased by almost one billion euro, mainly attributable to loans to public entities disbursed by the operating structures which as of 1st January 2006 were transferred to Banca Intesa Infrastrutture e Sviluppo.

Including net value of related fair value hedge derivatives, offset by fair value measurement of loans hedged, total loans to customers amounted to 169,495 million euro (+6.4%).

Loans to customers: loan portfolio quality

(in millions of euro)

	31.12.2005			31.12.2004 including IAS 39 (*)		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
Doubtful loans	3,991	-2,764	1,227	3,244	-2,295	949
Substandard loans	4,319	-1,193	3,126	4,766	-1,254	3,512
Restructured loans	124	-32	92	238	-26	212
Overdue loans	754	-39	715	-	-	-
Non-performing loans	**9,188**	**-4,028**	**5,160**	**8,248**	**-3,575**	**4,673**
Performing loans to customers	**165,338**	**-1,020**	**164,318**	**155,766**	**-1,070**	**154,696**
Loans to customers	**174,526**	**-5,048**	**169,478**	**164,014**	**-4,645**	**159,369**
Net value of related fair value hedge derivatives	**17**	**-**	**17**	**-55**	**-**	**-55**
Total	**174,543**	**-5,048**	**169,495**	**163,959**	**-4,645**	**159,314**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

Total non-performing loans equalled 5,160 million euro and include 715 million euro of loans overdue by over 180 days which, following provisions issued by the Bank of Italy, must be recorded – as of 2005 – in non-performing loans. Excluding this amount, the consistent comparison with non-performing loans in 2004 – net of the doubtful loans sold in 2005 – shows an approximately 5% drop. The incidence of non-performing loans on total loans to customers – again on a consistent basis – therefore decreased to 2.6%, from 2.9% at the end of the previous year.

In detail, net doubtful loans totalled 1,227 million euro, compared to 949 million euro of December 2004, maintaining an incidence on total loans of 0.7% only marginally higher than at the end of 2004, and a degree of coverage exceeding 69%.

Conversely, substandard loans recorded an 11% contraction to 3,126 million euro, with an incidence on total loans to customers of 1.8%, compared to 2.2% of December 2004, and a degree of coverage of over 27%, with a one percentage point increase.

Restructured loans decreased to 92 million euro, with respect to 212 million euro at the end of 2004.

Risk implicit in performing loans is calculated collectively on the basis of the risk configuration of the entire portfolio analysed via models which consider the Probability of Default (PD) and Loss Given Default (LGD) of individual loans.

Cumulated collective adjustments amounted to 1,020 million euro and represented an average percentage of over 0.6% of gross exposure related to performing loans to customers. Such cumulated provisions are deemed to be adequate to cover the risk in performing loans.

Customer funds

(in millions of euro)

	31.12.2005	31.12.2004 including IAS 39 (*)	Changes amount	Changes %
Deposits	15,306	14,048	1,258	9.0
Current accounts and other	85,493	80,945	4,548	5.6
Other	4,377	5,142	-765	-14.9
Repurchase agreements	10,094	9,372	722	7.7
Due to customers	**115,270**	**109,507**	**5,763**	**5.3**
Securities issued	**72,320**	**71,014**	**1,306**	**1.8**
Direct customer deposits	**187,590**	**180,521**	**7,069**	**3.9**
Net value of related fair value hedge derivatives	**97**	**206**	**-109**	**-52.9**
Total	**187,687**	**180,727**	**6,960**	**3.9**
Indirect customer deposits	**287,800**	**271,516**	**16,284**	**6.0**
Customer deposits under administration	**475,487**	**452,243**	**23,244**	**5.1**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

Direct customer deposits, including securities issued, reached 187,590 million euro, with a 3.9% improvement on the figure at the end of 2004. Figures as at 31st December 2005 continue to reflect customers' high propensity for liquidity or, in any case, for short-term investments. Deposits and current accounts, considered together, confirmed such trend with a 6.1% increase also partly affected, towards the end of the year, by deposits made by certain primary clients operating on the international markets.

Securities issued also rose (+1.8%), especially via certificates of deposit, mostly issued on the international markets, while other funding contracts posted a contraction which was offset by a similar increase in repurchase agreements.

Including in the aggregate the net value of related fair value hedge derivatives, which is offset by fair value measurement of due to customers hedged (mainly securities issued), total customer deposits equalled 187,687 million euro (+3.9%).

Indirect customer deposits

(in millions of euro)

	31.12.2005	31.12.2004 including IAS 39 (*)	Changes amount	Changes %
Individual portfolio management schemes	31,543	27,965	3,578	12.8
Insurance products	27,502	23,049	4,453	19.3
Total assets under management	**59,045**	**51,014**	**8,031**	**15.7**
Assets under administration and in custody	**228,755**	**220,502**	**8,253**	**3.7**
Indirect customer deposits	**287,800**	**271,516**	**16,284**	**6.0**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

Indirect customer deposits recorded a 6% growth rate, practically equally distributed between assets under management and assets under administration and in custody.

It must also be noted that after the agreement with Crédit Agricole, already described above, and the consequent deconsolidation of assets managed by Nextra, assets under management now only represents 20% of total indirect customer deposits, though it showed a particularly dynamic growth rate, especially as concerns insurance products (+19.3%).

With the exit of Nextra from the area of full consolidation, mutual funds managed by this company are no longer registered by Gruppo Intesa in assets under management but remain, in any case, in assets under administration and in custody since such funds are mainly collected via the network of Group companies.

Financial assets / liabilities held for trading

(in millions of euro)

	31.12.2005	31.12.2004 including IAS 39 (*)	Changes amount	Changes %
Bonds and other debt securities	31,964	29,543	2,421	8.2
Equities and quotas of UCITS	3,056	3,159	-103	-3.3
Trading portfolio	**35,020**	**32,702**	**2,318**	**7.1**
Net value of debt securities derivatives and interest rate derivatives	-767	-1,353	-586	-43.3
Net value of currency derivatives	-112	-697	-585	-83.9
Net value of equity derivatives and stock index derivatives	-507	-232	275	
Net value of credit derivatives	3	-123	126	
Net value of trading derivatives	**-1,383**	**-2,405**	**-1,022**	**-42.5**
Other liabilities held for trading	**-3,819**	**-2,520**	**1,299**	**51.5**
Financial assets / liabilities held for trading	**29,818**	**27,777**	**2,041**	**7.3**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

Financial assets / liabilities held for trading comprise both debt securities (almost 32 billion euro) and equities (approximately 3 billion euro) as well as the positive/negative value of trading derivatives.
The trading portfolio recorded a 7.1% rise to 35,020 million euro entirely attributable to debt securities, that recorded an 8.2% growth rate, while equities and quotas of UCITS, posted a 3.3% decline.
As concerns trading derivatives, which recorded a net negative value of 1,383 million euro, the most significant component (89% of the overall net value) referred to contracts on debt securities and interest rates and on equities and stock indexes.

Financial assets available for sale

(in millions of euro)

	31.12.2005	31.12.2004 including IAS 39 (*)	Changes amount	Changes %
Bonds and other debt securities	2,054	2,403	-349	-14.5
Equities and quotas of UCITS	36	60	-24	-40.0
Securities available for sale	**2,090**	**2,463**	**-373**	**-15.1**
Equity stakes	901	1,034	-133	-12.9
Private equity investments	1,074	1,386	-312	-22.5
Equity stakes available for sale	**1,975**	**2,420**	**-445**	**-18.4**
Loans available for sale	**314**	**-**	**314**	
Financial assets available for sale	**4,379**	**4,883**	**-504**	**-10.3**
Net value of related fair value hedge derivatives	**-33**	**-1**	**32**	
Total	**4,346**	**4,882**	**-536**	**-11.0**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

Financial assets available for sale, made up of debt securities and equity stakes to be sold in the short term, totalled 4,379 million euro, with a 10.3% decrease with respect to the figure of December 2004. The caption was constituted by debt securities and equities which are not held for trading of 2,090 million euro (-15.1%), mostly made up of securities classified as held for investment based on the former accounting principles and long-term securities in the portfolio of a vehicle company.

It also included equity stakes and private equity investments of 1,975 million euro, with a net contraction of 18.4%. Among the decreases particularly noteworthy are the disposals of Banco Comercial Portugues and of the investment in Italenergia Bis.
Lastly, the caption included portions of syndicated loans to be placed with third parties, amounting to 314 million euro.

Investments held to maturity

(in millions of euro)

	31.12.2005	31.12.2004 including IAS 39 (*)	Changes amount	Changes %
Government securities	2,554	2,152	402	18.7
Bonds and other debt securities	256	302	-46	-15.2
Investments held to maturity	**2,810**	**2,454**	**356**	**14.5**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

The caption includes debt securities held by Group companies (mainly Eastern-European banks), that the relevant holding entity has declared will be held to maturity. These mostly referred to Government securities (90% of the total). Of these, over 2 billion euro were held by the subsidiary VUB and referred to securities underwritten at the time of the bank's privatisation.

Investments in associates and companies subject to joint control

(in millions of euro)

	31.12.2005	31.12.2004 including IAS 39 (*)	Changes amount	Changes %
Investments in associates and companies subject to joint control	1,645	1,726	-81	-4.7
Other	446	448	-2	-0.4
Investments in associates and companies subject to joint control	**2,091**	**2,174**	**-83**	**-3.8**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

Investments in associates and companies subject to joint control, which are carried at equity, are recorded in the consolidated balance sheet for a total of 1,645 million euro, calculated based on the *pro quota* value of the associate's shareholders' equity increased by the eventual goodwill.
The subcaption "other" includes the equity investment in the Bank of Italy which, as described in Part A of the Notes to the consolidated financial statements relative to accounting policies, is stated at cost (433 million euro) in consideration of the peculiarity of the equity investment, together with few cases of controlled entities which, in consideration of their irrelevance, are also stated at cost.

Net interbank position

(in millions of euro)

	31.12.2005	31.12.2004 including IAS 39 (*)	Changes amount	Changes %
Loans	2,517	2,892	-375	-13.0
Deposits	-6,338	-6,253	85	1.4
Net interbank position repayable on demand	**-3,821**	**-3,361**	**460**	**13.7**
Loans	24,594	25,673	-1,079	-4.2
Deposits	-25,433	-27,967	-2,534	-9.1
Net interbank position with notice period	**-839**	**-2,294**	**-1,455**	**-63.4**
Net interbank position	**-4,660**	**-5,655**	**-995**	**-17.6**
Net value of related fair value hedge derivatives	**60**	**63**	**-3**	**-4.8**
Total	**-4,600**	**-5,592**	**-992**	**-17.7**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

At the end of 2005 the net interbank position recorded a contraction in its negative balance, from 5,655 million euro at the end of 2004 to 4,660 million euro (-17.6%).
The drop, which occurred mostly in the second half of 2005, reflected the imbalance between the increase in the debt balance of the "on demand" component (+13.7%) and a 63.4% decrease of the "with notice period" debt position

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

As provided for by IFRS 5, assets and the related liabilities, which no longer refer to continuing operations as they are undergoing disposal, are recorded in a specific caption. For 2005, these mostly refer to assets and liabilities connected to the sale of Banco Wiese Sudameris described in the first part of this Report and mostly referred to due to and from customers and banks referred to the Peruvian network.
Instead, as concerns 2004, loans to customers referred to doubtful loans which were sold in 2005.

(in millions of euro)

	31.12.2005	31.12.2004 including IAS 39 (*)	Changes amount	Changes %
Loans to customers	-	2,017	-2,017	
Investments in associates and companies subject to joint control	15	7	8	
Discontinued operations	2,831	2,142	689	32.2
Property and equipment	23	50	-27	-54.0
Other	-	51	-51	
Liabilities associated with non-current assets held for sale and discontinued operations	-2,963	-2,297	666	29.0
Non-current assets held for sale and discontinued operations and related liabilities	**-94**	**1,970**	**-2,064**	

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

Allowances for specific purpose

In addition to cumulated provisions for Employee termination indemnities of 1,102 million euro, the caption included Allowances for risks and charges for a total of 1,732 million euro. The latter, which registered an approximately 16% growth rate, for 320 million euro referred to pension funds, whilst the remaining portion covered, as concerns the larger amounts, charges relative to legal disputes (364 million euro), revocatory actions (579 million euro), charges related to personnel (166 million euro) and charges related to the sale of equity investments (111 million euro), as well as provisions for tax disputes (142 million euro).

Shareholders' equity

The Group's shareholders' equity, including net income for the period, amounted to 16,705 million euro. It included valuation reserves of 829 million euro which for 345 million euro referred to legally-required revaluations recorded in the past based on specific laws and for 350 million euro derived from fair value measurement of financial assets available for sale and cash flow hedge derivatives. The remaining 134 million euro represented foreign exchange differences, of which 65 million euro referred to European subsidiaries which had adopted the euro as the local currency.

Valuation reserves

(in millions of euro)

	Valuation reserves as at 31.12.2004 including IAS 39 (*)	Change in the period	Valuation reserves as at 31.12.2005
Financial assets available for sale	117	272	389
Property and equipment	-	-	-
Cash flow hedges	-32	-7	-39
Legally-required revaluations	357	-12	345
Other	102	32	134
Valuation reserves	**544**	**285**	**829**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

Shareholders' equity for supervisory purposes

Shareholders' equity for supervisory purposes and capital ratios as at 31st December 2005 were determined using the new instructions issued by the Bank of Italy with Letter 1157011 of 1st December 2005. Shareholders' equity for supervisory purposes and capital ratios as at 31st December 2004 are instead estimated at the moment of restatement using IAS/IFRS of opening balances at the beginning of 2005. This estimate considers so-called "prudential filters" indicated by the Basel Committee in 2004.

(in millions of euro)

Total capital and capital ratios	31.12.2005	31.12.2004 including IAS 39 (*)
Tier 1 capital	15,096	13,900
Tier 2 capital	5,800	6,773
Items to be deducted	-1,240	-620
Total capital	**19,656**	**20,053**
Credit risks	13,760	13,046
Market risks	1,303	1,240
Tier 3 subordinated loans	-	-
Other capital requirements	140	277
Capital requirements	**15,203**	**14,563**
Excess capital	**4,453**	**5,490**
Risk-weighted assets	**190,038**	**182,042**
Capital ratios %		
Core Tier 1 / Total risk-weighted assets	7.10	6.69
Tier 1 / Total risk-weighted assets	7.94	7.64
Total capital / Total risk-weighted assets	10.34	11.02

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments.

Shareholders' equity for supervisory purposes amounted to 19,656 million euro, against risk-weighted assets of 190,038 million euro. The total capital ratio equalled 10.34% of which 7.94% referred to Tier 1 capital. The ratio between Tier 1 capital net of preference shares and risk-weighted assets (Core Tier 1) equalled 7.10%.
The decrease in the overall requirement is attributable to both the reimbursement of subordinated loans (decrease in Tier 2 capital) and the rise in items to be deducted, following the instructions issued by the Bank of Italy with Letter of 1st December 2005 which set out the inclusion in items to be deducted of the carrying value of equity investments in insurance companies and of 1/5 of the value of the equity investment in the Bank of Italy.

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

(in millions of euro)

	Shareholders' equity	*of which net income as at 31.12.2005*
Parent Company's balances as at 31st December 2005	**14,251**	**1,564**
Effect of consolidation of subsidiaries subject to control and joint control	2,136	1,778
Effect of consolidation of subsidiaries carried at equity	15	208
Reversal of sale of subsidiaries, investments in associates and companies subject to joint control	-	-12
Reversal of adjusments to subsiadiaries, investments in associates and companies subject to joint control	-121	-121
Restatement of goodwill	-8	-
Dividends collected during the period	-	-385
Other	432	-7
Consolidated balances as at 31st December 2005	**16,705**	**3,025**

Breakdown of consolidated results by business area and geographic area

In this chapter consolidated results are broken down by business area (the so-called primary segment foreseen by IAS 14) and by geographic area (secondary segment).
Gruppo Intesa operates with a divisional, customer-oriented structure, which up to the end of 2005, was made up of four business areas: the Retail Division, the Corporate Division, the Italian Subsidiary Banks Division, the International Subsidiary Banks Division, as well as Central Structures, which guarantee the governance and control of the operating units, and, as of 1st January 2006 – as already mentioned - Banca Intesa Infrastrutture e Sviluppo, the new Group bank which absorbed the financial activities related to the public sector and to infrastructures.
The ***Retail Division*** operates with approximately 2,100 branches and over 26,000 employees serving approximately 6 million customers, consisting of Households, SMEs (with turnover up to 50 million euro) and Non-Profit Entities. The Retail Division is in charge of the Parent Company's traditional lending and deposit collecting activities and also the offer of i) private banking services, ii) bancassurance and pension products, iii) mutual funds, iv) industrial and consumer credit, v) financial leasing, as well as vi) management of electronic payment instruments.
The ***Italian Subsidiary Banks Division*** is constituted by the Italian subsidiary banks performing retail banking activities. They are medium-sized or small banks, with a markedly local vocation, that operate with over 900 branches and over 8,000 employees in close coordination with the Retail Division, pursuing the optimisation of commercial synergies by sharing the most important initiatives for serving approximately 1.7 million customers.
The ***International Subsidiary Banks Division*** provides directives, coordination and support to the foreign subsidiaries that mainly perform retail and commercial banking activities mostly in Central-Eastern Europe, in Croatia, Slovakia, Serbia and Montenegro, Hungary and the Russian Federation. This involves over 5 million customers, which are served by over 800 branches and over 17,000 employees in the Group.
The ***Corporate Division*** manages a customer portfolio of approximately 17,000 large companies and financial institutions with a turnover exceeding 50 million euro, and operates through over 50 branches and with over 5,000 employees, with specific skills in mergers and acquisitions, structured finance, merchant banking, capital markets, global custody, and through the specialized foreign network made up of the Parent Company's branches and representative offices and of other Group companies performing corporate banking activities. The Division guarantees reference customers a global and integrated offer of products and services through both traditional territorial structures and IT channels.
As mentioned above ***Central Structures*** are in charge of governance and control activities and also of treasury and strategic finance activities as well as of the management of the Parent Company's securities portfolio.

With regard to secondary segment reporting, based on geographic area, Gruppo Intesa's activities are mostly concentrated in Italy (88% and 82% of the total respectively for loans to customers and customer deposits). The Group has also a significant presence in Central-Eastern European Countries (Croatia, Hungary, Slovakian Republic), and in the Russian Federation that together represent 7% of loans to customers and customer deposits.

BUSINESS AREAS

Retail Division

(in millions of euro)

	2005	2004 including IAS 39 (*)	Changes amount	Changes %
Net interest income	2,839	2,727	112	4.1
Dividends	-	1	-1	
Profits (Losses) on investments carried at equity	98	70	28	40.0
Net fee and commission income	2,399	2,087	312	14.9
Profits (Losses) on trading	2	19	-17	-89.5
Other operating income (expenses)	20	47	-27	-57.4
Operating income	**5,358**	**4,951**	**407**	**8.2**
Personnel expenses	-1,686	-1,670	16	1.0
Other administrative expenses	-1,058	-1,091	-33	-3.0
Adjustments to property, equipment and intangible assets	-212	-220	-8	-3.6
Operating costs	**-2,956**	**-2,981**	**-25**	**-0.8**
Operating margin	**2,402**	**1,970**	**432**	**21.9**
Goodwill impairment	-	-	-	-
Net provisions for risks and charges	-7	-2	5	
Net adjustments to loans	-448	-304	144	47.4
Net impairment losses on other assets	-	-	-	-
Profits (Losses) on investments held to maturity and on other investments	-2	-	2	-
Income (Loss) before tax from continuing operations	**1,945**	**1,664**	**281**	**16.9**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

(in millions of euro)

	31.12.2005	31.12.2004 including IAS 39 (*)	Changes amount	Changes %
Loans to customers	81,160	75,917	5,243	6.9
Due to customers	52,650	53,015	-365	-0.7
Securities issued	23,927	29,274	-5,347	-18.3
Net interbank position	-16,952	-17,469	-517	-3.0

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

The Retail Division generated 53.2% of the Group's operating margin (52.5% as at December 2004) with an absorption of capital (4,919 million euro) of 42.6% (43.0% at the end of 2004) and risk-weighted assets of 79.5 billion euro (approximately 42% of the total).
Income before tax from continuing operations amounted to 1,945 million euro (+16.9% on 2004). This was due to a rise in operating income (+8.2% from 4,951 million euro to 5,358 million euro), a contained reduction in operating costs (-0.8%, from 2,981 million euro to 2,956 million euro) and higher net adjustments to loans (+47.4%, from 304 million euro to 448 million euro). This positive economic performance led to a general improvement in financial ratios. In particular, the cost/income ratio declined from 60.2% in 2004 to 55.2% in 2005, benefiting from both the contraction in costs and the rise in net income.

Pre-tax ROE was 39.5% against 35.1% a year earlier, as a result of the increase in income before tax whilst capital employed was virtually unchanged.
The Retail Division's EVA represented 47.5% of the Group's consolidated EVA and reached 832 million euro, with a 173 million euro increase from December 2004.
Within the Division, the aggregate of retail branches and SME branches substantially contributed to the rise of income before tax from continuing operations (+21.7% compared to the previous year) due to the considerable increase in operating income (+384 million euro, with a 9.4% growth rate).
In particular, net interest income recorded a 4.1% improvement compared to 2004, mainly due to the strong expansion of medium- and long-term loans, that registered a 12.3% rise in terms of average volumes.
The expansion reflected higher demand for residential mortgages from retail customers and benefited from the broad range of products offered, enriched by the introduction of Mutuo 95 in 2005. The medium-term product PrestIntesa continued to be greatly appreciated just like PrestIntesa Maxi launched in 2005. Together these two products reached overall disbursements exceeding 2 billion euro.
Medium- and long-term loans registered a strong expansion also in the market of small- and medium-sized companies with a 13.9% increase in average volumes compared to the previous year, also as a result of the lower interest rates compared to short-term loans.
Average volumes of direct customer deposits (current accounts and saving deposits) were virtually stable, whereas medium- and long-term customer deposits registered a 3,648 million euro reduction.
Interest rates recorded a slight reduction in both lending and funding components. The effect on the statement of income was however positive since the volumes of customer deposits were higher than loans to customers.
The service management sector recorded a marked improvement (+14.9% on 2004). This result was mainly due to the commissions related to the placement of structured bonds issued by third parties and to two different categories of insurance products. With regard to the placement of bonds, activities were focused on the issue of structured bonds with guaranteed capital at maturity. Placements totalled approximately 4.6 billion euro in 2005, most of which (3.8 billion euro) made up of third party issues (Dexia and Mediobanca). Such activities, very contained in 2004, generated commissions for approximately 160 million euro. With regard to insurance products, the first category which generated substantial revenues was represented by life-insurance products, with an increase in commissions of 68 million euro compared to 2004 (+45.9%). Volumes of the new premiums were substantial and 10% higher than the already excellent results achieved in 2004. The improvement in commissions is attributable to the different product-mix sold with an expansion of higher value added policies, that were favoured by customers. New premiums collected in 2005 totalled 5,838 million euro, and mainly consisted of traditional products as well as of index-linked products and products of the Ramo 1 (such as IntesaSempre).
The other category that registered a positive performance was made up of policies linked to mortgages and personal loans, available both for new loans and for contracts stipulated in previous years. The relevant commissions registered a 107 million euro rise, from 29 million euro in 2004 to 136 million euro in 2005.
The amount of capital insured in 2005 equalled 6,773 million euro, of which 5,231 million euro related to mortgages and 1,542 million euro to personal loans.
With regard to commissions from dealing in securities, mutual funds and asset management, to commissions from current accounts and from the use of credit cards, economic results either recorded a slight improvement or maintained the profitability of 2004. In particular, the mutual funds and portfolio management sector showed signs of recovery in the last part of the year, after a prolonged period of relative stability.
Operating costs registered a slight improvement compared to 2004.
The increase in net adjustments to loans was attributable not only to the transfer to doubtful loans of positions previously recorded as substandard loans, but also to the increase in the latter and to the inclusion in non-performing loans – in compliance with legislative provisions of the Bank of Italy – of loans overdue by over 180 days.

The continuous improvement in customer satisfaction levels – area recently covered by the Customer Satisfaction Department – reflected specific initiatives that involved four main areas of intervention: *Presidio Qualità*, through the definition and the verification of the quality standards offered to customers; *Customer Satisfaction*, through the constant monitoring of customer satisfaction levels; *Posizioni Clienti*, with the in-depth analysis of widespread or potential problems, of critical situations and with the identification of the interventions necessary to overcome them; *Nuovo Modello di Filiale*, aimed at guaranteeing adequate customer service, identifying possible areas of improvement.

In the ***Retail*** sector, 2005 was characterized by the rise in non-life insurance products. In fact, noteworthy was the considerable expansion in *Intesa Proteggi Mutuo*, the innovative multirisk insurance coverage on mortgages, which immediately attracted customers, with a percentage coverage of newly-granted mortgages of approximately 51%; moreover, the sale of insurance policies combined with the placement of PrestIntesa was consolidated. A further boost was given by the credit protection sector with the launch of the *Intesa Rata Sicura* product range, which protects holders of floating-rate mortgages from the risk of rising interest rates. The products protecting from interest rate risks were greatly appreciated from the first days of distribution, with over 3,100 customers who purchased a coverage.

Within the mortgaged lending sector, the range of mortgages was broadened with the introduction of *Mutuo 95*, which allows to finance up to 95% of the purchase of the first home and of *Mutuo Flex*, which allows the payment of just interest on a monthly basis and to plan a flexible reimbursement of the capital. The consumer credit sector was also characterized by the positive appreciation of *PrestIntesa* and *PrestIntesa Maxi*, the latter being capable of meeting higher spending needs, with loans from 30,000 to 75,000 euro, delaying the reimbursement up to 96 months, with the option to choose between fixed and floating interest rates. In 2005 personal loans totalled 2 billion euro (+36% compared to 2004).

The range of managed funds was further renewed and enriched. In particular, in mid-December, *Intesa Garanzia Attiva* was launched, the first mutual fund in Italy with guaranteed capital which offers customers an innovative product capable of providing dynamic asset management combined with guaranteed capital after 5 years. In the bancassurance sector, the offer was further developed with the launch of 22 *Index Linked* products, which represented a significant portion of total products placed.

In 2005 the product range was broadened as concerns current accounts, debit and credit cards and investment products. Noteworthy was the launch, at the end of August, of *Conto Intesa 18-26*, the new account for young people, up to 26 years of age, capable of offering all bank and extra-bank services at a very low, fixed, monthly fee. In the last four months of 2005 20,000 such accounts were opened, 60% of which to new customers.

During the year four intense campaigns were launched on all media to promote key products, Conto Intesa, PrestIntesa and the new Mutuo 95, that boosted sales and the acquisition of new customers. The advertising campaign for Conto Intesa focused on the *Bonus Intesa* discounts programme, which, after the development of favourable agreements with large national and local partners for a total of 11,000 outlets covering all main product categories, represented a significant source of value added for Conto Intesa. At the end of 2005 holders of an account of the Conto Intesa range made transactions with Bonus Intesa partners for a total of 33 million euro benefiting from refunds on their current account for almost 1 million euro. At December 2005 there were over 537,000 Conto Intesa opened, 40% of which opened by new customers. The transfer to Conto Intesa, due to higher value added for customers, determined an increase in cross-selling and in customer satisfaction.

In the payment cards sector the distribution of *Intesa Flash* commenced. Intesa Flash is a prepaid and rechargeable card issued and used even without a current account, that is mainly addressed to young customers. It immediately received a positive response in terms of sales with almost 74,000 new cards issued in little over five months.

Within investment products the Bank launched *Intesa Per Domani*, an innovative capital accumulation plan for the investment funds Intesa Bouquet, which allows to accumulate capital for a defined person – even a minor – indicating the date from which the beneficiary will acquire title of the accumulated capital. Again in the same area, individual portfolio management schemes continued to be converted into the new *Intesa Dialogo* lines, launched at the beginning of 2004, that, due to the multimanager approach and to the strengthening of investment processes, continued to register very interesting performances.

Important innovations were also made in the offer to ***Small business*** customers. Together with *Conto Intesa Business*, new products were launched to satisfy specific needs, such as i) in current accounts, *Conto Intesa Condominio*, specifically designed to meet specific requirements of administrators of apartment blocks, ii) in payment cards, *Carta Intesa Business*, iii) in cash management, *Intesa Sistema Liquidità*, and iv) in insurance coverage, *Intesa Proteggi Mutuo Business* for life and multirisk coverage. Furthermore, over 30 direct mailing campaigns were launched with a total of 3 million letters sent during the year. Commercial approach to management of customer portfolios was strengthened through the creation of Small Business Managers, who are dedicated to meeting specific needs of target customers. The branch's front-end platform was enriched with the introduction of segment functions, particularly regarding the area of monitoring credit risks, and the "Portfolio analysis" application was launched to enable the single Manager to start branch commercial campaigns for specific business areas.

The initiatives and the projects developed with reference to the market of ***Small and medium-sized enterprises*** (SMEs) pursued the objective of strengthening the Group's leadership position in the segment, achieving important results, even more significant in a stagnant economy. The interventions mainly regarded the refining of the commercial tools, the development of the organisational model and of professionalism and the broadening of the product range.

In relation to commercial tools a *Customer Relationship Management* model, specific for SMEs, was implemented to support marketing analysis and the network's sales activities.

From the organisation and professionalism standpoint, the distribution model of the Branches servicing SMEs was refined, optimising their presence in the territory and strengthening their sales teams. With regard to the broadening of the product and service range, significant initiatives were initiated to support growth and innovation of SMEs. In fact, *IntesaNova* was launched, a programme aimed at funding projects for process/product innovation and information and communication technology which avails itself of the contribution of a qualified scientific network (Polytechnics, Universities). Moreover, with the purpose of supporting companies in the comprehension of the new Basel II provisions and favouring an evaluation of their impact on credit to SMEs, a diagnosis and consultancy service named *IntesaBasilea* was launched, with the support of innovative information technology instruments. An important contribution to growth of total medium- and long-term disbursements (over 30% per year) also came from the financing programme launched in partnership with Eurofidi, assisted by the specific guarantee granted by the consortium.

The internationalisation strategies of SMEs were supported by *Intesa Export* that was developed in partnership with SACE: a chirographic medium-term loan guaranteed by SACE, reserved to customers with a high propensity for exports, to support their international investment programme. This product is absolutely new for the Italian banking system, being the first financial credit insurance operation finalised by SACE.

To relaunch the competitiveness of our SMEs a new range of support services was structured (Intesa Soluzioni), which enables – via the collaboration with qualified outside partners – the identification and implementation of information technology solutions to support day-to-day activities of companies, favouring growth and the recovery of competitiveness of such companies. To this aim a new information portal specific for SMEs was implemented in cooperation with Sole 24 Ore (*Sviluppo PMI*).

A new short-term loan, named *Intesa Tandem,* was structured: it is based on a specific agreement between Banca Intesa and production and/or commercial companies, whereby the company under the agreement is credited in one solution net of interest, whilst the reselling company reimburses the loan according to a pre-established amortisation plan with instalments made up of only capital.

With regard to solutions for the coverage of interest rate risks, a line of derivative instruments named *Intesa Sistema Protezione* was developed. Lastly, for the purpose of offering a range of increasingly-customised products, two current accounts were specifically devised for smaller enterprises, *Conto Intesa PMI* and *Conto Intesa PMI Plus.* These accounts are designed to reward customers who reserve Banca Intesa rising portions of their business, with the aim of eventually assuming the role of main bank.

With regard to the development of commercial activities related to the segment ***Religious and Non-Profit Entities***, the Bank launched a new offering system called *Mosaico* in November. It has modular characteristics capable of meeting different needs. The offer is articulated in a current account (Conto Intesa Mosaico) charging a floating fee, determined on the basis of the customer's assets and the use of the remote banking service. In addition to this basic product there are other short- and medium-term investment products, funding products as well as insurance coverage. Furthermore, customers can request technologically-advanced software solutions and advisory services to satisfy specific needs.

The Retail Division is in charge of certain subsidiaries, the activities of which are strictly synergic with the Parent Company's sales network. Private banking activities are performed through ***Banca Intesa Private Banking***, for which 2005 was the first year of full operations. The company, in the twelve months, recorded a net income of 41.3 million euro compared to a loss of 5.5 million euro in the same period of the previous year; the latter figure was not directly comparable considering both the different operating size and the fact that it was mainly affected by the expenses linked to the organisational and corporate restructuring. In fact, company operations increased following the gradual transfer to the new bank of Banca Intesa's private customers and therefore all statement of income aggregates recorded substantial rises. As at 31st December 2005, balance sheet aggregates highlighted indirect customer deposits of over 27 billion euro, of which assets under management of over 17 billion euro, direct customer deposits amounting to 977 million euro and loans to customers of 221 million euro.
The Division's operating margin also benefited from commissions for the distribution of ***Intesa Vita*** insurance products placed through the branch network. Intesa Vita is a subsidiary of the Generali group and is consolidated by Gruppo Intesa with the equity method. The statement of income as at 31st December 2005 closed with a net income, determined according to IAS/IFRS, of 171.7 million euro, after having collected gross premiums of 7,840 million euro. At the end of 2005 Intesa Vita's technical insurance reserves exceeded 25 billion euro, while shareholders' equity equalled 1,494 million euro.
The network also distributes the supplementary pension funds of ***Intesa Previdenza***, which as at 31st December 2005, managed net assets of 1,192 million euro, due to the positive contribution of the open-end pension funds sector, where Gruppo Intesa maintained the leadership in terms of both assets (25.2%) and new subscriptions (26.7%). Funding activities recorded a positive performance, with particular reference to open-end pension funds, that registered a 26% increase over the twelve months. The development of individual subscriptions (over 90% of the total) is mainly pursued among self-employed workers, independent professionals and public employees, whilst the collective subscriptions sector is addressed, with specific marketing initiatives, to subordinate employees. At the end of 2005, the total number of subscribers of pension funds (open-end and pre-existing) was close to 135,000. 2005 closed with a modest net income (0.3 million euro) which, however, highlights an improvement compared to the result of 2004.
Medium- and long-term lending activities are carried out through Banca Intesa Mediocredito and Banca CIS.
Banca Intesa Mediocredito posted a net income for 2005 of 48.1 million euro, with an approximately 15% reduction compared to 2004. This was mainly due to the erosion in profitability caused by the stagnation that affected its sectors of operations. Net interest income was not affected and recorded a 6.3% growth rate whilst net fee and commission income significantly decreased (-14.8). Lower dividends were collected from the subsidiary Banca CIS and personnel expenses recorded a rise, mainly due to supplementary social security charges. Lower net adjustments to loans (-3.4%) rebalanced profitability and led to an income before tax from continuing operations up by 3.3%. The higher tax burden, attributable to the fact that adjustments to loans are irrelevant for IRAP, led to the aforementioned reduction in net income. Balance sheet figures show, compared to December 2004, a slightly over 1% contraction in loans to customers, at 13,166 million euro, and interbank funding of 11,224 million euro, which was the main source of funding.
Banca CIS closed 2005 with a net income of 14 million euro, 8.3% lower than the comparable figure in 2004. In detail, the approximately 8% reduction in net interest income, due to the structural contraction in unit margins and the drop in net fee and commission income, led to a reduction in operating income slightly over 8%, partly balanced by effective containment of operating costs (approximately -12%). This allowed to contain to 5.2% the reduction in operating margin. Net adjustments to loans, more than halved from the comparative figure, recorded a significant drop. Main balance sheet figures highlighted loans to customers at 1,290 million euro (+5.6% with respect of the figure as at the end of 2004) and net interbank funding – which constituted the primary source of funding – at 1,020 million euro (approximately +25%).

During 2005 ***Intesa Leasing*** stipulated, through the network of Group banks, approximately 15,700 new contracts, for an overall countervalue of 3,080 million euro, with a 9.6% progress compared to the corresponding figure of the previous year. Over 50% of these contracts referred to the real estate sector, which was the sector with the highest growth rate. As at 31st December 2005, loans to customers, almost entirely generated by leasing operations, were close to 6,820 million euro (+13.2% on December 2004). As to the statement of income, the company closed the period with a net income of 21 million euro which, on a consistent basis, compares with a net income of 24.7 million euro in 2004. In fact, the previous year's result benefited, net of the tax effect, from approximately 16 million euro as capital gain realised with the non-recurring sale of the junior security derived from the securitisation of lease receivables which was structured at the end of 2003.

Setefi, specialised in management of electronic payment systems, performs the duties of acquirer for retailers, issues proprietary credit cards and manages the Moneta cards for Group banks. The company uses its own network of POS terminals and is in charge of the e-money system through the management of the Monetaonline site. In 2005 Setefi further expanded its activity, with an 11.5% increase in total transaction volumes. The number of directly-issued or managed cards exceeded 3.8 million while proprietary and third-party POS terminals were close to 115,000. The company closed 2005 with a net income of 26.6 million euro, up by 2.5% compared to the result of 2004.

As already described in this Report, Gruppo Intesa, within a broad strategic agreement regarding asset management activities, sold to the Crédit Agricole group 65% of ***Nextra Investment Management***. Later, in March 2006, Gruppo Intesa entered in the capital of Crédit Agricole Asset Management Sgr, the Italian subsidiary of the Crédit Agricole group, that will absorb Nextra's activities.

In 2005 the operations of Nextra Investment Management and of its subsidiaries, entirely pertaining to Gruppo Intesa, contributed to the consolidated statement of income a result of approximately 47 million euro.

Finally, a contribution to the results achieved by the Division came from the consumer credit activities performed through ***Agos***, the joint venture established with Crédit Agricole, that registered a net income for 2005 of 59 million euro and total disbursements of 3,753 million euro.

Italian Subsidiary Banks Division

(in millions of euro)

	2005	2004 including IAS 39 (*)	Changes amount	Changes %
Net interest income	903	844	59	7.0
Dividends	10	7	3	42.9
Profits (Losses) on investments carried at equity	-	-	-	-
Net fee and commission income	523	499	24	4.8
Profits (Losses) on trading	77	46	31	67.4
Other operating income (expenses)	7	19	-12	-63.2
Operating income	**1,520**	**1,415**	**105**	**7.4**
Personnel expenses	-509	-483	26	5.4
Other administrative expenses	-228	-221	7	3.2
Adjustments to property, equipment and intangible assets	-28	-35	-7	-20.0
Operating costs	**-765**	**-739**	**26**	**3.5**
Operating margin	**755**	**676**	**79**	**11.7**
Goodwill impairment	-	-	-	-
Net provisions for risks and charges	-137	-35	102	
Net adjustments to loans	-93	-136	-43	-31.6
Net impairment losses on other assets	-	-	-	-
Profits (Losses) on investments held to maturity and on other investments	18	13	5	38.5
Income (Loss) before tax from continuing operations	**543**	**518**	**25**	**4.8**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

(in millions of euro)

	31.12.2005	31.12.2004 including IAS 39 (*)	Changes amount	Changes %
Loans to customers	25,472	22,997	2,475	10.8
Due to customers	17,373	17,606	-233	-1.3
Securities issued	8,849	7,008	1,841	26.3
Net interbank position	2,289	2,542	-253	-10.0

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

During 2005, the Division further enhanced its market shares and profitability. Economic results improved, with an over 7% increase in operating income, that at 1,520 million euro represented 15.2% of the Group's consolidated operating income. Operating costs, at 765 million euro led to an operating margin of 755 million euro (+11.7%), corresponding to a cost/income ratio of 50.3% (*ex* 52.2%). Also income before tax from continuing operations registered an appreciable rise to 543 million euro (+4.8%).
Balance sheet figures highlighted loans to customers of 25,472 million euro (+10.8%) and direct customer deposits, including bonds issued, of 26,222 million euro (+6.5%).
The Division had risk-weighted assets for 26.4 billion euro and an allocated capital of 1,581 million euro.
In 2005 ***Cassa di Risparmio di Parma e Piacenza*** registered a net income of 143.4 million euro, approximately 13% lower than the figure of the previous year. The reduction in net income is solely attributable to the need for higher provisions for risks and charges in relation to

the aforementioned initiatives of the Commissioner of the Parmalat group. The 2005 result – which, excluding the charge mentioned above, would have highlighted an approximately 23% rise – was mainly attributable to the positive trend of operating revenues (+8.1%). In detail, net interest income increased by approximately 2% and net fee and commission income recorded a 1.3% rise confirming a constant development of ordinary operations. Profits on trading – more than tripled the comparative figure – also benefited from disposal of financial assets. The favourable trend of revenues allowed to absorb the increase in operating costs (+3.3%) – also determined by an expansion in the bank's operations and by higher commercial and organisational investments – leading to a significant improvement in operating margin (+12.4%). Substantial provisions for risks and charges were balanced by significantly lower net adjustments to loans (approximately -27%). Main balance sheet aggregates increased: loans to customers to 11,698 million euro (+12.3%), direct customer deposits to 12,566 million euro (+10.1%) and indirect customer deposits to 26,404 million euro (+11%).

Banca Popolare FriulAdria closed the 2005 statement of income with a net income of 54.1 million euro, approximately 23% higher than the corresponding figure of 2004. This result benefited from higher operating income (approximately +6%) only marginally affected by the entirely physiological rise in operating costs (+1.1%). With regard to revenues, the increase in net interest income (+8.7%), attributable to the growth of intermediated volumes, the confirmation of the positive trend of net fee and commission income and the increase in other net operating income, fully absorbed both the modest reduction in profits on trading and the mentioned rise in operating costs, the latter being partly due to the implementation of important projects for the development of the commercial network.

The result for the period was positively influenced by profits generated by the disposal of real estate assets as well as by lower adjustments to non-performing loans. Balance sheet aggregates highlighted increases in both loans to customers (+11% to 3,742 million euro) and direct customer deposits (+9.6% to 3,061 million euro), whilst indirect customer deposits confirmed the 2004 figure (+0.4% to 5,144 million euro).

Banca di Trento e Bolzano closed the 2005 statement of income with a net income of 14.4 million euro, with an approximately 2% increase compared to 2004. A more detailed analysis shows an approximately 15% increase in net interest income attributable to the rise in intermediated volumes and stable spreads. Positive trends were also recorded by net fee and commission income (+14.3%) and profits on trading (approximately +33%) – which benefited from the sale of Government securities classified as assets available for sale – leading to an approximately 15.4% increase in operating income. This increase allowed to fully absorb the rise in operating costs, essentially ascribable to the bank's expansion, as well as higher prudential provisions for risks and charges for revocatory actions. Net adjustments to loans, instead, registered an over 24% contraction. As to the balance sheet, loans to customers recorded an increase from the end of 2004 (+10.7% to 1,907 million euro), whereas direct customer deposits showed a virtual stability (1,670 million euro; -0.4%) despite the cease of treasury services for the Bolzano province, the effect of which was therefore completely recovered. A similar recovery was instead impossible for indirect customer deposits that dropped by approximately 9% to 1,967 million euro.

In 2005 ***Cassa di Risparmio di Biella e Vercelli*** posted a net income of 29.1 million euro, with an over 50% increase on the corresponding figure of the previous year. The improvement was due to revenues: increases were recorded by both net interest income, mostly in the customers and securities component, and by net fee and commission income, mainly in the management, intermediation and services component. Notwithstanding losses on trading, operating income recorded a rise exceeding 7% and operating margin of 8.2%, with administrative expenses registering an increase, also following the pursuit of development projects. Net adjustments to loans were practically in line with 2004. Balance sheet figures showed a rise in loans to customers to 2,325 million euro (+14.2%) against a direct customer deposits that, at 2,259 million euro (-0.6%), virtually confirmed the amounts of the previous year. Indirect customer deposits (3,248 million euro) recorded a 6.4% expansion, with customers confirming their preference for bancassurance products.

The Saving Banks in Central Italy, united under the control of ***Intesa Casse del Centro***, registered better overall results mostly due to higher income. In fact, the aggregates highlighted an increase in net interest income and in net fee and commission income, a moderate and selective rise in operating costs also due to new investments and a markedly downward trend in net adjustments to loans.

The Saving Banks, considered on a single basis, registered the following net incomes: Cassa di Risparmio di Viterbo, 20.4 million euro (+13%), Cassa di Risparmio di Ascoli Piceno, 16.2 million euro (+16%), Cassa di Risparmio di Terni e Narni, 14.7 million euro (+60%), Cassa di Risparmio di Rieti, 10.6 million euro (+6%), Cassa di Risparmio di Foligno, 11 million euro (+26%), Cassa di Risparmio di Spoleto, 9 million euro (approximately +40%) and Cassa di Risparmio di Città di Castello, 5 million euro (almost doubled).

Cassa di Risparmio di Fano, which closed the year with a net income of 9.1 million euro, was included in the consolidated financial statements as of 1st October 2005 and therefore only the result related to the last three months was reflected in the Group's statement of income.

Compared to as at December 2004, aggregate balance sheet figures showed a positive rise in both loans to customers (approximately +6% to 5.8 billion euro) and customer deposits (approximately +3% to 6.5 billion euro). Indirect customer deposits registered, instead, an expansion exceeding 5% to 5.7 billion euro, mainly due to the asset management component.

International Subsidiary Banks Division

(in millions of euro)

	2005	2004 including IAS 39 (*)	Changes amount	Changes %
Net interest income	730	678	52	7.7
Dividends	-	3	-3	
Profits (Losses) on investments carried at equity	-6	-	6	-
Net fee and commission income	305	252	53	21.0
Profits (Losses) on trading	144	108	36	33.3
Other operating income (expenses)	-17	-57	-40	-70.2
Operating income	**1,156**	**984**	**172**	**17.5**
Personnel expenses	-300	-256	44	17.2
Other administrative expenses	-270	-252	18	7.1
Adjustments to property, equipment and intangible assets	-87	-87	-	-
Operating costs	**-657**	**-595**	**62**	**10.4**
Operating margin	**499**	**389**	**110**	**28.3**
Goodwill impairment	-	-5	-5	
Net provisions for risks and charges	-13	-7	6	85.7
Net adjustments to loans	-141	-116	25	21.6
Net impairment losses on other assets	-7	-10	-3	-30.0
Profits (Losses) on investments held to maturity and on other investments	9	-	9	-
Income (Loss) before tax from continuing operations	**347**	**251**	**96**	**38.2**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

(in millions of euro)

	31.12.2005	31.12.2004 including IAS 39 (*)	Changes amount	Changes %
Loans to customers	11,837	9,534	2,303	24.2
Due to customers	12,509	11,349	1,160	10.2
Securities issued	640	445	195	43.8
Net interbank position	-1,182	-191	991	

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

Positive results were also achieved by the Group entities operating in foreign markets, which find in the Eastern-European Countries, characterised by high growth rates, the most attractive development opportunities. The Division, which is in charge of foreign subsidiaries, recorded a positive trend. Operating income rose by over 17% to 1,156 million euro and represented 11.5% of the Group's consolidated operating income. The programmed increase in operating costs to 657 million euro (+10.4%) was linked to the expansion of activities and of the operating network in the various areas where the Group is active. Therefore, operating margin improved by 28.3% to 499 million euro, with a cost/income ratio of 56.8% (*ex* 60.5%). Income before tax from continuing operations rose by 38.2% to 347 million euro.
Balance sheet figures showed loans to customers of 11,837 million euro (+24.2%) and direct customer deposits, including securities issued, of 13,149 million euro (+11.5%) as well as a higher recourse to interbank credit to fund the considerable rise in loans to customers.

The Division had risk-weighted assets for 16.3 billion euro and an allocated capital of 983 million euro.

Gruppo Intesa operates in Central-Eastern Europe with the fourth Hungarian bank (Central-European International Bank), the second Croatian bank (Privredna Banka Zagreb), the second Slovakian bank (Vseobecna Uverova Banka) and, more recently, with the second bank in Serbia and Montenegro (Banca Intesa Beograd). Gruppo Intesa is also present in the Russian Federation with ZAO Banca Intesa and with the recently-acquired KMB Bank.
In 2005 Hungary recorded an increase in GDP, mainly due to the expansion in the construction sector and an improvement in the trade deficit determined by the rise in exports. The macroeconomic framework was completed by practically stable inflation and unemployment, whereas the local currency showed certain signs of weakness.
The ***Central-European International Bank (CIB)*** group registered a net income for 2005 of 75.1 million euro, approximately 29% higher than that of the previous year. Net interest income increased (+3.2%), due to higher volumes that absorbed the significant contraction in spreads, and net fee and commission income recorded an even higher growth rate (+12.6%). Also profits on trading were far higher than in 2004. As to charges, impairment losses on loans showed a significant reduction, whereas operating costs evidenced a strong increase that was directly connected to the expansion of the group's operations especially in the retail sector, with the opening of new branches and the consequent increase in employees. Compared to December 2004, balance sheet aggregates registered 19% increases both in loans to customers (4,792 million euro) and in direct customer deposits (3,162 million euro).
The Croatian macroeconomic scenario was basically positive, with a good growth rate in GDP, expected to rise further in 2006, and with moderate and decreasing inflation even if unemployment remained high. Last October negotiations for the entry of Croatia in the European Union were started. In this scenario, the ***Privredna Banka Zagreb (PBZ)*** group closed 2005 with a net income of 107.7 million euro (approximately +12%). This result was due to the good performance of net interest income (approximately +7%), to a strong growth in net fee and commission income (+11.4%), with a particular expansion in the credit cards segment, and to an equally positive result in profits on trading (approximately +14%, mainly due to foreign exchange and equity market activities). Among cost components, operating costs recorded a rise mainly attributable to the increase in personnel expenses linked to the plan to increase the effectiveness of front- and back-office resources, whilst net adjustments to loans were marginally lower than those of the previous years.
In fact, compared to December 2004, the main balance sheet items highlighted a rise in loans to customers (3,884 million euro, approximately +22%) and in direct customer deposits (4,438 million euro, almost +13%).
In the Slovakian Republic the macroeconomic scenario remained stable and GDP recorded a rise above expectations, mainly due to the boost in domestic demand in presence of an appreciation of the local currency and a rise in employment, whereas inflation was affected by the increase in energy prices. In 2005, the ***Vseobecna Uverova Banka (VUB)*** group posted a net income of 95.8 million euro, with an approximately 34% increase on 2004. This was the combined result of rises in net interest income (approximately 17%) and in net fee and commission income (approximately +45%), mainly in the asset management and credit cards sectors, whilst a slightly over 2% decline was recorded in profits on trading, mainly as a result of shrinking foreign exchange margins. Again in this case the increase in operating costs was also linked to the increase in personnel expenses due to the strengthening of the managerial component. Net impairment losses on loans rose from as at 31st December 2004 mainly as a result of the notable growth recorded in the loan portfolio. Balance sheet aggregates showed a considerable expansion of loans to customers to 2,263 million euro, with an approximately 45% increase on the normalised figure as at 31st December 2004, that is, net of a large, non-recurring short-term loan to an institution. Also customer deposits, influenced at the end of 2004 by the same phenomenon as loans to customers, reached 4,690 million euro, with an increase, on a normalised basis, of approximately 11%.
2005 was a positive year for Serbia which enacted a series of legislative reforms capable of creating a modern and consistent juridical framework. However, the economic situation, despite the moderate growth of production and an improvement in the trade deficit, must face difficult problems such as high unemployment and inflation.

The newly-acquired ***Banca Intesa Beograd*** (former Delta Banka) – the second largest bank in Serbia and Montenegro in terms of total assets – as at 31st December 2005 recorded loans to customers of 504 million euro and direct customer deposits of 725 million euro. The company, which closed 2005 with a net income of approximately 20 million euro, was included in the consolidated financial statements starting from the fourth quarter of 2005 and therefore, as already mentioned, the Group's statement of income reflected only the result related to the last quarter.

KMB Bank, the other recent acquisition of the Group, is the leading bank in lending and leasing activities for small enterprises in the Russian Federation. This operating sector and, at the same time, the development of specific services addressed to households will be strengthened further. As at 31st December 2005, KMB recorded loans to customers of 372 million euro, direct customer deposits of 191 million euro. The year closed with a net income of 1.5 million euro. However, since the subsidiary was included in the consolidated financial statements starting from the fourth quarter of 2005, the Group's statement of income reflected only the result related to the last three months.

As is known, to complete the disengagement from Latin America, set forth in the strategic objectives of the 2003-2005 Business Plan, in December 2005 Banca Intesa signed with Scotiabank an agreement for the sale of Banco Wiese Sudameris which was closed in March 2006. However, the 2005 result attributable to the Peruvian network pertained to Gruppo Intesa and contributed to its consolidated financial statements with a loss of 1.6 million euro. The Peruvian subsidiary's assets and liabilities were recorded among assets/liabilities under disposal and included loans to customers exceeding 1.4 billion euro and direct customer deposits of 2.2 billion euro.

Corporate Division

(in millions of euro)

	2005	2004 including IAS 39 (*)	Changes amount	%
Net interest income	599	599	-	-
Dividends	2	9	-7	-77.8
Profits (Losses) on investments carried at equity	3	3	-	-
Net fee and commission income	926	886	40	4.5
Profits (Losses) on trading	404	285	119	41.8
Other operating income (expenses)	-31	16	-47	
Operating income	**1,903**	**1,798**	**105**	**5.8**
Personnel expenses	-358	-350	8	2.3
Other administrative expenses	-372	-399	-27	-6.8
Adjustments to property, equipment and intangible assets	-68	-71	-3	-4.2
Operating costs	**-798**	**-820**	**-22**	**-2.7**
Operating margin	**1,105**	**978**	**127**	**13.0**
Goodwill impairment	-3	-	3	-
Net provisions for risks and charges	-18	-3	15	
Net adjustments to loans	13	-221	234	
Net impairment losses on other assets	-6	-14	-8	-57.1
Profits (Losses) on investments held to maturity and on other investments	-3	-5	-2	-40.0
Income (Loss) before tax from continuing operations	**1,088**	**735**	**353**	**48.0**

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

(in millions of euro)

	31.12.2005	31.12.2004 including IAS 39 (*)	Changes amount	%
Loans to customers	46,896	43,898	2,998	6.8
Due to customers	27,204	23,727	3,477	14.7
Securities issued	9,983	8,106	1,877	23.2
Net interbank position	-147	-6,527	-6,380	-97.7

(*) Comparative figures restated using IAS/IFRS, including i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

In 2005 the Division generated an operating income of 1,903 million euro (representing 19% of the Group’s consolidated operating income), with a 105 million euro rise compared to the same period of the previous year (+5.8%). This positive result was achieved, in an unfavourable macroeconomic scenario, by i) leveraging on the client portfolio, further enhancing the relationship banking model; ii) excellent cross-selling activities through better team work between relationship and product managers; iii) strengthening origination and execution capabilities in investment banking through an integrated offer on the whole range of products associated with an increase in traditional services (Forex, Money Market).

The rise in operating income was sustained by net fee and commission income (+4.5%) mostly in the investment banking sector. Also profits on trading recorded a good performance, benefiting from the gains generated by the valuation of stocks and options held.

Net interest income was in line with the previous year and was affected by the programmed decline in loans to large corporate customers and by the partial erosion in spreads, particularly in

the Mid Corporate segment. The rise in direct customer deposits (+14.7%) was favoured by customer liquidity, particularly in the Large Corporate segment.
The drop in operating costs (-2.7% overall) is attributable to administrative expenses and to depreciation, despite the new investments for the formation of the Finance Operations Department and that of Banca Intesa Infrastrutture e Sviluppo. Operating margin amounted to 1,105 million euro, with a 13% rise on 2004.
Income before tax from continuing operations reached 1,088 million euro, with a 48% increase on the previous year, mostly due to net write-backs to loans (+13 million euro, compared to -221 million euro in 2004).
The Corporate Division, with 3,147 million euro, absorbed 27.5% of the total Group's capital and registered an 8.6% increase compared to 2004, correlated, on the one hand, to the boost to loans granted to customers in the Public and Infrastructure Finance segment and, on the other hand, to the increase in the credit risk related to the off-balance sheet component. Value creation amounted to 484 million euro, with a 243 million euro improvement on 2004, with a 27.6% contribution to consolidated EVA. Risk-weighted assets totalled 52.5 billion euro.
The cost/income ratio showed a significant reduction (almost 4%, from 45.6% in December 2004 to 41.9% in December 2005).
The Corporate Division's activities include five business departments:

- Corporate Relations Department, which manages the relations with Italian and foreign Large and Mid Corporates (with turnover exceeding 50 million euro), and also coordinates the relevant commercial operations performed through the foreign branches;
- Investment Banking and Capital Markets Department, which includes Structured Finance, M&A and Banca Caboto;
- Financial Institutions Department, which is responsible for the relations with Italian and foreign financial institutions, for the management of transactional services related to payment systems, custody and settlement of securities, as custodian and correspondent bank, as well as for the coordination of the foreign branches, of the representative offices and of the foreign companies Société Européenne de Banque, Intesa Bank Ireland and Zao Banca Intesa;
- Merchant Banking which operates in the private equity area also through the company Private Equity International (PEI);
- State and Infrastructures Department – as of 1st January 2006 has become an independent legal entity under the name of Banca Intesa Infrastrutture e Sviluppo – responsible until December 2005 for relations with the State in all its main structures, with local Administrations, large public and semi-public entities, non-financial supranational entities, companies operating in the sectors of public works and infrastructures, public and private health companies and those public or semi-public entities that can constitute business lines also for the other Divisions (such as Large Foundations, Associations and so on). The Department was also responsible for directing and coordinating the activities performed by the companies tax collection concessionaires, Esa.Tri., E.Tr., S.Es.I.T. Puglia.

Also Intesa Mediofactoring is included in the Corporate Division.
With regard to the customer segments managed by the ***Corporate Relations Department***, a number of projects were initiated aimed at relaunching the Mid Corporate segment through greater focus on product offering and rising attention to cross-selling potential especially in the capital markets, structured finance and trade finance segments.
The switch from short-term loans to medium- and long-term loans continued, in both the Mid and, particularly, the Large Corporate segments. The process aimed at reducing the portfolio's risk profile continued with a contraction in absolute terms of higher-risk assets. The increase in the weight of assets with better credit quality had a positive impact on capital absorption and consequently on the value creation.
Banca Intesa confirmed its leadership in all main turnaround programmes at the national level. With the adoption of the new service model, the number of deals concluded in the structured finance area (in particular syndicated lending, acquisition finance and real estate) and in the investment banking area progressively increased and also involved the Mid Corporate segment: during 2005 about a hundred operations were concluded. The new model, coupled with the launch of products specifically designed to support internationalisation (*IntesaExport*) and innovation (*IntesaNova*), allowed to strengthen the Bank's positioning in the corporate sector and to contribute to the development of Italian companies in the international markets.

Within the ***Investment Banking and Capital Markets Department***, structured finance activities were characterised in 2005 by the implementation of important operations in all main sectors.
The project finance sector continued to structure funding for specific, highly-complex and extremely large investment projects, in sectors characterised by high capital intensity. Operations were performed in the TMT (Technologies, Media, Telecommunications) sector, where Banca Intesa played the role of mandated lead arranger for the funding of initiatives in the telecom industry (Towertel, H3G in Sweden and Denmark) and for the participation in the funding of the acquisition of Wind Telecomunicazioni by the Orascom group.
Important operations were also completed in the energy, oil & gas sectors (Edipower, Api Energia, Qalhat LNG in Oman), as well as the funding of the acquisition of Pirelli's Cable Division by GS PIA. In all these operations Banca Intesa played a primary role.
In the shipping sector noteworthy was the Synergas operation, a bridge loan for the acquisition of 10 gas carriers, where Banca Intesa assumed the roles of mandated lead arranger, bookrunner and facility agent.
With regard to activities in the real estate sector, the consolidation of Banca Intesa's leadership continued, developing the business model based on advisory activities (to support customers in the definition of options for enhancing value and funding of real estate assets) and lending (via the structuring of loans for real estate acquisitions and developments). During the year loans for approximately 5 billion euro were analysed, with a great predominance (approximately 50%) of loans for projects of urban re-qualification and development. As mandated lead arranger, credit lines for approximately 2.9 billion euro were structured and approximately 1 billion euro subscribed. Main operations concluded were the re-qualification and development project of the "Garibaldi-Repubblica" area in Milan, for which works started in July 2005, the funding of certain listed real estate funds, and the structuring of the credit lines required for the implementation of the development plan of the company Sviluppo Italia Turismo which foresees important tourist investments in Sicily, Puglia and Calabria. With regard to enhancing value and funding of real estate assets, two important operations were concluded with public partners: the funding of part of the real estate assets owned by the City of Rome and the establishment and funding of the real estate fund Patrimonio Uno promoted by the Ministry of Economy and Finance with assets coming from Public entities, State-owned companies and certain State agencies. Moreover, two feasibility studies were carried out for enhancing value of part of the real estate assets owned by the City of Taranto and of an important real estate complex in Turin owned by the State Property Office.
In the leveraged & acquisition finance sector important funding operations were structured, with particular reference to the organisation and issue of credit facilities in support of corporate customers and private equity funds. In certain cases mandates were received and loans were already granted in 2005, whereas for other transactions closing is expected during 2006. In particular, with regard to the Italian market, the structuring and granting of credit facilities exceeding 1,500 million euro were finalised, under a mandate. Among these operations noteworthy are the refinancing of the debts of the AVIO group and of the Guala Closures group and the operations supporting corporate acquisitions (IP Cleaning, International Sailing Boat, Saint Gobain, Marco Polo Holdings, FL Selenia, and other). The participation was then provided, mainly with the role of joint lead arranger, in loans or credit facilities for acquisitions totalling approximately 4,700 million euro: the loans include Seat Pagine Gialle and the Ferretti group, whilst the acquisitions include Fiorucci, Sisal, Società Europea Autocaravan and the Necta group. Similar operations were also carried out in the international markets for an overall amount of approximately 5,400 million euro.
In 2005, the activities related to the organisation of the securitisations placed, through Banca Caboto, with Italian and foreign institutional investors were consolidated by structuring i) the securitisation of lease receivables of Privata Leasing S.p.A. ("Tricolore Funding") amounting to 300 million euro, where Banca Intesa played the role of sole arranger, ii) the securitisation of the receivables of the hospitals and the ASL (local health companies) of the Lazio region ("Atlantide 2"), amounting to 640 million euro, with the role of joint arranger, and finally iii) the disposal of the real estate assets owned by the City of Rome ("Campidoglio Finance"), for 121 million euro, with the role of joint arranger. Furthermore, private securitisations were organised, funded through the issue of asset backed commercial papers, through the conduit vehicle, of which Banca Intesa is sponsor ("Romulus Funding Corp.").

With regard to structured export finance activities, traditional support to Italian exporters continued, mainly addressed to developing Countries. During 2005 mandates were obtained from primary exporters to organise, as mandated lead arranger, operations for an overall amount of approximately 2 billion euro. Certain mandates are conditional upon the actual assignment, through an international tender, of industrial supplies to the corporate customers. Noteworthy are the operations related to i) the realisation of a production line of commercial vehicles with the FIAT and PSA brands in Turkey, ii) the supply of turbines for the generation of electricity to the main Iranian electricity operator, and iii) the loans for the realisation of petrochemical complexes by primary national contractors in Russia. Finally, the Bank commenced medium-term discounting activities without recourse with transfer of SACE policy, whereas medium-term pre-export finance activities in the raw material sector are still under assessment.

The Corporate Division also includes Advisory and M&A activities. Advisory activities in this area were performed on the basis of mandates given by selected customers in the Mid Corporate segment and by the State and Infrastructure Department. Particular attention was paid to the support of companies involved in growth through acquisitions, as well as to privatisation and merger programmes in the local utilities sector.

2005 confirmed ***Banca Caboto***'s leadership both in the primary equity market – with the conduction of various IPOs and the direction of important capital increase operations - and in bond markets acting with various roles for the placement of bank, corporate and supranational issues. In the secondary market the bank confirmed its forefront position in the ranking of intermediaries with a market share on the MTA of 5.5%. Noteworthy were the operations on structured equity derivatives, with the predisposition of new products in terms of payoff and underlying asset.

In this scenario, the statement of income for the period confirmed the considerable increase in net fee and commission income (approximately +43%), for both equity origination and bond market activities. This performance, coupled with the positive result achieved on financial transactions (approximately +23%), led to a net interest and other banking income exceeding 190 million euro, with an approximately 23% rise. Operating costs remained overall stable at 144 million euro (143 million euro in 2004), also as a result of cost optimisation in the equity origination area and lower costs for consultancies and administrative services. Net income amounting to 71.7 million euro evidenced an approximately 60% increase from the consistent figure, with the consequent positive trend in all economic ratios.

Within the ***Financial Institutions Department*** the creation of an excellence centre (International Trade Services) was initiated with the objective of strengthening the leadership in the increasingly-competitive sector of import-export trade and reconfirming the role of reference bank in supporting the internationalisation of Italian companies, particularly in the emerging markets. The model, which unifies cash management and trade services activities in one centre, is in line with the best practices of international banks.

During 2005, the Operations sector of Nextra Investment Management was spun off and transferred in Banca Intesa where it formed the Fund Administration Service in the Financial Institutions Department. With this operation the custodian bank is capable of calculating the assets under management of the funds for which it also exercises the control functions of custodian bank and of global custody. The completion of the services offered as custodian bank to asset management companies raised Banca Intesa's offer to cutting edge in this sector.

With regard to the foreign network pertaining to the Department, it is notable that Shanghai Sino-Italy Business Advisory Company (SIBAC) – the joint venture in which Banca Intesa holds 40%, Bank of China Holding International 35% and Simest 25% – obtained the license to start operations. SIBAC offers consultancy and assistance services to Italian enterprises, mainly medium-sized and small, which intend to develop industrial and commercial activities in China, also in partnership with Chinese operators. It was decided to liquidate ZAO International Business Consulting.

Société Européenne de Banque recorded a net income of 18 million euro, with an increase on the consistent figure for the same period of 2004 (10 million euro), as a result of the consolidated effectiveness with which the company continues to operate in the Luxembourg financial market, mainly in support of corporate customers as well as in the private banking and mutual fund management areas.

Intesa Bank Ireland continued to operate profitably in the wholesale banking sector, even after the considerable downsizing of its exposure towards large multinationals implemented in the previous year. After this repositioning, the statement of income for 2005 closed with a net income of 23 million euro, which was therefore not comparable with the figure registered in the same period of 2004.

Zao Banca Intesa, the bank established to assist Italian enterprises operating in the Russian market and those interested in operating there, offering commercial and financial services to corporate customers, closed 2005 – the first full year of operations – virtually at breakeven, (mainly in relation to the costs related to the strengthening of its operating structures), compared to the loss recorded in the previous year (directly attributable to start-up costs).

In 2005 ***Merchant Banking*** activities progressed in all traditional operational areas, (private equity, investments in private equity funds and institutional and development equity investments). As at 31st December 2005 the overall portfolio (direct and through the subsidiary PEI (Private Equity International) amounted to approximately 2 billion euro, made up of 48 equity investments and certain investments in funds, and generated revenues in the form of capital gains (from total and partial divestments), interest on shareholder loans and dividends.

Main operations finalised during the year include the sale (through the subsidiary Mirror) of the whole equity investment in Eutelsat, the sale of the whole equity investment in Italenergia and Edison to EDF, the acquisition of an approximately 1.8% stake in Camfin and the increase of the stakes held in Pirelli & C and RCS, the listing and simultaneous partial sale of the equity investment in Guala, the acquisition of FIAT shares following the conversion of the *convertendo* loan subscribed in 2002, the subscription of a capital increase in Granarolo S.p.A., for a quota of approximately 20% and the acquisition of an approximately 2.3% stake in Parmalat following the well-known debt-equity swap.

Banca Intesa increased its commitment towards the Public Sector, through the intervention of the ***State and Infrastructures Department*** in numerous operations of primary importance for the Country. In particular, credit for infrastructures was promoted through i) funding of ANAS for the construction of the second portion of the Salerno-Reggio Calabria motorway, ii) funding of the general contractor for the realisation of the new Mestre motorway link, iii) assistance to the syndicate of enterprises which was awarded the provisional contract for the construction of the Bridge on the Strait of Messina, iv) organisation of the funding of the project related to the improvement of the water supply system in Sicily. Financial support of health and public assistance services was developed through the securitisation of health receivables of the Lazio and Abruzzo Regions and the finalisation of financial operations related to the project for the new Mestre Hospital and for the expansion of the existing incinerator at Parona (Pavia). The Department made significant interventions to find financial resources in favour of central and local entities, through the securitisation of real estate properties owned by the State and by the City of Rome, and through the structuring and issue of bonds for numerous local entities. With regard to activities supporting universities and public research, interventions were made to fund numerous universities and research centres. Finally, the Department participated in various urban projects and projects for the development of the territory, such as the funding of plants and works in Piemonte for the 20th Winter Olympic Games and the funding of the interventions aimed at expanding and modernising the ports of Piombino, Olbia, Golfo degli Aranci and Salerno.

During 2005 the final stages were concluded of the project for the creation of a bank capable of serving in an integrated way all public and private entities that participate in public spending. With the contribution of the State and Infrastructures Department, the new entity named ***Banca Intesa Infrastrutture e Sviluppo*** (Banca Intesa Infrastructures and Development) became operational with effects from 1st January 2006. It provides its own services in synergy with Banca Intesa's branches, avails itself of Banca Intesa's information technology and back office services and continues, at the same time, the commercial cooperation with other Group banks.

The State and Infrastructures Department and, as of 2006, Banca Intesa Infrastrutture e Sviluppo also include the tax collection companies which, in consideration of the peculiarities of their activities, did not adopt IAS/IFRS. However, for the preparation of the consolidated financial statements, their results were restated according to international accounting principles.

The statements of income of the companies in the sector, ***E.Tr.*** and ***Esa.Tri.***, demonstrated their capabilities in adapting their organisational and operational structures to the changes required by the tax collection reform, even in a context characterised by negative factors that undoubtedly slowed down the action of the concessionaires. Revenues related to mortgage procedures and generated by spontaneous tax collection activities registered considerable

increases. Further savings in operating costs were achieved both in personnel expenses and other costs. Net incomes for 2005, which were affected by the revision of the process for discounting credits in compliance with the new provisions regarding tax collection set forth by Law 248 of 2005, amounted to approximately 95 million euro for E.Tr. and 42 million euro for Esa.Tri.
On the basis of their respective separate financial statements, net incomes for the period equalled 125 million euro and 43 million euro.
On the legislative front, particularly important was the issue of the Law Decree 203 of 30th September 2005, converted with changes by Law 248 of 2nd December 2005, which suppressed, with effects as of 1st October 2006, the system of assigning to concessionaires the national tax collection service and transferred it to the State. To this end, an *ad hoc* company was established and was named Riscossione S.p.A, in which the Revenue Agency holds a 51% stake and the remaining 49% is held by INPS. Following the aforementioned provisions, Riscossione S.p.A. must propose to the concessionaire companies/Government commissioners, in due time before the deadline of 1st October, the purchase of a minimum 51% stake in the capital of each company, provided that each company under offer purchases, in turn, a stake in the share capital of Riscossione S.p.A., which must be determined using the ratio between the purchase prices of the companies sold. The new provisions also foresee that, before 31st December 2010, the public partners of Riscossione S.p.A. buy back the shares sold to private companies and purchase the shares which may still be held by private sector entities in the companies not entirely owned by Riscossione S.p.A.
As already mentioned, the Corporate Division is also responsible for the operations performed by ***Intesa Mediofactoring***. Considering the uncertainties in the application of IAS/IFRS regarding factoring operations, the company did not drawn up the separate financial statements as at 31st December 2005 on the basis of international standards, although, for the preparation of Group consolidated financial statements as at 31st December 2005, the company drew up the compulsory financial statement forms based on a prudent application of IAS/IFRS.
Although the subsidiary operates in a sector characterised by an unfavourable domestic situation, which led to a 3% reduction in the volume of loans acquired during the year, the statement of income for 2005 – drawn up in accordance to IAS/IFRS – recorded a net income of 45 million euro, with a 10% increase on the consistent figure of 2004. The reduction in intermediated volumes and in average loans negatively affected net interest income (-6.1%) but operating income increased due to both an over 4% rise in net fee and commission income attributable to a pricing improvement and extraordinary income. Also operating margin was positive (+9.6%) despite an increase in operating costs close to 10%. Lower net adjustments to loans (-20%), also due to important recoveries, led to the aforementioned increase in net income.
The company's statement of income, drawn up in accordance with national accounting principles, closed with a net income of 44 million euro.

Central structures

The Central Structures are responsible not only for governance and control, but also for treasury and strategic finance activities and the proprietary portfolio.
Within ***treasury activities***, in presence of a contained, even if slightly rising, requirement of short-term liquidity, the Bank strengthened the diversification of funding sources: in particular, the average quantity of US commercial papers was increased. The average collection with certificates of deposit in the London market remained stable, whereas the issues of European commercial paper were limited, in the wake of the desired start-up of the new European market "STEP" (Short Term European Paper), foreseen for 2006.
Market making activities on short-term derivatives – in which the Bank holds a primary presence in the domestic market and an important presence in the international market – continued. However, the very low volatility of short-term interest rates in the Euro Zone determined, compared to 2004, a significant reduction in volumes traded, in line with the contraction registered by the market. The gradual expansion of activities in the currencies of Eastern Europe and of other emerging markets also continued.
With regard to the ***proprietary portfolio***, during 2005, the gradual integration of management of corporate bonds in the trading portfolio with the credit derivatives area

continued. This greater integration, combined with a medium-low duration of the portfolio and with a strong diversification of industry and issuer risks, allowed to contain the negative effects of the downgrading of certain car manufacturers. Pursuing diversification and maintaining high credit standings, Asset-Backed Securities and Covered Bonds activities were strengthened. This also favoured the management of liquidity since the majority of those securities are eligible for refinancing at the main European central banks. In the Government bond sector, operations focused on the Countries in the Euro Zone with higher rating.

Equity portfolio management maintained a market-neutral approach in 2005. Dynamic stock picking and use of derivative instruments allowed, in certain cases, to benefit from the upward trend that characterised the markets in the period. In specific situations profit was taken from appropriate strategies in volatility. Merger and acquisition activities continued to rise, supported by low interest rates and the high liquidity of private equity funds. However, the high number of operators tended to limit profitability.

Activities related to the alternative investments portfolio were characterised by a uniform asset allocation by category and strategy for the whole of 2005, which generated satisfactory results. At the end of December the portfolio's overall gross performance was 10.6% higher than that registered by the market.

With regard to ***Asset & Liability Management*** (ALM) activities, the management of interest rate and liquidity risks is charged to the Finance and Treasury Department, while strategic ALM and monitoring of the aforementioned risks are under the responsibility of the Risk Management Department.

Interest rate risk is measured in terms of sensitivity of market value of positions against changes in the yield curve at various maturities. Exposure to interest rate risk is maintained at modest levels: even significant movements in the yield curve generate virtually negligible variations.

Structural liquidity risk is managed by monitoring cash flows at maturity. The analysis of medium- and long-term mismatchings drives the decisions on bond issues.

With regard to ***funding*** activities, the total amount of Banca Intesa's bond issues placed in the domestic market reached approximately 1,140 million euro, with a prevalence of structured securities (approximately 57% of the total). Breakdown by maturity highlighted a concentration on 4-year maturities (approximately 30% of the total), whereas the remaining 70% was evenly distributed among securities with 2, 3, 5 and 6-year maturity. The preponderant part of funding was however raised in international markets, with approximately 8.9 billion euro. In such context issues within the European Medium Term Notes programme – mostly related to public issues – continued and international bonds issued during 2005 touched 8.2 billion euro. This funding was supplemented by a total of 0.7 billion euro, obtained via subscriptions by German insurance companies and through the issue of certificates of deposit by the Hong Kong branch.

As concerns governance functions, ***organisational development*** activities continued to pursue projects under way and commenced numerous new projects. In particular, noteworthy was the conclusion of the IAS Project, aimed at preparing the Group to the adoption of international accounting principles, and the continuation of the Basel II Project, which has the objective of defining and implementing the internal rating system in accordance with provisions of the New Basel Accord. Other projects, new or under way, referred to the redefinition of governance mechanisms and organisational macro-models, process reengineering and direction and control of organisational variables.

In compliance with supervisory instructions issued in July 2004 regarding "business continuity in case of emergency", in 2005 Banca Intesa completed the analysis of all processes, with reference to the crisis scenarios set out by the Bank of Italy, defining the general strategy and the solutions for business continuity. The overall implementation plan for these solutions, agreed upon with top management, is under way and entails the formation of a new information technology centre dedicated to disaster recovery.

Lastly, in compliance with Legislative Decree 196 of 30th June 2003 - Code for the protection of personal data, the "Documento Programmatico sulla Sicurezza", related to minimum safety measures to adopt in treating data, has been updated.

GEOGRAPHIC AREAS

Gruppo Intesa has its key strength in the domestic market, with particular presence in the North-Western and North-Eastern areas. In fact, approximately 83% of operating margin and approximately 86% of income before tax from continuing operations was generated in Italy. Eastern-European markets – that constitute the most attractive foreign operating area – contributed for respectively 10% and approximately 8% of the total.

Likewise, also balance sheet aggregates were mainly generated by the Italian market. Loans granted by the domestic network represented 88% of the consolidated total, whereas loans granted by Eastern-European Countries represented 7%. Approximately 82% of customer deposits, including debt securities issued, was collected by the Italian operating network whilst approximately 7% was attributable to Eastern-European subsidiaries.

The Banca Intesa share

Stock price performance

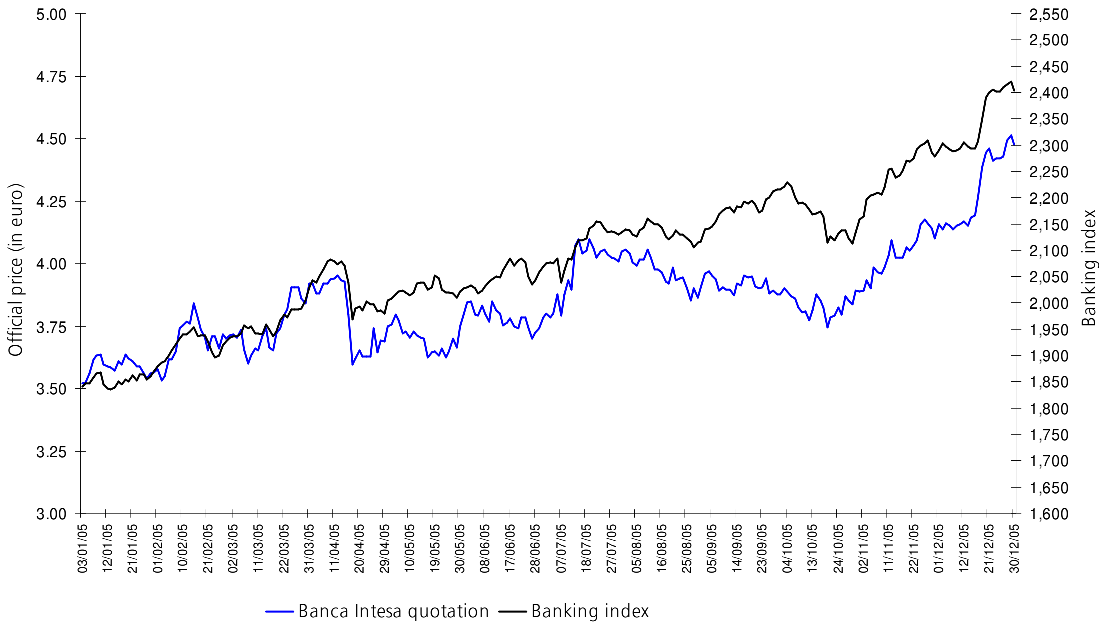
In a weaker economic context than the European average, the Italian stock market closed the 2005 with a 13.8% rise, underperforming the European index by over 9% (+23% the DJ Euro Stoxx index).

The Italian banking sector instead benefited, on the one hand, from the restart of the consolidation process – which from the first quarter of the year showed a more international profile than in the previous years – and, on the other hand, from the increase in interest rates enacted by the European Central Bank that in December raised the Refi Rate from 2.00% to 2.25%. The Italian banking index closed the year with a 31% progress with respect to the end of 2004, thus outperforming both the European banking index (+26.5% the DJ Euro Stoxx Banks index) and the Comit index (+13.8%).

The quotation of the Banca Intesa ordinary share closed 2005 with a 27.1% rise, after remaining on levels higher than at the end of 2004 in the whole of 2005 and after showing a considerable acceleration in the last quarter of the year.

The Banca Intesa saving share registered a 33.2% progress, thus reducing its discount with respect to the ordinary share to 7% from 11% at the end of 2004. The market capitalisation of Banca Intesa at the end of 2005 reached almost 31 billion euro, with an approximately 29% rise with respect to 23.8 billion euro of the end of 2004.

BANCA INTESA'S ORDINARY SHARE QUOTATION
AND BANKING SECTOR INDEX [1]



[1] Comit Banking Index

Earnings per share

The measurement of earnings per share is regulated by a specific accounting principle, IAS 33, which testifies the importance attributed to this parameter – known as EPS – by international accounting practice. In the table below, the indicator is presented in the two formulations: "basic" and "diluted".

Basic EPS is calculated by dividing net income attributable to holders of ordinary shares (therefore net of the dividend attributed to saving shares and the Allowance for charitable, social and cultural contributions) by the weighted average number of ordinary shares outstanding.

Diluted EPS is calculated considering, at the denominator, the dilutive effect of the issue of ordinary shares deriving from the potential exercise of all stock options set out in the plan resolved upon in 2002 by Banca Intesa's Shareholders' Meeting.

	2005			2004		
	Attributable net income (*) (in millions of euro)	**Weighted average number of ordinary shares**	**Euro**	**Attributable net income (*)** (in millions of euro)	**Weighted average number of ordinary shares**	**Euro**
Basic EPS	2,799.6	5,955,380,517	0.470	1,725.3	5,915,707,226	0.292
Diluted EPS	2,799.6	5,963,635,153	0.469	1,725.3	5,943,778,535	0.290

(*) Net income calculated deducting dividend attributed to saving shares and net income attributed to Allowance for charitable contributions.

The tables below provide the reconciliation between net income for the period and net income attributable to holders of ordinary shares, used as numerator in the two ratios, as well as the quantification of the dilutive effect on the weighted average number of ordinary shares outstanding, deriving from the aforementioned potential exercise of stock options.

For a detailed description of the stock option plan please refer to the illustration which is provided in Part I of the Notes to the consolidated financial statements.

(in millions of euro)

	2005	**2004**
Net income	3,025.0	1,841.0
minus		
dividends attributed to saving shares	-215.4	-108.2
portion of net income attributed to Allowance for charitable contributions	-10.0	-7.5
Net income attributable to ordinary shares	**2,799.6**	**1,725.3**

A portion of "attributable" net income, namely 32 million euro, derives from income (loss) after tax from discontinued operations. The amount is immaterial for the calculation of both basic and diluted EPS as described above.

	31.12.2005	**31.12.2004**
Weighted average number of ordinary shares outstanding (for basic EPS)	**5,955,380,517**	**5,915,707,226**
plus		
Weighted dilutive effect due to the potential exercise of stock options	8,254,636	28,071,309
Weighted average number of ordinary shares after dilutive effect (for diluted EPS)	**5,963,635,153**	**5,943,778,535**

Price/book value

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

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

(in millions of euro)

	31.12.2005	2005	2004	2003	2002	2001
Market capitalisation	30,730	26,258	20,414	17,140	16,856	22,776
Shareholders' equity (*)	16,705	15,337	15,328	14,521	14,061	13,209
Price / book value	**1.84**	**1.71**	**1.33**	**1.18**	**1.20**	**1.72**

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

Pay-out ratio

The index expresses the ratio between net income and the portion paid out as dividends. The significant increase in pay-out proves the increasing attention paid to investor expectations, without in any way prejudicing the Group's capital strengthening which, on the contrary, shows an appreciable improvement in the relative ratios.

(in millions of euro)

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

(*) Income of previuos years is not restated using IAS/IFRS.

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

Dividend yield

This indicator measures percentage return on the share, calculated as the ratio between dividends for the year and market price in the reference year. This return, determined using the average annual stock price, highlights a significant growth rate, to 5.7% for ordinary shares and 6.5% for saving shares.

(in euro)

	2005	2004	2003	2002	2001
Ordinary share					
Dividend per share (*)	0.220	0.105	0.049	0.015	0.045
Average stock price	3.857	3.072	2.600	2.578	3.809
Dividend yield	5.70%	3.42%	1.88%	0.58%	1.18%
Saving share					
Dividend per share (*)	0.231	0.116	0.060	0.028	0.080
Average stock price	3.550	2.403	1.887	1.878	2.437
Dividend yield	6.51%	4.83%	3.18%	1.49%	3.28%

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

Rating

The ratings assigned in 2005 to Banca Intesa’s debt, set out in the following table, highlighted – compared to 2004 – an improvement as concerns Standard & Poor’s and remained unchanged for Moody’s and Fitch. Fitch revised the outlook from “stable” to “positive”.

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

Forecast for 2006

In 2005, also as a result of interest rates at their all-time lows, there was a significant acceleration in debt of households and companies, which have led to a substantial widening of the growth differential between bank loans and the economy as a whole. In 2006 this differential should gradually commence to contract, also for the foreseeable slowdown in the growth of loans, due to the rise in interest rates, the weakening in the cycle of constructions and the gradual renewed interest of households in financial investment.
Despite the deceleration, in 2006 demand for loans will continue to remain robust, still sustained by the structurally lower diffusion of mortgages and consumer credit in Italian households with respect to the European average, but also to the improvement in the trend of short-term loans, related to companies' current operations.
In parallel, the scenario of bank funding seems to be oriented to a progressive weakening of the development of shorter-term contracts. This is not only due to the rise in interest rates, but also to the improved confidence of households (at the end of 2005, at its maximum in the last three years according to Istituto di Studi e Analisi Economica), which will continue to favour longer-term financial instruments, with a consequent attraction for professional asset management.
In this context, the operating profitability of Italian banks is expected to record a further improvement with respect to 2005 that was already characterised by higher revenues, costs under control, lower adjustments and a marked rise in profits. More specifically, expectations for 2006 indicate a slight acceleration in the growth of net interest income and a more significant improvement in non-interest income (including from managed funds). The reduction in operating costs in relation to intermediated funds is expected to continue, despite the exhaustion of the processes to reduce staff in the main banking groups. As concerns adjustments and prudential provisions, the attitude of banks should remain attentive, but without any tightening with respect to 2005, even in consideration of the fact that the forecasted improvement in the economic situation will contribute to contain risks of deterioration of credit quality of households and companies.

As concerns prospects for Gruppo Intesa, the results reached in 2005 enable to confirm all the targets contained in the new Business Plan, which sets out an appreciable increase in revenues, continuous cost discipline and an effective governance of risks and, therefore, a further rise in profitability.
In particular, an improvement in operating margin is expected, due to the rise in net interest income, especially ascribable to the growth in volumes and, to a lower extent, to the widening of the spreads, the further expansion in commissions (driven by managed funds and bancassurance, but which should also involve insurance products connected to personal loans and mortgages, current accounts and credit and debit cards) and a practical stability of profits on trading and of other net operating income.
The results achieved in this first part of the year from the relaunch actions implemented for certain areas of activities are in this direction. Important interventions involved asset management and Mid-corporate and SMEs customer segments.
In fact, in the first two months of 2006 net collections for mutual funds inverted their trend to record a positive balance, especially following the 1.8 billion euro collected by Intesa Garanzia Attiva, the first guaranteed-capital mutual fund in Italy and the first product launched in the framework of the strategic agreement with Crédit Agricole.
In the same period, the growth rate of loans to mid-corporate customers inverted its trend and – following targeted actions on 3,000 priority clients in the segment – recorded a 4% increase with respect to the first two months of 2005, after the programmed 6% decrease registered on average for 2005.
Furthermore, the start of the programme aimed at strengthening the management of relations with the SMEs segment led in the period to more than double the growth rate of short-term loans with respect to that recorded on average by customers to which the programme has not yet been extended, from 1.8% to 4.4%.

Proposals to the Shareholders' Meeting

Distinguished Shareholders.

We submit to Your approval Banca Intesa's financial statements for the fiscal year 1st January-31st December 2005, which are made up of the balance sheet, the statement of income, the changes in shareholders' equity, the statement of cash flows and the notes to the financial statements, as well as the relative attachments and the report on operations.

In particular, also pursuant to Art. 7 of Legislative Decree 38 of 28th February 2005, we submit to Your approval the attribution of the effects consequent to the transition to IAS/IFRS determined at the opening of balance sheet captions as at 1st January 2005:

– 1,580,594,310.69 euro debited to Extraordinary reserve;
– 168,939,451.34 euro credited to Valuation reserve of financial assets available for sale;
– 6,181,672.82 euro debited to Valuation reserve of cash flow hedges.

Furthermore, we propose the assignment to Extraordinary reserve of the goodwill from the merger of Intesa Sistemi e Servizi amounting to 2,631,203.13 euro.

We submit to Your approval the distribution of a dividend of 0.231 euro to saving shares and of 0.22 euro to ordinary shares and to consequently distribute the net income equal to 1,564,161,989.20 euro, entirely available pursuant to Articles 5 and 6 of Legislative Decree 38 of 28th February 2005, as follows:

	(euro)
Net income for the period	1,564,161,989.20
Assignment of a dividend of 0.231 euro to 932,490,561 saving shares (determined pursuant to Art. 27 of the Articles of Association), for total disbursement of	215,405,319.59
Assignment of a dividend of 0.220 euro to 5,983,374,287 ordinary shares for total disbursement of	1,316,342,343.14
for total dividends of	1,531,747,662.73
Assignment to the Allowance for charitable, social and cultural contributions	10,000,000.00
Assignment to the Extraordinary reserve of the residual net income	22,414,326.47

We propose the distribution of the aforementioned dividend, in compliance with legal provisions, as of 27th April 2006.

If the financial statements and the proposal for the allocation of net income obtain Your approval, the Parent Company's shareholders' equity – inclusive of income components recorded in the year in Valuation reserves as provided for by IAS/IFRS – will be as indicated in the table below.

(in millions of euro)

Shareholders' equity	**Annual report 2005**	**Change due to the allocation of net income 2005**	**Share capital and reserves as at the date of approval of the financial statements**
Share capital			
- ordinary	*3,111*	-	*3,111*
- saving	*485*	-	*485*
Total share capital	**3,596**	**-**	**3,596**
Share premium reserve	5,510	-	5,510
Reserves	2,284	*22*	2,306
Valuation reserves	1,297	-	1,297
Total reserves	**9,091**	**22**	**9,113**
TOTAL	**12,687**	**22**	**12,709**

The Board of Directors

Milano, 28th March 2006

Gruppo Intesa
Consolidated financial statements

Consolidated balance sheet

(in millions of euro)

Assets		31.12.2005	31.12.2004 except IAS 39 [(§)]	Changes amount	Changes %
10.	Cash and cash equivalents	1,797	1,785	12	0.7
20.	Financial assets held for trading	51,067	58,207	-7,140	-12.3
30.	Financial assets designated at fair value through profit and loss	-	-	-	
40.	Financial assets available for sale	4,379	-	4,379	
50.	Investments held to maturity	2,810	5,219	-2,409	-46.2
60.	Due from banks	27,111	28,856	-1,745	-6.0
70.	Loans to customers	169,478	159,765	9,713	6.1
80.	Hedging derivatives	1,278	-	1,278	
90.	Fair value change of assets in hedged portfolios (+/-)	-	-	-	
100.	Investments in associates and companies subject to joint control	2,091	5,054	-2,963	-58.6
110.	Technical insurance reserves reassured with third parties	-	-	-	
120.	Property and equipment	2,924	2,982	-58	-1.9
130.	Intangible assets	1,356	913	443	48.5
	of which				
	- goodwill	*869*	*401*	*468*	
140.	Tax assets	3,096	4,447	-1,351	-30.4
	a) current	*1,670*	*2,962*	*-1,292*	*-43.6*
	b) deferred	*1,426*	*1,485*	*-59*	*-4.0*
150.	Non-current assets held for sale and discontinued operations	2,869	7	2,862	
160.	Other assets	3,279	8,900	-5,621	-63.2
Total Assets		**273,535**	**276,135**	**-2,600**	**-0.9**

[(§)] Comparative figures restated using IAS/IFRS, excluding i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

Consolidated balance sheet

(in millions of euro)

Liabilities and Shareholders' Equity		31.12.2005	31.12.2004 except IAS 39 [§]	Changes amount	Changes %
10.	Due to banks	31,771	34,348	-2,577	-7.5
20.	Due to customers	115,270	109,610	5,660	5.2
30.	Securities issued	72,320	73,365	-1,045	-1.4
40.	Financial liabilities held for trading	21,249	23,952	-2,703	-11.3
50.	Financial liabilities designated at fair value through profit and loss	-	-	-	
60.	Hedging derivatives	1,410	-	1,410	
70.	Fair value change of liabilities in hedged portfolios (+/-)	-	-	-	
80.	Tax liabilities	1,091	1,964	-873	-44.5
	a) current	*643*	*1,554*	*-911*	*-58.6*
	b) deferred	*448*	*410*	*38*	*9.3*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	2,963	-	2,963	
100.	Other liabilities	7,121	13,834	-6,713	-48.5
110.	Employee termination indemnities	1,102	1,089	13	1.2
120.	Allowances for risks and charges	1,732	1,547	185	12.0
	a) post employment benefits	*320*	*304*	*16*	*5.3*
	b) other allowances	*1,412*	*1,243*	*169*	*13.6*
130.	Technical reserves	-	-	-	
140.	Valuation reserves	829	459	370	80.6
150.	Reimbursable shares	-	-	-	
160.	Equity instruments	-	-	-	
170.	Reserves	3,745	4,363	-618	-14.2
180.	Share premium reserve	5,510	5,406	104	1.9
190.	Share capital	3,596	3,561	35	1.0
200.	Treasury shares (-)	-	-10	-10	
210.	Minority interests (+/-)	801	791	10	1.3
220.	Net income (loss)	3,025	1,856	1,169	63.0
Total Liabilities and Shareholders' Equity		**273,535**	**276,135**	**-2,600**	**-0.9**

[§] Comparative figures restated using IAS/IFRS, excluding i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the change in the consolidation area.

Consolidated statement of income

(in millions of euro)

		2005	2004 except IAS 39 (§)	Changes amount	Changes %
10.	Interest and similar income	9,787	9,509	278	2.9
20.	Interest and similar expense	-4,675	-4,584	91	2.0
30.	**Interest margin**	**5,112**	**4,925**	**187**	**3.8**
40.	Fee and commission income	4,473	4,029	444	11.0
50.	Fee and commission expense	-569	-586	-17	-2.9
60.	**Net fee and commission income**	**3,904**	**3,443**	**461**	**13.4**
70.	Dividend and similar income	701	502	199	39.6
80.	Profits (Losses) on trading	13	387	-374	-96.6
90.	Fair value adjustments in hedge accounting	32	-	32	
100.	Profits (Losses) on disposal or repurchase of	-	1	-1	
	a) loans	*-23*	*1*	*-24*	
	b) financial assets available for sale	*23*	-	*23*	
	c) investments held to maturity	*1*	-	*1*	
	d) financial liabilities	*-1*	-	*1*	
110.	Profits (Losses) on financial assets and liabilities designated at fair value	-	-	-	
120.	**Net interest and other banking income**	**9,762**	**9,258**	**504**	**5.4**
130.	Net losses / recoveries on impairment	-526	-1,033	-507	-49.1
	a) loans	*-545*	*-959*	*-414*	*-43.2*
	b) financial assets available for sale	*-22*	-	*22*	
	c) investments held to maturity	*4*	*-36*	*40*	
	d) other financial activities	*37*	*-38*	*75*	
140.	**Net income from banking activities**	**9,236**	**8,225**	**1,011**	**12.3**
150.	Net insurance premiums	-	-	-	
160.	Other net insurance income (expense)	-	-	-	
170.	**Net income from banking and insurance activities**	**9,236**	**8,225**	**1,011**	**12.3**
180.	Administrative expenses	-5,409	-5,371	38	0.7
	a) personnel expenses	*-3,255*	*-3,233*	*22*	*0.7*
	b) other administrative expenses	*-2,154*	*-2,138*	*16*	*0.7*
190.	Net provisions for risks and charges	-426	-268	158	59.0
200.	Net adjustments to / recoveries on property and equipment	-272	-297	-25	-8.4
210.	Net adjustments to / recoveries on intangible assets	-251	-268	-17	-6.3
220.	Other operating expenses (income)	327	348	-21	-6.0
230.	**Operating expenses**	**-6,031**	**-5,856**	**175**	**3.0**
240.	Profits (Losses) on investments in associates and companies subject to joint control	226	154	72	46.8
250.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
260.	Goodwill impairment	-6	-	6	
270.	Profits (Losses) on disposal of investments	757	222	535	
280.	**Income (Loss) before tax from continuing operations**	**4,182**	**2,745**	**1,437**	**52.3**
290.	Taxes on income from continuing operations	-1,082	-805	277	34.4
300.	**Income (Loss) after tax from continuing operations**	**3,100**	**1,940**	**1,160**	**59.8**
310.	Income (Loss) after tax from discontinued operations	32	-	32	
320.	**Net income (loss)**	**3,132**	**1,940**	**1,192**	**61.4**
330.	Minority interests	-107	-84	23	27.4
	Parent Company's net income (loss)	**3,025**	**1,856**	**1,169**	**63.0**

(§) Comparative figures restated using IAS/IFRS, excluding i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of income (loss) after tax from discontinued operations, and iii) the change in the consolidation area.

Changes in consolidated shareholders' equity as at 31st December 2005

(in millions of euro)

	31.12.2005												
	Share capital		Share premium reserve	Reserves		Valuation reserves				Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity
	ordinary shares	saving shares		retained earnings	other	available for sale	cash flow hedges	legally-required revaluations	other				
SHAREHOLDERS' EQUITY AS AT 31.12.2004													
- Group	**3,076**	**485**	**5,406**	**4,278**	**85**	**-**	**-**	**357**	**102**	**-**	**-10**	**1,856**	**15,635**
- minority interests	**339**	**3**	**123**	**242**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**84**	**791**
CHANGES IN INITIAL BALANCES [(a)]	**-**	**-**	**-**	**-1,765**	**-**	**120**	**-34**	**-**	**-**	**-**	**-**	**-**	**-1,679**
AMOUNTS AS AT 1.1.2005													
- Group	**3,076**	**485**	**5,406**	**2,527**	**85**	**117**	**-32**	**357**	**102**	**-**	**-10**	**1,856**	**13,969**
- minority interests	**339**	**3**	**123**	**228**	**-**	**3**	**-2**	**-**	**-**	**-**	**-**	**84**	**778**
ALLOCATION OF NET INCOME OF THE PREVIUOS YEAR													
Reserves													
- Group				**1,117**								**-1,117**	**-**
- minority interests				**32**								**-32**	**-**
Dividends and other allocations [(b)]												**-791**	**-791**
CHANGES IN THE PERIOD													
Changes in reserves													
- Group				**8**		**272**	**-7**	**-12**	**32**				**293**
- minority interests	**25**		**1**	**-82**		**4**		**11**	**6**				**-35**
Operations on shareholders' equity													
Issue of new shares													
- Group	35		104										139
- minority interests	3												3
Purchase of treasury shares													
- Group											10		10
- minority interests													
Extraordinary dividends													
Changes in equity instruments													
Derivatives on treasury shares													
Stock options				8									8
2005 net income (loss)													
- Group												**3,025**	**3,025**
- minority interests												**107**	**107**
SHAREHOLDERS' EQUITY AS AT 31.12.2005													
- Group	**3,111**	**485**	**5,510**	**3,660**	**85**	**389**	**-39**	**345**	**134**	**-**	**-**	**3,025**	**16,705**
- minority interests	**367**	**3**	**124**	**178**	**-**	**7**	**-2**	**11**	**6**	**-**	**-**	**107**	**801**

[(a)] The change in initial balances of shareholders' equity upon first time adoption of IAS/IFRS differ from the figures disclosed in the specific chapter on IAS/IFRS first adoption since the latter refers only to the shareholders' equity pertaining to the Group.

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

Changes in consolidated shareholders’ equity as at 31st December 2004

(in millions of euro)

	31.12.2004												
	Share capital		Share premium reserve	Reserves		Valuation reserves				Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity
	ordinary shares	saving shares		retained earnings	other	available for sale	cash flow hedges	legally-required revaluations	other				
SHAREHOLDERS’ EQUITY AS AT 31.12.2003													
- Group	**3,076**	**485**	**5,404**	**3,457**	**85**	**-**	**-**	**356**	**-1**	**-**	**1,017**	**1,214**	**15,093**
- minority interests	**339**	**3**	**122**	**159**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**83**	**706**
CHANGES IN INITIAL BALANCES [a]	**7**	**-**	**-**	**2**	**-**	**-**	**-**	**-**	**65**	**-**	**-1,017**	**-4**	**-947**
AMOUNTS AS AT 1.1.2004													
- Group	**3,076**	**485**	**5,404**	**3,422**	**85**	**-**	**-**	**356**	**64**	**-**	**-**	**1,214**	**14,106**
- minority interests	**346**	**3**	**122**	**196**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**79**	**746**
ALLOCATION OF NET INCOME OF THE PREVIUOS YEAR													
Reserves													
- Group				**877**								**-877**	**-**
- minority interests				**7**								**-7**	**-**
Dividends and other allocations [b]												**-409**	**-409**
CHANGES IN THE PERIOD													
Changes in reserves													
- Group			**2**	**-29**				**1**	**38**				**12**
- minority interests	**-7**		**1**	**39**								**-**	**33**
Operations on shareholders' equity													
Issue of new shares													
- Group													
- minority interests													
Purchase of treasury shares													
- Group											-10		-10
- minority interests													
Extraordinary dividends													
Changes in equity instruments													
Derivatives on treasury shares													
Stock options				8									8
2004 net income (loss)													
- Group												**1,856**	**1,856**
- minority interests												**84**	**84**
SHAREHOLDERS’ EQUITY AS AT 31.12.2004													
- Group	**3,076**	**485**	**5,406**	**4,278**	**85**	**-**	**-**	**357**	**102**	**-**	**-10**	**1,856**	**15,635**
- minority interests	**339**	**3**	**123**	**242**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**84**	**791**

[a] The change in initial balances of shareholders' equity upon first time adoption of IAS/IFRS differ from the figures disclosed in the specific chapter on IAS/IFRS first adoption since the latter refers only to the shareholders' equity pertaining to the Group.

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

Consolidated statement of cash flows

(in millions of euro)

	31.12.2005	31.12.2004 except IAS 39 [§]
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**5,032**	**4,804**
- net income (+/-)	3,132	1,940
- gains/losses on financial assets held for trading and on assets/liabilities designated at fair value through profit and loss (-/+)	-70	-
- gains/losses on hedging activities (-/+)	-32	-
- net losses/recoveries on impairment (+/-)	880	1,420
- adjustments to/net recoveries on property, equipment and intangible assets (+/-)	523	565
- net provisions for risks and charges and other costs/revenues (+/-)	584	489
- net insurance premiums to be collected (-)	-	-
- other insurance revenues/charges to be collected (-/+)	-	-
- taxes and duties to be settled (+)	1,155	840
- net adjustments/recoveries on disposal groups net of tax effect (-/+)	-	-
- other adjustments (+/-)	-1,140	-450
2. Cash flow from / used in financial assets	**-1,694**	**-18,397**
- financial assets held for trading	6,684	-15,356
- financial assets designated at fair value through profit and loss	-	-
- financial assets available for sale	443	-
- due from banks: repayable on demand	375	198
- due from banks: other	1,234	-458
- loans to customers	-10,713	-4,955
- other assets	283	2,174
3. Cash flow from / used in financial liabilities	**-3,871**	**14,163**
- due to banks: repayable on demand	85	-1,082
- due to banks: other	-2,552	3,710
- due to customers	5,535	4,491
- securities issued	1,421	6,103
- financial liabilities held for trading	-8,775	3,839
- financial liabilities designated at fair value through profit and loss	-	-
- other liabilities	415	-2,898
Net cash flow from (used in) operating activities	**-533**	**570**
B. INVESTING ACTIVITIES		
1. Cash flow from	**2,813**	**763**
- sales of investments in associates and companies subject to joint control	96	54
- dividends collected on investments in associates and companies subject to joint control	35	18
- sales of investments held to maturity	-	333
- sales of property and equipment	129	356
- sales of intangible assets	29	2
- sales of subsidiaries and business branches	2,524	-
2. Cash flow used in	**-1,667**	**-645**
- purchases of investments in associates and companies subject to joint control	-129	-62
- purchases of investments held to maturity	-351	-
- purchases of property and equipment	-391	-273
- purchases of intangible assets	-249	-253
- purchases of subsidiaries and business branches	-547	-57
Net cash flow from (used in) investing activities	**1,146**	**118**
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	10	-10
- share capital increases	142	-
- dividend distribution and other	-791	-409
Net cash flow from (used in) financing activities	**-639**	**-419**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**-26**	**269**
RECONCILIATION		
Cash and cash equivalents at beginning of period	1,785	1,478
Net increase (decrease) in cash and cash equivalents	-26	269
Cash and cash equivalents: foreign exchange effect	38	38
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,797**	**1,785**

LEGENDA: (+) from (–) used in

[§] Comparative figures restated using IAS/IFRS, excluding i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities and iii) the change in the consolidation area.

Banca Intesa
Financial statements

Balance sheet

(in euro)

Assets		31.12.2005	31.12.2004 except IAS 39 (§)	Changes amount	%
10.	Cash and cash equivalents	1,098,262,752	970,173,607	128,089,145	13.2
20.	Financial assets held for trading	38,892,358,404	40,333,303,443	-1,440,945,039	-3.6
30.	Financial assets designated at fair value through profit and loss	-	-	-	
40.	Financial assets available for sale	2,770,940,699	-	2,770,940,699	
50.	Investments held to maturity	-	717,653,795	-717,653,795	
60.	Due from banks	35,724,550,062	36,676,618,268	-952,068,206	-2.6
70.	Loans to customers	110,566,860,588	103,512,647,800	7,054,212,788	6.8
80.	Hedging derivatives	1,046,746,902	-	1,046,746,902	
90.	Fair value change of assets in hedged portfolios (+/-)	-	-	-	
100.	Equity investments	11,567,952,625	13,731,194,567	-2,163,241,942	-15.8
110.	Property and equipment	1,509,584,147	1,331,623,780	177,960,367	13.4
120.	Intangible assets	363,910,818	1,972,444	361,938,374	
	of which				
	- goodwill	-	-	-	
130.	Tax assets	2,257,948,893	2,622,853,923	-364,905,030	-13.9
	a) current	*1,330,280,596*	*1,678,792,996*	*-348,512,400*	*-20.8*
	b) deferred	*927,668,297*	*944,060,927*	*-16,392,630*	*-1.7*
140.	Non-current assets held for sale and discontinued operations	-	-	-	
150.	Other assets	2,006,071,035	3,417,636,048	-1,411,565,013	-41.3
Total Assets		**207,805,186,925**	**203,315,677,675**	**4,489,509,250**	**2.2**

(§) Comparative figures restated using IAS/IFRS, excluding i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the effects of merger and transfer operation carried out in 2005

Balance sheet

(in euro)

Liabilities and Shareholders' Equity		31.12.2005	31.12.2004 except IAS 39 (§)	Changes amount	Changes %
10.	Due to banks	33,181,857,651	28,915,549,883	4,266,307,768	14.8
20.	Due to customers	80,888,292,273	76,471,257,726	4,417,034,547	5.8
30.	Securities issued	56,974,132,382	60,614,240,300	-3,640,107,918	-6.0
40.	Financial liabilities held for trading	14,136,495,966	14,237,155,820	-100,659,854	-0.7
50.	Financial liabilities designated at fair value through profit and loss	-	-	-	
60.	Hedging derivatives	1,319,875,491	-	1,319,875,491	
70.	Fair value change of liabilities in hedged portofolios (+/-)	-	-	-	
80.	Tax liabilities	437,434,273	399,241,438	38,192,835	9.6
	a) current	*294,502,693*	*265,363,715*	*29,138,978*	*11.0*
	b) deferred	*142,931,580*	*133,877,723*	*9,053,857*	*6.8*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	
100.	Other liabilities	4,408,132,671	6,388,466,383	-1,980,333,712	-31.0
110.	Employee termination indemnities	860,556,793	819,180,011	41,376,782	5.1
120.	Allowances for risks and charges	1,347,388,863	1,089,194,849	258,194,014	23.7
	a) post employment benefits	*130,658,397*	*121,015,877*	*9,642,520*	*8.0*
	b) other allowances	*1,216,730,466*	*968,178,972*	*248,551,494*	*25.7*
130.	Valuation reserves	1,296,670,131	986,905,154	309,764,977	31.4
140.	Reimbursable shares	-	-	-	
150.	Equity instruments	-	-	-	
160.	Reserves	2,284,156,299	3,118,361,516	-834,205,217	-26.8
170.	Share premium reserve	5,509,782,422	5,406,237,108	103,545,314	1.9
180.	Share capital	3,596,249,721	3,561,062,849	35,186,872	1.0
190.	Treasury shares (-)	-	-	-	
200.	Net income (loss)	1,564,161,989	1,308,824,638	255,337,351	19.5
Total Liabilities and Shareholders' Equity		**207,805,186,925**	**203,315,677,675**	**4,489,509,250**	**2.2**

(§) Comparative figures restated using IAS/IFRS, excluding i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the effects of merger and transfer operation carried out in 2005

Statement of income

(in euro)

		2005	2004 except IAS 39 [(§)]	Changes amount	Changes %
10.	Interest and similar income	6,596,703,125	6,472,060,717	124,642,408	1.9
20.	Interest and similar expense	-3,601,795,280	-3,476,243,783	125,551,497	3.6
30.	**Interest margin**	**2,994,907,845**	**2,995,816,934**	**-909,089**	**-**
40.	Fee and commission income	2,545,660,444	2,334,360,782	211,299,662	9.1
50.	Fee and commission expense	-275,097,733	-284,140,613	-9,042,880	-3.2
60.	**Net fee and commission income**	**2,270,562,711**	**2,050,220,169**	**220,342,542**	**10.7**
70.	Dividend and similar income	716,004,486	873,260,579	-157,256,093	-18.0
80.	Profits (Losses) on trading	-18,808,529	126,173,633	-144,982,162	
90.	Fair value adjustments in hedge accounting	18,008,929	-	18,008,929	
100.	Profit (Loss) on disposal or repurchase of	44,511,355	-1,576,319	46,087,674	
	a) loans	*-19,001,539*	*-1,576,319*	*17,425,220*	
	b) financial assets available for sale	*64,969,193*	-	*64,969,193*	
	c) investments held to maturity	-	-	-	
	d) financial liabilities	-1,456,299	-	1,456,299	
110.	Profit (Losses) on financial assets and liabilities designated at fair value	-	-	-	
120.	**Net interest and other banking income**	**6,025,186,797**	**6,043,894,996**	**-18,708,199**	**-0.3**
130.	Net losses / recoveries on impairment	-257,111,669	-734,272,884	-477,161,215	-65.0
	a) loans	*-275,966,454*	*-696,421,251*	*-420,454,797*	*-60.4*
	b) financial assets available for sale	*-16,598,307*	-	*16,598,307*	
	c) investments held to maturity	-	-	-	
	d) other financial activities	*35,453,092*	*-37,851,633*	*73,304,725*	
140.	**Net income from banking activities**	**5,768,075,128**	**5,309,622,112**	**458,453,016**	**8.6**
150.	Administrative expenses	-3,470,468,065	-3,745,065,308	-274,597,243	-7.3
	a) personnel expenses	*-2,074,382,550*	*-2,073,571,861*	*810,689*	-
	b) other administrative expenses	*-1,396,085,515*	*-1,671,493,447*	*-275,407,932*	*-16.5*
160.	Net provisions for risks and charges	-305,783,365	-261,505,797	44,277,568	16.9
170.	Net adjustments to / recoveries on property and equipment	-152,182,800	-79,242,802	72,939,998	92.0
180.	Net adjustments to / recoveries on intangible assets	-192,462,112	-3,261,465	189,200,647	
190.	Other operating expenses (income)	338,787,282	314,116,595	24,670,687	7.9
200.	**Operating expenses**	**-3,782,109,060**	**-3,774,958,777**	**7,150,283**	**0.2**
210.	Profits (Losses) on equity investments	200,829,117	171,690,413	29,138,704	17.0
220.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	
230.	Goodwill impairment	-	-	-	
240.	Profits (Losses) on disposal of investments	8,862,932	31,083,310	-22,220,378	-71.5
250.	**Income (Loss) before tax from continuing operations**	**2,195,658,117**	**1,737,437,058**	**458,221,059**	**26.4**
260.	Taxes on income from continuing operations	-609,948,903	-428,612,420	181,336,483	42.3
270.	**Income (Loss) after tax from continuing operations**	**1,585,709,214**	**1,308,824,638**	**276,884,576**	**21.2**
280.	Income (Loss) after tax from discontinued operations	-21,547,225	-	21,547,225	
290.	**Net income (loss)**	**1,564,161,989**	**1,308,824,638**	**255,337,351**	**19.5**

[(§)] Comparative figures restated using IAS/IFRS, excluding i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of income (loss) after tax from discontinued operations, and iii) the effects of merger and transfer operation carried out in 2005

Changes in shareholders' equity as at 31st December 2005

(in euro)

	31.12.2005												
	Share capital		Share premium reserve	Reserves		Valuation reserves				Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity
	ordinary shares	saving shares		retained earnings	other	available for sale	cash flow hedges	legally-required revaluations	other				
SHAREHOLDERS' EQUITY AS AT 31.12.2004	3,076,167,758	484,895,091	5,406,237,108	3,033,372,711	84,988,805	-	-	986,905,154	-	-	-	1,308,824,638	14,381,391,265
CHANGES IN INITIAL BALANCES				-1,417,855,148		168,939,452	-6,181,673						-1,255,097,369
EFFECT OF THE MERGER OF INTESA SISTEMI E SERVIZI				2,631,203									2,631,203
AMOUNTS AS AT 1.1.2005	3,076,167,758	484,895,091	5,406,237,108	1,618,148,766	84,988,805	168,939,452	-6,181,673	986,905,154	-	-	-	1,308,824,638	13,128,925,099
ALLOCATION OF NET INCOME													-
OF THE PREVIUOS YEAR													-
Reserves				572,006,475								-572,006,475	0
Dividends and other allocations												-736,818,163	-736,818,163
CHANGES IN THE PERIOD													-
Changes in reserves				303,886		167,190,597	-20,183,399						147,311,084
Operations on shareholders' equity													0
Issue of new shares	35,186,872		103,545,314										138,732,186
Purchase of treasury shares													-
Extraordinary dividends													-
Changes in capital equity instruments													-
Derivatives on treasury shares													-
Stock options				8,708,367									8,708,367
2005 net income (loss)												1,564,161,989	1,564,161,989
SHAREHOLDERS' EQUITY AS AT 31.12.2005	3,111,354,630	484,895,091	5,509,782,422	2,199,167,494	84,988,805	336,130,049	-26,365,072	986,905,154	-	-	-	1,564,161,989	14,251,020,562

Changes in shareholders' equity as at 31st December 2004

(in euro)

	31.12.2004												
	Share capital		Share premium reserve	Reserves		Valuation reserves				Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity
	ordinary shares	saving shares		retained earnings	other	available for sale	cash flow hedges	legally-required revaluations	other				
SHAREHOLDERS' EQUITY AS AT 31.12.2003	3,076,167,758	484,895,091	5,403,922,796	2,334,142,390	84,988,805	-	-	986,905,154	-	-	1,015,102,899	1,358,733,546	14,744,858,439
CHANGES IN INITIAL BALANCES				-338,774,550							-1,015,102,899		-1,353,877,449
AMOUNTS AS AT 1.1.2004	3,076,167,758	484,895,091	5,403,922,796	1,995,367,840	84,988,805	-	-	986,905,154	-	-	-	1,358,733,546	13,390,980,990
ALLOCATION OF NET INCOME OF THE PREVIUOS YEAR													
Reserves				1,023,555,981								-1,023,555,981	0
Dividends and other allocations												-335,177,565	-335,177,565
CHANGES IN THE PERIOD													
Changes in reserves			2,314,312	6,437,703									8,752,015
Operations on shareholders' equity													-
Issue of new shares													-
Purchase of treasury shares													-
Extraordinary dividends													-
Changes in capital equity instruments													-
Derivatives on treasury shares													-
Stock options				8,011,187									8,011,187
2004 net income (loss)												1,308,824,638	1,308,824,638
SHAREHOLDERS' EQUITY AS AT 31.12.2004	3,076,167,758	484,895,091	5,406,237,108	3,033,372,711	84,988,805	-	-	986,905,154	-	-	-	1,308,824,638	14,381,391,265

Statement of cash flows

	31.12.2005	31.12.2004 except IAS 39 [§]
		(in euro)
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**3,009,838,461**	**2,506,083,330**
- net income (-/+)	1,564,161,989	1,308,824,638
- gains/losses on financial assets held for trading and on assets/liabilities designated at fair value through profit and loss (-/+)	249,927,180	207,877,820
- gains/losses on hedging activities (-/+)	-18,008,929	-
- net losses/recoveries on impairment (+/-)	399,052,700	884,751,884
- adjustments to/net recoveries on property, equipment and intangible assets (+/-)	344,644,913	82,504,267
- net provisions for risks and charges and other costs/revenues (+/-)	417,733,356	364,527,573
- taxes and duties to be settled (+)	646,017,834	429,555,799
- net adjustments to/recoveries on disposal groups net of tax effect (-/+)	-	-
- other adjustments (+/-)	-593,690,582	-771,958,651
2. Cash flow from / used in financial assets	**-5,177,162,713**	**-6,308,274,325**
- financial assets held for trading	1,280,686,225	-11,388,192,222
- financial assets designated at fair value through profit and loss	-	-
- financial assets available for sale	-22,055,870	-
- due from banks: repayable on demand	-3,764,231,152	447,949,836
- due from banks: other	5,028,060,019	-3,522,685,710
- loans to customers	-8,312,640,424	7,982,086,775
- other assets	613,018,489	172,566,996
3. Cash flow from / used in financial liabilities	**3,010,573,459**	**3,604,069,529**
- due to banks: repayable on demand	2,826,098,090	-746,577,000
- due to banks: other	1,394,084,907	2,283,766,814
- due to customers	4,370,194,153	-1,996,974,413
- securities issued	-835,835,770	2,984,811,987
- financial liabilities held for trading	-4,131,600,693	2,330,155,820
- financial liabilities designated at fair value through profit and loss	-	-
- other liabilities	-612,367,228	-1,251,113,679
Net cash flow from (used in) operating activities	**843,249,207**	**-198,121,466**
B. INVESTING ACTIVITIES		
1. Cash flow from	**1,554,640,525**	**1,278,402,014**
- sales of equity investments	541,841,758	585,194,536
- dividends collected on equity investments	391,704,945	589,929,578
- sales of investments held to maturity	-	99,418,091
- sales of property and equipment	9,021,357	3,859,809
- sales of intangible assets	-	-
- sales of subsidiaries and business branches	612,072,465	-
2. Cash flow used in	**-1,672,018,496**	**-685,762,790**
- purchases of equity investments	-1,271,045,590	-595,328,515
- purchases of investments held to maturity	-	-
- purchases of property and equipment	-233,405,282	-90,115,359
- purchases of intangibles assets	-167,567,624	-318,916
- purchases of subsidiaries and business branches	-	-
Net cash flow from (used in) investing activities	**-117,377,971**	**592,639,224**
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	-	-
- share capital increases	138,732,186	-
- dividend distribution and other	-736,514,277	-332,863,253
Net cash flow from (used in) financing activities	**-597,782,091**	**-332,863,253**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**128,089,145**	**61,654,505**
RECONCILIATION		
Cash and cash equivalents at beginning of period	970,173,607	908,519,102
Net increase (decrease) in cash and cash equivalents	128,089,145	61,654,505
Cash and cash equivalents: foreign exchange effect	-	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,098,262,752**	**970,173,607**

LEGENDA: (+) from (–) used in

[§] Comparative figures restated using IAS/IFRS, excluding i) estimated impact of application of IAS 39 relating to financial instruments, ii) presentation of non-current assets held for sale and discontinued operations and related liabilities, and iii) the effects of merger and transfer operation carried out in 2005