

Italease: a new CEO, still uncertainty on risk exposure

By:

Elisa Coletti
 Credit Analyst
 02 8796 2097
 elisa.coletti@intesasanpaolo.com

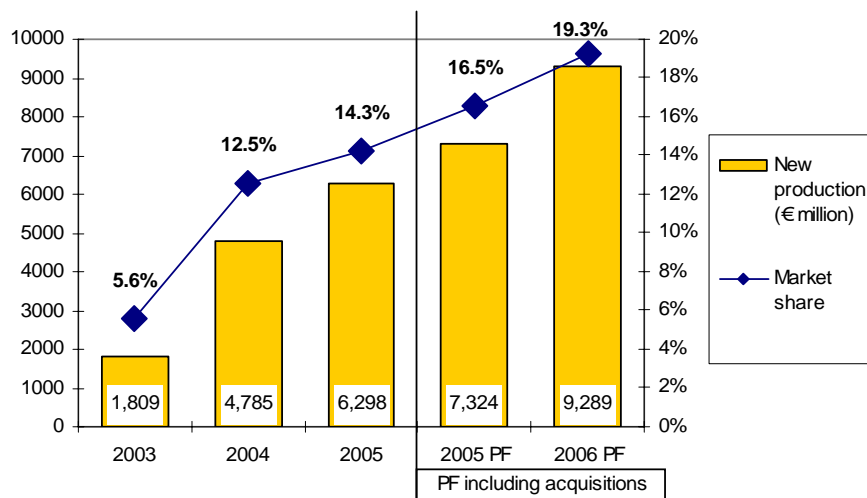
Spiralling business growth and high concentration, both in terms of the real estate leasing sector and big ticket customers, have increased Italease's risk exposure. The disclosure of the increase in counterparty risk in customer derivatives, together with recent legal developments involving the previous CEO, have damaged Italease's reputation. The hope is that the new CEO and the major shareholders, by virtue of their commitments as part of the stability pact and the business relationships that bind them to Italease, can find a rapid solution to the current crisis, also in view of the Bank's leadership position in the leasing sector. In this regard, we observe that the members of the stability pact, meeting on June 7, confirmed their strategic commitment to Italease. In addition, as part of their overall proposal to assist Italease in its derivatives portfolio restructuring, Mediobanca and Goldman Sachs expressed their interest, also in the context of supporting it in "analysing possible transactions to strengthen capital which could entail their direct investment." We reiterate that the bank's capital ratios were recently strengthened through a capital increase that lifted the Tier 1 ratio to 7.5%. However, uncertainty remains on the economic impact of the bank's exposure related to customer derivatives, which will be quantified in the semi-annual report.

Background: A Strong Growth Story

Italease was founded as a leasing company in December 1968 by Italy's "banche popolari" (cooperative banks). In 1995 it became a bank and in 2005 it was listed.

Its leasing business has grown at a remarkable 20% average annual pace in the last five years (CAGR 2001-2006 measured by new production), becoming industry leader in Italy with a 19.3% market share at end-2006, compared to 5.6% in 2003 when it was number three in the rankings.

Italease: new production and market share performance

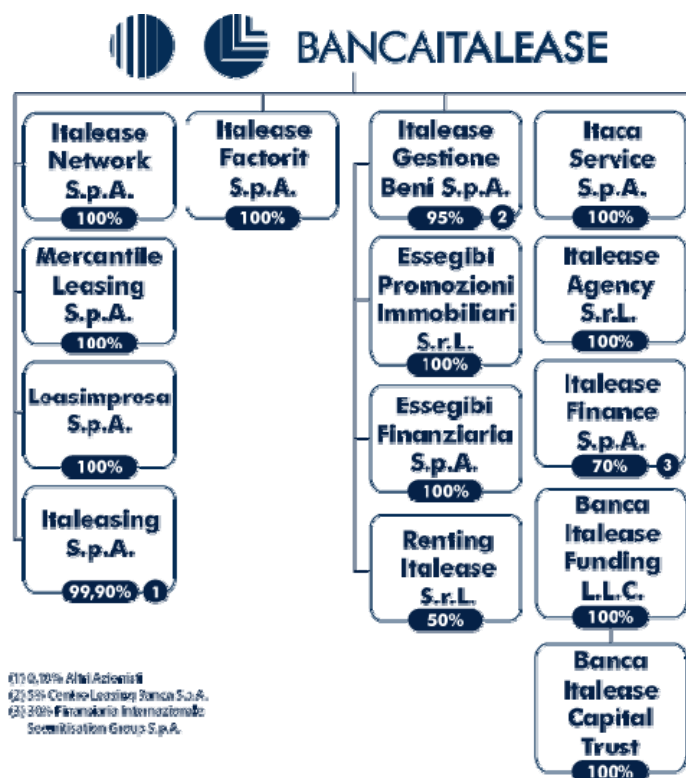


Source: Assilea; Intesa Sanpaolo Industry & Credit Research calculations.
 PF = pro-forma including Leasimpresa and Bipielle Leasing (now Italeasing).

The company's growth strategy has included a **series of acquisitions** in recent years: Mercantile Leasing in 2004, Factorit in 2005, and Bipielle Leasing and Leasimpresa in 2006. Bipielle Leasing, a small company acquired from BPI with a market share of 0.4% at end-2005, was renamed Italeasing. Leasimpresa, number fifteen in the Italian leasing rankings with a 1.9% market share, was merged into Italease as of December 31, 2006, with a capital increase for the purpose reserved for the company shareholders, in the BPVN group. As part of the transaction, a new wholly-owned subsidiary was formed, called Leasimpresa.

Over time, the group has taken on a rather extended structure. However, **the expansion in the scope of business does not seem to have been accompanied by an adequate strengthening of the organisational structure.** To this end, the bank is examining several measures.

Group Structure



Source: www.italease.it

The company's business expansion has been **driven by the growth in real estate leasing** in the wake of the boom in the real estate industry. Over the past five years, the company has grown at an average rate of 33% in this sector compared to 12% CAGR 2001-2006 for the entire real estate leasing market. Italease is by far number one in real estate leasing with a 25% market share in 2006. Moreover, it is very active in boat leasing, a fast-growing sector (see the following tables), where it is number two in the national rankings with a 27.6% market share. Italease is also number one in capital goods leasing, though with a more moderate 14.4% market share in 2006.

So Italease has ridden the market trend in recent years, growing at a faster pace than its competitors and rapidly climbing in the industry rankings.

Leasing Market Performance And Breakdown By Sector – New Business (contract value)

	Contract value (€million)				% of total			
	2006	2005	change '06-'05	change '05-'04	2006	2005	change '06-'05	change '05-'04
Automotive	9,178	8,894	3.2%	3.2%	19.1%	20.1%	-1.0	-2.4
Equipment and machinery	12,790	11,425	11.9%	1.3%	26.6%	25.8%	0.8	-3.6
Ship, Train and Aircraft	2,599	2,004	29.7%	20.7%	5.4%	4.5%	0.9	0.2
Real Estate	23,581	21,967	7.3%	31.1%	49.0%	49.6%	-0.6	5.9
Total new production	48,148	44,290	8.7%	15.6%	100.0%	100.0%	0.0	0.0

Source: Assilea; Intesa Sanpaolo Industry & Credit Research calculations.

Italease: New Production And Market Share Performance By Sector

	New contract value (€m.)			% of total			Market share		
	2006 PF	2005 PF	change '06-'05	2006 PF	2005 PF	change '06-'05	2006 PF	2005 PF	change '06-'05
Automotive	768	595	29.1%	8.3%	8.1%	0.1	8.4%	6.7%	1.7
Equipment and machinery	1,843	1,616	14.1%	19.8%	22.1%	-2.2	14.4%	14.1%	0.3
Ship, Train and Aircraft	718	449	59.7%	7.7%	6.1%	1.6	27.6%	22.4%	5.2
Real Estate	5,960	4,664	27.8%	64.2%	63.7%	0.5	25.3%	21.2%	4.0
Total new production	9,289	7,324	26.8%	100.0%	100.0%	0.0	19.3%	16.5%	2.8

Source: Assilea; Intesa Sanpaolo Industry & Credit Research calculations.

PF = pro-forma including Leasimpresa and Bipielle Leasing (now Italeasing).

Real estate accounts for the bulk of Italease's business, 64% in terms of new contract value in 2006, compared to 46% for the market. But the sector slowed significantly in 2006 and in the first quarter 2007 after years of spiralling growth. The market leader could not escape the fallout from this trend: after recording double-digit growth rates once again in 2006, in 1Q07 Italease suffered a 3% decrease in the amount of new real estate leasing contracts. It should be noted, however, that only one quarter is not enough to assess Italease's effective trend in this specific sector. However, the signals coming from the first-quarter business performance in the other three leasing sectors are positive for Italease, with double-digit growth rates.

As a result of its **real estate specialisation**, Italease, in comparison to its main competitors in the leasing industry, has a **high ratio of big ticket transactions**. The average contract size in 2006 was almost €232 thousand, more than double the average for the entire leasing industry (€106 thousand). It should be noted however that Italease is gradually positioning itself towards greater diversification, betting on a pick-up in capital goods leasing where it posted a 22% y/y growth rate in 1Q07. This contributes to increasing risk diversification, along with the observed decrease in the average unit real estate transaction amount (€2.18 million in 1Q07 vs €2.5 million in 1Q06PF).

In view of its skewed specialisation in real estate, then, Italease is pursuing a **diversification strategy**, both towards other leasing sectors, such as boats and capital goods, and towards factoring and medium/long-term credit, where volumes are

up sharply: Italease Factorit turnover up 30% in 2006 vs 8% for the entire factoring sector, lifting market share to 15%; medium/long-term credit issuance more than tripled, though starting from a small base (4% of the stock of the Group's outstanding receivables at end-2005 and 10% at end-2006). The results in the medium/long-term credit sector were driven by volume growth with corporate customers, while the company began marketing retail mortgages in late 2006. Another channel for diversification and revenue development is cross-selling, through **the offer of products complementary to leasing, among which interest rate hedges and insurance policies**. In this regard, we note that **net commissions jumped 64% in 2006, driven by commissions from the sale of OTC derivatives, accounting for almost 60% of the total** (€233 million). More in detail, derivatives generated as much as €144 million in net commissions, more than double €61 million in 2005.

As part of the **strategy to diversify the business mix and reduce the risk profile**, in late April, Banca Italease and **Fondiarria-SAI** reached an agreement for the development of a **strategic alliance**. As per the agreement, Italease will acquire Fondiarria-SAI's consumer credit and asset management businesses, through the acquisition of 50% of Banca SAI share capital (with the option to increase to 70%) which will come under the direction and coordination of Banca Italease, entering into its scope of consolidation. Italease will also acquire 80% of SAI Asset Management SGR. The agreement also calls for the formation of a life-sector insurance joint-venture for the distribution of life products through the Italease group network, agents, and conventioned intermediaries. The total outlay for Italease is around €71 million. As a result, after the start-up of the residential mortgage business, **Italease plans on accelerating development of the retail business**, backed by the 1400 Banca SAI financial advisors network and the cross-selling opportunities that come from it. Italease also hopes to improve its cost of funding by entering to retail deposit market.

According to the **2006-2008 business plan**, Italease still expects high business growth rates, though at a slower pace than in the past, especially in leasing, projected to grow at a 12% CAGR 2005PF-2008, alongside a 20% CAGR 2005PF-2008 for factoring and 89% CAGR 2005PF-2008 for mortgages. These performances should sustain an average annual revenue growth rate of 33%, driven by a 31% CAGR 2005PF-2008 in interest income and 35% in net commissions. The plan projects net income 2008 of €352 million, up from €106 million pro-forma 2005.

Role of Major Shareholders

The Italease ownership structure includes several of the major Italian cooperative banks, reflecting its original function as the central leasing company for this category of banks. Over time the consortium structure become so obsolete that by end-2003 around 70% of Italease's turnover came from four shareholders – Popolare di Verona e Novara, Popolare dell'Emilia Romagna, Antonveneta, and Popolare di Sondrio – who in October 2003 signed a **"stability pact"** aimed at giving the bank **unitary and stable governance**. Moreover, the pact members committed to providing Italease with **financial and business support**. Later, through a capital increase, Reale Mutua Assicurazioni entered the ownership structure and joined the stability pact, now consisting of six shareholders whose total syndicated stake is 40.3% of the share capital. The main shareholder is BPVN, whose stake increased from 28.1% to 30.7% at end-2006 as a result of the merger of the subsidiary Leasimpresa into Banca Italease and the sale of a 4.0% stake that was outside the shareholders' agreement.

Ownership Structure At June 5, 2007

Shareholders	Stake (%)	% Syndicated
Gruppo Banco Popolare di Verona e Novara	30.72%	20.04%
Gruppo Banca Popolare Emilia-Romagna	6.78%	6.19%
Società Reale Mutua di Assicurazioni	6.11%	5.58%
Gruppo Banca Popolare di Sondrio	3.88%	3.54%
Banca Antonveneta - Gruppo ABN Amro	3.65%	3.33%
Gruppo Banca Popolare di Milano	1.83%	1.61%
TOTAL STABILITY PACT MEMBERS	52.97%	40.29%
OTHER SHAREHOLDERS > 2%		
Credit Suisse Group	5.30%	
Egerton Capital Limited Partnership	2.17%	
Deutsche Asset Management Investments GMBH	2.15%	
Shareholders < 2%	37.42%	

Source: www.italease.it

In the framework of the financial and business support prescribed in the shareholders' agreement, Banca Italease signed conventions at market conditions with the shareholder banks for the distribution of leasing products. In 2006, the banks contributed 17.8% to the leasing business for the year and they contributed even more to the factoring business, 37.3% of annual turnover. Again in 2006, 43.9% of Italease's bank debt was owed to its main shareholders, little changed from 45% in 2005, while BPVN's share increased from 19% in 2005 to 29% in 2006.

Recent Events

In the last two months, Italease's image of success has been marred by two negative events, unrelated between them, that led to the resignation of Chief Executive Officer Massimo Faenza and the appointment of a new CEO. However, the circumstances and the outcome of these events are still for the most part uncertain. We briefly summarise the sequence of events.

- In early May, Mr. Faenza is publicly indicted in connection with the Rome DA's investigation into the Coppola group. As Italease announced on May 24, total exposure to the Coppola group amounted at that date to €66.1 million, of which €51.3 million in a real estate leasing contract in the name of Ipi S.p.A.¹ and €14.8 million in boat leasing contracts with companies in the Coppola Group.
- "In light of the public prosecutor's ongoing investigation into involvement with Coppola group companies", the Board of Directors' Meeting of May 11 conferred Chairman Rondelli with a mandate to "continue with internal review aimed at ascertaining that any responsibility is unfounded, with the assistance of the Internal Audit Committee".²

¹ Listed real estate company, became part of the Coppola group in January 2005, currently 47.2%-owned according to CONSOB reports.

² Source: Italease press release of May 11, 2007.

08 June 2007

- Later, on June 8, Italease announced that investigations by the Chairman and the Internal Audit Committee on outstanding transactions with Coppola group companies revealed “some instances of failure to comply with internal procedures and lack of coordination in the exercise of executive mandates. The investigations are still ongoing.”³ In any case, Italease confirmed that its total exposure to the Coppola group is €66.1 million.
- Announcement to the market, upon request by the CONSOB, of **derivatives exposure to customers**. In detail, on May 31, Italease disclosed that its potential counterparty risk in retail derivatives amounted to around €400 million (at May 22), compared to €225 million at year-end 2006, net of €8 million in prudential provisions. Italease also specified that it had no derivatives positions with Coppola group.
- Also on June 8, Italease announced that its potential credit exposure to customer in relation to derivatives, with reference to report dated June 5, and vs. the €400 million reported on May 22, is as follows: i) €235 million (from € 150 million as at May 22) for which Italease “has already closed out the related hedging instruments with bank counterparties, paying around €192 million”; ii) €365 million (from € 250 million as at May 22) in contracts for which “the Bank is evaluating the possibility to arrange for closing out the hedging instruments.” Involved are 2,600 contracts with 2,200 customers; “the Bank’s potential credit exposure against its top 20 customers accounts for around 60% of the total.” The company specifies that the results of the initiatives taken with customers to come up with solutions and “the updating of the assessment of their creditworthiness will be reflected in the semi-annual report, based on a weighted and conservative estimate that today is too early to quantify.”
- On June 4, Mr. Faenza resigned as board member and Chief Executive Officer, and a new CEO, Massimo Mazzega, was appointed on June 7. The Board of Directors Meeting of June 7 also approved several measures for a stronger organizational structure and governance set up, upgrading the strategy, planning, and control functions.

These events had a **sharply negative impact on the company’s image and reputation**, giving rise to **doubts about the effectiveness of its internal control and its financial strength**. Based on the known information and on the assumption that no new critical factors emerge, we believe that risks from exposure to Coppola group can on the whole be managed. The €66.1 million exposure is in leasing contracts covered by underlying assets. The exposure amounts to 0.3% of the stock of Italease group’s total customer receivables at March 31, 2007 and 0.7% of the stock of leasing receivables at the same date.

The derivatives situation is somewhat murky. Surprising, among others, is the amount of the current Bank’s exposure when, according to its first quarter 2007 report, under financial assets held for trading, the portion of OTC financial derivatives with retail counterparties amounted to €216.7 million, net of €8.5 million in provisions for counterparty risk, mostly unchanged from €225 million reported in the 2006 financial statements, net of €8.3 million in provisions. **But the increase in derivatives volume is nothing new for Italease** which already by end-2006 reported a noticeable jump in trading derivatives with customers, from €26.6 million at end-2005 to €275.7 million (breakdown of derivatives with retail customers at end-2005 not available). Moreover, as already mentioned, net commissions from customer derivatives sales made a significant contribution to 2006 revenues, increasing 136% on 2005.

³ Source: Italease press release of June 8, 2007.

Capital Ratios

As a result of the sharp increase in business, Italease's capital ratios tend to be tight. Already at end-2005, its capital ratios were barely enough to meet supervisory requirements. To strengthen them, in June 2006 the bank issued its first preference shares for €150 million, at the time not entirely countable towards Tier 1, and it issued €125 million in ten-year subordinates. Later, in support of growth targets in its updated 2006-2008 plan, Italease approved a €300 million paid-in capital increase. The transaction took place in January and February 2007, strengthening the bank's capital ratios in comparison to their inadequate levels as reported at the end of 2006. Indeed, as a result of the merger of Leasimpresa, the acquisition of Bipielle Leasing, and the growth in business, RWA increased sharply in 2006, but this was not accompanied by an adequate strengthening of capital: at end-2006 the total capital ratio dipped below 8% and the Tier 1 ratio below 6% (see following table). Including the capital increase and based on RWA at year-end 2006, the pro-forma core Tier 1 ratio is 6.6% and the pro-forma Tier 1 ratio 7.5%.

Evolution of Capital Ratios

€ million	Dec-06 PF incl. capital increase	Dec-06	Jun-06	Dec-05
BREAKDOWN OF REGULATORY CAPITAL				
Preference shares eligible	150	144	112	0
Core capital	1,111	816	637	599
Tier 1 capital	1,261	961	749	599
Tier 2 capital	300	306	365	210
Deductions	0	0	0	0
Total regulatory capital	1,561	1,267	1,114	808
<i>Risk-weighted assets (RWA)</i>	<i>16,757</i>	<i>16,757</i>	<i>11,859</i>	<i>9,761</i>
CAPITAL RATIOS				
Core Tier 1 ratio	6.63%	4.87%	5.37%	6.13%
Tier 1 ratio	7.53%	5.73%	6.32%	6.13%
Total capital ratio	9.32%	7.56%	9.39%	8.28%
Capital requirements (8% RWA)	1,341	1,341	949	781
Excess capital	220	-74	165	28

Source: Italease, 2005 and 2006 consolidated financial statements and 2006 Interim Report; Intesa Sanpaolo Industry & Credit Research calculations.

The business plan targets for 2008 are a Tier 1 ratio of 7% and a total capital ratio of 10%. According to Italease, even after the transactions planned in the end-April agreement with Fondiaria-SAI, not included in the business plan, the capital ratios should remain in line with the targets.

A Critical Factor: Risk Concentration

As mentioned, Italease's leasing business features a relatively high unit contract value, reflecting its specialisation in real estate leasing.

Another indicator of the bank's high degree of risk concentration is the ratio of what is defined as "**big risk**" positions according to supervisory regulations (amounts equal to or greater than 10% of total capital). As illustrated in the table below, based on 2006 consolidated financial statement figures, there were as many as **13 positions** considered big risk for a combined amount of €2.4 billion, corresponding to **two times total regulatory capital** (the limit is eight times). Moreover, **compared to end-2005, there has been a sharp increase in both the number and total amount of big risks** (2005 financial statement data, so before the acquisitions).

Big Risks According To Supervisory Regulations

€ million	2006	2005
Amount (a)	2,430	930
Number	13	7
Regulatory capital (b)	1,266	808
(a) / (b)	1.9	1.2

Source: Italease, 2005 and 2006 consolidated financial statements; Intesa Sanpaolo Industry & Credit Research calculations.

Looking ahead, the development of the retail business, residential mortgages in particular, included in the business plan goes in the direction of diversifying the bank's risks.

Rating

After confirmation of judicial investigations of the former CEO in relation to the Coppola case, but before disclosure on derivatives exposure, on May 4, **Fitch placed Italease's IDR under watch for a possible downgrade**. The action came in response to the agency's concerns over the **bank's concentrated loan portfolio** which, together with fast lending growth, **has increased its risk exposure**, especially taking into account that most of the big risks are in real estate asset exposure.

Fitch believes that Italease can manage its €66 million in direct exposure to the Coppola group because the bank owns the leased assets. However, Fitch notes that its business relations with the Coppola group poses a **risk to Italease's reputation**. Fitch thinks the 7.5% Tier 1 ratio, achieved with the capital increase in February 2007, is adequate.

But the agency has made no announcements since the derivatives disclosure. But some kind of assessment should be forthcoming in the Credit Update note that Fitch announced on May 4 but to date has not yet released, probably due to the uncertain situation.

Current Long – Term Ratings

Fitch IDR	A-	RWN
Moody's	A3	Stable

Source: rating agencies

Moody's has not commented on the recent events. However, it recently revised Italease's rating when it applied JDA to Italian banks. On April 13, 2007, Moody's confirmed Italease's rating at A3 and C- in terms of BFSR, which translates into a baseline rating of Baa1. In its Credit Opinion of April 27, Moody's specified that it attributes a moderate systemic support probability in case of a financial crisis. As a result, the long-term rating is one notch above the baseline rating implied in the BFSR. The BFSR in turn takes into account the bank's heavy reliance on market funding, as well as the support of its shareholders if necessary, but it also reflects the agency's caution on the quality of Italease's assets as a result of lending growth. On this point, Moody's emphasises that the portfolio is highly concentrated and that there is a high portion of real estate leasing transactions, exposing the bank to intrinsic sector risk.

Conclusions

Spiralling business growth and high concentration, both in terms of the real estate leasing sector and big ticket customers, have increased Italease's risk exposure. The diversification strategy started up only recently has not yet produced significant results; on the contrary, the sale of hedging derivatives to customers as part of its cross-selling policy seems to have exacerbated the risks to which the bank is exposed. The disclosure of the increase in counterparty risk in customer derivatives, together with recent legal developments involving the previous CEO, have damaged Italease's reputation. The hope is that the new CEO and the major shareholders, by virtue of their commitments as part of the stability pact and the business relationships that bind them to Italease, can find a rapid solution to the current crisis, also in view of the Bank's leadership position in the leasing sector. In this regard, we observe that the members of the stability pact, meeting on June 7, confirmed their strategic commitment to Italease and to a large extent they immediately declared their commitment to renewing the pact when it expires on April 28, 2008. In addition, as part of their overall proposal to assist Italease in its derivatives portfolio restructuring, Mediobanca and Goldman Sachs expressed their interest, also in the context of supporting it in "analysing possible transactions to strengthen capital which could entail their direct investment".⁴ Finally, we reiterate that the bank's capital ratios were recently strengthened through a €300 million capital increase that lifted the Tier 1 ratio to 7.5%.

(Elisa Coletti)

⁴ Source: Italease press release of June 8, 2007.

ITALEASE: 2006 and 1Q07 Financial Statement Highlights
RECLASSIFIED CONSOLIDATED BALANCE SHEET (€million)

ASSETS (€ million)	Mar-07	Dec-06 (*)	Dec-05	Change q/q
Total financial assets	394	465	238	-15.2%
Financial assets held for trading	384	455	234	-15.6%
Financial assets available for sale	9	9	2	1.9%
Due from banks	332	388	254	-14.4%
Loans to customers	21,256	20,366	12,737	4.4%
Equity investments	6	3	1	114.2%
Fixed assets and intangibles	1,641	1,781	1,338	-7.9%
Tax assets	15	13	18	13.6%
Other assets	854	1,004	1,078	-14.9%
Total assets	24,499	24,020	15,664	2.0%
LIABILITIES AND SHAREHOLDERS' EQUITY	Mar-07	Dec-06 (*)	Dec-05	Change q/q
Due to banks	4,444	7,446	4,166	-40.3%
Due to customer and securities issued	17,605	14,471	10,322	21.7%
Financial liabilities held for trading	388	459	245	-15.5%
Tax liabilities	69	53	28	29.7%
Other liabilities	452	400	181	13.0%
Allowances with specific purpose	42	41	39	2.8%
Shareholders' equity	1,496	1,146	679	30.5%
Share capital	472	431	393	9.5%
Share premium reserve	965	533	188	81.2%
Valuation reserves	4	4	4	1.0%
Net income (loss) for the period	54	178	93	-69.7%
Minority interests	3	3	3	0.0%
Total liabilities and shareholders' equity	24,499	24,020	15,664	2.0%

(*) Including Leasimpresa, merged as of 12/31/2006

RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME (€million)

	1Q07	1Q06PF	Change y/y	2006	2005 PF	Change y/y
Net interest income	83.2	64.0	30.1%	247.4	185.7	33.2%
Net commissions	54.7	49.4	10.8%	233.4	142.2	64.1%
Dividends and Income (loss) on equity shareholdings	0.0	0.0	n.m.	0.1	0.2	-31.9%
Profits (Losses) on assets (liabilities) at fair value	0.5	4.6	-90.2%	-22.8	3.0	n.m.
o/w: trading income	0.5	4.6	-90.2%	-24.2	1.5	n.m.
o/w: profits on the disposal of available for sale financial assets	0.0	0.0	n.m.	0.0	1.5	n.m.
Other operating income (loss)	0.8	0.3	207.0%	2.3	1.0	128.7%
Total income	139.2	118.3	17.7%	460.4	332.0	38.7%
Personnel expenses	-20.9	-18.8	11.3%	-75.5	-63.3	19.3%
Other administrative expenses	-13.2	-12.1	8.5%	-41.9	-41.0	2.3%
Adjustments to tangible and intangible fixed assets	-2.1	-2.3	-6.6%	-8.8	-7.7	13.9%
Operating costs	-36.2	-33.2	9.1%	-126.2	-111.9	12.7%
Gross operating income	102.9	85.0	21.1%	334.2	220.1	51.9%
Goodwill impairment	0.0	0.0	n.m.	-0.1	-0.4	-65.3%
Provisions for risks and charges	-0.4	-1.3	-72.2%	-3.1	-1.0	214.6%
Net value adjustments to loans	-16.8	-14.1	19.3%	-51.6	-61.3	-16.0%
Total provisions and net adjustments to loans, financial assets	-17.1	-15.4	11.6%	-54.8	-62.7	-12.6%
Net operating income	85.8	69.7	23.2%	279.4	157.4	77.5%
Profits (Losses) on investments held to maturity and on other investments	0.1	-1.0	n.m.	20.6	9.7	112.7%
Pre-tax income (loss) from continuing operations	85.9	68.7	25.1%	299.9	167.0	79.6%
Taxes on income from continuing operations	-31.9	-28.3	12.5%	-120.8	-69.0	75.0%
Minority interests	0.0	-0.1	-98.6%	-0.9	-0.6	53.3%
Net income for the period	54.1	40.2	34.4%	178.2	97.4	83.0%

PF: pro-forma 2005 includes Factorit and Bipielle Leasing. Pro-forma 1Q06 includes Italeasing and Bipielle Leasing.

Source: Italease, 2006 consolidated financial statements and 1Q07 report; Intesa Sanpaolo Industry & Credit Research calculations.

Head of Industry & Credit Research: F. Guelpa
02 8796 2051
fabrizio.guelpa@intesasanpaolo.com

By:

Maila Bozzetto
Credit Strategist
02 8796 2088
maila.bozzetto@intesasanpaolo.com

Elisa Coletti
Credit Analyst
02 8796 2097
elisa.coletti@intesasanpaolo.com

Gaetano Meo
Credit Analyst
02 8796 2084
gaetano.meo@intesasanpaolo.com

Barbara Pizzarelli
Research Assistant
02 8796 2092
barbara.pizzarelli@intesasanpaolo.com

Internet: Intesa Sanpaolo S.p.A. (www.intesasanpaolo.com.it) – Banca Caboto S.p.A. (www.caboto.it)

This research is issued by Intesa Sanpaolo S.p.A. at the request of, and on behalf of, Banca Caboto S.p.A.. Intesa Sanpaolo S.p.A. accepts full responsibility for the contents of this report. Please also note that Intesa Sanpaolo S.p.A. reserves the right to issue this document to its own clients.

This publication is intended for the use and assistance of Professional and Business customers of Intesa Sanpaolo S.p.A. and Banca Caboto S.p.A.. It is not intended for the use and assistance of Private customers of Intesa Sanpaolo S.p.A. and Banca Caboto S.p.A..

The remuneration of the investment analyst who prepared this research was not, is not, or will not be linked to the specific recommendation(s) or views expressed herein or to any related transactions.

Opinions and estimates in this research are as at the date of this material and are subject to changes of which we may not inform you. Information and opinions have been obtained from sources believed to be reliable, but no representation or warranty is made as to their accuracy or correctness.

Past performance may not be a guide to the future results.

The investments and strategies discussed in this research may not be suitable for all investors. If you are in any doubt you should consult your investment advisor.

This report has been prepared solely for information purposes and is not intended as an offer or solicitation with respect to the purchase or sale of any financial products. It should not be regarded as a substitute for the exercise by the recipient of its own judgement.

No Intesa Sanpaolo S.p.A. or Banca Caboto S.p.A. entities accepts any liability whatsoever for any direct, consequential or indirect loss arising from any use of material contained in this report. One of the distributors' of Intesa Sanpaolo S.p.A. research - Banca Caboto S.p.A. and its affiliates may make a market in or may, as principal or agent, buy or sell securities of the issuers mentioned in this report or derivatives thereon or have a long or short position in such financial products. Intesa Sanpaolo S.p.A. or Banca Caboto S.p.A. may provide advice to, or distribute investments described in this report, to their issuers in equity or bond issues.

This document may only be reproduced or published together with the name of Intesa Sanpaolo S.p.A.

Intesa Sanpaolo S.p.A. and Banca Caboto S.p.A. and/or any other person connected with it may act upon or make use of any of the foregoing material and/or any of the information upon which it is based prior to publication of same to its customers.

Intesa Sanpaolo S.p.A. and Banca Caboto S.p.A. have in place a Joint Conflicts Management Policy for managing effectively the conflicts of interest which might affect the impartiality of all investment research which is held out, or where it is reasonable for the user to rely on the research, as being an impartial assessment of the value or prospects of its subject matter. A copy of this Policy is available to the recipient of this research upon making a written request to the Compliance Officer, Intesa Sanpaolo S.p.A., 90 Queen Street, London EC4N 1SA.

We provide the following information on Intesa Sanpaolo Group interests and conflicts of interest:

Banca ITALEASE

- Intesa Sanpaolo group has issued major loans in favour of the issuer and its subsidiary and parent companies;
- As part of its proprietary trading operations, Intesa Sanpaolo group has a significant risk position in the financial instruments subject to this report;
- Intesa Sanpaolo group is an issuer of financial instruments linked to the securities subject to this report;
- Banca IMI, an Intesa Sanpaolo Group company, acted as Joint Lead Manager in the placement of floating rate notes expiring in 2016 issued by Banca Italease in June 2006. Banca Caboto acted as Bookrunner in the placement of a five-year floating rate bond in November 2006.

Intesa Sanpaolo S.p.A. plans on providing continuous coverage of the credit profile of the companies subject to this report, consistent with the timing of periodic accounting statements and any exceptional event that may occur affecting the operations of the companies subject to this report.

Banca Caboto S.p.A. and Intesa Sanpaolo S.p.A. are both part of the Gruppo Intesa Sanpaolo. Intesa Sanpaolo S.p.A. and Banca Caboto S.p.A. are both authorised by the Banca d'Italia and are regulated by the Financial Services Authority in the conduct of designated investment business in the UK.

Intesa Sanpaolo S.p.A. may continue to issue and circulate Research Analysis to Institutional Investors in the USA through designated USA Broker Dealers and by completing SEC 15-a-6 Agreement formalities.