Banca Intesa

Consolidated Financial Statements and Report 2003

Abstract

This abstract in English of the Italian original "Bilanci 2003" 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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CONSOLIDATED FINANCIAL STATEMENTS AND REPORT 2003

ABSTRACT

Banca Intesa S.p.A.
Share capital 3,561,062,849.24 euro fully paid-in – Milano Company Register and Fiscal Code No. 00799960158
Member of the National Interbank Deposit Guarantee Fund – Included in the National Register of Banks No. 5361
Gruppo Intesa included in the National Register of Banking Groups

Contents

Board of Directors, Board of Statutory Auditors and Independent Auditors

Board of Directors

Chairman	* Giovanni Bazoli
Deputy Chairmen	* Giampio Bracchi René Carron
Managing Director Chief Executive Officer	* Corrado Passera
Directors	Giovanni Ancarani Francesco Arcucci Benito Benedini Antoine Bernheim Jean Frédéric De Leusse Alfonso Desiata * Ariberto Fassati * Giancarlo Forestieri Paolo Fumagalli Jorge M. Jardim Gonçalves Jean Laurent Michel Le Masson Giangiacomo Nardozzi Eugenio Pavarani Giovanni Perissinotto * Mariano Riestra Sandro Salvati Eric Strutz Gino Trombi

* *Members of the Executive Committee*

Board of Statutory Auditors

Chairman	Gianluca Ponzellini
Auditors	Francesco Paolo Beato Paolo Andrea Colombo Franco Dalla Sega Bruno Rinaldi

Independent Auditors Reconta Ernst & Young S.p.A.

Chairman's Letter

Distinguished Shareholders,

the year that has just ended has again deluded the expectations of the recovery of the Italian economy, which was only marginally touched by the growth of world economy. In fact investments and consumption remained weak, while exports were negatively affected by the euro exchange rate.

2003 closed with what certainly proved to be the most serious industrial and financial scandal in Italy's recent history. Behaviours which may be defined, without hesitation, criminal determined a financial crisis which cracked, in an almost unprecedented way, investor confidence in institutions and in the banking system.

Despite their significant size loan losses will be absorbed by our Group and by the entire Italian banking system without traumatic consequences, thanks to the soundness of banking institutions deriving from the important restructuring process realised in the last few years. However Parmalat's financial distress generated a further delicate problem related to bonds placed on the market via banks. Raising finance on the capital markets via bond issues is an extremely interesting alternative for companies since it offers them the possibility of obtaining longer-term funding and sometimes even at more attractive conditions than bank loans. At the same time, for investors, corporate bonds are an investment alternative with lower risks than equity. It is therefore of fundamental importance, for companies and for investors alike that greater protection is ensured for those who have access to such instruments, also via new legislative measures.

From this viewpoint Banca Intesa, like other banks, has developed procedures aimed at satisfying the restoration requests of its damaged customers, provided that their requests prove to be founded.

In this moment of widespread uncertainty all efforts must be made to ensure that the difficult climate affecting relations between investors and the banking system in connection with this case is overcome as soon as possible. It is in the Country's interest that the collaboration between the industrial system and the banking system is not negatively affected, since it is clear that the banking industry's support of corporates, both during growth and in the more difficult phases of their development is indispensable for Italy's economic system.

Even without the support of a favourable economic backdrop and despite the unforeseen losses mentioned above, the 2003 financial statements in any case registered an improvement in Gruppo Intesa's accounts. The interventions set out in the

Business Plan defined in September 2002 are producing the expected results. Disposal of non-strategic equity investments, reduction in exposures to large customers in favour of credit to small and medium-sized entities, streamlining of structures and costs and, last but not least, the improved financial market context, enabled Banca Intesa to reach the Plan's objectives.

In 2003 Gruppo Intesa's consolidated net income totalled 1,214 million euro compared to 200 million euro of the previous year. Equally positive was the Parent Company's performance, which closed the year with a net income of 1,359 million euro.

This result enables to significantly increase the proposed dividend, which more than doubles that of the previous year. The Board of Directors, considering the appreciation manifested last year by Shareholders and the market for the assignment of the treasury shares, decided to submit to the approval of the Shareholders' Meeting the distribution of almost all of the remaining treasury shares, which have a countervalue, at current market prices, exceeding 900 million euro.

As concerns expectations for 2004, world economy seems to have restarted to grow, it is therefore forecasted that this will positively affect the Italian economic system. In this scenario profitability of the banking system is forecasted to recover. As far as we are concerned, continuing the implementation of the three-year plan should enable our Bank to reach the objectives we have set ourselves.

Giovanni Bazoli

Milano, 8th March 2004

Gruppo Intesa - Financial highlights

	2003	2002 pro forma [1]	Changes amount	Changes %
Statement of income (in millions of euro)				
Net interest income	4,975	5,316	(341)	(6.4)
Interest margin	5,160	5,506	(346)	(6.3)
Net commissions	3,331	3,233	98	3.0
Net interest and other banking income	9,708	9,324	384	4.1
Operating costs	(6,135)	(6,403)	(268)	(4.2)
including Payroll	*(3,324)*	*(3,483)*	*(159)*	*(4.6)*
Operating margin	3,573	2,921	652	22.3
Net adjustments to loans and provisions for possible loan losses	(1,222)	(2,180)	(958)	(43.9)
Income from operating activities	1,810	11	1,799	
Extraordinary income	202	228	(26)	(11.4)
Net income for the period	1,214	200	1,014	
Balance sheet (in millions of euro)				
Loans to customers	154,992	164,378	(9,386)	(5.7)
Securities [2]	29,660	32,907	(3,247)	(9.9)
including Investment portfolio	*5,521*	*5,884*	*(363)*	*(6.2)*
Equity investments	4,784	4,618	166	3.6
Total assets	260,215	273,674	(13,459)	(4.9)
Direct customer deposits	172,381	176,644	(4,263)	(2.4)
including Subordinated and perpetual liabilities	*10,603*	*11,503*	*(900)*	*(7.8)*
Indirect customer deposits	286,576	293,071	(6,495)	(2.2)
including Managed funds	*120,518*	*120,617*	*(99)*	*(0.1)*
Customer deposits under administration	458,957	469,715	(10,758)	(2.3)
Net interbank position	(3,183)	(12,944)	(9,761)	(75.4)
Shareholders' equity [3]	15,093	13,951	1,142	8.2
Operating structure				
Staff (number)	60,040	64,605	(4,565)	(7.1)
Branches (number)	3,730	3,948	(218)	
including Italy	*3,087*	*3,277*	*(190)*	
Abroad	*643*	*671*	*(28)*	

[1] Figures restated on a consistent basis.

[2] Including own shares amounting to 1,017 million euro as at 31st December 2003 and 981 million euro as at 31st December 2002.

[3] Including net income for the period.

Gruppo Intesa - Financial ratios

	2003	2002 pro forma [(1)]
Balance sheet ratios (%)		
Loans to customers/Total assets	59.6	60.1
Securities/Total assets	11.4	12.0
Direct customer deposits/Total assets	66.2	64.5
Managed funds/Indirect customer deposits	42.1	41.2
Statement of income ratios (%)		
Interest margin/Net interest and other banking income	53.2	59.1
Net commissions/Net interest and other banking income	34.3	34.7
Operating costs/Net interest and other banking income	63.2	68.7
Net income for the period/Average total assets (ROA) [(2)]	0.4	0.1
Net income for the period/Average shareholders' equity (ROE) [(3)]	9.3	1.6
Risk ratios (%)		
Net doubtful loans/Total loans	3.0	3.1
Cumulated adjustments on doubtful loans/Gross doubtful loans to customers	65.1	63.1
Capital ratios (%)		
Tier 1 capital/Risk-weighted assets [(4)]	7.8	6.8
Total capital/Risk-weighted assets [(4)]	11.7	11.1
Risk-weighted assets (in millions of euro) [(4)]	182,344	199,714
EPS – Earnings per share – euro	0.19	0.03

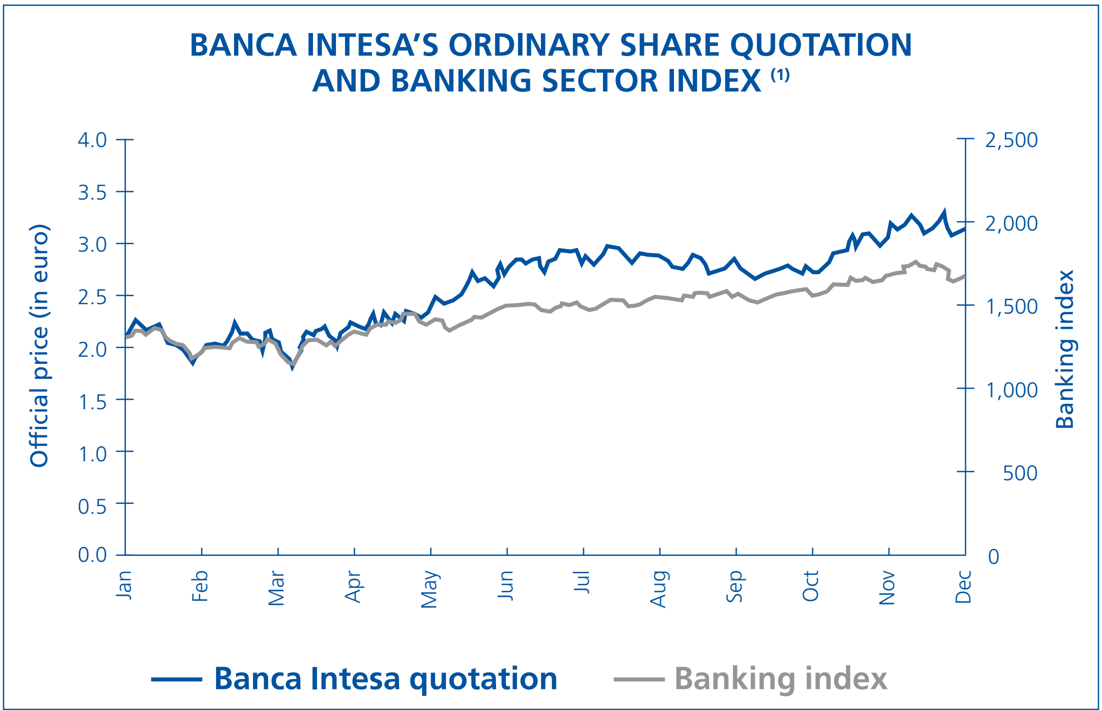
(1) Figures restated on a consistent basis.

(2) Based upon the arithmetical average of total assets at the end of the current and previous period.

(3) Net income for the period, excluding the change in the reserve for general banking risks, divided by the weighted average of share capital, share premium reserve, revaluation reserves, reserves from retained earnings, negative goodwill arising on consolidation and on application of the equity method and the reserve for general banking risks.

(4) Figures for 2002 have not been restated.

The Banca Intesa share



(1) Comit Banking Index

(in millions of euro)

	2003	2002	2001	2000	1999
Market capitalisation	17,140	16,856	22,776	22,895	16,689
Shareholders' equity	14,521	14,061	13,209	11,245	7,541
Price/book value	1.18	1.20	1.72	2.04	2.21

(in millions of euro)

	2003	2002	2001	2000	1999
Net income for the period	1,214	200	928	1,461	851
Dividends (*)	1,343	434	331	551	455
Pay-out ratio	111%	217%	36%	38%	53%

(*) Countervalue of dividends in 2003 and 2002 is the sum of distributed dividends (330 million euro and 108 million euro respectively) and the value of the free distribution of own shares, calculated using book value of shares in the two financial statements (respectively: 3.180 euro and 2.049 euro per share).

(in euro)

	2003	2002	2001	2000	1999
Ordinary share					
Dividend per share (*)	0.204	0.066	0.045	0.093	0.083
Average stock price	2.600	2.578	3.809	4.338	4.544
Dividend yield	7.85%	2.56%	1.18%	2.14%	1.83%
Saving share					
Dividend per share (*)	0.215	0.079	0.080	0.103	0.093
Average stock price	1.887	1.878	2.437	2.421	2.155
Dividend yield	11.39%	4.21%	3.28%	4.25%	4.32%

(*) Countervalue of dividends in 2003 and 2002 is the sum of distributed dividends (330 million euro and 108 million euro respectively) and the value of the free distribution of own shares, calculated using book value of shares in the two financial statements (respectively: 3.180 euro and 2.049 euro per share).

Rating

The ratings assigned to Banca Intesa's debt, set out in the following table, did not change in 2003.

Rating agency	Short-term debt	Medium- and long-term debt
Standard & Poor's	A-2	A-
Moody's	P-1	A1
Fitch	F1	A+

In 2003 Standard & Poor's improved outlook from "stable" to "positive".

Shareholder base and Voting syndicate

Banca Intesa's shareholder base as at 31st December 2003 – detailed in the following table – includes reference shareholders which are part of a Voting syndicate and hold 43.89% of the Bank's ordinary shares (38.91% is vested in the Syndicate) and approximately 195,000 shareholders holding 50.71%; the remaining 5.40% is represented by own shares.

Name	**Shares included in the Voting syndicate**	**Shares not included in the Voting syndicate**	**Total shares**	**% of shares included in the Voting syndicate on total**	**% of shares held on total**
Crédit Agricole S.A.	835,360,705	178,125,945	1,013,486,650	14.12	17.13
Fondazione CARIPLO	510,578,954	18,205,025	528,783,979	8.63	8.94
Generali group	324,930,901	24,469,452	349,400,353	5.49	5.91
including					
• *Assicurazioni Generali*	*48,443,269*	*3,191,927*	*51,635,196*		
• *Alleanza Assicurazioni*	*189,137,083*	*44,270*	*189,181,353*		
• *other companies*	*87,350,549*	*21,233,255*	*108,583,804*		
Fondazione Cariparma	242,543,996	5,854,220	248,398,216	4.10	4.20
"Gruppo Lombardo"	197,308,603	2,453,576	199,762,179	3.34	3.37
including					
• *Banca Lombarda e Piemontese*	*133,453,355*	*194,832*	*133,648,187*		
• *I.O.R.* (*)	*42,917,536*	*2,258,744*	*45,176,280*		
• *Mittel*	*20,937,712*	–	*20,937,712*		
Commerzbank A.G.	190,975,117	65,642,610	256,617,727	3.23	4.34
Total Shareholders in the Syndicate	**2,301,698,276**	**294,750,828**	**2,596,449,104**	**38.91**	**43.89**
Total other Shareholders	–	3,000,043,374	3,000,043,374		50.71
Own shares	–	319,214,748	319,214,748		5.40
Total	**2,301,698,276**	**3,614,008,950**	**5,915,707,226**		**100.00**

(*) Shares with beneficial interest in favour of Mittel S.p.A.

Gruppo Intesa
Report on operations

Gruppo Intesa in 2003
Executive summary

The financial statements as at 31st December 2003 mark the close of the first year of Gruppo Intesa's 2003-2005 Business Plan and show that the main turnaround objectives contained in the Plan – in terms of the Group's profitability and soundness, as well as its restructuring and refocusing – have basically been achieved. These objectives seemed very challenging already at the Plan's launch (September 2002) and their achievement is even more significant considering that it has occurred in a year which – contrary to almost unanimously consensual forecasts – did not record the return to economic recovery, especially at European level, which represented the precondition for a structural and lasting growth.

Also during 2003 – as had already occurred in 2002 – the main macroeconomic indicators were progressively revised downwards in Europe and, in particular, in Italy. At the domestic level, tensions regarding inflation, difficulties encountered by Italian companies due to fiercer international competition – especially from Asia – and lastly, the explosion of the "Parmalat case" contributed to create a dangerous climate of mistrust in Italy, which risks making the recovery even more difficult. The climate is only partly justified by the difficult economic context, which tends to underestimate the undoubtably positive elements of Italy's Country-System in terms of key strengths, competencies and competitiveness.

In this situation Gruppo Intesa – despite its deep involvement in its reorganisation – did not withhold the support necessary to sustain the Country: neither to Italian large corporates undergoing turnaround and relaunch processes, nor to small and medium-sized companies wishing to improve their positioning on the globalised market, and to which it increased lending, nor to savers that were hit by the financial and industrial distress of certain groups.

The Business Plan

Launched in September 2002, the 2003-2005 Business Plan – which sets out over one hundred projects aimed at improving the Group's soundness, efficiency and at modernising and relaunching it, which have all commenced implementation and some of which have already been concluded – represents the map with which Banca Intesa and the entire Gruppo Intesa are meeting the challenges of an increasingly fierce global competition in all operating sectors, with the objective of becoming within the next three years among Europe's best performers in the banking industry.

In 2003 the foreseen scenarios only partly occurred. Despite this, commitments were not reviewed and targets for the year were confirmed and achieved.

The second part of 2002 represented the start of the reorganisation process, namely: i) the new organisational structure, which ensures clear direction, simplification and clarification of areas of responsibility, tasks and objectives, and the inception of the integration project, ii) the construction of a strong management team, iii) the agreements with Trade Unions regarding the structural reduction of labour cost, and lastly iv) the identification of strategic objectives aimed at solving problem areas and creating value for all stakeholders. 2003 was first and foremost the year in which the Bank exited from its emergency, with the simultaneous inception of actions for relaunching and rebuilding the credibility of the largest Italian Banking group. Naturally all this had a positive impact on economic, financial and balance sheet figures, as already evidenced in the Interim reports presented during the year.

The exit from emergency is well testified, as illustrated below, by the progressive reduction of problem areas at the promised levels.

Asset quality and the Group's risk profile. As forecasted, the asset mix shifted from the large corporate to the retail sector and is concentrated in particular on the Italian market. Loans to large corporates decreased to 28 billion euro, with a 48% decrease with respect to reference year 2001, and a 28% drop with respect to 2002. A result which reaches and outperforms the Business Plan's objective for 2005 (36.4 billion euro) two years in advance. The reduction is particularly attributable to foreign large corporates, down from 34 billion euro of 2001, to 23 billion euro in 2002 and to 12 billion euro in 2003. Simultaneously the retail sector – which also includes the contribution of Italian and Central-European banking subsidiaries and of product companies – increased risk-weighted assets to 69% of the total, compared to 53% of reference year 2001 and 59% of 2002, thus coming close to the 71% objective set for 2005.
Activities in credit derivatives were downsized further, with open positions in the banking book down by approximately 57% with respect to December 2002.

Capital ratios. The marked improvement in capital ratios derived from numerous actions, among which the most important are the reduction in the loan portfolio and the sale of non-strategic assets and of assets which absorb significant portions of capital, such as for example real estate properties. The combined effect of these actions – some of which will be described in detail below – enabled to record a marked improvement in capital ratios in December 2003 with respect to the end of 2002, coming decidedly close to the objectives set out in the Business Plan. The Tier 1 ratio equalled 7.8%, up by 100 basis points with respect to December 2002, with the target for 2005 at 8.6%. The Core Tier 1 ratio, that is the ratio between shareholders' equity for supervisory purposes net of preference shares and risk-weighted assets, reached 6.9%, again with a 100 basis point rise with respect to December 2002, with the 2005 objective set at 7.7%. The target for the Total capital ratio (11%) was already exceeded in 2002 and was further improved upon in 2003 and totalled 11.7%.

Rationalisation of the foreign network and of non-strategic assets: disengagement from South America. The disengagement from South America (where Banca Intesa has been present for nearly one hundred years through the Sudameris group, controlled via Banque Sudameris, Paris) had already commenced in 2002. It accelerated strongly in 2003 and may now be considered in its final phase. In certain cases Banca Intesa maintains minority equity stakes, to permit an adequate support of Italian companies operating in those markets.
Sudameris Argentina was sold to Banco Patagonia and Gruppo Intesa maintains a 19.95% stake in the bank formed from the subsequent merger of the two entities.
Sudameris' activities in Chile were sold to Banco de Desarrollo.
In Brazil, after the interruption of negotiations with Banco Itaù, an agreement was reached with the Dutch ABN Amro group. According to the agreement, 94.56% of the share capital of Banco Sudameris Brasil S.A. held by Gruppo Intesa was sold to Banco ABN Amro Real S.A. The consideration was paid partly in cash (156 million euro) and partly in shares of Banco ABN Amro Real (492 million euro) representing approximately 11.6% of the latter's share capital. At the same time as the transfer of the shares, Banca Intesa and ABN Amro N.V. (Dutch parent company of the ABN Amro group) signed a swap contract which sets out Banca Intesa's right to convert the shares of Banco ABN Amro Real in ABN Amro N.V. shares. This right may be exercised in three *tranches,* respectively in June 2005, 2006 and 2007, at a price equal to 1.82 times the shareholders' equity of Banco ABN Amro Real using each time the bank's most recent balance sheet situation. Conversely, ABN Amro holds a call option (exercisable, all or in part, at any time) which conveys it the right to convert the Banco ABN Amro Real shares held by Banca Intesa in ABN Amro N.V. shares at the same price.
In Colombia, the 73.6% stake held by Gruppo Intesa in Banco Sudameris Colombia was sold to Gilex Holding B.V., a holding company established under Dutch law.
In Uruguay Gruppo Intesa accepted the binding offer made by Banco ACAC Crédit Agricole (Uruguayan subsidiary of the French banking group Crédit Agricole) for the activities of Banque Sudameris S.A. in that Country. According to the offer, activities will be sold at the symbolic price of one dollar – for a book value of approximately 30 million dollars – essentially deriving from adjustments to loans, with a consequent charge of approximately 30 million dollars recorded in the statement of income. The closing of the operation is expected to occur

in the first months of 2004 and is conditional upon the necessary authorisations.
Lastly, negotiations are under way for the remaining operations (in Panama, Cayman Islands, Miami, Paraguay) and are expected to be completed in the first half of the current year.

The sale of non-strategic assets, referred in particular to the sale of Bankhaus Löbbecke, the spin-off of real estate assets and the contribution of Banca Primavera's PFS operations to Banca Generali.

Sale of Bankhaus Löbbecke. At the end of December 2003, Banca Intesa completed the sale of 100% stake in the German bank Bankhaus Löbbecke to M.M. Warburg & CO.

Spin-off of real estate assets. For the purpose of improving the exploitation of the portfolio of real estate properties which had for the most part become vacant following the implementation of the space optimisation project, during the year Banca Intesa defined a spin-off of real estate assets, which was completed with the establishment, via contributions, of Intesa Real Estate (IRE), real estate company initially participated by Banca Intesa (89.3%), Magazzini Generali Fiduciari Cariplo (5.5%) and Cassa di Risparmio di Parma e Piacenza (5.2%). 366 assets were contributed by Banca Intesa, 4 by Magazzini Generali and 10 by Cassa di Risparmio di Parma e Piacenza. The latter then acquired the stake of Magazzini Generali. Subsequently IRE spun off in favour of Milano Zerotre – newly-established company whose majority equity stake (51%) was later sold to the Beni Stabili group – 45 commercial assets, mostly located in Northern Italy and mainly for office use, which will be capitalised on/sold in a time frame in line with the Business Plan. The capital gain realised on the operation, gross of the fiscal effect, totalled 244 million euro in the Parent Company's financial statements and 48 million euro in the consolidated financial statements.

Contribution of Banca Primavera's PFS operations to Banca Generali. The contribution to Banca Generali of Banca Primavera's PFS operations, made up of the approximately 1,600 financial consultants which manage assets amounting to over 5 billion euro, of 17 bank branches and part of the employees, was closed with legal effects as of 1st October 2003. Following the contribution and after the sale of a stake to Assicurazioni Generali, Gruppo Intesa holds 25% of the new capital of Banca Generali, while 75% is held by the Generali group. The transaction has the strategic objective of forming a large and highly-efficient multichannel bank at the top of the rankings of the Italian personal financial services market. The new entity, with a 9% market share, over 5,000 financial consultants, 400,000 customers and 21 "light" bank branches is ranked in third place in the Italian market in terms of managed assets. Gruppo Intesa therefore optimises its investments in the financial services field, with a stake in a company with a considerable critical mass and capable of realising significant economies of scale. The operation led to the recording of gross capital gains for approximately 143 million euro.

The initiatives for the relaunch

The initiatives for the relaunch of Gruppo Intesa commenced at the same time as the turnaround projects: as specified in the Business Plan, the target increase in revenues (a 1.5 billion euro rise within 2005 with respect to 2001) may only derive from a significant improvement in customer service, which in turn will be the result of the realisation of the more than one hundred projects involving all the Bank's sectors and personnel.

The most crucial project in this phase – the realisation of an integrated single IT platform to serve the Bank's network, instead of the three pre-existing ones – was duly completed in October 2003. Since then all branches have been using the Target system.

Many projects and therefore many investments referred to the Retail Division, that has the direct daily contact with millions of customers, families, professionals, small and medium-sized companies. At the beginning of the year the new Banca Intesa logo was launched and substituted all previous brands in all the branches, thus creating a coordinated image and improving high street visibility. Territorial presence was also profoundly reorganised, according to profitability and service criteria. The closure or merger of branches which could no longer be sustained (it must be noted that the merger of three important banks had created numerous duplications in the same areas) is now being followed by the positioning of new branches in areas which were not previously served. Also the service and accessibility model of the branch is under close review: currently eight pilot branches are testing a deeply innovative design and lay-out. This modernisation project will continue in the next few years and foresees the roll out of approximately 150 new lay-outs already in 2004.

Adapting service to customer needs, integrating the various experiences and creating a coordinated image necessarily also included products: from the second half of the year – in particular after the completion of the Target IT platform for branches – numerous new products were launched: Conto Intesa; the credit card with online checking of payments made; Prestintesa (the personal loan for a maximum of 30,000 euro granted within 48 hours); a new type of mortgage and several investment products. To favour access to credit by those sectors of the population, which though worthy were practically excluded from financing, the IntesaBridge loan was launched to finance university and PhD students and was realised thanks to the agreement of the three Italian Polytechnics of Milano, Torino and Bari.

Bancassurance activities, which are carried out via the joint-venture between Gruppo Intesa and the Generali group, must be mentioned. In December 2003, the European Antitrust authority and Isvap (the Italian Insurance Supervisory Authority) granted their authorisation to the concentration of the bancassurance activities of the Generali group and of Gruppo Intesa in a new company which, with the name Intesa Vita, is fully operational as of 1st January 2004.
The new Intesa Vita received the contribution of the bancassurance activities of Alleanza Assicurazioni (the insurance policies from the former Banco Ambrosiano Veneto), of the equity investments held by Assicurazioni Generali and Banca Intesa in Assiba (Generali and Banca Intesa each held a 50% stake) and of the stake in IntesaVita (former Carivita, 100% Banca Intesa). The share capital of Intesa Vita – made up of ordinary and preference shares – is held with equal stakes by Banca Intesa and Alleanza Assicurazioni. The latter holds the majority of voting rights in the Ordinary Shareholders' Meeting and thus fully consolidates the company.
The operation led to record a gross capital gain of 365 million euro in the financial statements of Banca Intesa and of 112 million euro in the consolidated financial statements.

Lastly, as of 1st January 2004 Caboto Sim, Gruppo Intesa's securities house, started to operate as Banca Caboto. The transformation into a bank was the most recent step in the Company's constant evolution aimed at extending its capacity to serve customers in all the segments of the capital markets. Banca Caboto will benefit from the extension of its operating area and, also thanks to its new bank status, may broaden its activities, according to the guidelines of the Business Plan which set out the valorisation of the Group's customer relations and the strengthening of the current leading market position.

Human resources and the training plan

All turnarounds and relaunch initiatives require the strong involvement of personnel and the fair and constant relationship with Trade Unions. The agreement signed in December 2002 for a reduction in personnel costs amounting to approximately 500 million euro within 2005, already manifested its effects in 2003. In the period, on a consistent basis, over 4,500 resources exited the Group, of which approximately 3,500 with the special treatment provided for by Ministerial Decree 158 of 2000 and the activation of the related "Fondo di solidarietà" (Solidarity allowance).
The most significant project not only for the achievement of set targets, but also for a constant customer relationship built on trust, professionalism and construction of long-term relations, refers to the development and training of human resources. From this viewpoint training plays a central role: the Bank launched a plan which includes over 800,000 days of training within 2005, of which over 255,000 were given in 2003.
Internal communication is equally important for the construction of a new corporate culture and for sharing the objectives and the results of the Business Plan. In particular, this activity heavily involved the Bank's top management, which had meetings with local representatives all over Italy.

2003 results

2003 marked a radical turnaround in Gruppo Intesa's accounts.
Despite the economic situation, which was basically in recession, did not provide the necessary driver for the development of banking operations, 2003 closed with extremely positive results.
These reflected – as already mentioned – the strong contribution of the interventions set

out in the Business Plan: firstly, the recomposition of loans to customers and the improvement in loan portfolio quality, then the rationalisation of presence abroad, the integration of IT systems and the improvement of operating efficiency and, lastly, even though in the inception phase, the launch of new products.

The decrease in interest margin is attributable to both the weak economic situation and the reduction in exposure to the large corporate sector, in particular to foreign companies, which is one of the first objectives of the Business Plan. Interest rates recorded a generalised downward trend, more marked for the asset side, with a further contraction in the spread. Intermediated volumes decreased more significantly for loans to customers and again in 2003, customer mainly requested medium-long term loans, which are far less profitable than short-term lending.

Net commissions positively affected results and totalled 3,331 million euro, with a 3% rise with respect to previous period. The decline in commissions on asset management was offset by a generalised increase in other commissions: on financial intermediation, on commercial banking activities and on tax collection. A strong contribution came, especially, from placement of bancassurance products and realisation of long-term financings and project financing.

The moderately positive trend recorded by financial markets starting from April and the placement with customers of new structured products led to a considerable increase in profits on financial transactions, which reached 830 million euro, compared to 166 million euro of 2002.
Net interest and other banking income therefore exceeded 9,700 million euro, with a 4.1% growth rate with respect to 2002.

The continuation of interventions for streamlining structures and recovering efficiency, as well as the activation of specific incentive-driven exit plans for personnel, led to a further decrease in operating costs (-4.2%), after a 7.7% reduction in 2002. The decrease was achieved in both general costs (-5%), and payroll (-4.6%). This permitted to improve operating margin by over 22%, to 3,573 million euro.

Net adjustments and provisions for possible loan losses, which had severely affected profitability in the past two years, returned to physiological levels, despite the explosion of the "Parmalat case", described in detail hereafter.
In 2003 net provisions totalled 1,222 million euro, with a 43.9% decrease with respect to 2002. Provisions for risks and charges (-32.8%) and adjustments to financial fixed assets (-27.7%) were also lower.
Income from operating activities reached 1,810 million euro compared to only 11 million euro in the 2002 financial statements.

Also positive was the result from extraordinary activities, which reflected income from the Intesa Vita and Banca Generali operations and from the spin-off of real estate assets, as well as write-backs on marking to market the remaining own shares in the Parent Company's portfolio. Extraordinary charges reflected the access to the Solidarity allowance as per Ministerial Decree 158 of 2000 of personnel which will exit the Group and further charges deriving from the disengagement from South America and from Germany, as well as the congruous provisions destined to restore customers holding defaulted bonds.

Net income totalled 1,214 million euro, compared to 200 million euro of 2002.

Balance sheet figures

Balance sheet figures show, with respect to December 2002, the confirmation of direct customer deposits (172 billion euro) which recorded a modest –2.4% change, while loans to customers (155 billion euro) recorded a more significant decrease (-5.7%). Both figures directly stem from the strategic decision contained in the Business Plan, aimed at reducing credit exposures to the corporate sector, which led to a drastic reduction in loans to customers and in the correlated funding of Banca Intesa's foreign branches. Loans to customers also reflected the effects connected to the securitisation of performing mortgages amounting to 2 billion euro.

Indirect customer deposits remained practically stable at the levels of the previous year and totalled approximately 287 billion euro (-2.2%). This trend was mainly attributable to the decrease in deposits under administration (-3.7%), which was offset by assets under management, that remained at the levels reached at the end of 2002.

In total, the Group's customer deposits under administration amounted to approximately 459 billion euro, with a 2.3% decrease.

Gruppo Intesa Reclassified consolidated statement of income

(in millions of euro)

Captions	2003	2002 pro forma [1]	Changes amount	Changes %
Net interest income	**4,975**	5,316	(341)	(6.4)
Dividends and other revenues	**101**	130	(29)	(22.3)
Income from investments carried at equity	**84**	60	24	40.0
Interest margin	**5,160**	5,506	(346)	(6.3)
Net commissions	**3,331**	3,233	98	3.0
Profits on financial transactions	**830**	166	664	
Other operating income, net	**387**	419	(32)	(7.6)
Net interest and other banking income	**9,708**	9,324	384	4.1
Administrative costs	**(5,434)**	*(5,703)*	(269)	(4.7)
including Payroll	***(3,324)***	*(3,483)*	*(159)*	*(4.6)*
Other	***(2,110)***	*(2,220)*	*(110)*	*(5.0)*
Adjustments to fixed assets and intangibles	**(701)**	(700)	1	0.1
Operating costs	**(6,135)**	(6,403)	(268)	(4.2)
Operating margin	**3,573**	2,921	652	22.3
Adjustments to goodwill arising on consolidation and on application of the equity method	**(130)**	(140)	(10)	(7.1)
Provisions for risks and charges	**(207)**	(308)	(101)	(32.8)
Net adjustments to loans and provisions for possible loan losses	**(1,222)**	(2,180)	(958)	(43.9)
Net adjustments to financial fixed assets	**(204)**	(282)	(78)	(27.7)
Income from operating activities	**1,810**	11	1,799	
Extraordinary income	**202**	228	(26)	(11.4)
Income taxes for the period	**(741)**	35	(776)	
Change in the reserve for general banking risks and other reserves	**26**	(20)	46	
Minority interests	**(83)**	(54)	29	53.7
Net income for the period	**1,214**	200	1,014	

[1] Figures restated on a consistent basis.

Quarterly development of the reclassified consolidated statement of income

(in millions of euro)

Captions	2003 [1]				2002 [1]			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	1,217	1,246	1,242	1,270	1,326	1,338	1,305	1,347
Dividends and income from investments carried at equity	7	22	112	44	30	16	115	29
Interest margin	**1,224**	**1,268**	**1,354**	**1,314**	**1,356**	**1,354**	**1,420**	**1,376**
Net commissions	881	837	830	783	798	792	829	814
Profits (Losses) on financial transactions	140	187	312	191	(18)	(25)	122	87
Other operating income, net	129	115	68	75	168	73	81	97
Net interest and other banking income	**2,374**	**2,407**	**2,564**	**2,363**	**2,304**	**2,194**	**2,452**	**2,374**
Administrative costs	(1,395)	(1,330)	(1,365)	(1,344)	(1,454)	(1,347)	(1,433)	(1,469)
including Payroll	*(826)*	*(821)*	*(829)*	*(848)*	*(851)*	*(812)*	*(908)*	*(912)*
Other	*(569)*	*(509)*	*(536)*	*(496)*	*(603)*	*(535)*	*(525)*	*(557)*
Adjustments to fixed assets and intangibles	(204)	(172)	(170)	(155)	(213)	(174)	(160)	(153)
Operating costs	(1,599)	(1,502)	(1,535)	(1,499)	(1,667)	(1,521)	(1,593)	(1,622)
Operating margin	**775**	**905**	**1,029**	**864**	**637**	**673**	**859**	**752**
Adjustments to goodwill arising on consolidation and on application of the equity method	(36)	(30)	(32)	(32)	(33)	(60)	(24)	(23)
Provisions for risks and charges	(51)	(20)	(100)	(36)	(27)	(13)	(213)	(55)
Net adjustments to loans and provisions for possible loan losses	(478)	(241)	(244)	(259)	(940)	(252)	(820)	(168)
Net adjustments to financial fixed assets	(177)	12	(7)	(32)	(200)	(17)	(55)	(10)
Income (Loss) from operating activities	**33**	**626**	**646**	**505**	**(563)**	**331**	**(253)**	**496**
Extraordinary income (loss)	103	(12)	64	47	560	(398)	(184)	250
Income taxes for the period	39	(263)	(294)	(223)	163	5	166	(299)
Change in the reserve for general banking risks and other reserves	16	2	6	2	(24)	2	–	2
Minority interests	(15)	(25)	(25)	(18)	8	2	(40)	(24)
Net income (loss) for the period	**176**	**328**	**397**	**313**	**144**	**(58)**	**(311)**	**425**

[1] Figures for 2002 and for the first three quarters of 2003 have been restated on a consistent basis.

Interest margin

In 2003 interest margin (5,160 million euro) recorded a progressive decline (-6.3%), mostly attributable to the constant erosion of net interest income. Over the twelve months, this component was affected by both the strategic decision aimed at reducing lending to Italian and foreign large corporates, for the purpose of decreasing loan portfolio risk and the combined effect of the trends recorded by interest rates and volumes in the Group's various operating markets.

(in millions of euro)

Captions	2003	2002 pro forma	Changes	
			amount	%
Net interest income with customers				
• interest income	**7,719**	9,161	(1,442)	(15.7)
• interest expense	**(1,527)**	(2,182)	(655)	(30.0)
• interest expense on securities issued	**(1,883)**	(2,132)	(249)	(11.7)
• interest expense on subordinated liabilities	**(580)**	(630)	(50)	(7.9)
	3,729	4,217	(488)	(11.6)
Interest income on securities	**1,240**	1,721	(481)	(27.9)
Net interest income with banks				
• interest income	**1,127**	1,472	(345)	(23.4)
• interest expense	**(959)**	(1,816)	(857)	(47.2)
	168	(344)	512	
Differentials on hedge contracts	**(192)**	(313)	(121)	(38.7)
Other net interest income	**30**	35	(5)	(14.3)
Total net interest income	**4,975**	5,316	(341)	(6.4)
Dividends and other revenues	**101**	130	(29)	(22.3)
Income from investments carried at equity	**84**	60	24	40.0
Interest margin	**5,160**	5,506	(346)	(6.3)

Net interest and other banking income

Net interest and other banking income reached 9,708 million euro, with a total 4.1% increase with respect to the previous year. This result reflected the positive performance of net commissions which recorded a 3% rise to 3,331 million euro and a significant contribution from profits on financial transactions which showed a 664 million euro increase to 830 million euro.

Net commissions

(in millions of euro)

Captions	2003	2002 pro forma	Changes	
			amount	%
Commercial banking activities				
• guarantees given	**148**	164	(16)	(9.8)
• collection and payment services	**273**	267	6	2.2
• current accounts	**762**	707	55	7.8
• fees on credit card distribution and POS services	**241**	231	10	4.3
	1,424	1,369	55	4.0
Management, dealing and consultancy				
• dealing and placement of securities	**155**	132	23	17.4
• dealing in currencies	**46**	53	(7)	(13.2)
• portfolio management	**820**	927	(107)	(11.5)
• distribution of insurance products	**134**	99	35	35.4
• other	**164**	129	35	27.1
	1,319	1,340	(21)	(1.6)
Tax collection	**291**	205	86	42.0
Other net commissions	**297**	319	(22)	(6.9)
Total net commissions	**3,331**	3,233	98	3.0

After a difficult phase attributable to unfavourable market conditions, net commissions rose in 2003. The increase is significant considering the year-on-year variation but the quarterly development is even more impressive and highlights a progressive and constant improvement.
More specifically, there was an increase (+4%) in commissions on commercial banking activities, especially on current account management (+7.8%) and credit card and POS services (+4.3%). Also tax collection made an important contribution, with a 42% growth rate, which is the combined result of higher operations in the sector, attributable to both tax remissions realised during the year and a more congruous remuneration of collection agents by the Tax authorities.
Commissions from management, dealing and consultancy showed signs of improvement in the last part of the year, even if the year-end figure was still lower (-1.6%) than in 2002. Certain subcaptions, such as commissions on distribution of bancassurance products (+35.4%) and dealing and placement of securities (+17.4%) recorded significant progress while the important sector of commissions on asset management remained weak (-11.5%).

Profits (Losses) on financial transactions

Financial transactions made a significant contribution to profitability with net profits of 830 million euro, five times the corresponding figure of the previous year. The excellent performance referred to almost all areas. The overall result was positively influenced by considerable income connected to trading of the option component of structured bond issues.

The table below shows breakdown of this result in terms of risk of the underlying asset.

(in millions of euro)

Captions	2003	2002 pro forma	Changes amount	Changes %
Interest rates	**227**	(27)	254	
Equity	**419**	68	351	
Foreign exchange	**154**	163	(9)	(5.5)
Credit derivatives (trading book)	**30**	(38)	68	
Profits on financial transactions	**830**	166	664	

Operating margin

Sustained by the increase in profitability deriving mainly from financial transactions and services, as well as by the significant savings in operating costs, that recorded a 4.2% decrease, operating margin totalled 3,573 million euro, with a 22.3% progress on the same figure of the previous year. Savings referred to both personnel expenses and other administrative costs, while adjustments to intangibles and fixed assets remained practically stable.

Operating costs

As already outlined, the Group successfully continued to pursue cost containment, which, as is generally known, is one of the priority objectives of the Business Plan.
Lower costs referred to payroll which recorded a 4.6% decrease, and administrative costs which registered a 5% reduction. The rigorous cost containment policy was applied to the entire Group, starting from Banca Intesa (-2.9%) and including the Italian and foreign subsidiaries that recorded average decreases of approximately 10%.

The table below sets out the development of the main expense captions compared to the previous year.

(in millions of euro)

Captions	2003	2002 pro forma	Changes amount	Changes %
Payroll	**3,324**	3,483	(159)	(4.6)
Administrative costs				
• general structure costs	**650**	711	(61)	(8.6)
• indirect taxes and duties	**328**	347	(19)	(5.5)
• legal and professional expenses	**230**	250	(20)	(8.0)
• IT expenses	**286**	271	15	5.5
• management of real estate assets	**352**	358	(6)	(1.7)
• advertising and promotional expenses	**74**	86	(12)	(14.0)
• indirect personnel costs	**73**	56	17	30.4
• other costs	**117**	141	(24)	(17.0)
	2,110	2,220	(110)	(5.0)
Adjustments to				
• intangibles	**341**	334	7	2.1
• fixed assets	**360**	366	(6)	(1.6)
Operating costs	**6,135**	6,403	(268)	(4.2)

The decrease in payroll is mainly attributable to the reduction in headcount which, in turn, is the result of both physiological turnover and, to a greater extent to the implementation of the plan signed with Trade Unions via the activation of the specific regulations of the Solidarity allowance for the banking industry as per Ministerial Decree 158 of 2000. In consistent terms, over the twelve months the Group's employees decreased by 3,318 units in average terms and by 4,565 units considering year-end figures.

Administrative costs also recorded a generalised downward trend, which was particularly significant for general structure costs (-8.6%), legal and professional expenses (-8%) and advertising and promotional expenses (-14%), while increases were registered only by IT expenses, due to the numerous and important projects under way at the Parent Company and certain subsidiaries, and by indirect personnel costs essentially attributable to charges sustained for preparation and training which, as is generally known, are among the qualifying objectives of the Business Plan.

Adjustments to intangibles and fixed assets were practically in line with the previous year, with a slight increase in amortisation of intangibles related to software and an almost equivalent decrease in depreciation, mostly referred to real estate assets.

Income from operating activities

Income from operating activities reached 1,810 million euro, compared to 11 million euro of 2002, after the deduction of adjustments to loans of 1,222 million euro, provisions for risks and charges of 207 million euro, amortisation of goodwill of 130 million euro and net adjustments to financial fixed assets of 204 million euro. All of these amounts were lower with respect to the corresponding figures of the previous year.

Adjustments, write-backs and provisions

(in millions of euro)

Captions	2003	2002 pro forma	Changes	
			amount	%
Net adjustments to loans				
• doubtful loans	**(615)**	(1,010)	(395)	(39.1)
• substandard loans	**(433)**	(848)	(415)	(48.9)
• restructured loans and loans under restructuring	**(14)**	(93)	(79)	(84.9)
• loans subject to Country risk	**49**	13	36	
• other	**(166)**	(174)	(8)	(4.6)
Net provisions for guarantees and commitments	**(42)**	(62)	(20)	(32.3)
	(1,221)	(2,174)	(953)	(43.8)
Provisions for possible loan losses	**(1)**	(6)	(5)	(83.3)
	(1,222)	(2,180)	(958)	(43.9)
Provisions for risks and charges	**(207)**	(308)	(101)	(32.8)
Adjustments to goodwill arising on consolidation and on application of the equity method	**(130)**	(140)	(10)	(7.1)
Adjustments to financial fixed assets	**(214)**	(288)	(74)	(25.7)
Write-back of financial fixed assets	**10**	6	4	66.7
	(204)	(282)	(78)	(27.7)
Total, net	**(1,763)**	(2,910)	(1,147)	(39.4)

2002 results had been severely affected by adjustments and provisions connected especially to exposures to certain international groups operating mainly in the telecom and energy sectors while significantly lower overall provisions for possible loan losses occurred in fiscal year 2003, despite the distress of the Parmalat group, already described above.

The improvement which occurred in net adjustments to loans was the result of a decrease exceeding 30% of adjustments and a contained increase in write-backs. In particular, net adjustments to doubtful loans recorded an almost 40% reduction, following the more marked decrease recorded by adjustments compared to that registered by write-backs; as concerns substandard loans, the effects of lower adjustments were added to higher write-backs, showing an approximately 50% decrease in the net figure. The positive sign of adjustments to loans subject to Country risk is attributable to the significant contraction in exposure to borrowers resident in Latin America, following the Group's disengagement from certain Countries of the subcontinent. Over 60% of net adjustments to loans referred to Banca Intesa, approximately 13% referred to the Group's foreign subsidiaries and the remaining portion was attributable to Italian subsidiaries.

Also provisions for risks and charges recorded a reduction to 207 million euro. In 2002 this caption had recorded significant provisions for forecasted charges for the progressive disengagement from Latin America. In 2003 provisions mostly referred to charges related to legal disputes and amounts reclaimed, as well as provisions for future charges related to both equity investments connected to merchant banking activities and South-American subsidiaries still included in the consolidation area.

Net adjustments to financial fixed assets (204 million euro), down by 28% compared to 2002, included the write-down of the equity investments in Bayerische Hypo-und Vereinsbank (22 million euro) and Banco Comercial Portugues (152 million euro), the latter deemed necessary by the persistent market price under book value.

Adjustments to goodwill arising on consolidation and on application of the equity method comprised amortisation of goodwill on consolidated companies of 96 million euro and amortisation of goodwill on subsidiaries carried at equity of 34 million euro. Overall the caption is lower than in the previous year which had been negatively affected by the write-off of goodwill relative to Bankhaus Löbbecke.

Income from extraordinary activities and net income

All mentioned above shows that net extraordinary income (202 million euro), lower than 228 million euro of the previous year, is of secondary importance in the determination of profitability for the year.
Extraordinary income and charges recorded significant amounts also in 2003 when considered separately.

(in millions of euro)

Captions	2003	2002 pro forma	Changes	
			amount	%
Income from operating activities	**1,810**	11	1,799	
Extraordinary income	1,351	1,680	(329)	(19.6)
Extraordinary charges	(1,149)	(1,452)	(303)	(20.9)
Extraordinary income, net	**202**	228	(26)	(11.4)
Income taxes for the period	(741)	35	(776)	
Use of allowance for risks and charges arising on consolidation	7	2	5	
Change in the reserve for general banking risks	19	(22)	41	
Minority interests	(83)	(54)	29	53.7
Net income for the period	**1,214**	200	1,014	

In 2003 the most significant components of extraordinary income referred to marking to market of own shares in the Parent Company's portfolio (361 million euro) and the capital gain on the sale to Banca Generali (134 million euro) of Banca Primavera's PFS operations, made up of the approximately 1,600 financial consultants and 17 bank branches. Capital gains were also recorded on the sale of equity investments for a total of 175 million euro mostly attributable to the aforementioned contribution of Intesa Vita (112 million euro) and the definitive settlement of the sale of Intesa Bank Suisse (38 million euro). Extraordinary income also included a capital gain of 77 million euro from sale of real estate assets, 33 million euro from the valuation of the commitment for the disposal of Carinord 2 and 35 million euro from the acceptance of Crédit Agricole's tender offer on Crédit Lyonnais shares. It must also be noted that due to Banca Intesa's future application of consolidated taxation based on domestic consolidation regulations, the subsidiary Intesa Gestione Crediti recorded, among extraordinary income, deferred tax assets of 61 million euro related to previous years, which could not be recorded previously since it had not been possible to forecast sufficient future taxable income.

With regard to extraordinary charges, the most significant caption referred to the capital losses on the disposal of equity investments (326 million euro) that included Bankhaus Löbbecke and Carinord 1, in addition to other charges related to the disposal of certain subsidiaries in the South-American area. Other extraordinary captions referred to provisions for future charges related to the layoffs programmed in application of the specific regime set forth by the Solidarity allowance for the banking industry as per Ministerial Decree 158 of 2000 (287 million euro) and charges for the Group's reorganisation (154 million euro) to be implemented as set out in the Business Plan, in addition to the aforementioned allowance of 50 million euro for defaulted corporate bonds.

Net income totalled 1,214 million euro, compared to 200 million euro as at 31st December 2002, after the deduction of income taxes amounting to 741 million euro, inclusive of deferred taxes, and minority interests of 83 million euro.

Gruppo Intesa
Reclassified consolidated balance sheet

(in millions of euro)

Assets	31/12/2003	31/12/2002 pro forma [1]	Changes	
			amount	%
1. Cash and deposits with central banks and post offices	**1,591**	1,602	(11)	(0.7)
2. Loans				
– loans to customers	**154,992**	164,378	(9,386)	(5.7)
– due from banks	**28,537**	30,702	(2,165)	(7.1)
3. Trading portfolio	**24,139**	27,023	(2,884)	(10.7)
including Own shares	***1,017***	*981*	*36*	*3.7*
4. Fixed assets				
a) investment portfolio	**5,521**	5,884	(363)	(6.2)
b) equity investments	**4,784**	4,618	166	3.6
c) tangible and intangible	**4,285**	4,776	(491)	(10.3)
5. Goodwill arising on consolidation	**546**	612	(66)	(10.8)
6. Goodwill arising on application of the equity method	**286**	161	125	77.6
7. Other assets	**35,534**	33,918	1,616	4.8
Total Assets	**260,215**	273,674	(13,459)	(4.9)

(in millions of euro)

Liabilities and Shareholders' Equity	31/12/2003	31/12/2002 pro forma [1]	Changes	
			amount	%
1. Debts				
– due to customers	**105,119**	109,918	(4,799)	(4.4)
– securities issued	**56,659**	55,223	1,436	2.6
– due to banks	**31,720**	43,646	(11,926)	(27.3)
2. Allowances with specific purpose	**5,033**	5,168	(135)	(2.6)
3. Other liabilities	**35,254**	33,505	1,749	5.2
4. Allowances for possible loan losses	**28**	50	(22)	(44.0)
5. Subordinated and perpetual liabilities	**10,603**	11,503	(900)	(7.8)
6. Minority interests	**706**	710	(4)	(0.6)
7. Shareholders' equity				
– share capital, reserves and reserve for general banking risks	**13,849**	13,721	128	0.9
– 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**	200	1,014	
Total Liabilities and Shareholders' Equity	**260,215**	273,674	(13,459)	(4.9)

Guarantees, commitments and credit derivatives	**105,335**	116,909	(11,574)	(9.9)
Indirect customer deposits	**286,576**	293,071	(6,495)	(2.2)

[1] Figures restated on a consistent basis.

Quarterly development of the reclassified consolidated balance sheet

(in millions of euro)

Assets	2003 [1]				2002 [1]			
	31.12	**30.09**	**30.06**	**31.03**	**31.12**	**30.09**	**30.06**	**31.03**
1. Cash and deposits with central banks and post offices	**1,591**	1,372	1,350	1,341	1,602	1,444	1,382	1,645
2. Loans								
– loans to customers	**154,992**	156,007	161,060	161,427	164,378	164,987	171,550	173,309
– due from banks	**28,537**	36,052	33,694	33,095	30,702	37,834	38,616	43,894
3. Trading portfolio	**24,139**	26,365	31,939	28,282	27,023	31,056	36,315	39,076
including Own shares	***1,017***	*894*	*891*	*664*	*981*	–	–	–
4. Fixed assets								
a) investment portfolio	**5,521**	5,859	6,184	6,165	5,884	6,714	6,963	8,304
b) equity investments	**4,784**	5,038	5,066	4,841	4,618	5,406	5,250	5,752
c) tangible and intangible	**4,285**	4,449	4,519	4,573	4,776	4,792	4,753	4,860
5. Goodwill arising on consolidation	**546**	570	594	590	612	631	633	604
6. Goodwill arising on application of the equity method	**286**	285	293	250	161	120	136	46
7. Other assets	**35,534**	41,245	35,353	35,012	33,918	31,116	29,887	29,089
Total Assets	**260,215**	**277,242**	**280,052**	**275,576**	**273,674**	**284,100**	**295,485**	**306,579**

(in millions of euro)

Liabilities and Shareholders' Equity	2003 [1]				2002 [1]			
	31.12	**30.09**	**30.06**	**31.03**	**31.12**	**30.09**	**30.06**	**31.03**
1. Debts								
– due to customers	**105,119**	108,881	110,921	111,553	109,918	110,559	109,213	111,224
– securities issued	**56,659**	55,827	57,535	54,010	55,223	54,597	57,291	57,804
– due to banks	**31,720**	37,106	41,662	42,888	43,646	53,975	62,922	74,094
2. Allowances with specific purpose	**5,033**	5,375	5,244	5,420	5,168	4,873	4,947	5,402
3. Other liabilities	**35,254**	43,489	38,505	35,685	33,505	33,795	34,753	31,641
4. Allowances for possible loan losses	**28**	51	51	51	50	147	146	156
5. Subordinated and perpetual liabilities	**10,603**	11,241	11,248	11,456	11,503	11,608	11,534	11,192
6. Minority interests	**706**	696	671	716	710	752	744	788
7. Shareholders' equity								
– share capital, reserves and reserve for general banking risks	**13,849**	13,508	13,475	13,454	13,721	13,708	13,791	13,837
– negative goodwill arising on consolidation	**29**	29	29	29	29	29	29	15
– negative goodwill arising on application of the equity method	**1**	1	1	1	1	1	1	1
– net income for the period	**1,214**	1,038	710	313	200	56	114	425
Total Liabilities and Shareholders' Equity	**260,215**	**277,242**	**280,052**	**275,576**	**273,674**	**284,100**	**295,485**	**306,579**

Indirect customer deposits	**286,576**	291,372	288,967	282,645	293,071	295,738	305,984	313,739

[1] Figures for 2002 and for the first three quarters of 2003 have been restated on a consistent basis.

Lending and deposit collecting activities

Loans to customers

Loans to customers as at 31st December 2003 declined to 154,992 million euro with a 5.7% decrease with respect to the figure for 2002.
The decrease had been forecasted since it stems from strategic decisions taken in the Business Plan. The stock of loans to customers was affected by the gradual reduction of exposure to Italian and foreign corporates – loans to customers granted by the Parent Company's foreign branches were halved – with a total 11 billion euro decrease in terms of risk-weighted assets.
Another element which influenced the reduction was the extinguishment of the financing granted to the vehicle company Intesa Sec. 2, related to the sale of performing mortgages amounting to 2 billion euro, whose securitisation commenced at the end of 2002 and was completed in February 2003.

The effects of the aforementioned factors are evident considering the variations which occurred in the various contract types. The most significant contractions referred to advances and other loans which recorded a 15.1% decrease, while current accounts recorded a more contained reduction (-7.2%) and repurchase agreements, which are typically more volatile, dropped by approximately one third. Mortgages instead registered a constant and significant development, also thanks to a favourable market context, and showed an approximately 10% growth rate. Mortgages represented approximately 40% of the Group's total loans.

In terms of contribution to the consolidated figure, the Parent Company was responsible for 60% of loans to customers while the Group's Italian subsidiaries represented 32% and foreign subsidiaries approximately 8%.

(in millions of euro)

Subcaptions		31/12/2003	31/12/2002 pro forma	Changes	
				amount	%
Current accounts		**21,614**	23,285	(1,671)	(7.2)
Mortgages		**61,656**	56,306	5,350	9.5
Advances and other loans		**64,687**	76,231	(11,544)	(15.1)
Repurchase agreements		**2,437**	3,459	(1,022)	(29.5)
Doubtful loans		**4,598**	5,097	(499)	(9.8)
Total loans		**154,992**	164,378	(9,386)	(5.7)
including	*with residents in Italy*	***133,458***	*136,898*	*(3,440)*	*(2.5)*
	with residents in other EU Countries	***7,210***	*10,178*	*(2,968)*	*(29.2)*
	with residents in non-EU Countries	***14,324***	*17,302*	*(2,978)*	*(17.2)*

The table below details geographic breakdown of loans to customers and shows the predominance of domestic loans which represented 86% of the total and which were mainly concentrated in North-West Italy (52% of domestic customers). As concerns foreign counterparties, loans to customers not resident in Italy were granted for approximately 34% to EU residents, and for 66% to non-EU borrowers, among which Eastern-European counterparties.

Geographic areas	**31/12/2003**	**31/12/2002 pro forma**
North West	44.8%	45.2%
North East	16.8%	14.9%
Centre	14.2%	14.0%
South and Isles	10.3%	9.2%
Total Italy	**86.1%**	**83.3%**
France	0.8%	1.1%
Portugal	0.7%	0.9%
Germany	0.3%	0.4%
Spain	0.3%	0.5%
Holland	0.4%	0.4%
Belgium	0.1%	0.2%
Ireland	0.2%	0.2%
Luxembourg	0.6%	0.2%
United Kingdom	1.0%	2.1%
Other EU Countries	0.3%	0.2%
Total EU Countries	**4.7%**	**6.2%**
United States of America	1.8%	2.8%
Croatia	2.0%	1.5%
Canada	0.3%	0.3%
Japan	0.3%	0.4%
Brazil	0.1%	0.2%
Hungary	1.9%	1.4%
Peru	0.8%	0.9%
Slovakia	0.7%	0.7%
Other non-EU Countries	1.3%	2.3%
Total other non-EU Countries	**9.2%**	**10.5%**
Total loans to customers	**100.0%**	**100.0%**

As concerns instead breakdown of loans by borrowing counterparty, the table below shows the net prevalence of loans granted to non-financial companies and family-run businesses (63% of the total). Wholesale and retail trade and businesses offering other services for sale represented 25% of the total. Loans to consumer families and other categories were also important and together were granted approximately 22% of total disbursements.

(in millions of euro)

Counterparties	31/12/2003	31/12/2002 pro forma
Governments	**2,279**	2,792
Other public entities	**3,684**	4,136
Financial institutions	**16,944**	13,990
Non-financial companies and family-run businesses	**98,104**	105,663
• *wholesale and retail trade, recovery and repairs*	***16,738***	*16,499*
• *construction and public works*	***9,575***	*9,630*
• *food products, beverages and tobacco-based products*	***4,035***	*4,912*
• *textiles, leather and footwear, clothing*	***4,032***	*4,614*
• *agricultural and industrial machinery*	***4,032***	*4,397*
• *metal products, excluding cars and means of transport*	***4,001***	*4,299*
• *energy products*	***3,189***	*4,089*
• *chemical products*	***2,726***	*3,246*
• *electric materials and supplies*	***2,275***	*2,467*
• *other industrial products*	***3,385***	*4,762*
• *agricultural and forestry products and fishing*	***3,163***	*2,912*
• *transport*	***2,272***	*2,079*
• *paper, paper products, printed products and publishing*	***1,921***	*2,124*
• *minerals and non-metallic mineral based products*	***1,917***	*2,109*
• *rubber and plastic products*	***1,930***	*1,977*
• *other services for sale*	***22,180***	*22,731*
• *other non-financial companies*	***10,733***	*12,816*
Consumer families and other	**33,981**	37,797
Total	**154,992**	**164,378**

Non-performing loans and Country risk

Breakdown of loans to customers based on credit quality is illustrated in the table below, which shows the 9.8% decrease in *doubtful loans* which dropped to 4,598 million euro, with a percentage incidence on total loans of 2.97%, lower with respect to 3.10% of December 2002. The reduction was mainly attributable to the decreases registered by Intesa Gestione Crediti and Banco Wiese Sudameris.

Also *substandard loans* recorded an approximately 13% decrease to 3,544 million euro due to the fundamental contribution of the improvement recorded by the Parent Company.

Cumulated net adjustments led to a degree of coverage of doubtful loans of 65%, compared to 63% of the previous year, while the degree of coverage of substandard loans remained constant at 2002 year-end levels at approximately 25%.

(in millions of euro)

	31/12/2003			31/12/2002 pro forma		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
Non-performing loans	18,462	(9,902)	8,560	20,465	(10,320)	10,145
• *Doubtful loans*	*13,182*	*(8,584)*	*4,598*	*13,795*	*(8,698)*	*5,097*
• *Substandard loans*	*4,711*	*(1,167)*	*3,544*	*5,450*	*(1,381)*	*4,069*
• *Restructured loans and loans under restructuring*	*466*	*(129)*	*337*	*432*	*(151)*	*281*
• *Loans subject to Country risk*	*103*	*(22)*	*81*	*788*	*(90)*	*698*
Performing loans	147,504	(1,072)	146,432	155,302	(1,069)	154,233
Total	**165,966**	**(10,974)**	**154,992**	**175,767**	**(11,389)**	**164,378**

The table below shows breakdown of doubtful and substandard loans by borrowing counterparty. As in the case of loans to customers, non-financial companies and family-run businesses are the sectors with the highest incidence in terms of net book value of doubtful and substandard loans.

(in millions of euro)

Counterparties	**31/12/2003**	**31/12/2002 pro forma**
Financial institutions	**194**	311
Non-financial companies and family-run businesses	**6,374**	7,212
• *construction and public works*	***1,232***	*1,491*
• *wholesale and retail trade, recovery and repairs*	***1,127***	*1,079*
• *textiles, leather and footwear, clothing*	***302***	*300*
• *food products, beverages and tobacco-based products*	***415***	*288*
• *agricultural and forestry products and fishing*	***307***	*272*
• *hotels and catering*	***219***	*240*
• *metal products, excluding cars and means of transport*	***218***	*217*
• *other industrial products*	***145***	*153*
• *agricultural and industrial machinery*	***176***	*178*
• *electric materials and supplies*	***127***	*219*
• *transport*	***201***	*163*
• *communication services*	***34***	*138*
• *sea and air carriers*	***149***	*125*
• *energy products*	***45***	*48*
• *minerals and non-metal mineral based products*	***108***	*114*
• *other services for sale*	***1,078***	*1,668*
• *other non-financial companies*	***491***	*519*
Consumer families and other	**1,574**	1,643
Total	**8,142**	**9,166**

Restructured loans and loans under restructuring, though on contained absolute values, showed an increase attributable to the Parent Company and reached 337 million euro (compared to 281 million euro as at 31st December 2002).

Conversely, *loans subject to Country risk* – considering both on- and off-balance sheet exposures – recorded a considerable net reduction to 480 million euro (-61%).

(in millions of euro)

Countries	31/12/2003				31/12/2002 pro forma			
	Non-guaranteed exposure	Value at risk	Adjust-ments	Net amount	Non-guaranteed exposure	Value at risk	Adjust-ments	Net amount
Brazil	**219**	**204**	**40**	**179**	851	267	91	760
Argentina	**124**	**124**	**74**	**50**	253	216	129	124
Peru	**57**	**55**	**11**	**46**	55	46	9	46
Cayman Islands (*)	**53**	**51**	**8**	**45**	–	–	–	–
Lebanon	**34**	**6**	**1**	**33**	42	7	2	40
Dutch Antilles	**33**	**13**	**4**	**29**	49	26	5	44
Russia	**23**	**17**	**3**	**20**	24	23	4	20
Colombia	**22**	**22**	**5**	**17**	82	31	7	75
Panama	**19**	**13**	**2**	**17**	17	11	2	15
Jordan	**15**	**6**	**1**	**14**	14	5	1	13
Uruguay	**3**	**–**	**–**	**3**	10	4	1	9
Venezuela	**2**	**2**	**–**	**2**	3	3	1	2
Indonesia	**2**	**2**	**–**	**2**	3	3	1	2
Egypt	**–**	**–**	**–**	**–**	22	11	2	20
Other Countries	**29**	**22**	**6**	**23**	77	41	14	63
Total	**635**	**537**	**155**	**480**	1,502	694	269	1,233
including								
On-balance sheet loans								
– customers	***103***	***85***	***22***	***81***	*788*	*289*	*90*	*698*
– banks	***259***	***258***	***52***	***207***	*266*	*131*	*52*	*214*
– securities portfolio	***64***	***64***	***32***	***32***	*132*	*132*	*72*	*60*
Off-balance sheet loans								
– customers	***82***	***62***	***15***	***67***	*98*	*52*	*18*	*80*
– banks	***127***	***68***	***34***	***93***	*218*	*90*	*37*	*181*

(*) In the financial statements as at 31st December 2002, risk on exposures to borrowers resident in the Cayman Islands was covered by total capital.

Decreases were also registered by nominal non-guaranteed exposures (635 million euro; -57.7%) and value at risk (537 million euro; -22.6%). Cumulated adjustments amounted to 155 million euro and guaranteed a coverage exceeding 24% compared to approximately 18% as at 31st December 2002.

Value at risk reflects the exclusion of loans to Bermuda for which the judgement of creditworthiness is confirmed by its positive market quotations, based on expectations of full debt repayment. The same approach was adopted with regard to a primary counterparty resident in Russia, whose exposure is supported by sound reimbursement sources outside the Country. Also securities held in the trading portfolio were excluded from the risk calculation as they had already been marked to market. For supervisory purposes, all these loans at risk – on-balance sheet exposures of 513 million euro and off-balance sheet exposures of 2 million euro – were considered under the direct coverage of shareholders' equity, with an overall capital absorption of 78 million euro, determined, for securities held in the trading portfolio, considering the write-downs already accounted for in the financial statements. The absorption of a further 98 million euro referred to the domestic component of loans granted by subsidiaries resident in South-American Countries at risk (464 million euro) to central governments and public sector entities, denominated or indexed to foreign currencies. These comprise Peru (391 million euro), Uruguay (26 million euro), Paraguay (26 million euro) and Colombia (21 million euro).

To cover *performing loans* there is a generic allowance of 1,072 million euro, which has the purpose of covering the intrinsic risk of performing loans. The degree of coverage equalled approximately 0.7% of total performing loans net of repurchase agreements and is deemed to adequately cover exposures to the industrial sectors more severely affected by the adverse market situation and the slowdown in consumption.

Customer funds

Direct customer deposits at 172,381 million euro practically confirmed the levels of the previous year (-2.4%). The limited contraction was mostly attributable to the downsizing of the Parent Company's foreign branches, as a consequence of their territorial rationalisation and their new mission identified by the Business Plan.

(in millions of euro)

Subcaptions	31/12/2003	31/12/2002 pro forma	Changes	
			amount	%
Deposits	**10,673**	11,101	(428)	(3.9)
Current accounts and other	**83,746**	85,827	(2,081)	(2.4)
Bonds	**47,908**	44,491	3,417	7.7
Certificates of deposit	**7,576**	9,313	(1,737)	(18.7)
Other	**4,353**	4,780	(427)	(8.9)
Repurchase agreements	**7,522**	9,629	(2,107)	(21.9)
Subordinated and perpetual liabilities	**10,603**	11,503	(900)	(7.8)
Total direct deposits (*)	**172,381**	176,644	(4,263)	(2.4)
Indirect customer deposits	**286,576**	293,071	(6,495)	(2.2)
Customer deposits under administration	**458,957**	469,715	(10,758)	(2.3)
(*) *including with residents in Italy*	***145,366***	*143,869*	*1,497*	*1.0*
with residents in EU Countries	***8,491***	*11,509*	*(3,018)*	*(26.2)*
with residents in non-EU Countries	***18,524***	*21,266*	*(2,742)*	*(12.9)*

Breakdown of deposits by contract type showed differentiated trends: bond issues recorded a constant increase (+7.7%), mostly attributable to the Parent Company, and represented approximately a third of overall customer deposits. Certificates of deposit continued their structural decrease (-18.7%) while deposits and current accounts highlighted a moderate decline. Subordinated and perpetual liabilities slightly decreased while repurchase agreements recorded a more marked drop.

With regard to geographic breakdown, deposits from customers resident outside Italy represented approximately 16% of the total with the prevalence of non-EU Countries and in particular Eastern-European Countries.

In terms of contribution to the consolidated figure, the Parent Company represented 72% of direct customer deposits while the Group's Italian subsidiaries represented 16% and foreign subsidiaries approximately 12%.

Indirect customer deposits

Indirect customer deposits totalled 286,576 million euro, with a contained 2.2% decrease on the figure recorded at the end of the previous year.

However it must be noted that the moderate decline was almost entirely attributable to the decrease in deposits under administration (-3.7%) while assets under management did not drop.

(in millions of euro)

Subcaptions	31/12/2003	31/12/2002 pro forma	Changes	
			amount	%
Individual portfolio management schemes	**48,518**	48,769	(251)	(0.5)
Assets managed by mutual funds	**86,827**	87,176	(349)	(0.4)
Insurance products	**18,529**	15,677	2,852	18.2
minus Funds from individual portfolios placed in mutual funds	**(33,356)**	(31,005)	2,351	7.6
Total managed funds	**120,518**	120,617	(99)	(0.1)
Assets under administration and in custody	**166,058**	172,454	(6,396)	(3.7)
Indirect customer deposits	**286,576**	293,071	(6,495)	(2.2)

Financial activities

(in millions of euro)

Subcaptions	31/12/2003		Implicit gains/ losses	31/12/2002 pro forma		Implicit gains/ losses
	Book value	Market value		Book value	Market value	
Investment portfolio	**5,521**	**5,803**	**282**	5,884	6,155	271
Trading portfolio						
– Government securities	**3,935**	**3,935**	**–**	7,133	7,133	–
– Bonds and other debt securities	**17,180**	**17,214**	**34**	16,499	16,520	21
• *listed*	***6,053***	***6,053***	***–***	*5,427*	*5,427*	*–*
• *unlisted*	***11,127***	***11,161***	***34***	*11,072*	*11,093*	*21*
– Shares, quotas and other forms of capital	**2,007**	**2,062**	**55**	2,410	2,436	26
• *listed*	***1,399***	***1,399***	***–***	*1,901*	*1,901*	*–*
• *unlisted*	***608***	***663***	***55***	*509*	*535*	*26*
Total trading portfolio	**23,122**	**23,211**	**89**	26,042	26,089	47
Own shares	**1,017**	**1,017**	**–**	981	981	–
Total	**29,660**	**30,031**	**371**	32,907	33,225	318

(in millions of euro)

Subcaptions	31/12/2003	31/12/2002 pro forma	Changes	
			amount	%
Net interbank position repayable on demand				
• current accounts	**(1,438)**	(162)	1,276	
• deposits	**(3,277)**	(5,528)	(2,251)	(40.7)
• other	**21**	108	(87)	(80.6)
	(4,694)	(5,582)	(888)	(15.9)
Net interbank position with notice period				
• compulsory reserve requirement	**1,112**	1,764	(652)	(37.0)
• time deposits	**(7,576)**	(15,646)	(8,070)	(51.6)
• repurchase agreements	**7,373**	5,308	2,065	38.9
• other	**602**	1,212	(610)	(50.3)
	1,511	(7,362)	8,873	
Net interbank position	**(3,183)**	(12,944)	(9,761)	(75.4)

Shareholders’ equity and capital ratios

The Group’s shareholders’ equity, excluding net income for the period of 1,214 million euro, amounted to 13,879 million euro, The table below details the variations in consolidated shareholders’ equity which occurred with respect to as at 31st December 2002.

Shareholders’ equity for supervisory purposes amounted to 20,644 million euro against risk-weighted assets of 182,344 million euro, The total capital ratio equalled 11.7% and the Tier 1 ratio 7.8%. The ratio between shareholders’ equity for supervisory purposes, net of preference shares and risk-weighted assets (Core Tier 1) equalled 6.9%.

(in millions of euro)

	Share capital	Share premium reserve	Legal reserve	Other reserves	Reserves for foreign exchange differences	Reserve for general banking risks	Revaluation reserves	Negative goodwill	Net income for the period	Total Shareholders' equity
Balance as at 31st December 2002 (*)	**3,561**	**5,764**	**773**	**3,553**	**(403)**	**115**	**358**	**30**	**200**	**13,951**
Allocation of consolidated net income										
– Reserves				186					(186)	–
– Dividends				(96)					(12)	(108)
– Allowances for charitable contributions									(2)	(2)
Other variations										
– Free assignement of 159,243,488 Banca Intesa ordinary shares to the Shareholders				(326)						(326)
– Transfers within reserves for own shares revaluation		(361)		361						–
– Changes in the consolidation area		1		(17)		(1)	(2)			(19)
– Changes in the reserve for general banking risks						(19)				(19)
– Changes in the reserve for foreign exchange differences					402					402
– Other changes and rounding off				–			–			–
Net income for the period									1,214	1,214
Balance as at 31st December 2003	**3,561**	**5,404**	**773**	**3,661**	**(1)**	**95**	**356**	**30**	**1,214**	**15,093**

(*) Official figures not restated

N.B.: The caption Other reserves includes 1,017 million euro of Reserve for own shares.

(in millions of euro)

TOTAL CAPITAL AND CAPITAL RATIOS	2003				31/12/2002
	31/12	30/09	30/06	31/03	
Total capital					
Tier 1 capital	14,292	13,878	13,604	13,610	13,494
Tier 2 capital	7,585	7,856	7,924	8,094	8,192
Items to be deducted	(1,233)	(1,185)	(1,180)	(535)	(630)
Total capital	20,644	20,549	20,348	21,169	21,056
Capital requirements					
Credit risks	13,390	13,784	14,118	14,365	14,611
Market risks	970	1,498	1,374	1,304	1,173
Tier 3 subordinated loans	647	943	947	1,146	1,148
Other capital requirements	228	193	203	240	193
Total capital requirements	14,588	15,475	15,695	15,909	15,977
Risk-weighted assets	182,344	193,440	196,187	198,857	199,714
Capital ratios %					
Tier 1/Total risk-weighted assets	7.84	7.17	6.93	6.84	6.76
Total capital/Total risk-weighted assets	11.68	11.11	10.85	11.22	11.12
Excess capital	6,056	5,074	4,653	5,260	5,079

Breakdown of capital for supervisory purposes is shown in the table above while the table below details the entries which allow to reconciliate the Parent Company's shareholders' equity and net result with consolidated shareholders' equity and net income.

(in millions of euro)

Items	Shareholders' equity	including net income for the period as at 31/12/2003
Parent Company's balances as at 31st December 2003	14,745	1,359
Effect of full and proportional consolidation	978	550
Effect of consolidation of subsidiaries carried at equity	210	84
Adjustments to capital gains from the sale of equity investments	–	(216)
Adjustments to capital gains from the sale of real estate assets	–	(180)
Reversal of write-downs on equity investments	175	175
Reversal of provisions recorded for fiscal purposes	85	(27)
Amortisation of goodwill arising on consolidation and on application of the equity method	(960)	(130)
Use of allowance for risks and charges arising on consolidation	32	7
Revaluation of real estate assets	263	(9)
Restatement of goodwill	(7)	3
Dividends collected during the period	–	(23)
Dividends accrued, net of fiscal effects	(485)	(485)
Other changes	57	106
Consolidated balances as at 31st December 2003	**15,093**	**1,214**

Breakdown of results by business area

(in millions of euro)

	Retail Division		Corporate Division		Italian Banks Division		Foreign Banks Division		Product Companies		Central Structures		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002 (*)
Net interest and other banking income	4,719	4,606	1,711	1,380	1,372	1,334	963	1,047	751	651	192	306	9,708	9,324
Operating costs	(3,379)	(3,478)	(581)	(599)	(781)	(823)	(632)	(716)	(307)	(315)	(455)	(472)	(6,135)	(6,403)
Operating margin	1,340	1,128	1,130	781	591	511	331	331	444	336	(263)	(166)	3,573	2,921
Provisions and net adjustments to loans and financial fixed assets	(332)	(623)	(339)	(864)	(202)	(72)	(182)	(728)	(161)	(155)	(547)	(468)	(1,763)	(2,910)
Income (Loss) from operating activities	1,008	505	791	(83)	389	439	149	(397)	283	181	(810)	(634)	1,810	11
Extraordinary income (loss)	2	38	10	(1)	17	4	(203)	(102)	57	45	319	244	202	228
Use of allowance for risks and charges arising on consolidation/Change in the reserve for general banking risks	–	–	10	–	–	3	–	–	9	(25)	7	2	26	(20)
Income (Loss) before taxes and minority interests	1,010	543	811	(84)	406	446	(54)	(499)	349	201	(484)	(388)	2,038	219
Rwa (billions of euro)	56.2	53.0	48.4	64.6	21.3	19.6	13.5	15.3	24.7	24.9	18.2	15.7	182.3	193.1
Allocated capital (billions of euro)	3.7	3.5	2.9	3.9	1.3	1.2	0.8	0.9	1.5	1.5	1.1	1.0	11.3	12.0
Income from operating activities on allocated capital (%)	27.2%	14.3%	27.3%	(2.1%)	30.3%	37.3%	18.5%	(43.0%)	19.1%	12.1%	(72.8%)	(60.4%)	16.0%	0.1%

(*) Figures for 2002 have been restated on a consistent basis.

Retail Division

The Retail Division was subjected to effective interventions aimed at achieving a constant improvement in customer service and dedicating continuous attention to the offer of new products meeting any operating need.
The Division's statement of income closed the year with an operating margin of 1,340 million euro and an income from operating activities of 1,008 million euro, with a net improvement with respect to the previous year.

Corporate Division

The Corporate Division is charged with management and development of relations with large Italian and international groups, larger mid-corporates, the State and public administrations as well as relations with financial institutions.
In 2003 the Corporate Division recorded operating margin of 1,130 million euro and income from operating activities of 791 million euro, far higher than the negative result of 83 million euro generated from operating activities in 2002.

Italian Banks Division

The Italian banks which are part of the Group report to this Division which operates in close coordination with the Retail Division, in order to optimise any possible commercial and efficiency synergies.

The Group's Italian banks have showed that they can manage and cultivate the relationship with the local territories in which they are deeply-rooted and where they often represent the local reference bank, to enhance profitability. Compared to 2002, operating margin improved and amounted to 591 million euro while income from operating activities decreased to 389 million euro.

Foreign Banks Division

The key points of the policy which the Group is implementing with regard to its presence and banking operations abroad fall along two main guidelines: the development of initiatives in certain emerging areas, among which Eastern Europe is a priority, aimed at further strengthening the already-existing operations and, by contrast, the

gradual disengagement from the South-American area.
Overall the Division closed 2003 with an operating margin of 331 million euro and an income from operating activities of 149 million euro which testify that, even though certain critical areas persist, the general economic situation of the Group's foreign banks is significantly improving mainly as a result of the good performance registered by the Eastern-European subsidiaries.

Product companies

Product companies cover with their activities the operating areas of medium- and long-term lending, leasing, factoring and tax collection and play a primary role in favouring the Group's growth.
The performance of these sectors was positive overall with an operating margin of 444 million euro and an income from operating activities of 283 million euro, both improved with respect to 2002.

Significant subsequent events

As of 1st January 2004 the new **Intesa Vita** became fully operational. As already illustrated above, it has absorbed the bancassurance activities of Alleanza Assicurazioni, Assiba and of the pre-existing IntesaVita (former Carivita). The Company, which in December 2003 had obtained the necessary authorisations from European Antitrust authorities and Isvap (the Italian Insurance Supervisory Authority), is one of the leading players in Italy in the bancassurance sector, with technical reserves exceeding 18 billion euro and almost one million contracts.

Again as of 1st January 2004 – following the company operations which involved Gruppo Intesa (with Banca Primavera and Caboto Sim) and the Generali group (with Banca Generali), described in detail herein – **Banca Caboto** started operations. This transformation is the confirmation of Caboto's important role as Gruppo Intesa's securities house. Banca Caboto will therefore be capable of further strengthening its range of financial market products and services, thus satisfying every type of customer.

The agreement reached in February with Consumer Associations for the restoration of customers holding defaulted corporate bonds has already been mentioned above.

Gruppo Intesa
Selected notes to the consolidated financial statements as at 31st December 2003

Breakdown of loans to customers

Loans to customers - Changes in non-performing loans

	Doubtful loans	Sub-standard loans	Loans under restructuring	Restructured loans	Loans subject to Country risk
A. Initial gross exposure	13,795	5,450	3	429	788
A1. including overdue interest	*3,382*	*105*	*–*	*11*	*–*
B. Increases	2,578	3,727	2	142	36
B1. inflows from performing loans	*784*	*3,155*	*–*	*133*	*24*
B2. overdue interest	*404*	*43*	*–*	*2*	*–*
B3. transfers from other non-performing loan categories	*1,048*	*50*	*–*	*4*	*–*
B4. other increases	*342*	*479*	*2*	*3*	*12*
C. Decreases	(3,191)	(4,466)	(1)	(109)	(721)
C1. outflows to performing loans	*(37)*	*(975)*	*–*	*(33)*	*(12)*
C2. write-offs	*(1,435)*	*(344)*	*–*	*(18)*	*–*
C3. repayments	*(1,140)*	*(1,961)*	*–*	*(40)*	*(29)*
C4. credit disposals	*(37)*	*–*	*–*	*–*	*–*
C5. transfers to other non-performing loan categories	*(47)*	*(1,047)*	*–*	*(8)*	*–*
C6. other decreases	*(495)*	*(139)*	*(1)*	*(10)*	*(680)*
D. Final gross exposure	**13,182**	**4,711**	**4**	**462**	**103**
D1. including overdue interest	*3,495*	*114*	*–*	*13*	*–*

Loans to customers - Changes in total adjustments

	Doubtful loans	Sub-standard loans	Loans under restructuring	Restructured loans	Loans subject to Country risk	Performing loans
A. Initial total adjustments	8,698	1,381	1	150	90	1,069
A1. including overdue interest	*3,283*	*81*	*–*	*9*	*–*	*2*
B. Increases	1,976	732	–	19	33	305
B1. adjustments	*1,405*	*653*	*–*	*17*	*6*	*240*
B1.1 including overdue interest	*371*	*21*	*–*	*1*	*–*	*1*
B2. use of allowances for possible loan losses	*9*	*7*	*–*	*1*	*–*	*–*
B3. transfers from other loan categories	*381*	*38*	*–*	*1*	*3*	*6*
B4. other increases	*181*	*34*	*–*	*–*	*24*	*59*
C. Decreases	(2,090)	(946)	–	(41)	(101)	(302)
C1. write-back of adjustments	*(114)*	*(113)*	*–*	*–*	*(70)*	*(57)*
C1.1 including overdue interest	*(1)*	*–*	*–*	*–*	*–*	*–*
C2. write-backs on repayments	*(311)*	*(90)*	*–*	*(2)*	*(4)*	*(16)*
C2.1 including overdue interest	*(8)*	*(6)*	*–*	*–*	*–*	*–*
C3. write-offs	*(1,435)*	*(344)*	*–*	*(18)*	*–*	*(24)*
C4. transfers to other loan categories	*(9)*	*(352)*	*–*	*(1)*	*(15)*	*(52)*
C5. other decreases	*(221)*	*(47)*	*–*	*(20)*	*(12)*	*(153)*
D. Final total adjustments	**8,584**	**1,167**	**1**	**128**	**22**	**1,072**
D1. including overdue interest	*3,420*	*93*	*–*	*12*	*–*	*3*

Breakdown and changes in goodwill

“Goodwill arising on consolidation”

	Balance as at 31/12/2002	Additions in the period	Amortisation charges	Balance as at 31/12/2003
Banca Intesa (former Cariplo)	209	–	42	167
Banca Intesa (former Mediocredito Lombardo)	5	–	1	4
Caboto Sim	7	–	1	6
Cassa di Risparmio di Ascoli Piceno	8	–	2	6
Cassa di Risparmio di Città di Castello	2	–	–	2
Cassa di Risparmio di Foligno	14	–	1	13
Cassa di Risparmio di Rieti	5	–	1	4
Cassa di Risparmio di Spoleto	11	–	2	9
Cassa di Risparmio di Terni e Narni	49	–	6	43
Epsilon Associati Sgr	4	–	1	3
Intesa Holding Asset Management	–	30	3	27
Medimurska Banka	2	–	–	2
Intesa Mediofactoring	3	–	1	2
Privredna Banka	117	–	16	101
Vseobecna Uverova Banka	176	–	19	157
Total	**612**	**30**	**96**	**546**

“Goodwill arising on application of the equity method”

	Balance as at 31/12/2002	Additions in the period	Amortisation charges	Balance as at 31/12/2003
Agos Itafinco	33	28	6	55
Banca Generali	–	70	7	63
Carinord 1	107	(107)	–	–
Charta	2	–	2	–
Intesa Vita	18	121	14	125
Lazard & Co.	–	47	5	42
Po Vita	1	–	–	1
Total	**161**	**159**	**34**	**286**

Changes in caption “Negative goodwill arising on consolidation” and in caption “Negative goodwill arising on application of the equity method”

Both negative goodwill arising on consolidation and negative goodwill arising on application of the equity method are unchanged.

Assets and liabilities: breakdown by Country

Captions/Countries	Italy	Other EU Countries	Other Countries	Total
1. Assets				
1.1 due from banks	9,462	14,769	4,306	28,537
1.2 loans to customers	133,458	7,210	14,324	154,992
1.3 securities	11,325	8,025	9,293	28,643
Total	154,245	30,004	27,923	212,172
2. Liabilities				
2.1 due to banks	8,340	9,889	13,491	31,720
2.2 due to customers	86,035	4,365	14,629	105,029
2.3 securities issued	51,098	3,889	1,672	56,659
2.4 other	8,233	237	2,223	10,693
Total	153,706	18,380	32,015	204,101
3. Guarantees, commitments and credit derivatives	52,771	28,159	24,405	105,335

Assets and liabilities: breakdown by maturity

Captions/Residual life	Specified maturity							Unspecified maturity	Total
	on demand	up to 3 months	between 3 and 12 months	between 1 and 5 years		over 5 years			
				fixed rate	floating rate	fixed rate	floating rate		
1. Assets									
1.1 treasury bills eligible for refinancing	41	192	184	1,171	68	339	1,744	–	3,739
1.2 due from banks	2,636	19,456	4,425	7	643	5	236	1,129	28,537
1.3 loans to customers	27,281	22,735	19,555	14,810	29,429	7,326	26,236	7,620	154,992
1.4 bonds and other debt securities	290	2,725	6,365	3,121	3,765	2,408	4,189	26	22,889
1.5 off-balance sheet transactions	126,286	565,101	614,748	283,819	20,995	150,708	2,635	86	1,764,378
Total	**156,534**	**610,209**	**645,277**	**302,928**	**54,900**	**160,786**	**35,040**	**8,861**	**1,974,535**
2. Liabilities									
2.1 due to banks	7,325	18,290	1,978	136	2,084	318	1,569	20	31,720
2.2 due to customers	81,265	17,831	2,373	137	993	36	145	2,249	105,029
2.3 securities issued									
– bonds	1,427	1,204	5,215	8,674	24,075	2,353	4,960	–	47,908
– certificates of deposit	240	4,437	1,609	450	699	25	112	4	7,576
– other securities	1,138	32	–	–	2	–	3	–	1,175
2.4 subordinated liabilities	123	197	904	2,703	2,264	1,636	2,776	–	10,603
2.5 off-balance sheet transactions	113,619	574,174	617,776	278,276	20,731	149,063	8,701	40	1,762,380
Total	**205,137**	**616,165**	**629,855**	**290,376**	**50,848**	**153,431**	**18,266**	**2,313**	**1,966,391**

Administrative costs

Average number of employees by categories

	2003	2002 pro forma	Changes	
			amount	%
a) Managers	936	1,009	(73)	(7.2)
b) 3RD and 4TH level officers	10,049	10,715	(666)	(6.2)
c) Other employees	51,338	53,917	(2,579)	(4.8)
Total	62,323	65,641	(3,318)	(5.1)

Number of employees by categories (figures as at 31st December)

	2003	2002 pro forma	Changes	
			amount	%
a) Managers	866	1,006	(140)	(13.9)
b) 3RD and 4TH level officers	9,434	10,664	(1,230)	(11.5)
c) Other employees	49,740	52,935	(3,195)	(6.0)
Total	60,040	64,605	(4,565)	(7.1)

Breakdown of "Administrative costs"

Payroll

	2003	2002 pro forma	Changes	
			amount	%
Payroll				
– *wages and salaries*	*2,328*	*2,443*	*(115)*	*(4.7)*
– *social security charges*	*649*	*663*	*(14)*	*(2.1)*
– *other*	*86*	*99*	*(13)*	*(13.1)*
– *termination indemnities*	*152*	*166*	*(14)*	*(8.4)*
– *pensions and similar commitments*	*109*	*112*	*(3)*	*(2.7)*
Total	3,324	3,483	(159)	(4.6)

Other

Subcaptions	2003	2002 pro forma	Changes	
			amount	%
Indirect taxes and duties	328	347	(19)	(5.5)
IT, processing and data processing services	286	271	15	5.5
Rentals and service charges - real estate	229	209	20	9.6
Expenses for consultancy fees	137	149	(12)	(8.1)
Postal, telegraphic and delivery services	94	121	(27)	(22.3)
Telephonic, teletransmission and transmission expenses	103	105	(2)	(1.9)
Legal expenses	93	101	(8)	(7.9)
Expenses for maintenance of real estate assets	19	43	(24)	(55.8)
Expenses for maintenance of furniture and machines	133	128	5	3.9
Advertising and promotional expenses	74	86	(12)	(14.0)
Transport services	63	68	(5)	(7.4)
Lighting, central heating and air conditioning	65	64	1	1.6
Printing, stationery and consumables	50	65	(15)	(23.1)
Training expenses and reimbursements to personnel	73	56	17	30.4
Security services	41	55	(14)	(25.5)
Information expenses	61	55	6	10.9
Insurance premiums	47	51	(4)	(7.8)
Cleaning services	39	42	(3)	(7.1)
Rentals of other fixed assets	29	26	3	11.5
Data storage and document processing	24	22	2	9.1
Costs for temporary personnel	5	15	(10)	(66.7)
Other costs	117	141	(24)	(17.0)
Total	2,110	2,220	(110)	(5.0)

Extraordinary income and charges

Breakdown of "Extraordinary income"

	2003	2002 pro forma	Changes amount	Changes %
Valuation of commitment for the sale of equity investments	33	280	(247)	(88.2)
Capital gains on the sale of equity investments	175	395	(220)	(55.7)
Out-of-period income and amounts not payable				
– *adjustments to commissions/charges*	*18*	*51*	*(33)*	*(64.7)*
– *adjustments to other captions of previous periods*	*30*	*42*	*(12)*	*(28.6)*
– *deferred tax assets generated in previous periods*	*61*	*35*	*26*	*74.3*
– *reversal of the allowance for possible loan losses*	*–*	*25*	*(25)*	
– *bank cashiers' cheques prescribed*	*25*	*5*	*20*	
– *other*	*176*	*189*	*(13)*	*(6.9)*
	310	347	(37)	(10.7)
Capital gains on sale of other assets				
– *branches*	*–*	*–*	*–*	
– *real estate assets*	*77*	*250*	*(173)*	*(69.2)*
– *spun-off operations*	*134*	*–*	*134*	
– *other assets*	*16*	*9*	*7*	*77.8*
	227	259	(32)	(12.4)
Valuation treasury shares/Capital gains on *Warrants Put IntesaBci* not exercised	361	1	360	
Capitalised intragroup services	21	31	(10)	(32.3)
Positive differentials on hedge contracts	70	–	70	
Reversal of excess allowances	92	54	38	70.4
Capital gains on the sale of investment securities	27	10	17	
Income on formerly-consolidated companies	–	22	(22)	
Other	35	281	(246)	(87.5)
Total	1,351	1,680	(329)	(19.6)

Breakdown of "Extraordinary charges"

	2003	2002 pro forma	Changes	
			amount	%
Valuation of *Warrants Put IntesaBci*	–	437	(437)	
Solidarity allowance as per Ministerial Decree 158/2000	287	437	(150)	(34.3)
Out-of-period expense and amounts not collectable				
– *adjustments to commission expense/charges*	*51*	*34*	*17*	*50.0*
– *adjustments to other captions of previous periods*	*31*	*36*	*(5)*	*(13.9)*
– *previous periods social security benefits*	*–*	*3*	*(3)*	
– *burglaries and robberies*	*6*	*5*	*1*	*20.0*
– *other*	*96*	*141*	*(45)*	*(31.9)*
	184	219	(35)	(16.0)
Integration and reorganisation charges	154	172	(18)	(10.5)
Losses on sale of assets	7	13	(6)	(46.2)
Losses on sale of equity investments	326	1	325	
Charges for litigations and provisions for customer restoration	55	7	48	
Losses on sale of investment securities	1	12	(11)	(91.7)
Negative differentials on hedge contracts	103	–	103	
Losses on formerly-consolidated companies	–	123	(123)	
Other	32	31	1	3.2
Total	1,149	1,452	(303)	(20.9)

Banca Intesa
Parent Company's figures
as at 31st December 2003

Banca Intesa
Reclassified statement of income

(in millions of euro)

Captions	2003	2002 pro forma [1]	Changes amount	Changes %
Net interest income	**3,116**	3,437	(321)	(9.3)
Dividends and other revenues	**611**	564	47	8.3
Interest margin	**3,727**	4,001	(274)	(6.8)
Net commissions	**1,973**	1,887	86	4.6
Profits (Losses) on financial transactions	**410**	(38)	448	
Other operating income, net	**280**	306	(26)	(8.5)
Net interest and other banking income	**6,390**	6,156	234	3.8
Administrative costs	**(3,782)**	(3,871)	(89)	(2.3)
including Payroll	***(2,123)***	*(2,215)*	*(92)*	*(4.2)*
Other	***(1,659)***	*(1,656)*	*3*	*0.2*
Adjustments to fixed assets and intangibles	**(138)**	(164)	(26)	(15.9)
Operating costs	**(3,920)**	(4,035)	(115)	(2.9)
Operating margin	**2,470**	2,121	349	16.5
Provisions for risks and charges	**(64)**	(124)	(60)	(48.4)
Net adjustments to loans and provisions for possible loan losses	**(763)**	(1,384)	(621)	(44.9)
Net adjustments to financial fixed assets	**(258)**	(1,210)	(952)	(78.7)
Income (Loss) from operating activities	**1,385**	(597)	1,982	
Extraordinary income	**450**	236	214	90.7
Income taxes for the period	**(476)**	373	(849)	
Change in the reserve for general banking risks	**–**	–	–	–
Net income for the period	**1,359**	12	1,347	

[1] Figures restated on a consistent basis.

Banca Intesa
Reclassified balance sheet

(in millions of euro)

Assets	31/12/2003	31/12/2002 pro forma [1]	Changes amount	Changes %
1. Cash and deposits with central banks and post offices	**641**	864	(223)	(25.8)
2. Loans				
– loans to customers	**112,016**	122,513	(10,497)	(8.6)
– due from banks	**33,522**	33,891	(369)	(1.1)
3. Trading portfolio	**18,705**	19,643	(938)	(4.8)
including Own shares	***1,015***	*980*	*35*	*3.6*
4. Fixed assets				
a) investment portfolio	**817**	1,288	(471)	(36.6)
b) equity investments	**13,619**	12,102	1,517	12.5
c) tangible and intangible	**1,176**	2,508	(1,332)	(53.1)
5. Other assets	**19,592**	21,023	(1,431)	(6.8)
Total Assets	**200,088**	213,832	(13,744)	(6.4)

(in millions of euro)

Liabilities and Shareholders' Equity	31/12/2003	31/12/2002 pro forma [1]	Changes amount	Changes %
1. Debts				
– due to customers	**76,964**	79,650	(2,686)	(3.4)
– securities issued	**49,087**	47,087	2,000	4.2
– due to banks	**25,755**	38,161	(12,406)	(32.5)
2. Allowances with specific purpose	**3,089**	3,169	(80)	(2.5)
3. Other liabilities	**20,080**	20,637	(557)	(2.7)
4. Allowances for possible loan losses	**–**	–	–	
5. Subordinated and perpetual liabilities	**10,368**	11,308	(940)	(8.3)
6. Shareholders' equity				
– share capital and reserves	**13,386**	13,808	(422)	(3.1)
– net income for the period	**1,359**	12	1,347	
Total Liabilities and Shareholders' Equity	**200,088**	213,832	(13,744)	(6.4)

Guarantees, commitments and credit derivatives	**79,153**	88,262	(9,109)	(10.3)
Indirect customer deposits	**213,889**	216,535	(2,646)	(1.2)

[1] Figures restated on a consistent basis.

Gruppo Intesa network

Gruppo Intesa branches in Italy

(Updated as at December 2003)

	Banca Intesa				Group banks [1]
	Retail network	Private centres	Enterprise centres	Corporate centres	
Piemonte	159	7	10	5	104
Valle d'Aosta	4				
Lombardia	724	17	36	15	110
Liguria	78	3	4	2	
Trentino-Alto Adige	9	1	2	1	62
Veneto	242	7	12	5	43
Friuli-Venezia Giulia	24	2	3	1	118
Emilia Romagna	60	5	9	3	170
Toscana	67	3	8	3	9
Umbria	9	1	2	1	110
Marche	10	1	2	1	57
Lazio	171	2	4	3	94
Abruzzo	15	1	1	1	9
Molise	2				
Campania	101	3	3	2	1
Puglia	89	2	5	2	1
Basilicata	4				1
Calabria	32	1	2	1	1
Sicilia	108	2	2	2	1
Sardegna	59	1	3	2	12
Total	**1,967**	**59**	**108**	**50**	**903**

[1] *FriulAdria, Cariparma, Banca di Trento e Bolzano, C.R. Viterbo, C.R. Rieti, C.R. Città di Castello, Intesa Mediocredito, C.R. Ascoli, C.R. Biella e Vercelli, Banca CIS, C.R. Spoleto, C.R. Terni e Narni, C.R. Foligno.*

Branches and Representative offices abroad

(Updated as at December 2003)

Europe

Belgium
Representative office in Bruxelles

Federal Republic of Yugoslavia
Representative office in Beograd

Greece
Representative office in Athens

Poland
Representative office in Warsaw

Russia
Representative office in Moscow

Spain
Representative office in Madrid

Turkey
Representative office in Ankara

United Kingdom
Branch of London

Asia

India
Representative office in Mumbai

Iran
Representative office in Teheran

Japan
Branch of Tokyo

Lebanon
Representative office in Beirut

People's Republic of China
Branch of Honk Hong
Branch of Shanghai
Representative office in Beijing

Republic of Korea
Representative office in Seoul

Latin and North America

Argentina
Representative office in Buenos Aires

Cayman Islands
Branch of George Town

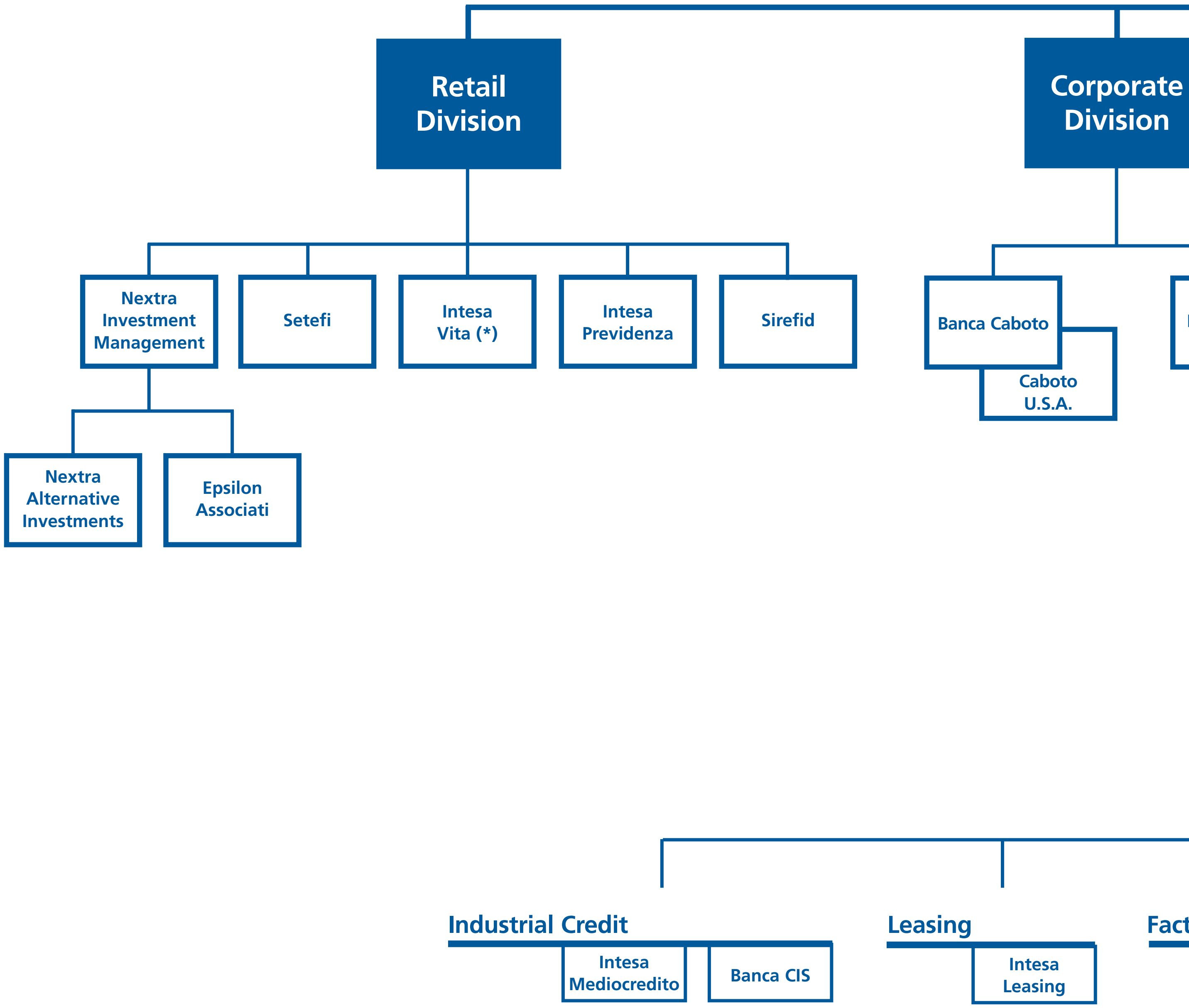
USA
Branch of New York

Africa

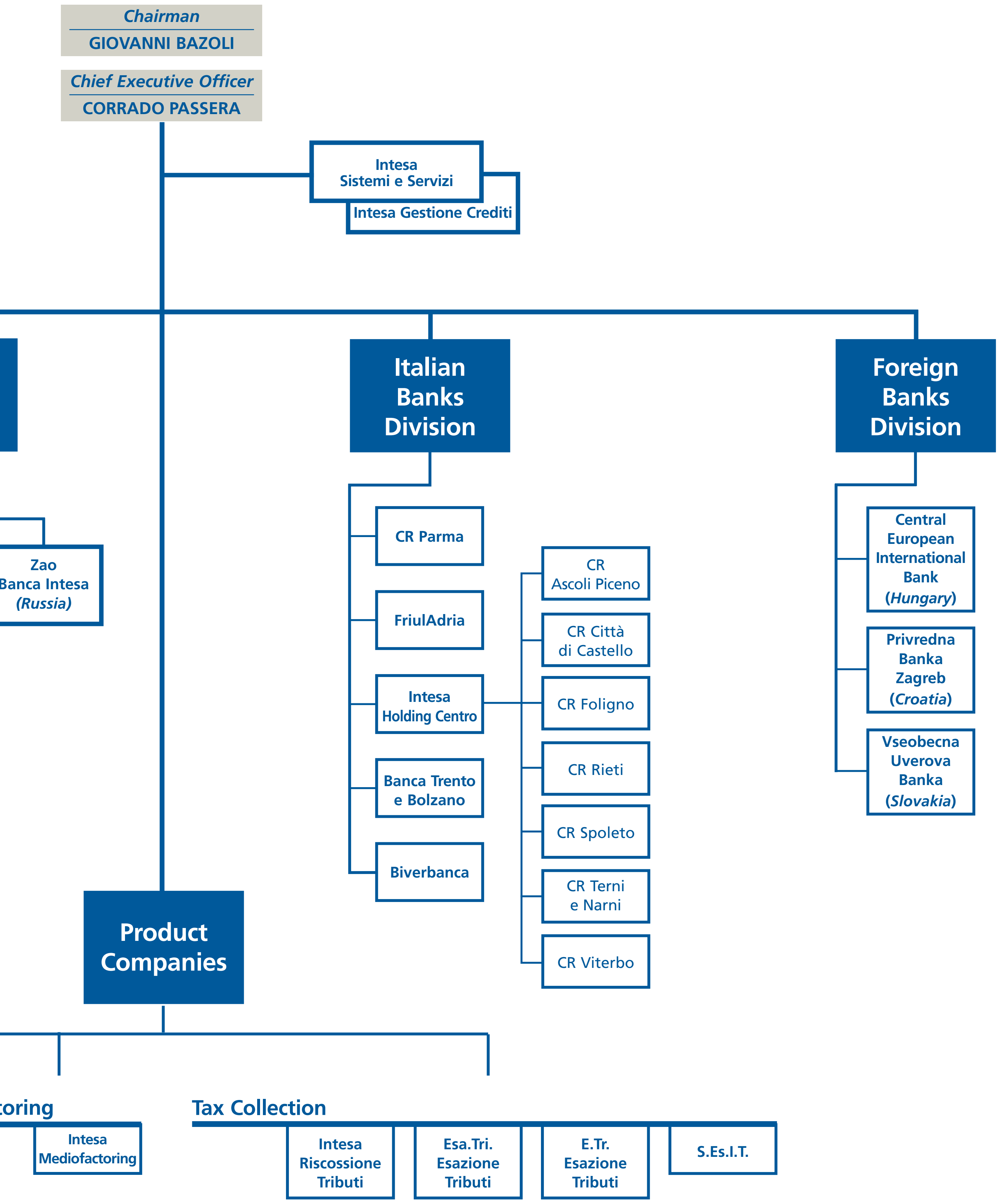
Egypt
Representative office in Cairo

Main Group Companies

Main Group Companies



(*) Company not subject to full consolidation, but carried at equity


Chairman
GIOVANNI BAZOLI
Chief Executive Officer
CORRADO PASSERA
Intesa Sistemi e Servizi
Intesa Gestione Crediti
Italian Banks Division
Foreign Banks Division
Zao Banca Intesa (Russia)
CR Parma
FriulAdria
Intesa Holding Centro
Banca Trento e Bolzano
Biverbanca
CR Ascoli Piceno
CR Città di Castello
CR Foligno
CR Rieti
CR Spoleto
CR Terni e Narni
CR Viterbo
Central European International Bank (Hungary)
Privredna Banka Zagreb (Croatia)
Vseobecna Uverova Banka (Slovakia)
Product Companies
toring
Intesa Mediofactoring
Tax Collection
Intesa Riscossione Tributi
Esa.Tri. Esazione Tributi
E.Tr. Esazione Tributi
S.Es.I.T.

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