Banca Intesa

Consolidated report as at 31st March 2004

This is an English translation of the Italian original "Relazione consolidata al 31 marzo 2004" and has been prepared solely for the convenience of the reader.

The version in Italian takes precedence and will be made available to interested readers upon written request to
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Consolidated report as at 31st March 2004

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.

Gruppo Intesa in the first quarter of 2004
Executive summary

The results for the first quarter of 2004

2004 started positively for Gruppo Intesa. Results for the first quarter confirmed the trends recorded last year and the general improvement of economic margins: with respect to the first quarter of 2003, net interest and other banking income increased by almost 3%, operating margin by almost 14%, income from operating activities by 36% and, lastly, net income for the period recorded a 34% rise to 418 million euro.
Since the trend recorded by the Italian economy did not sustain profitability in the credit market, these results must be attributed mostly to the interventions set out in the first phase of the Business Plan which have been realised during the last eighteen months: to the rationalisation of operating costs, to the improvement in loan portfolio quality, to the increased efficiency of operating structures, to the success of new products and services.

In the comparison with the first quarter of 2003, net interest income still recorded a decrease (–1.7%), which is however far lower than in the previous comparisons; considering quarterly development, the result achieved in the first quarter of 2004 is in any case the best in the last four quarters.
All the other items which make up net interest and other banking income improved. In particular, net commissions showed an appreciable rise (+5.5%) and also profits from financial transactions increased (+14%). Net interest and other banking income totalled 2,422 million euro, with a 2.8% rise with respect to March 2003.

The incidence of operating costs greatly decreased (1,440 million euro, –3.6% on the first quarter of 2003), and especially payroll dropped (–4.5%). It must also be noted that these costs are normally lower in the first part of the year and that the result for the first three months does not consider certain expenses that are already included in the budget, such as the advertising campaign which started in April, and will be recorded in the statement of income of subsequent quarters.
Operating margin almost reached 1,000 million euro, with an almost 14% rise with respect to the same period of the previous year.

Net adjustments, write-backs and provisions for risks and charges also decreased (–17.7% to 292 million euro), therefore income from operating activities for the quarter reached 690 million euro, with an approximately 36% rise with respect to the first quarter of 2003.
Equally satisfactory, as already mentioned, was the rise in net income for the period: +33.5% to 418 million euro.

Loans to customers and direct customer deposits practically confirmed the figures at the end of 2003. Loans to customers totalled 153 billion euro (–0.9%) and direct customer deposits 172 billion euro (+0.4%). Both aggregates have therefore almost completely exhausted the effects of the contraction of operations with the large corporate segment, which stemmed from a precise strategic decision set out in the Business Plan.

Indirect customer deposits, which almost reached 290 billion euro, underlined, on the one hand, the resilience of managed funds, which confirmed the positions reached at the end of last December, and on the other hand, the positive trend of assets under administration and in custody, which recorded a 1.8% growth rate.

Overall customer deposits under administration touched 462 billion euro, higher – even though only slightly – than the amount recorded at the end of the previous year.

The Business Plan

As already mentioned, the first phase of the 2003-2005 Business Plan – dedicated to the turnaround and relaunch of the Bank and the Group – was concentrated in 2003. In 2004 the restructuring actions will be completed and increasing attention will be paid to stimulating growth. An update on the implementation of the most important interventions realised in the quarter is provided below.

Asset quality and risk profile. The objective of repositioning the asset mix, with a considerable decrease in loans to large corporates and a parallel rise in the retail sector, may be considered practically achieved, with the latter coming very close to the 71% target set out in the Business Plan for 2005. The retail sector confirmed risk-weighted assets at 69% of the total.

Capital ratios. Already in 2003, interventions on loan portfolio quality together with the sale of non-strategic assets, and assets, such as real estate, which absorbed significant portions of capital, led to a marked improvement in capital ratios. As at 31st March 2004 the Tier 1 ratio equalled 8.1%, increasing with respect to December 2003, and the Core Tier 1 ratio – that is the ratio between Tier 1 capital net of preference shares and risk-weighted assets – reached 7.1%. Total capital totalled 11.7%.

Rationalisation of the foreign network: Latin America. As concerns disengagement from South America, after the disposals realised in 2003, the sale to Banco ACAC of the activities of Banque Sudameris in Uruguay was completed in April 2004, and the definitive agreement for the sale of part of customer activities of the Miami branch to BNP Paribas Investment Services was also signed in April. For the remaining operations in Paraguay, Panama and Cayman Islands negotiations are under way and are expected to be concluded in the next few months.

Sale of Intesa Bank Canada. As part of the disposal of non-strategic assets, in March of this year Banca Intesa signed the sale of Intesa Bank Canada to HSBC Bank Canada. The closing of the operation – conditional upon the necessary authorisations – is forecasted for the end of May.

Negotiations for the acquisition of Garanti Bank. At the end of March 2004 Banca Intesa and Dogus Holding signed a confidentiality agreement to negotiate Banca Intesa’s acquisition of a controlling interest in Garanti Bank, one of the most important Turkish banks. The operation is part of the strategy aimed at strengthening and developing presence in Eastern-European Countries as indicated in the Business Plan. According to the agreement Banca Intesa should initially acquire 40.05% of Garanti Bank’s voting share capital and will have a call option – exercisable for a period of 30 days after the end of the fourth full quarter following the closing of the transaction – to acquire further shares up to 9.96% of share capital. During the call option’s period of validity, Banca Intesa may also exercise voting rights on the call option’s underlying shares and therefore may exercise control over 50.01% of Garanti’s share capital already after the purchase of the 40.05% stake. The purchase price for the initial stake should be set at 1.55 times the adjusted shareholders' equity of Garanti Bank as determined by the due diligence already under way. The closing of the deal should occur within the end of September 2004.

Acquisition of Crédit Agricole Indosuez Private Banking Italia. Negotiations for the operation – authorised by the Board of Directors of Banca Intesa of 15th April 2004 – are part of the actions indicated in the Business Plan for the strengthening of Gruppo Intesa in private banking activities in Italy. The strategic alliance with the Crédit Agricole group is aimed at obtaining the best economies of scale and scope to assist the private customers of both groups in a specialised and integrated fashion, using the services of Gruppo Intesa in the Italian market and of the Crédit Agricole group in other markets. Again with this objective, the subsidiary IntesaBci Bank (Suisse) had been sold to Crédit Agricole at the beginning of 2003.

Projects for growth. Among the many projects currently under way aimed at catalysing the Group’s growth, noteworthy was the launch of numerous new products, and, especially, of *Conto Intesa*, – a current account with fixed costs which decrease if the customer holds other Banca Intesa products – that was launched in April with an intense and targeted advertising campaign. This product, designed to be transparent and inexpensive, is expected to make a significant contribution to operations development, since it is an innovative service, specifically devised to suit the household segment. Other products include: the mutual fund *Intesa Bouquet* (fund of funds) which in the first quarter already recorded a positive result; *PrestIntesa*, the personal loan for a maximum of 30,000 euro granted within 48 hours; *Mutuo Protetto*, the mortgage with a cap on the floating rate applied; lastly, *life insurance polices*, with Intesa Vita, the joint venture set up with the Generali group.

As concerns the other structural initiatives, the new branch lay-out is already being tested in certain test branches. It is destined to significantly simplify the use of numerous services, via new processes designed to meet the specific needs of the various customer segments, so to optimise service time. This innovative approach will refer to the branch's transaction and consulting services, which will be customised and easily identifiable. The branch will have specific areas where the customer may autonomously carry out an increasing number of elementary transactions, currently performed with the aid of personnel.

Human resources and the training plan.
All relaunch initiatives require the strong involvement of personnel and the fair and constant relationship with Trade Unions. The agreement for a reduction in personnel costs signed in December 2002 already manifested its effects in 2003. As a result of the activation of the "Solidarity allowance" approximately 3,500 resources exited the Group (considered in consistent terms) before 31st March 2004 with the special treatment provided for by Ministerial Decree 158 of 2000. A further 2,200 people left the Group on 1st April 2004.
Training plays a central role in the development of professional skills of human resources and is a fundamental factor to adequately support the profound changes under way. The Bank launched a plan which sets out over 800,000 man-days of training within 2005, over half of which were given before 31st March 2004.

Gruppo Intesa - Financial highlights

	31/03/2004 (A)	31/12/2003 pro forma [1] (B)	31/03/2003 pro forma [1] (C)	Change (A/B)	Change (A/C)
Statement of income (in millions of euro)					
Net interest income	1,247	4,942	1,268		(1.7%)
Interest margin	1,285	5,101	1,311		(2.0%)
Net commissions	825	3,328	782		5.5%
Net interest and other banking income	2,422	9,530	2,357		2.8%
Operating costs	(1,440)	(6,114)	(1,494)		(3.6%)
including Payroll	*(807)*	*(3,313)*	*(845)*		*(4.5%)*
Operating margin	982	3,416	863		13.8%
Net adjustments to loans and provisions for possible loan losses	(213)	(1,217)	(258)		(17.4%)
Income from operating activities	690	1,658	508		35.8%
Extraordinary income	1	198	46		(97.8%)
Net income for the period	418	1,214	313		33.5%
Balance sheet (in millions of euro)					
Loans to customers	153,208	154,578	160,957	(0.9%)	(4.8%)
Securities [2]	44,323	29,447	34,256	50.5%	29.4%
including Investment portfolio	*5,166*	*5,317*	*6,038*	*(2.8%)*	*(14.4%)*
Equity investments	4,794	4,854	4,885	(1.2%)	(1.9%)
Total assets	273,821	259,591	274,848	(5.5%)	(0.4%)
Direct customer deposits	172,473	171,865	176,450	(0.4%)	(2.3%)
including Subordinated and perpetual liabilities	*10,288*	*10,603*	*11,456*	*(3.0%)*	*(10.2%)*
Indirect customer deposits	*289,526*	*286,575*	*282,644*	*1.0%*	*2.4%*
including Managed funds	120,531	120,518	118,879	–	1.4%
Customer deposits under administration	*461,999*	*458,440*	*459,094*	*0.8%*	*0.6%*
Net interbank position	(13,670)	(3,143)	(9,719)		40.7%
Shareholders' equity [3]	14,208	15,093	13,799	(5.9%)	3.0%
Operating structure					
Staff (number)	59,910	59,882	64,154	28	(4,244)
Branches (number)	3,730	3,719	3,898	11	(168)
including Italy	3,096	3,087	3,251	9	(155)
Abroad	*634*	*632*	*647*	*2*	*(13)*

[1] Figures restated on a consistent basis.

[2] Including own shares amounting to 9 million euro as at 31st March 2004, 1,017 million euro as at 31st December 2003 and 664 million euro as at 31st March 2003.

[3] Including net income for the period.

Gruppo Intesa - Financial ratios

	31/03/2004	31/12/2004 pro forma [1]	31/03/2003 pro forma [1]
Balance sheet ratios (%)			
Loans to customers/Total assets	56.0	59.5	58.6
Securities/Total assets	16.2	11.3	12.5
Direct customer deposits/Total assets	63.0	66.2	64.2
Managed funds/Indirect customer deposits	41.6	42.1	42.1
Statement of income ratios (%)			
Interest margin/Net interest and other banking income	53.1	53.5	55.6
Net commissions/Net interest and other banking income	34.1	34.9	33.2
Operating costs/Net interest and other banking income	59.5	64.2	63.4
Net income for the period/Average total assets (ROA) [2] [3]	0.6	0.4	0.5
Net income for the period/Average shareholders' equity (ROE) [3] [4]	11.9	9.3	9.7
Risk ratios (%)			
Net doubtful loans/Total loans to customers	2.9	3.0	3.1
Cumulated adjustments on doubtful loans/Gross doubtful loans to customers	65.6	65.1	63.3
Capital ratios (%)			
Tier 1 capital/Risk-weighted assets [5]	8.1	7.8	6.8
Total capital/Risk-weighted assets [5]	11.7	11.7	11.2
Risk-weighted assets (in millions of euro) [5]	182,052	182,344	198,857
EPS – Earnings per share – euro [3]	0.24	0.19	0.20

[1] Figures restated on a consistent basis.
[2] Based upon the arithmetical average of total assets at the end of the reference periods.
[3] Figures for the period have been annualised.
[4] 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.
[5] Figures for 2003 and as at 31st March 2003 have not been restated.

Gruppo Intesa
Financial statements

Reclassified consolidated statement of income

(in millions of euro)

Captions	31/03/2004	31/03/2003 pro forma [1]	Changes	
			amount	%
Net interest income	**1,247**	1,268	(21)	(1.7)
Dividends and other revenues	**5**	22	(17)	(77.3)
Income from investments carried at equity	**33**	21	12	57.1
Interest margin	**1,285**	1,311	(26)	(2.0)
Net commissions	**825**	782	43	5.5
Profits on financial transactions	**220**	193	27	14.0
Other operating income, net	**92**	71	21	29.6
Net interest and other banking income	**2,422**	2,357	65	2.8
Administrative costs	**(1,306)**	(1,340)	(34)	(2.5)
including Payroll	***(807)***	*(845)*	*(38)*	*(4.5)*
Other	***(499)***	*(495)*	*4*	*0.8*
Adjustments to fixed assets and intangibles	**(134)**	(154)	(20)	(13.0)
Operating costs	**(1,440)**	(1,494)	(54)	(3.6)
Operating margin	**982**	863	119	13.8
Adjustments to goodwill arising on consolidation and on application of the equity method	**(32)**	(32)	–	
Provisions for risks and charges	**39**	(33)	6	18.2
Net adjustments to loans and provisions for possible loan losses	**(213)**	(258)	(45)	(17.4)
Net adjustments to financial fixed assets	**(8)**	(32)	(24)	(75.0)
Income from operating activities	**690**	508	182	35.8
Extraordinary income	**1**	46	(45)	(97.8)
Income taxes for the period	**(255)**	(225)	30	13.3
Change in the reserve for general banking risks and other reserves	**1**	2	(1)	(50.0)
Minority interests	**(19)**	(18)	1	5.6
Net income for the period	**418**	313	105	33.5

[1] Figures restated on a consistent basis.

Quarterly development of the reclassified consolidated statement of income

(in millions of euro)

Captions	2004	2003 [1]			
	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	**1,247**	**1,212**	**1,235**	**1,227**	**1,268**
Dividends and income from investments carried at equity	38	12	9	95	43
Interest margin	**1,285**	**1,224**	**1,244**	**1,322**	**1,311**
Net commissions	825	881	836	829	782
Profits on financial transactions	220	135	187	199	193
Other operating income, net	92	129	115	72	71
Net interest and other banking income	**2,422**	**2,369**	**2,382**	**2,422**	**2,357**
Administrative costs	(1,306)	(1,391)	(1,325)	(1,359)	(1,340)
including Payroll	*(807)*	*(824)*	*(818)*	*(826)*	*(845)*
Other	*(499)*	*(567)*	*(507)*	*(533)*	*(495)*
Adjustments to fixed assets and intangibles	(134)	(204)	(171)	(170)	(154)
Operating costs	**(1,440)**	**(1,595)**	**(1,496)**	**(1,529)**	**(1,494)**
Operating margin	**982**	**774**	**886**	**893**	**863**
Adjustments to goodwill arising on consolidation and on application of the equity method	(32)	(36)	(30)	(32)	(32)
Provisions for risks and charges	(39)	(51)	(20)	(103)	(33)
Net adjustments to loans and provisions for possible loan losses	(213)	(477)	(240)	(242)	(258)
Net adjustments to financial fixed assets	(8)	(177)	12	(7)	(32)
Income from operating activities	**690**	**33**	**608**	**509**	**508**
Extraordinary income (loss)	1	100	(12)	64	46
Income taxes for the period	(255)	43	(246)	(156)	(225)
Change in the reserve for general banking risks and other reserves	1	16	3	5	2
Minority interests	(19)	(16)	(25)	(25)	(18)
Net income for the period	**418**	**176**	**328**	**397**	**313**

[1] Figures restated on a consistent basis.

Reclassified consolidated balance sheet

(in millions of euro)

Assets	31/03/2004	31/12/2003 pro forma [1]	Changes	
			amount	%
1. Cash and deposits with central banks and post offices	**1,315**	1,589	(274)	(17.2)
2. Loans				
– loans to customers	**153,208**	154,578	(1,370)	(0.9)
– due from banks	**30,972**	28,487	2,485	8.7
3. Trading portfolio	**39,157**	24,130	15,027	62.3
including Own shares	***9***	*1,017*	*(1,008)*	*(99.1)*
4. Fixed assets				
a) investment portfolio	**5,166**	5,317	(151)	(2.8)
b) equity investments	**4,794**	4,854	(60)	(1.2)
c) tangible and intangible	**4,111**	4,281	(170)	(4.0)
5. Goodwill arising on consolidation	**522**	546	(24)	(4.4)
6. Goodwill arising on application of the equity method	**278**	286	(8)	(2.8)
7. Other assets	**34,298**	35,523	(1,225)	(3.4)
Total Assets	**273,821**	259,591	14,230	5.5

(in millions of euro)

Liabilities and Shareholders' Equity	31/03/2004	31/12/2003 pro forma [1]	Changes	
			amount	%
1. Debts				
– due to customers	**104,225**	104,639	(414)	(0.4)
– securities issued	**57,960**	56,623	1,337	2.4
– due to banks	**44,642**	31,630	13,012	41.1
2. Allowances with specific purpose	**5,292**	5,031	261	5.2
3. Other liabilities	**36,461**	35,242	1,219	3.5
4. Allowances for possible loan losses	**22**	24	(2)	(8.3)
5. Subordinated and perpetual liabilities	**10,288**	10,603	(315)	(3.0)
6. Minority interests	***723***	706	17	2.4
7. Shareholders' equity				
– share capital, reserves and reserve for general banking risks	**13,759**	13,849	(90)	(0.6)
– negative goodwill arising on consolidation	**29**	29	–	–
– negative goodwill arising on application of the equity method	**2**	1	1	
– net income for the period	**418**	1,214	(796)	(65.6)
Total Liabilities and Shareholders' Equity	**273,821**	259,591	14,230	5.5

Indirect customer deposits	**289,526**	286,575	2,951	1.0

[1] Figures restated on a consistent basis.

Quarterly development of the reclassified consolidated balance sheet

(in millions of euro)

Assets	2004	2003 [1]			
	31/03	31/12	30/09	30/06	31/03
1. Cash and deposits with central banks and post offices	**1,315**	1,589	1,370	1,348	1,339
2. Loans					
– loans to customers	**153,208**	154,578	155,565	160,612	160,957
– due from banks	**30,972**	28,487	36,049	33,680	33,064
3. Trading portfolio	**39,157**	24,130	26,340	31,889	28,218
including Own shares	***9***	*1,017*	*894*	*891*	*664*
4. Fixed assets					
a) investment portfolio	**5,166**	5,317	5,644	5,967	6,038
b) equity investments	**4,794**	4,854	5,108	5,137	4,885
c) tangible and intangible	**4,111**	4,281	4,444	4,514	4,568
5. Goodwill arising on consolidation	**522**	546	570	594	590
6. Goodwill arising on application of the equity method	**278**	286	285	293	250
7. Other assets	**34,298**	35,523	41,225	35,330	34,939
Total Assets	**273,821**	**259,591**	**276,600**	**279,364**	**274,848**

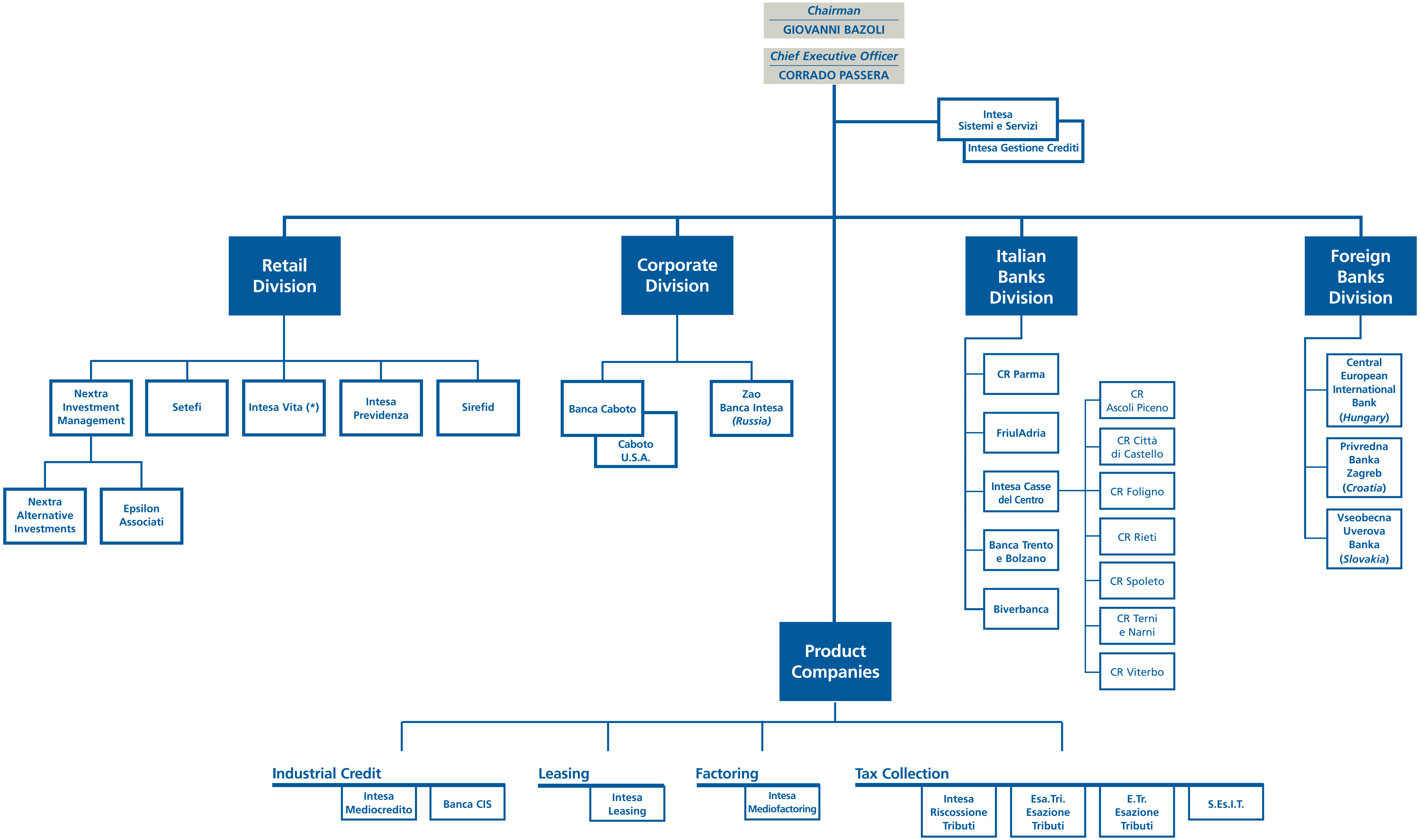
(in millions of euro)

Liabilities and Shareholders' Equity	2004	2003 [1]			
	31/03	31/12	30/09	30/06	31/03
1. Debts					
– due to customers	**104,225**	104,639	108,375	110,389	110,993
– securities issued	**57,960**	56,623	55,820	57,525	54,001
– due to banks	**44,642**	31,630	37,003	41,554	42,783
2. Allowances with specific purpose	**5,292**	5,031	5,374	5,243	5,391
3. Other liabilities	**36,461**	35,242	43,471	38,475	35,665
4. Allowances for possible loan losses	**22**	24	44	44	44
5. Subordinated and perpetual liabilities	**10,288**	10,603	11,241	11,248	11,456
6. Minority interests	**723**	706	696	671	716
7. Shareholders' equity					
– share capital, reserves and reserve for general banking risks	**13,759**	13,849	13,508	13,475	13,456
– negative goodwill arising on consolidation	**29**	29	29	29	18
– negative goodwill arising on application of the equity method	**2**	1	1	1	12
– net income for the period	**418**	1,214	1,038	710	313
Total Liabilities and Shareholders' Equity	**273,821**	**259,591**	**276,600**	**279,364**	**274,848**

Indirect customer deposits	**289,526**	286,575	291,371	288,966	282,644

[1] Figures restated on a consistent basis.

Main Group Companies



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

Report on operations

Accounting criteria and consolidation area

Accounting criteria

The Quarterly report as at 31st March 2004 was prepared in compliance with Art. 82 of Consob Regulations approved with Resolution 11971 of 14th May 1999 and amendments and reflects, on a consolidated basis, the financial statements of Banca Intesa and of its banking, financial and auxiliary subsidiaries.
This document, as is standard practice for quarterly reports, was not certified by the Independent Auditors.

The statement of income is shown in a reclassified condensed format, highlighting intermediate margins and net income. The reclassification was carried out for the purpose of greater transparency and completeness of information by using presentation criteria, widespread in the banking system, which are deemed to better define the areas in which overall profitability is generated, and changing and aggregating the contents of the captions included in the compulsory forms, according to the same principles used in the Annual report 2003. The condensed balance sheet was obtained specifying the most significant asset and liability items and grouping all the others.

Valuation criteria and consolidation methodologies have remained the same as in the Annual report 2003, to which reference must be made for further details. The quarterly situation was prepared following the discrete approach, that is each quarter is considered as an autonomous period and reflects all related economic components in the respect of prudent criteria. In addition to the ordinary elimination of intercompany balance sheet and statement of income balances, the financial statements of each company have been adjusted where necessary to make them consistent with the Group's consolidated financial statement principles.

If not otherwise stated, the amounts in this Report are expressed in millions of euro.

Area of consolidation

The only change in the Group's composition compared to as at 31st December 2003 is the exit of Intesa Bank Canada, as Banca Intesa signed a contract for its sale to HSBC Bank Canada.
The changes compared to the consolidation area as at 31st March 2003 are more important, with the exit of the subsidiaries in Brazil and Colombia and Bankhaus Löbbecke. In Italy the exits referred to Carinord 1 and Carinord 2, which respectively controlled Cassa di Risparmio di Alessandria and Cassa di Risparmio della Spezia and Cassa di Risparmio di Carrara. Conversely, the newly-established subsidiary ZAO Banca Intesa (Moscow) entered the area of consolidation.

Following the changes in the Group's consolidation area, statement of income and balance sheet figures relative to the previous periods have been restated to permit a consistent comparison.

Information on specific issues

In relation to specific issues, the actions illustrated in the Report on operations in the Annual report 2003 are confirmed. With particular reference to subsidised mortgages, since the differences on previous instalments were already ascertained by the Parent Company, during the first quarter of 2004 the relative adjustments in favour of mortgage holders have been determined and paid relatively to a first tranche of extinguished mortgages. The differences related to further extinguished financings and to a limited number of positions which have not yet been renegotiated will be ascertained in the next few months. All

amounts which may still be subject to reimbursement have been fully provisioned with a specific Allowance for risks and charges.
As already illustrated in the previous Annual reports, no provisions have been made to cover any reimbursement requests for interest calculated using the anatocism criterion.

Information regarding half-year figures as at 30th June 2004

Banca Intesa notifies that – pursuant to provisions set forth in Art. 82, par. 2, of Consob Resolution 11971 – the Half-Year Report as at 30th June 2004 will be available for Shareholders and the market within the maximum term of 75 days, instead of the quarterly report as at 30th June 2004.

Explanation added for the English translation

The financial statements have been translated into English from the original version in Italian. They have been prepared in compliance with Consob Regulations approved with Resolution 11971 of 14th May 1999 and amendments, and applying the provisions contained in Legislative Decree 87 of 27th January 1992 and in the instructions of the Governor of the Bank of Italy of 30th July 2002. Certain accounting practices applied by the Group that conform with generally accepted accounting principles in Italy may not conform with the generally accepted accounting principles in other Countries.

The macroeconomic scenario and the domestic banking system

International economy

The first months of 2004 were characterised by a widespread improvement in global economic indices, which however led to a very modest increase in employment and in inflationary pressure. Consequently, market expectations for a turnaround to more restrictive monetary policies were dissolved and medium- and long-term interest rates recorded a prevailing downward trend. At the same time, stock market indices registered modest rises. In the second quarter however the trend reversed and bond markets recorded new price reductions.

In fact, until March the American economy continued to register a significant growth rate and a modest rise in employment. Important changes later appeared, with a strong absorption of manpower and an unexpected acceleration of inflation. The Federal Reserve maintained official rates stable at 1%, also announcing to the market its intention not to move for some time. After the end of the quarter, however, signs of change in the Central Bank's attitude led markets to reflect in prices relatively imminent increases in official interest rates.

In Europe, economic recovery remained very slow, while markets expected a relaxation of monetary policy. The European Central Bank, however, maintained interest rates on main refinancing operations unchanged at 2%, awaiting developments in the economic situation. The beginning of the second quarter appeared to be characterised by an increase in economic activity. Also Central-Eastern European Countries registered a gradual recovery of economic activities, despite low exports to the European Union. Hungarian, Croatian and Slovakian currencies gained ground against the euro, which also marginally weakened against the dollar.

In Italy, data related to the first months of 2004 indicated that the economy had not yet accelerated its pace. Italian industry was seemingly particularly penalised by the appreciation of the euro and was not inclined to invest; households, constrained by their income trend, became more cautious in their spending decisions; finally, the public sector found it hard to reconcile policies to stimulate the economy with budget constraints. The recovery of indicators in March and April could however be a first sign of stability in activities and of improvement in prospects for the second quarter.

The Italian banking system

In the first quarter of 2004 the long-lasting downward trend of bank interest rates was probably concluded. Notwithstanding certain increases recorded in interest rates on loans in the first two months, on average interest rates stood at approximately the same levels reached at the end of 2003. In general, the conditions applied by the Italian banking system were virtually in line with the eurozone average [(1)], but they were more competitive on long-term loans. The moderately rising trend of lending rates and the virtual stability of funding rates led to higher spreads with customers. In particular, the spread between rates on loans with maturity under one year and rates on deposits rose from 4.60% to 4.65% in the first two months of the year.

(1) As of last November, the ECB and Eurosystem's National Central Banks started to publish new harmonised statistics on interest rates, which, starting from the beginning of 2003, involved 1,800 eurozone banks (125 in Italy). The new data, which, in Italy, since March have replaced the traditional ten-day period data, allow to compare, on a consistent basis, lending and funding rates offered to households and to non-financial companies in the various EMU Countries.

In the first quarter, performing loans granted by the Italian banking system recorded a 4.7% average annual growth rate, compared to a 6.6% average for the last three months of 2003. This trend realigned Italy to the average of the eurozone banking systems [2] and stemmed from a considerable reduction in short-term loans (–5.1% over the twelve months in March) and a strong expansion of the medium- and long-term component (+13.5%). The marked contraction of the short-term component was mostly attributable to the reduction in companies' demand for financing current assets. Medium- and long-term loans, on the contrary, recorded a constant acceleration, favoured by low interest rates and by households' preference for real assets. In addition, it is likely that the introduction of the internal rating systems set out in the new Basel agreement is strengthening companies' orientation towards longer-term loans, as already occurs in Europe.

In the period under consideration sector breakdown confirmed that the expansion in loans was mainly attributable to households: in fact loans (including doubtful loans) to this sector registered an acceleration from the beginning of the year, with a concentration on mortgaged loans and consumer credit. On the contrary, a gradual slowdown characterised the growth rate of corporate loans, affected by the extreme weakness of industrial demand (that represents almost 40% of total corporate loans), which practically registered no growth last January compared to a year earlier. Instead, loans to other producing sectors recorded sustained growth rates, particularly for enterprises operating in services other than wholesale and retail trade and in the construction industry.

In the quarter customer deposits were influenced by investors' persistingly high risk aversion and by the low opportunity cost of liquidity, which contributed to increase the weight of the "on demand" and bond components. The growth rate of the harmonised aggregate [3] remained in line with the previous months, with a 5.4% twelve-month rise registered in March, compared to a 4.7% twelve-month average growth rate recorded in the fourth quarter of 2003. With regard to contract types, current accounts showed a good growth rate: +7.6% in March on an annual basis. Bonds (including subordinated loans) recorded an even stronger growth rate (+9.2%).

Savers' rather cautious attitude towards financial markets, confirmed by the high expansion of more liquid components in banks' funding activities, led to a very weak development of indirect customer deposits, which in February (the latest data available) recorded a slight reduction on an yearly basis (–0.1% at nominal values). In the same month, the value of the component under management rose by 1.1% compared to a year earlier, presumably reflecting the marking to market of assets under management rather than the inflow of new savings.

[2] From 1998 to 2003 the twelve-month average growth in bank lending activities (including doubtful loans and repurchase agreements) in Italy remained higher than that of the eurozone: 6.7% against 5.1% in 2003.

[3] Sum of current account deposits (current accounts and bank cashiers' cheques), deposits with notice period (saving deposits), time deposits (current accounts and saving time deposits, certificates of deposit), repurchase agreements and bonds (including subordinated loans). Each contract type, with the exception of bonds, was registered on customers resident in Italy, excluding the Central Administration, in euro and foreign currencies. Bonds referred to the total value of debt securities, irrespective of holder's residence and business sector.

Economic results in the period

General aspects

After the significant recovery in profitability which occurred during 2003, due to the effective turnaround interventions taken within the framework of the Business Plan, the growth phase began in the first quarter of 2004. It pursues the objective of taking the Group's economic results to levels fitting its role in the Italian banking industry within 2005.

Despite the unfavourable economic context, Gruppo Intesa recorded, in the quarter closed as at 31st March 2004, a net income of 418 million euro, not only higher than that generated in the corresponding period of the previous year, but also higher than those achieved in the other quarters of 2003.
The improvement already showed in net interest and other banking income that recorded a 65 million euro rise with respect to the figure of March 2003. Especially the rise in net commissions and the positive effects of a 54 million euro decrease in costs determined an operating margin of 982 million euro, up by approximately 14%. A further contribution to overall profitability derived from lower net adjustments and provisions that led income from operating activities to equal 690 million euro (approximately +36%) and to the aforementioned net income for the period which, without significant extraordinary components, reflected especially the tax burden and, to a lesser extent, the attribution to minority shareholders of their portion of net income.

Interest margin

Interest margin, though still on slightly lower levels than in March 2003 (–2%), showed signs of a slowdown in the decreasing trend

(in millions of euro)

Captions	31/03/2004	31/03/2003 pro forma	Changes	
			amount	%
Net interest income with customers				
• interest income	**1,787**	2,063	(276)	(13.4)
• interest expense	**(284)**	(424)	(140)	(33.0)
• interest expense on securities issued	**(440)**	(439)	1	0.2
• interest expense on subordinated liabilities	**(134)**	(150)	(16)	(10.7)
	929	1,050	(121)	(11.5)
Interest income on securities	**311**	337	(26)	(7.7)
Net interest income with banks				
• interest income	**231**	307	(76)	(24.8)
• interest expense	**(177)**	(357)	(180)	(50.4)
	54	(50)	104	
Differentials on hedge contracts	**(58)**	(77)	(19)	(24.7)
Other net interest income	**11**	8	3	37.5
Total net interest income	**1,247**	1,268	(21)	(1.7)
Dividends and other revenues	**5**	22	(17)	(77.3)
Income from investments carried at equity	**33**	21	12	57.1
Interest margin	**1,285**	1,311	(26)	(2.0)

Net commissions

(in millions of euro)

Captions	31/03/2004	31/03/2003 pro forma	Changes	
			amount	%
Commercial banking activities	**349**	334	15	4.5
Management, dealing and consultancy	**349**	320	29	9.1
Tax collection	**53**	48	5	10.4
Other net commissions	**74**	80	(6)	(7.5)
Total net commissions	**825**	782	43	5.5

which had characterised the previous year. The policy pursued in 2003, aimed at substituting loans to large corporates, especially to foreign companies, with loans to retail customers contributed to create more balanced conditions, discounting at the same time the overall contraction in intermediated volumes. Moreover, this situation was further affected by the retard and the slowness which still characterise the weak economic recovery as well as the erosion in the spreads with respect to the first quarter of 2003, even though with reference to interest rates which are now on levels that are increasingly difficult to compress.

In fact, a more detailed analysis of the breakdown of interest margin shows that net interest income with customers recorded an 11.5% decrease to 929 million euro for the reasons mentioned above.
Interest income on securities also decreased to 311 million euro, 7.7% lower with respect to the first quarter of 2003, also as a result of the low average profitability levels on the fixed-income market.
Conversely, the policy pursued by the Group, already in 2003, to optimise asset and liability management, led due from and to banks to generate a net interest income – also considering the connected hedges, mostly referred to interbank operations – almost at breakeven, compared to a negative result of 127 million euro in March 2003. This recovery in profitability enabled to offset most of the decrease generated by operations with customers, thus leading to an overall net interest income of 1,247 million euro, with just a 1.7% reduction on the figure of March 2003.

Dividends made a more limited contribution to interest margin than in the corresponding quarter of the previous year, while income from investments carried at equity increased. Overall, the two components recorded a result of 38 million euro which was only slightly lower than in March 2003 (43 million euro).

Consolidated interest margin was attributable for approximately 52% to the Parent Company, while the rest was generated by Italian (37%) and foreign subsidiaries (11%).

Net interest and other banking income

Net interest and other banking income totalled 2,422 million euro, on the highest levels of the last four quarters, and recorded a 2.8% increase on the corresponding figure of March 2003. This result reflected the generalised increase in all revenues from intermediation and services.
In particular, as already underlined above, net commissions provided the highest absolute contribution and registered a positive growth rate (+5.5%) with respect to March 2003. Financial transactions (+14%) and other net operating income (+29.6%) also recorded positive results.

Consolidated net interest and other banking income was generated as follows: Banca Intesa approximately 50%, Italian subsidiaries 40% and foreign subsidiaries the remaining 10%.

Net commissions, which had already shown in 2003 to have overcome the difficulties related to the unfavourable market conditions, increased, in the first quarter of the current year, to 825 million euro, with a 5.5% rise on the corresponding figure of March 2003. The progress was appreciable in commissions on commercial banking activities (+4.5%) – with particular peaks recorded in current account management (+4.4%) and fees on credit and debit cards (+13%) – as well as in commissions on tax collection and even more so in commissions on management, dealing and consultancy (+9.1%). Among the latter, particular increases were recorded by dealing and placement of securities and distribution of insurance products, which both rose by approximately a third. It must be underlined that, after a long phase of weakness, there was a recovery in commissions on portfolio management (+4.5%). Lastly it must be remembered that the decrease with respect to the figure of the fourth quarter was attributable to the fourth that revenues from tax collection (contribution provided for by Law Decree 143/2003) and significant commissions connected to structured finance transactions were recorded at the end of 2003.

Profits on financial transactions

A considerable contribution to net interest and other banking income in the first quarter of 2004 again came from financial transactions which generated a 220 million euro profit, with a 14% growth rate on the figure of March 2003. The increase involved most operating areas and also reflected substantial profits connected to the trading of the option component in structured bond issues. In detail, interest rate activities – which include transactions in the bond market, in interest rate derivatives and in debt securities derivatives – led to an overall profit of 96 million euro, compared to 86 million euro of March 2003 (+11.6%). Over 60% of this contribution came from the Parent Company while the rest was generated, almost to an equal extent, by Banca Caboto and the other subsidiaries.

An even better growth rate (approximately +83% on 31st March 2003) derived from activities on equities which totalled 84 million euro, compared to 46 million euro in the corresponding quarter of the previous year. Again in this segment the highest contribution came from Banca Intesa (over 60% of the total) while Banca Caboto generated almost all the rest of the profits.
Currencies and currency derivatives recorded a net profit of 34 million euro, but instead recorded a 33% decrease with respect to the figure of March 2003. The result of this area is almost entirely ascribable to the Group's Eastern-European subsidiaries (62% of the total) while the contribution of Banca Intesa covered a quarter of the result and Banca Caboto the rest.
Credit derivatives in the trading book were on far lower levels and equalled 6 million euro (10 million euro in March 2003).

Operating margin

The increase in the Group's operating profitability occurred together with further savings in operating costs, which reached in the first quarter of 2004, the lowest level (1,440 million euro) compared to the four quarters of the previous year, highlighting, in particular, a 3.6% reduction with respect to the corresponding period of 2003. Lower costs referred to both general structure expenses and adjustments to fixed assets and intangibles.

In terms of breakdown of consolidated results, the Parent Company contributed to the formation of operating margin for approximately 46%, while the remainder was attributable to Italian subsidiaries for 47% and foreign subsidiaries for 7%.

(in millions of euro)

Captions	31/03/2004	31/03/2003 pro forma	Changes	
			amount	%
Interest rates	**96**	86	10	11.6
Equity	**84**	46	38	82.6
Foreign exchange	**34**	51	(17)	(33.3)
Credit derivatives (trading book)	**6**	10	(4)	(40.0)
Profits on financial transactions	**220**	193	27	14.0

Operating costs

The objective of containing costs was pursued by the Group effectively especially in the first quarter of the current year, with a 4.5% decrease in payroll, with a confirmation of the levels of savings reached in other administrative costs (+0.8%) and a 13% decrease in adjustments.

As concerns payroll, the reduction is mainly attributable to the implementation, carried out according to the guidelines agreed upon with Trade unions, of the staff reduction plan via the activation of the Solidarity allowance for the banking industry. Considering both this phenomenon and physiological turnover, the number of employees decreased, over the twelve months and in period-end terms, by over 4,200 units.

The trend recorded by administrative costs – 499 million euro, practically unchanged with respect to the 495 million euro of March 2003 – reflected diverse trends in the various expense captions. Decreases were recorded by costs of management of real estate assets (–9.1%) and IT expenses (–8.1%). Increases mostly involved i) advertising and promotional expenses (+45.5%), on which the Bank is investing and will continue to invest in the next few months for the launch of new products and for consolidating the Group's image, ii) indirect personnel costs (+66.7%), essentially for the continuation of the training programme set out in the Business Plan, as well as iii) legal and professional expenses for the realisation of the numerous projects currently under way.

The adjustments to fixed assets and intangibles decreased due to both the extinguishing of the normal depreciation process of certain multiannual costs and, in particular as concerns real estate assets, for the disposal of a part of the assets following the spin-off carried out at the end of the previous year.

The improvement in net interest and other banking income and effective cost containment interventions led the cost income ratio to decrease to 59.5%, considerably lower than both 64.2% of the whole of 2003, and 63.4% of the first quarter of 2003.

Income from operating activities

Income from operating activities equalled 690 million euro (approximately +36% with respect to the same period of 2003) after the registration of net adjustments and provisions to loans for 213 million euro (–17.4%), provisions for risks and charges for 39 million euro (33 million euro as at 31st March 2003), adjustments to goodwill for 32 million euro (unchanged with respect to the first quarter of 2003) and adjustments to financial fixed assets for 8 million euro (32 million euro as at 31st March 2003).

(in millions of euro)

Captions	31/03/2004	31/03/2003 pro forma	Changes	
			amount	%
Payroll	**807**	845	(38)	(4.5)
Administrative costs				
• general structure costs	**142**	129	13	10.1
• IT expenses	**91**	99	(8)	(8.1)
• indirect taxes and duties	**76**	84	(8)	(9.5)
• management of real estate assets	**80**	88	(8)	(9.1)
• legal and professional expenses	**45**	40	5	12.5
• indirect personnel costs	**20**	12	8	66.7
• advertising and promotional expenses	**16**	11	5	45.5
• other costs	**29**	32	(3)	(9.4)
	499	495	4	0.8
Adjustments to				
• intangibles	**61**	72	(11)	(15.3)
• fixed assets	**73**	82	(9)	(11.0)
Operating costs	**1,440**	1,494	(54)	(3.6)

Adjustments and provisions for credit risk, which already last year had returned to more regular levels – with the exception of the last quarter of 2003 which, as is generally known, was affected by the default of the Parmalat group, – continued in the first quarter of the current year their progressive slowdown and reached 213 million euro. This amount is the result of a 125 million euro drop in adjustments partly absorbed by lower write-backs of 83 million euro. Considering net values, the most important decreases referred to adjustments to doubtful loans (–47.2%), while a less marked percentage decline was recorded by net adjustments to substandard loans (–27.5%). Loans subject to Country risk registered significant net write-backs, especially following the important decrease in exposure to borrowers resident in Latin America, following the Group's exit from the area.
The net increase in generic provisions to cover performing loans derived from the need to adequately cover the intrinsic risk of exposures to the industrial sectors more heavily affected by the unfavourable economic context and the stagnation of consumption.

Provisions for risks and charges totalled 39 million euro, practically at the same level as that of the corresponding quarter of the previous year (33 million euro).

Adjustments to goodwill remained unchanged (32 million euro) and referred to adjustments to goodwill arising on consolidation of 24 million euro and adjustments to goodwill arising on application of the equity method of 8 million euro.

Lastly, as concerns adjustments to book value of financial fixed assets (8 million euro, net), adjustments referred, for the most significant amounts to the equity investments in Hypo Real Estate Holding (6 million euro) and in Bayerische Hypo-und Vereinsbank (3 million euro), to align their values to the book value of shareholders' equity, while the write-back essentially referred to Immobiliare Lombarda (4 million euro).

Adjustments, write-backs and provisions

(in millions of euro)

Captions	31/03/2004	31/03/2003 pro forma	Changes	
			amount	%
Net adjustments to loans				
• doubtful loans	**(28)**	(53)	(25)	(47.2)
• substandard loans	**(87)**	(120)	(33)	(27.5)
• restructured loans and loans under restructuring	**(6)**	(6)	–	–
• loans subject to Country risk	**13**	(23)	36	
• other	**(107)**	(44)	63	
Net provisions for guarantees and commitments	**2**	(9)	11	
	(213)	(255)	(42)	(16.5)
Provisions for possible loan losses	**–**	(3)	(3)	
	(213)	(258)	(45)	(17.4)
Provisions for risks and charges	**(39)**	(33)	6	18.2
Adjustments to goodwill arising on consolidation and on application of the equity method	**(32)**	(32)	–	–
Adjustments to financial fixed assets	**(12)**	(35)	(23)	(65.7)
Write-back of financial fixed assets	**4**	3	1	33.3
	(8)	(32)	(24)	(75.0)
Total, net	**(292)**	(355)	(63)	(17.7)

Income from extraordinary activities and net income

Extraordinary activities closed practically at breakeven, due to extraordinary income of 67 million euro and extraordinary charges of 66 million euro, which referred for the most important elements, to normal out-of-period income and expense as well as reorganisation charges.

Net income for the period totalled 418 million euro and, as already mentioned above, must be compared with 313 million euro of the first quarter of 2003. It is net of taxes (255 million euro) and minority interests of 19 million euro, similar to that of the comparison period.

(in millions of euro)

Captions	31/03/2004	31/03/2003 pro forma	Changes	
			amount	%
Income from operating activities	**690**	508	182	35.8
Extraordinary income	**67**	111	(44)	(39.6)
Extraordinary charges	**(66)**	(65)	1	1.5
Extraordinary income, net	**1**	46	(45)	(97.8)
Income taxes for the period	**(255)**	(225)	30	13.3
Use of allowance for risks and charges arising on consolidation	**1**	2	(1)	(50.0)
Change in the reserve for general banking risks	**–**	–	–	
Minority interests	**(19)**	(18)	1	5.6
Net income for the period	**418**	313	105	33.5

Main balance sheet aggregates

Loans to customers

Loans to customers as at 31st March 2004 equalled 153,208 million euro, practically unchanged (–0.9%) with respect to the reclassified figure at the end of the previous year.
The contraction which had characterised 2003 following the strategic decision of reducing exposure to large corporates and foreign borrowers seemed to be over. The slight negative change was mainly influenced by the extinguishment of the loan granted by Intesa Leasing to the vehicle company Intesa Lease Sec., for the sale – which occurred at the end of 2003 – of approximately 1,500 million euro of loans originated from leasing contracts. These were securitised in February of the current year with the issue of securities and the corresponding extinguishment of the aforementioned loan.

Breakdown of loans to customers shows that the practical stability of period-end figures is in actual fact the combined effect of an increase in mortgages (+2.4%), which now represent over 40% of total loans to customers, and a 4.4% decrease of advances and other loans, attributable for over half to the aforementioned securitisation. Current accounts were on similar positions as those of the end of 2003 while repurchase agreements recorded a 5.5% rise.

(in millions of euro)

Subcaptions	31/03/2004	31/03/2003 pro forma	Changes	
			amount	%
Current accounts	**21,533**	21,553	(20)	(0.1)
Mortgages	**62,839**	61,378	1,461	2.4
Advances and other loans	**61,758**	64,624	(2,866)	(4.4)
Repurchase agreements	**2,572**	2,437	135	5.5
Doubtful loans	**4,506**	4,586	(80)	(1.7)
Total loans	**153,208**	154,578	(1,370)	(0.9)
including with residents in Italy	***132,298***	*133,458*	*(1,160)*	*(0.9)*
with residents in other EU Countries	***6,567***	*7,209*	*(642)*	*(8.9)*
with residents in non-EU Countries	***14,343***	*13,911*	*432*	*3.1*

In terms of contribution to the consolidated figure, the Parent Company was responsible for 61% of loans to customers while the Group's Italian subsidiaries represented 32% and foreign subsidiaries 7%.

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 (54% of domestic customers). As concerns foreign counterparties, loans to customers not resident in Italy were granted to EU residents for approximately 32% and non-EU residents, among which Eastern-European borrowers (certain of which entered the EU last 1st May), for 68%.

Geographic areas	31/03/2004	31/12/2003 pro forma
North West	46.4%	44.9%
North East	15.3%	16.8%
Centre	14.0%	14.2%
South and Isles	10.7%	10.4%
Total Italy	**86.4%**	**86.3%**
France	0.8%	0.8%
Portugal	0.8%	0.8%
Germany	0.3%	0.3%
Spain	0.3%	0.3%
Holland	0.4%	0.4%
Belgium	0.1%	0.1%
Ireland	0.2%	0.2%
Luxembourg	0.4%	0.6%
United Kingdom	0.9%	1.0%
Other EU Countries	0.1%	0.2%
Total EU Countries	**4.3%**	**4.7%**
United States of America	1.9%	1.8%
Croatia	1.8%	2.0%
Japan	0.3%	0.3%
Brazil	0.1%	0.1%
Hungary	2.1%	1.9%
Peru	0.8%	0.8%
Slovakia	0.7%	0.7%
Other non-EU Countries	1.6%	1.4%
Total other non-EU Countries	**9.3%**	**9.0%**
Total loans to customers	**100.0%**	**100.0%**

As concerns 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. Other categories (including loans to consumer families) were also important and together were granted approximately 22% of total disbursements.

(in millions of euro)

Counterparties	**31/03/2004**	**31/12/2003 pro forma**
Governments	**2,179**	2,279
Other public entities	**3,654**	3,684
Financial institutions	**17,002**	16,908
Non-financial companies and family-run businesses	**97,050**	97,945
• *wholesale and retail trade, recovery and repairs*	***16,177***	*16,712*
• *construction and public works*	***9,554***	*9,567*
• *food products, beverages and tobacco-based products*	***3,954***	*4,033*
• *textiles, leather and footwear, clothing*	***4,026***	*4,026*
• *agricultural and industrial machinery*	***3,985***	*4,032*
• *metal products, excluding cars and means of transport*	***4,132***	*3,988*
• *energy products*	***3,245***	*3,189*
• *chemical products*	***2,683***	*2,718*
• *electric materials and supplies*	***2,030***	*2,275*
• *other industrial products*	***3,183***	*3,369*
• *agricultural and forestry products and fishing*	***3,320***	*3,161*
• *transport*	***2,260***	*2,272*
• *paper, paper products, printed products and publishing*	***1,901***	*1,920*
• *minerals and non-metal mineral based products*	***1,934***	*1,917*
• *rubber and plastic products*	***1,915***	*1,928*
• *other services for sale*	***21,685***	*22,108*
• *other non-financial companies*	***11,066***	*10,730*
Other	**33,323**	33,762
Total	**153,208**	**154,578**

Non-performing loans and Country risk

Quality of the loans to customers portfolio, considered overall, confirmed the levels of 2003, though with diverse trends recorded by the various non-performing loan categories.

Doubtful loans recorded an approximately 2% net decrease with respect to December 2003 to 4,506 million euro. The reduction, especially attributable to the lower net amounts registered by Intesa Gestione Crediti, maintained practically unchanged the percentage incidence on total loans (2.94% with respect to 2.97% at the end of the previous year). Cumulated adjustments to cover doubtful loans guaranteed a 65.6% coverage, compared to 65.1% at the end of 2003.

Conversely *substandard loans* registered a 6.4% increase, again in net terms, mostly due to their rise at the PBZ group, attributable to a different classification required by local regulations. However the sum of doubtful and substandard loans maintained its incidence on total loans to customers practically unchanged at 5.4%, compared to approximately 5.3% of December 2003. Coverage of substandard loans remained basically on the same levels as at the end of 2003.

(in millions of euro)

	31/03/2004			31/12/2003 pro forma		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
Non-performing loans	18,621	(9,962)	8,659	18,434	(9,887)	8,547
• *Doubtful loans*	*13,098*	*(8,592)*	*4,506*	*13,155*	*(8,569)*	*4,586*
• *Substandard loans*	*4,985*	*(1,217)*	*3,768*	*4,709*	*(1,167)*	*3,542*
• *Restructured loans and loans under restructuring*	*447*	*(135)*	*312*	*466*	*(129)*	*337*
• *Loans subject to Country risk*	*91*	*(18)*	*73*	*104*	*(22)*	*82*
Performing loans	145,648	(1,099)	144,549	147,103	(1,072)	146,031
Total	**164,269**	**(11,061)**	**153,208**	165,537	(10,959)	154,578

(in millions of euro)

Counterparties	31/03/2004	31/12/2003 pro forma
Financial institutions	**223**	194
Non-financial companies and family-run businesses	**6,427**	6,361
• *construction and public works*	***1,194***	*1,232*
• *wholesale and retail trade, recovery and repairs*	***1,103***	*1,127*
• *textiles, leather and footwear, clothing*	***311***	*302*
• *food products, beverages and tobacco-based products*	***406***	*409*
• *agricultural and forestry products and fishing*	***303***	*307*
• *hotels and catering*	***234***	*219*
• *metal products, excluding cars and means of transport*	***238***	*218*
• *other industrial products*	***143***	*143*
• *agricultural and industrial machinery*	***161***	*176*
• *electric materials and supplies*	***108***	*126*
• *transport*	***216***	*200*
• *communication services*	***7***	*34*
• *sea and air carriers*	***148***	*149*
• *energy products*	***42***	*45*
• *minerals and non-metal mineral based products*	***99***	*108*
• *other services for sale*	***1,258***	*1,078*
• *other non-financial companies*	***456***	*488*
Other	**1,624**	1,573
Total	**8,274**	**8,128**

The table above 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).

Restructured loans and loans subject to Country risk – though far lower in terms of amount than the other non-performing loan categories – both registered decreases (approximately 7% and 11%, respectively).

Total loans subject to Country risk – considering both on- and off- balance sheet loans – decreased in net terms to 459 million euro, with a reduction exceeding 4%. Nominal non-guaranteed exposure dropped by over 6% to 594 million euro. In terms of value at risk, exposure decreased to 488 million euro (–9%). Cumulated adjustments on loans subject to Country risk guaranteed an approximately 23% degree of coverage.

To cover performing loans there is a generic allowance of 1,099 million euro, which is deemed to be adequate – since it ensures a 0.8% coverage, net of repurchase agreements – to cover the intrinsic risk of performing positions, even if in certain cases these refer to sectors which more than others have been affected by the general economic situation.

(in millions of euro)

Countries	31/03/2004				31/12/2003 pro forma			
	Non-guaranteed exposure	**Value at risk**	**Adjustments**	**Net amount**	**Non-guaranteed exposure**	**Value at risk**	**Adjustments**	**Net amount**
Brazil	**216**	**201**	**40**	**176**	219	204	40	179
Peru	**41**	**38**	**8**	**33**	57	55	11	46
Colombia	**29**	**27**	**6**	**23**	22	22	5	17
Argentina	**97**	**97**	**59**	**38**	124	124	74	50
Dutch Antilles	**28**	**14**	**4**	**24**	33	13	4	29
Lebanon	**32**	**5**	**1**	**31**	34	6	1	33
Venezuela	**2**	**2**	**1**	**1**	2	2	–	2
Russia	**21**	**17**	**3**	**18**	23	17	3	20
Jordan	**15**	**6**	**1**	**14**	15	6	1	14
Uruguay	**8**	**5**	**1**	**7**	3	–	–	3
Indonesia	**2**	**2**	**–**	**2**	2	2	–	2
Cayman Islands	**35**	**34**	**5**	**30**	53	51	8	45
Panama	**14**	**8**	**2**	**12**	19	13	2	17
Other Countries	**54**	**32**	**4**	**50**	29	22	6	23
Total	**594**	**488**	**135**	**459**	635	537	155	480
including								
On-balance sheet loans								
– customers	***91***	***72***	***18***	***73***	*104*	*85*	*22*	*82*
– banks	***231***	***228***	***45***	***186***	*258*	*258*	*52*	*206*
– securities portfolio	***56***	***56***	***23***	***33***	*64*	*64*	*32*	*32*
Off-balance sheet loans								
– customers	***85***	***65***	***15***	***70***	*82*	*62*	*15*	*67*
– banks	***131***	***67***	***34***	***97***	*127*	*68*	*34*	*93*

Customer funds

Direct customer deposits, like loans to customers, confirmed the positions of last December and touched 172,473 million euro (+0.4%). The figure as at 31st March 2004 is the combined result of a 2.6% increase in debt securities and an opposite trend in other funding contracts.

(in millions of euro)

Subcaptions	31/03/2004	31/12/2003 pro forma	Changes	
			amount	**%**
Deposits	**10,809**	10,564	245	2.3
Current accounts and other	**80,781**	83,375	(2,594)	(3.1)
Bonds	**48,265**	47,908	357	0.7
Certificates of deposit	**8,618**	7,545	1,073	14.2
Other	**4,062**	4,348	(286)	(6.6)
Repurchase agreements	**9,650**	7,522	2,128	28.3
Subordinated and perpetual liabilities	**10,288**	10,603	(315)	(3.0)
Total direct deposits	**172,473**	171,865	608	0.4
Indirect customer deposits	**289,526**	286,575	2,951	1.0
Customer deposits under administration	**461,999**	458,440	3,559	0.8

Breakdown of deposits shows that funding via certificates of deposit increased (+14.2%), almost entirely as a result of the rise of this type of funding in the Parent Company's London branch, a further marginal rise in bond issues, which reached 48,265 million euro (+0.7), and higher repurchase agreements (+28.3%). Conversely deposits and current accounts, considered together, recorded a 2.5% decrease and subordinated and perpetual liabilities registered a 3% decline.

In terms of contribution to the consolidated figure, the Parent Company represented approximately 72% of direct customer deposits, the Group's Italian subsidiaries 17% and foreign subsidiaries 11%.

Indirect customer deposits

Indirect customer deposits underline the stronger withholding capabilities of managed funds within indirect customer deposits. Insurance products confirmed their growth capacity (+6.5%).

Assets under administration and in custody recorded an increase (+1.8%), which contributed to lead indirect customer deposits to 289.5 billion euro (286.6 billion euro as at 31st December 2003).

(in millions of euro)

Subcaptions	**31/03/2004**	**31/12/2003 pro forma**	**Changes**	
			amount	**%**
Individual portfolio management schemes	**49,405**	48,518	887	1.8
Assets managed by mutual funds	**85,378**	86,827	(1,449)	(1.7)
Insurance products	**19,731**	18,529	1,202	6.5
minus Funds from individual portfolios placed in mutual funds	**(33,983)**	(33,356)	627	1.9
Total managed funds	**120,531**	120,518	13	–
Assets under administration and in custody	**168,995**	166,057	2,938	1.8
Indirect customer deposits	**289,526**	286,575	2,951	1.0

Securities portfolio

Securities portfolio recorded a considerable increase and reached, net of treasury shares, 44,314 million euro (approximately +56%), entirely as a result of the trading portfolio (+69.4%) while the investment portfolio registered a 2.8% drop.
The expansion of the trading portfolio was aimed at both improving liquidity profile – connected to the introduction of the new internal regulation regarding liquidity management – and optimising loans to customers and due from banks. The most significant changes referred to Euro area Government securities, which are risk-free and traded in an extremely liquid market. Furthermore securities with Government or mortgaged guarantees, eligible for refinancing with the Central Bank were purchased for the purpose of achieving a more cost-effective and efficient management of settlement risk. Part of the increase was also connected to higher trading activities, in any case carried out within stringent risk limits.

Implicit capital gains in the investment portfolio were practically equal to implicit capital losses on hedge derivatives.

(in millions of euro)

Subcaptions	31/03/2004		Implicit gains/losses	31/12/2003 pro forma		Implicit gains/losses
	Book value	Market value		Book value	Market value	
Investment portfolio	**5,166**	**5,483**	**317**	5,317	5,595	278
Trading portfolio						
– Government securities	**7,117**	**7,117**	**–**	3,935	3,935	–
– Bonds and other debt securities	**25,334**	**25,497**	***163***	17,171	17,206	35
• *listed*	***10,253***	***10,253***	**–**	*6,053*	*6,053*	–
• *unlisted*	***15,081***	***15,244***	***163***	*11,118*	*11,153*	*35*
– Shares, quotas and other forms of capital	**6,697**	**6,751**	**54**	2,007	2,061	54
• *listed*	***5,988***	***5,988***	**–**	*1,399*	*1,399*	–
• *unlisted*	***709***	***763***	***54***	*608*	*662*	*54*
Total trading portfolio	**39,148**	**39,365**	**217**	23,113	23,202	89
Own shares	**9**	**9**	**–**	1,017	1,017	–
Total	**44,323**	**44,857**	**534**	29,447	29,814	367

Net interbank position

After the significant decrease in the net debt position enacted in 2003, the first three months of 2004 recorded a recovery in interbank debt, attributable to management decisions connected to the increase in the securities portfolio. The rise in the debt positions was partly made up of repurchase agreements with market counterparties.

(in millions of euro)

Subcaptions	31/03/2004	31/12/2003 pro forma	Changes	
			amount	%
Net interbank position repayable on demand				
• current accounts	**(1,190)**	(1,446)	(256)	(17.7)
• deposits	**(5,790)**	(3,264)	2,526	77.4
• other	**196**	23	173	
	(6,784)	(4,687)	2,097	44.7
Net interbank position with notice period				
• compulsory reserve requirement	**1,124**	1,112	12	1.1
• time deposits	**(10,999)**	(7,543)	3,456	45.8
• repurchase agreements	**3,422**	7,373	(3,951)	(53.6)
• other	**(433)**	602	(1,035)	
	(6,886)	1,544	(8,430)	
Net interbank position	**(13,670)**	(3,143)	10,527	

Shareholders' equity

The Group's shareholders' equity, excluding net income for the period of 418 million euro, amounted to 13,790 million euro. The table below details the variations which occurred with respect to as at 31st December 2003.

(in millions of euro)

	Share capital	Share premium reserve	Legal reserve	Other reserve	Reserves for foreign exchange differences	Reserve for general banking risks	Revaluation reserve	Negative goodwill	Net income for the period	Total Shareholders' equity
Balance as at 31st December 2003 (*)	**3,561**	**5,404**	**773**	**3,661**	**(1)**	**95**	**356**	**30**	**1,214**	**15,093**
Allocation of consolidated net income										
– Reserves				879					(879)	–
– Dividends									(330)	(330)
– Allowances for charitable contributions									(5)	(5)
Other variations										
– Free assignement of 318,486,977 Banca Intesa ordinary shares to the Shareholders				(1,013)						(1,013)
– Changes in the consolidation area				1			1	1		3
– Changes in the reserve for foreign exchange differences					42					42
Net income for the period									418	418
Balance as at 31st March 2004	**3,561**	**5,404**	**773**	**3,528**	**41**	**95**	**357**	**31**	**418**	**14,208**

(*) Official figures not restated.

N.B.: As at 31st March 2004 the caption Other reserves includes 9 million euro of Reserve for own shares.

Shareholders' equity for supervisory purposes amounted to 20,685 million euro, against risk-weighted assets of 182,052 million euro. The total capital ratio equalled 11.7% and the Tier 1 ratio 8.1%. The ratio between Tier 1 capital net of preference shares and risk-weighted assets (Core Tier 1) equalled 7.1%.

(in millions of euro)

Total capital and capital ratios	31/03/2004	31/12/2003
Total capital		
Tier 1 capital	14,700	14,292
Tier 2 capital	7,234	7,585
Items to be deducted	(1,249)	(1,233)
Total capital	20,685	20,644
Capital requirements		
Credit risks	13,240	13,390
Market risks	1,090	970
Tier 3 subordinated loans	639	647
Other capital requirements	234	228
Total capital requirements	14,564	14,588
Risk-weighted assets	182,052	182,344
Capital ratios %		
Tier 1/Total risk-weighted assets	8.07	7.84
Total capital/Total risk-weighted assets	11.71	11.68
Excess capital	**6,121**	**6,056**

The table below details the entries which allow to reconciliate the Parent Company's shareholders' equity and net income with consolidated shareholders' equity and net income.

(in millions of euro)

Items	Shareholders' equity	including net income for the period as at 31/03/2004
Parent Company's balances as at 31st March 2004	13,736	311
Effect of full and proportional consolidation	814	225
Effect of consolidation of subsidiaries carried at equity	36	37
Reversal of write-downs on equity investments	(2)	(2)
Amortisation of goodwill arising on consolidation and on application of the equity method	(830)	(32)
Use of allowance for risks and charges arising on consolidation	33	1
Allocation of consolidation differences to the value of real estate assets	233	(2)
Restatement of goodwill	(6)	1
Dividends collected during the period	–	(1)
Dividends accrued, net of fiscal effects	(125)	(125)
Other changes	319	5
Consolidated balances as at 31st March 2004	**14,208**	**418**

The Parent Company Banca Intesa

Reclassified statement of income

(in millions of euro)

Captions	31/03/2004	31/12/2003 pro forma [1]	Changes	
			amount	%
Net interest income	**783**	800	(17)	(2.1)
Dividends and other revenues	**107**	139	(32)	(23.0)
Interest margin	**890**	939	(49)	(5.2)
Net commissions	**496**	469	27	5.8
Profits on financial transactions	**126**	75	51	68.0
Other operating income, net	**59**	52	7	13.5
Net interest and other banking income	**1,571**	1,535	36	2.3
Administrative costs	**(894)**	(917)	(23)	(2.5)
including Payroll	***(519)***	*(539)*	*(20)*	*(3.7)*
Other	***(375)***	*(378)*	*(3)*	*(0.8)*
Adjustments to fixed assets and intangibles	**(26)**	(35)	(9)	(25.7)
Operating costs	**(920)**	(952)	(32)	(3.4)
Operating margin	**651**	583	68	11.7
Provisions for risks and charges	**(19)**	(16)	3	18.8
Net adjustments to loans and provisions for possible loan losses	**(174)**	(166)	8	4.8
Net adjustments to financial fixed assets	**(3)**	(37)	(34)	(91.9)
Income from operating activities	**455**	364	91	25.0
Extraordinary income (loss)	**(11)**	(15)	(4)	(26.7)
Income taxes for the period	**(133)**	(96)	37	38.5
Net income for the period	**311**	253	58	22.9

[1] Figures restated on a consistent basis (following the introduction of new tax provisions, dividends no longer include the tax credit).

Reclassified balance sheet

(in millions of euro)

Assets	31/03/2004	31/12/2003 pro forma [1]	Changes	
			amount	%
1. Cash and deposits with central banks and post offices	**552**	641	(89)	(13.9)
2. Loans				
– loans to customers [2]	**102,705**	112,016	(9,311)	(8.3)
– due from banks [2]	**40,290**	33,522	6,768	20.2
3. Trading portfolio	**29,367**	18,705	10,662	57.0
including Own shares	***2***	*1,015*	*(1,013)*	*(99.8)*
4. Fixed assets				
a) investment portfolio	**801**	817	(16)	(2.0)
b) equity investments	**13,623**	13,619	4	–
c) tangible and intangible	**1,197**	1,176	21	1.8
5. Other assets	**19,263**	19,251	12	0.1
Total Assets	**207,798**	199,747	8,051	4.0

(in millions of euro)

Liabilities and Shareholders' Equity	31/03/2004	31/12/2003 pro forma [1]	Changes	
			amount	%
1. Debts				
– due to customers [3]	**72,375**	76,964	(4,589)	(6.0)
– securities issued	**50,159**	49,087	1,072	2.2
– due to banks [3]	**37,359**	25,755	11,604	45.1
2. Allowances with specific purpose	**3,296**	2,748	548	19.9
3. Other liabilities	**20,709**	20,080	629	3.1
4. Allowances for possible loan losses	**–**	–	–	
5. Subordinated and perpetual liabilities	**10,164**	10,368	(204)	(2.0)
6. Shareholders' equity				
– share capital, reserves and reserve for general banking risks	**13,425**	13,386	39	0.3
– net income for the period	**311**	1,359	(1,048)	(77.1)
Total Liabilities and Shareholders' Equity	**207,798**	199,747	8,051	4.0

Indirect customer deposits	**215,222**	213,889	1,333	0.6

[1] Figures restated on a consistent basis.

[2] The merger of Caboto Sim in Banca Caboto led to restate, on 1st January 2004, loans to customers amounting to 6,866 million euro to due from banks.

[3] The merger of Caboto Sim in Banca Caboto led to restate, on 1st January 2004, due to customers amounting to 3,799 million euro to due to banks.

Comments

The contribution of Banca Intesa is the most significant component of consolidated figures. The statement of income and the balance sheet therefore showed trends which are consistent with those of the Group's consolidated financial statements.

Banca Intesa closed the first quarter of 2004 with a result which is significantly higher than that of first quarter of the previous year.
After the conclusion in 2003 of the turnaround and relaunch phase set out in the Business Plan, the statement of income showed the first effects of the actions aimed at stimulating growth. All the operating margins presented positive changes, with the sole exception of the interest margin, which decreased mostly as a result of the drop in dividends. Net interest and other banking income increased due to the positive trends recorded by net commissions and profits on financial transactions.
The favourable trend of operating costs, especially with reference to payroll – which benefited from staff reductions connected with the activation of the Solidarity allowance – enabled an approximately 12% growth rate in operating margin, which becomes a 25% rise for income from operating activities, due to lower net adjustments to financial fixed assets.
After recording lower net extraordinary charges, the statement of income closed with a net income for the period of 311 million euro, 23% higher with respect to the first quarter of 2003, laying positive foundations for the achievement of the further objectives forecasted for the year.

A detailed analysis of the various components which make up the statement of income showed that **interest margin** totalled 890 million euro. Even though it was still lower than in the corresponding period of the previous year (–5.2%), the margin highlighted positive signs of recovery in net interest income with respect to the previous quarters, for which the annual reduction decreased to approximately 2% also as a result of the positive contribution of interest income on securities. The still negative sign of the annual change is in any case attributable to the same reasons already illustrated in the previous quarters, and especially stemmed from the trend of average intermediated volumes and spreads which were even lower than in the reference period.
More specifically, operations with customers, which produced net interest income of 530 million euro, highlighted loan volumes which are lower than in the first quarter of 2003. As concerns in particular the domestic market, average volumes of loans to customers recorded a considerable decrease due to the significant reduction of the short-term component, especially in relation to the different classification of relations with the subsidiary Caboto, now included in interbank relations since the company was transformed into a bank as of 1st January 2004. This reduction was only partly offset by the considerable increase in medium-long term lending. The decrease with respect to the figures at the end of March 2003 in direct customer deposits (also influenced by the different classification of Caboto's relations) was instead absorbed by the substantial impulse deriving from bond issues.
As concerns foreign branches, the comparison with average volumes for the first quarter of 2003 still showed the considerable contraction of lending and deposit aggregates connected to the downsizing of the activities of the foreign network provided for in the strategic framework of the Business Plan.

Average interest rates on domestic operations, though showing a slight upward trend during the quarter, were in any case considerably lower than the level of the first three months of 2003, with a decrease in the spread, a little more significant in the medium-long term component.

Interbank positions, which as already indicated as of 1st January 2004 include the operations with Banca Caboto, provided – even considering the differentials on hedges, mainly connected with operations with banking counterparties – a positive contribution, according to the trend already outlined in the second part of 2003.

Dividends accounted for in the quarter totalled 107 million euro, with a 23% decrease with respect to the figure for the first quarter of 2003, which was restated on consistent terms following the introduction of the new regulations on the taxation of dividends collected starting from 1st January 2004, which no longer include the tax credit. Dividends from subsidiaries –

recorded in the period in which net income is generated – amounted to 102 million euro, with a 14.3% decrease with respect to the first quarter of 2003, while dividends on other equity investments and on shares, recorded on collection, amounted to 5 million euro.

Quarterly development showed the positive trend of net interest income, which compared to the fourth quarter of 2003 also benefited from a considerable contribution from interest on securities.

Net interest and other banking income equalled 1,571 million euro and recorded a 2.3% increase. Also during the first quarter of 2004, the positive trend of net commissions and profits on financial transactions more than offset the decrease recorded by interest margin.
Net commissions amounted to 496 million euro, with a 5.8% improvement on the result of the first quarter of 2003 due to the higher contribution of commissions on current accounts (+5%) as well as on dealing and consultancy (+4.8%). The latter benefited from the further progress of net revenues from the distribution of insurance products (+75%) and from placement of securities, which – after a long phase of depression connected to the adverse financial market situation – showed a 7.5% rise. Revenues from medium-long term transactions and project financing also contributed to this result.

Profits on financial transactions equalled 126 million euro, with a 68% rise with respect to the first quarter of 2003, which referred to activities in interest rates and equities. In particular, interest rate activities, which also include the effects of trading and marking to market of bond and interest rate derivatives, led to a profit of 59 million euro (20 million euro in the first quarter of 2003), while equity transactions closed with a profit of 52 million euro (ex 25 million euro). Positive, even though decreasing over the twelve months, the contribution of currencies and currency derivatives (9 million euro, ex 20 million euro) and credit derivatives in the trading book (6 million euro, ex 10 million euro). The overall result of profits on financial transactions also reflected the revenues connected to trading the option component of the structured bond issues, which led to record profits of 86 million euro.

Net interest and other banking income also benefited from *other net operating income* of 59 million euro (+13.5%), mostly made up of recoveries of expenses, taxes and duties.

The comparison with figures for the fourth quarter of 2003 confirmed the positive trend of net interest and other banking income.

Operating margin rose to 651 million euro, with an 11.7% rise on the first quarter of 2003, following the positive effect of the actions aimed at containing operating costs, which recorded an annual 3.4% decrease. The latter was mostly attributable to the considerable drop in payroll, 3.7% down, due to staff reductions, especially following the activation of the Solidarity allowance for the banking industry. More specifically, the effective reduction in the number of employees in the twelve months totalled approximately 3,000 units, while a further 2,000 people left the Bank in April 2004, again as part of the procedures set out by the aforementioned Solidarity allowance. Other administrative costs instead highlighted a more contained decrease (–0.8%) especially in relation to the charges for the new growth projects. It must be noted that the figure for the first quarter does not consider certain costs which are included in the budget – such as the cost of the advertising campaign which commenced in April – that will be recorded in the statement of income of subsequent quarters. Adjustments to both intangibles and fixed assets also decreased, the latter especially as a result of the spin-off of real estate assets finalised at the end of 2003.

The evolution with respect to previous quarters highlighted the favourable trend of operating costs, which enabled operating margin to reach a level among the highest recorded in the last period.

Lower need for adjustments and provisions (approximately –10% to 196 million euro) led **income from operating activities** to 455 million euro, with a 25% rise on the first quarter of 2003.
More specifically, net adjustments to loans recorded a 4.8% rise with respect to the first quarter of 2003, within these the incidence of components referred to doubtful loans increased, while there was a reduction in adjustments to substandard loans and to loans subject to Country risk, which instead

recorded a net write-back. The net increase in the generic allowance, to cover the intrinsic risk of performing loans equalled 76 million euro. This provision, as already underlined in previous Annual reports, also has the purpose of maintaining an adequate coverage for exposures to the sectors which were more severely hit by the adverse economic situation and the stagnation of consumption. Overall, cumulated provisions for physiological risk amounted to 612 million euro and guaranteed a 0.7% coverage of performing loans, net of due from Group companies and repurchase agreements.

Net adjustments to financial fixed assets showed a balance of 3 million euro, which was the result of adjustments of 22 million euro and write-backs of 19 million euro, compared to 37 million euro of net adjustments in the first quarter of 2003. The most significant adjustments referred to Magazzini Generali Cariplo (11 million euro), Hypo Real Estate Holding (6 million euro) and Bayerische Hipo- und Vereinsbank (3 million euro) for the prudential alignment of their carrying value to the value of shareholders' equity. The most significant write-backs referred to Intesa e.lab (9 million euro), Intesa Gestione Crediti (6 million euro) and Immobiliare Lombarda (4 million euro).

Provisions for risks and charges rose from 16 million euro to 19 million euro. The most significant amounts referred to legal disputes (9 million euro) and amounts reclaimed (6 million euro).

The result of extraordinary activities was a loss of 11 million euro, which stemmed from extraordinary income amounting to 22 million euro, mostly made up of out-of-period income and amounts not payable, and extraordinary expenses of 33 million euro, among which the most significant component, 10 million euro, referred to reorganisation charges. The result of extraordinary activities no longer included the marking to market of treasury shares, since almost all of the shares held as at 31st December 2003 were – as is generally known – assigned for free by the Shareholders' Meeting resolution of 15th April 2004. Consequently shares to be distributed were not marked to market in the financial statements as at 31st March 2004.

As already indicated above, **net income** for the period rose to 311 million euro, after taxes of 133 million euro, with an approximately 23% improvement on the result of the first quarter of 2003.

As to the balance sheet, it must be noted that as of 1st January 2004, Caboto started operating as a bank. Consequently Banca Intesa's credit and debit relations with the Group's securities house are now recorded in interbank relations and led to considerable decreases in loans to customers and customer deposits with respect to the figures of the previous reference periods which have not been restated.

As at 31st March 2004, **loans to customers** totalled 102,705 million euro, with an 8.3% decrease with respect to as at 31st December 2003 due to the drop recorded by the domestic component (–8.9%). The reduction in lending by foreign branches came to a halt compared to the end of the previous year (+4.8%), after the significant downsizing in the activities of the foreign network carried out within the strategic framework provided for by the Business Plan. Breakdown of period-end loans to customers by contract type confirmed that the captions as at 31st December 2003 were significantly affected by intercompany relations with Caboto, especially repurchase agreements (approximately –54%) and advances and other loans (–13%). This decrease was also affected by the reduction in the exposure of Intesa Leasing following the latter's collection of the consideration for the loans sold last December to the vehicle company Intesa Lease Sec., as part of the securitisation closed in February 2004. Mortgages again recorded an increase (2.5%) – sufficient to almost entirely offset the decline registered by current accounts (–5.8%) – and represented over 38% of the Bank's total loans.

As to non-performing loans, doubtful loans (1,543 million euro) highlighted a 2.2% decrease, while substandard loans (2,538 million euro) recorded a 3.6% rise. The respective cumulated provisions led to a 57% and a 24% coverage for doubtful loans and substandard loans respectively. Though from far lower absolute amounts, decreased were recorded by both restructured loans (–2.2% to 223 million euro) and loans subject to Country risk (–20.7% to 23 million euro). With reference

to the latter, it must be noted that the overall exposure, which is inclusive of interbank relations, decreased with respect to as at 31st December 2003 especially as a result of the reduction recorded in exposure to the Peruvian subsidiary and to residents in the Cayman Islands.
As already indicated above, total performing loans were covered by the generic allowance, which as at 31st March 2004 amounted to 612 million euro and is considered congruous to cover the intrinsic risk of performing loans.

Also as concerns funding, the trends recorded by aggregates were significantly affected by the different classification of relations with Banca Caboto. The practical stability of **customer deposits under administration** with respect to December 2003 (–0.6%) was the net result of the decline in direct customer deposits – attributable to the aforementioned motivation – partly offset by the recovery in indirect customer deposits. More specifically, *direct customer deposits* totalled 128,677 million euro with a 2.6% decrease, which was mostly attributable to contract types which as at 31st December 2003 included operations with Caboto, such as repurchase agreements (–13%) and current accounts and other (–5.4%), while issued bonds remained virtually stable in the quarter and recorded a moderate growth rate (+0.7%) that offset the decrease in subordinated liabilities (–2%).
Funding via the issue of certificates of deposit instead increased (approximately +23%) following the substantial funds raised by the London branch via this contract type from institutional counterparties.
Indirect customer deposits equalled 215,222 million euro and recorded an encouraging positive growth rate (+0.6%), ascribable to the favourable trend of deposits under administration (+1.3% to 139,930 million euro), while managed funds were on the levels of the end of 2003 (–0.7% to 75,292 million euro).

Securities portfolio at period-end (net of treasury shares which equalled just 2 million euro) totalled 30,168 million euro, with a considerable increase with respect to 18,507 million euro of the end of 2003. This was attributable to the rise in the trading portfolio (29,366 million euro) in relation to the strategic decisions aimed at improving the liquidity profile as already widely illustrated in the comments to consolidated results. The investment portfolio instead slightly decreased (approximately –2% to 802 million euro).
As concerns own shares, it must be noted that over 318 million shares, which made up almost all of the Bank’s treasury shares as at 31st December 2003, were assigned for free to Shareholders in April following the resolution of the Shareholders’ Meeting of 15th April. Consequently, as in the consolidated report as at 31st March 2003, the shares assigned for free were neither marked to market nor recorded.

Breakdown of consolidated results by business area

(in millions of euro)

	Retail Division		Corporate Division		Italian Banks Division		Foreign Banks Division		Product Companies		Central Structures		Total	
	1st quarter 2004	1st quarter 2003	1st quarter 2004	1st quarter 2003	1st quarter 2004	1st quarter 2003	1st quarter 2004	1st quarter 2003	1st quarter 2004	1st quarter 2003	1st quarter 2004	1st quarter 2003	1st quarter 2004	1st quarter 2003 (*)
Net interest and other banking income	**1,221**	1,128	**373**	423	**357**	342	**251**	234	**162**	159	**58**	71	**2,422**	2,357
Operating costs	**(787)**	(824)	**(134)**	(142)	**(191)**	(196)	**(157)**	(152)	**(73)**	(74)	**(98)**	(106)	**(1,440)**	(1,494)
Operating margin	**434**	304	**239**	281	**166**	146	**94**	82	**89**	85	**(40)**	(35)	**982**	863
Provisions and net adjustments to loans and financial fixed assets	**(60)**	(70)	**(40)**	(22)	**(26)**	(20)	**(25)**	(69)	**(25)**	(37)	**(116)**	(137)	**(292)**	(355)
Income (Loss) from operating activities	**374**	234	**199**	259	**140**	126	**69**	13	**64**	48	**(156)**	(172)	**690**	508
Extraordinary income (loss)	**(1)**		**(1)**		**(6)**	(1)	**3**	(6)	**3**	9	**3**	44	**1**	46
Use of allowance for risks and charges arising on consolidation/ Change in the reserve for general banking risks	**–**	–		–	**–**		**–**	–	**–**	–	**1**	2	**1**	2
Income (Loss) before taxes and minority interests	**373**	234	**198**	259	**134**	125	**72**	7	**67**	57	**(152)**	(126)	**692**	556
Rwa (billions of euro)	**56.5**	55.4	**50.0**	61.1	**21.7**	19.8	**13.1**	14.9	**24.5**	25.4	**16.2**	17.0	**182.0**	193.6
Allocated capital (billions of euro)	**3.7**	3.7	**3.0**	3.7	**1.3**	1.2	**0.8**	0.9	**1.5**	1.5	**1.0**	1.1	**11.3**	12.1
Income from operating activities on allocated capital (%)	**40.3%**	25.9%	**26.7%**	28.7%	**43.3%**	43.0%	**35.1%**	5.8%	**17.5%**	12.8%	**(64.2%)**	(62.8%)	**24.6%**	17.1%

(*) Figures for 2003 have been restated on a consistent basis.

Retail Division

The continuous enhancement of customer service and the constant search of products capable of meeting the most demanding operating needs were the key objectives driving the numerous projects and initiatives being implemented by the Retail Division. These interventions determined a significant improvement in the Division's quarterly statement of income, which recorded an operating margin of 434 million euro and an income from operating activities of 374 million euro.

The Division's net interest and other banking income also benefited from the commissions for the distribution of **Intesa Vita** insurance products placed through the branch network. Intesa Vita is a joint venture in which Banca Intesa and the Generali group each hold a 50% stake. The company closed the quarter with a net income of 8.1 million euro, collecting gross premiums of 1,193 million euro. The company's shareholders' equity equalled 1,194 million euro and technical reserves exceeded 19 billion euro.

The activities linked to asset management, supplementary pension schemes and credit cards, considering the close structural link with the other services offered to retail customers, are also part of the Retail Division.

The asset management sector reports to **Intesa Holding Asset Management** which registered a net income of approximately 12 million euro as at 31st March 2004, due to dividends, registered as accruals, related to the subsidiary **Nextra Investment Management SGR**. The latter, which operates in mutual funds/sicavs, in individual portfolio management schemes (Gpf, Gpm, Gpi), in real estate funds and in open-end pension funds, closed the first quarter of 2004 with a net income of 17.8 million euro compared to 9.8 million euro in the same period of the previous year. As at 31st March 2004 total net assets under both collective and individual management equalled 106 billion euro, unchanged from December 2003 despite a negative net collection of 2.2 billion euro in the period. The company maintained the second position in the ranking for assets in mutual funds and sicavs of the Italian asset management companies (SGR) with a 16.5% market share. Nextra Investment Management controls **Nextra Alternative Investment**, operating in hedge fund management, **Epsilon Associati**, operating in collective asset management with a quantitative approach and **Nextra Distribution Services** (formerly Prontofund Advisory) which distributes Nextra International Sicav in Italy and abroad. The three subsidiaries recorded a total net income for the period of 1.6 million euro.

Intesa Previdenza (formerly Sim Co.Ge.F.), specialised in supplementary pension funds, as at 31st March 2004 managed assets totalling 651 million euro, 490 million euro of which were related to open-end pension funds and 161 million euro to closed-end pension funds, with over 123,000 customers. Net collection for the first quarter was positive for 44 million euro. The statement of income for the first quarter closed with a net income of 0.2 million euro.

Setefi, the Group's business unit specialised in management of electronic payment systems, closed the first quarter of 2004 with a net income of 6.4 million euro, up by 7.2% with respect to March 2003, confirming the good performance of operating income. Operating figures recorded a generalised growth: the number of directly-issued or managed cards exceeded 2,200,000 units with increases compared to both as at 31st March 2003 (approximately +21%) and the end of 2003 (approximately +8%); the number of POS terminals, which handled almost 35 million transactions for a countervalue of over 2.6 billion euro, rose to 87,656 units; the transactions handled with Carta Moneta, Gruppo Intesa's credit card, recorded an approximately 11% growth rate compared to March 2003 and exceeded 8,700,000 units.

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 the first three months of 2004 the Corporate Division recorded a more contained profitability compared to a year earlier, with an operating margin of 239 million euro and an income from operating activities of 199 million euro.

In the first quarter of 2004 **Banca Caboto** confirmed its strong position in the primary bond market, despite the market's difficult phase. With regard to the secondary market, the result achieved on Government bonds was sustained by the changing expectations on interest rates and by the volatility of the yield curve. Activities on corporate bonds were affected by Italian savers' defensive attitude as a result of the Parmalat case, leading to low volumes with institutional customers and to strong sales from retail investors. In emerging markets, activities with customers in hard currency were very intense in January and then settled to more contained levels in the following months. Operations on IT channels continued their positive trend and reached a high turnover. Also activities with institutional customers in local currency registered a strong increase in volumes. Activities related to interest rate derivatives were also positive. In the first quarter, trading activities on the cash domestic stock market increased, with Caboto's market share reaching 5.18% compared to 4.13% in the first three months of 2003. Also activities related to foreign shares rose with respect to the first quarter of the previous year. In the equity derivatives sector the company confirmed its leadership in particular in Exchange Traded Funds (24% market share), Stock Futures (36%) and Single Stock Options (10.5%) exchanged in

the Idem market. With regard to the Alternative Trading System RetLots Exchange®, turnover rose by 15% over the twelve months and volumes traded on RetLots Bloomberg® more than tripled.
In the first quarter of 2004 Banca Caboto generated a net income of 18.2 million euro, compared to a net income of 35.9 million euro in the first quarter of 2003. For a correct understanding of this reduction, certain non-consistent economic components must be considered. In particular, the first quarter of 2003 benefited from revenues amounting to approximately 5 million euro generated by a single structured operation and from approximately 10 million euro resulting from the valuation of equity swaps according to the different fiscal treatment adopted for dividends. In addition to these factors, financial markets were very weak in the first quarter of 2004, also as a consequence of the known events involving certain bond issuers. Finally, a negative contribution came from higher administrative costs, mainly due to the London branch, which reached full operations during 2003, and to the cost of consultancies for the transformation into a bank as well as for the development of the IT systems.

Société Européenne de Banque (SEB), operates on the Luxembourg market through a range of activities such as establishment and management of financial companies, management of mutual funds, private banking, as well as banking activities servicing corporate customers. In the first quarter of 2004, the subsidiary recorded a net income of 3.3 million euro, with an approximately 13.5% increase on the same period of 2003.

Intesa Bank Ireland continued to perform its activities in the wholesale banking sector, where significant reductions in the exposure towards large multinationals were implemented during 2003. The quarter closed with a net income of 5.1 million euro, compared to 9 million euro in the first quarter of the previous year.

ZAO Banca Intesa, the newly-established subsidiary in Russia, started operations in December 2003. Its customers are Italian enterprises already present in the area or intending to operate in that important market. Start-up costs led to a net loss for the period amounting to 1 million euro.

Foreign branches, after the phase of rationalisation and redefinition of operations completed during 2003, performed their activities serving Italian corporate customers in the areas of respective responsibility. These activities were supported by the widespread network of Representative offices, strengthened during the quarter by the start of operations in the Madrid and Tunis Offices.

Italian Banks Division

The Italian banks part of the Group refer to this Division, which operates in co-ordination with the Retail Division in order to optimise any possible commercial and efficiency synergy.
Overall profitability of the Group's Italian banks improved, with an operating margin of 166 million euro and an income from operating activities of 140 million euro.

In the first quarter of 2004 **Cassa di Risparmio di Parma e Piacenza** achieved very positive results**.** Net income amounted to 46 million euro, with a 10.6% increase on the first quarter of 2003, mainly determined by revenues. More in detail, higher intermediated volumes, both for loans to customers (+13%) and for direct customer deposits (+5%) more than offset the contraction in spreads, thus net interest income rose by 1.5% to approximately 95 million euro. The significant increase in net commissions (+15%) led to a further improvement in net interest and other banking income (+5.7% to 172 million euro). Notwithstanding the slight rise in operating costs – attributable to a more marked recovery in investment programmes – operating margin exceeded 91 million euro, with an 8.8% rise. Net adjustments and provisions were in line with the first quarter of 2003.
Balance sheet results highlighted amounts in line with the end of 2003, both in loans to customers (9.9 billion euro), and in direct customer deposits (11 billion euro), while indirect customer deposits recorded an appreciable increase (+3.7% to 22.3 billion euro).

Banca Popolare FriulAdria closed the first quarter of 2004 with a net income of 7.9 million euro, with a slight decline compared to 8.7 million euro recorded in the same period of 2003. More in detail, interest margin (29 million euro) was practically unchanged from the first quarter of 2003 (–0.8%), while the growth of net commissions (+12%) and profits on financial transactions (+25%) led to a 5% increase in net interest and other banking income (53,4 million euro). These results, coupled with the favourable trend of operating costs (–0.9%), allowed to absorb higher net adjustments to loans, required by the deterioration of certain positions. The adoption of the procedure set out in Ministerial Decree 158/2000 to activate the Solidarity Allowance influenced the result from extraordinary activities which recorded a loss of 3.2 million euro. The balance sheet highlighted loans to customers of 2,999 million euro (+4.3% from 31st December 2003) and direct customer deposits of 2,755 million euro (+1.4%). Indirect customer deposits at 5,012 million euro recorded a slight decline (–1.7%) from the end of 2003.

In the first three months of 2004 **Banca di Trento e Bolzano** registered a net income of 3.7 million euro, up by approximately 12% from 3.3 million euro recorded in the first quarter of the previous year. Interest margin and net interest and other banking income were in line with the first quarter of 2003 (standing at 11.1 million euro and 19.8 million euro respectively). The rise in net income was generated mainly through the effective containment of operating costs, down by 2.2% to 13.5 million euro, which determined a 3.3% increase in gross operating margin. Lower net adjustments and provisions led to a 6% rise in income from operating activities to 5.7 million euro. Compared to the end of 2003, the main balance sheet aggregates highlighted a sustained growth of loans to customers (approximately +6% to 1,600 million euro), financed by the contraction of the securities portfolio and by the higher recourse to the interbank market. With regard to funding activities, direct customer deposits decreased (–4.5% to 1,528 million euro), indirect customer deposits recorded a slight decline (–1.3%) entirely attributable to the component under administration and in custody while managed funds recorded a progress of 1.7%.

Cassa di Risparmio di Biella e Vercelli (Biverbanca) closed the quarter with positive results. The statement of income highlighted a rising interest margin (+4.4% to 17.8 million euro), while net interest and other banking income slightly decreased (approximately –1%) because of lower profits on financial transactions. The significant contraction in operating costs (–6%), particularly in personnel costs linked to the activation of the Solidarity Allowance, led to a 5.7% increase of operating margin, which was however absorbed by higher net adjustments and provisions. Therefore the statement of income closed with a net income of 5.2 million euro, down from 6.9 million euro in the first quarter of 2003.
As to the balance sheet, loans to customers amounted to 1,844 million euro and consolidated the position reached in December 2003 (+0.3%), whereas direct customer deposits rose to 2,190 million euro (+3.4%). Also indirect customer deposits increased (2,885 million euro, +3.2%), with regard both to the component under administration and in custody (+3.1%) and to the managed funds component (+3.3%).

The Saving Banks in Central Italy, controlled through **Intesa Casse del Centro**, the new corporate name of Intesa Holding Centro, in general registered higher results compared to the same period of the previous year. Almost all operating margins improved, as a result of i) higher income from operating activities, ii) containment of structure costs, and iii) lower net adjustments and provisions.
In detail, each Saving Bank registered the following net income for the period: Cassa di Risparmio di Viterbo, 4.6 million euro (ex 0.9 million euro); Cassa di Risparmio di Ascoli Piceno, 3.4 million euro (ex 3.2 million euro); Cassa di Risparmio di Terni e Narni, 2.5 million euro (ex 1.6 million euro); Cassa di Risparmio di Rieti, 2.5 million euro (ex 1.5 million euro); Cassa di Risparmio di Spoleto, 1.8 million euro (ex 1.5 million euro); Cassa di Risparmio di Foligno, 1.6 million euro, unchanged; Cassa di Risparmio di Città di Castello, 0.6 million euro (ex 0.4 million euro).
Also with regard to balance sheet figures, aggregates as at 31st March 2004, compared to the end of 2003, showed a virtual stability of loans to customers (3,752 million euro; –0.7%), and an increase in direct customer deposits (5,302 million euro; +1.6 %) and in indirect customer deposits (+1.3% to 4,653 million euro).

Foreign Banks Division

The expansion of the Group's operations in Eastern-European markets and the gradual withdrawal from the South-American area improved, although with certain remaining critical points, the overall economic performance of the foreign banks network. In fact, the Division closed the first quarter of 2004 with an operating margin of 94 million euro and an income from operating activities of 69 million euro.

Eastern Europe

The Hungarian economy, despite a slight slowdown also in the first quarter of 2004, recorded a rise in GDP from the previous quarter. The robust domestic demand widened the import surplus increasing the trade deficit. Inflation evidenced a slight rise compared to the same period a year earlier while, after the turbulence of 2003, the florin showed a practical stability.
Also in the first quarter of 2004, the **Central-European International Bank (CIB)** group recorded satisfactory results due to the positive contribution of interest margin and higher commission income. Consolidated net income for the period rose to 14.7 million euro, with an approximately 17% increase on the same period a year earlier. The expansive strategy adopted by CIB was also confirmed by balance sheet aggregates, with an over 9% increase from the end of 2003, both for loans to customers, which reached 3,536 million euro, and for direct customer deposits, that rose to 2,465 million euro.

Also the Croatian economy showed signs of slowdown mainly because of the contraction in domestic consumption. Nevertheless, the growth of GDP remained at appreciable levels and the exchange rate of the local currency against the euro remained virtually stable. Inflation recorded a slight rise even if it remained within 2%.

The **Privredna Banka Zagreb (PBZ)** group continued to strengthen its market position and profitability, mainly leveraging on the quality of services offered to customers. Consolidated results for the first quarter of 2004 exceeded 24 million euro and registered an approximately 21% increase on the corresponding figure in 2003. Higher revenues were mainly attributable to income from services, particularly related to trading activities and net commissions.
Loans to customers rose to 3,148 million euro (+2.1% from the end of 2003) and direct customer deposits were stable at 3,680 million euro.

In the first quarter of 2004 the Slovakian economy confirmed the good results achieved in 2003, with a GDP always exceeding 4%. Also positive were the main economic indicators such as inflation, down from December 2003, and the public finance deficit, that decreased more than expected. In this context the **Vseobecna Uverova Banka (VUB)** group recorded a consolidated net income of 13.3 million euro, with an approximately 24% increase from the same period of 2003. This result was mainly due to the increases registered in net commissions and in profits on financial transactions.
Balance sheet aggregates, compared to the end of 2003, confirmed the figure related to direct customer deposits (3,694 million euro) and the continuation of the expansion of loans to customers which, after the considerable rise in 2003, evidenced an increase exceeding 3% to 1,334 million euro.

The other geographic areas

The moderate growth of the Peruvian economy registered during 2003 showed a certain slowdown in the first quarter of 2004, even though it still remained positive. The general economic context induced to a moderate optimism.
The subsidiary **Banco Wiese Sudameris (BWS)**, even if it had not completely solved the problems which heavily penalised its performance in the previous years, showed signs of recovery also favoured by the restructuring interventions implemented by the Parent Company. A more realistic reading of the economic results of the BWS group must consider the currency effect related to the significant devaluation of the local currency, which is linked to the US dollar, against the euro (–12% over twelve months). On consistent terms, the first quarter of 2004, compared to the same period of the previous year, registered a modest drop in interest margin (–1.6%), balanced by the rise in net commissions, which led to a 3.4% increase in net interest and other banking income and to a 5% increase in operating margin, despite a moderate rise in operating costs. Noteworthy was the halving of net adjustments and provisions which, even after the net loss from extraordinary activities, concurred to limit to 1.4 million euro the loss contributed to the Group's consolidated financial statements.
Balance sheet aggregates recorded loans to customers for 1,193 million euro (1,205 million euro as at 31st December 2003) and direct customer deposits for 1,864 million euro (1,832 million euro as at 31st December 2003).

The subsidiary **Banque Sudameris SA**, Paris, after the disposal of most of the equity investments held in the South-American area, remained with the equity investment in Paraguay and certain direct branches, which however are being closed after the sale of their assets/liabilities.

The direct consequence of the said disposals – which have been illustrated in detail in previous Reports – was a gradual reduction in operations and in the related income from operating activities. Decreases were recorded by i) costs for the structure, which had been consequently streamlined, and ii) the overall balance of adjustments/write-backs and of various provisions, which net had an almost immaterial effect. After the results from extraordinary operations, the positive contribution to Gruppo Intesa's consolidated financial statements amounted to 1.9 million euro.
Balance sheet aggregates evidenced loans to customers of 268 million euro (ex 374 million euro) and direct customer deposits of 966 million euro (ex 1,003 million euro).

Banca Intesa (France), established through the merger – completed on 1st September 2003 – of the pre-existing Banca Commerciale Italiana (France) and Banca Intesa (France), operates, with particular attention to the corporate sector, as reference bank for the Italian enterprises operating in France and offers a range of diversified services, like the other Gruppo Intesa companies present in the rest of the world. The quarter closed with a net income of 4 million euro, against a total loss of approximately 4 million euro recorded in the first quarter of 2003 by the two separate companies.

Product companies

Product companies play a key role in favouring and supporting the Group's growth and their activities cover the operating areas of medium- and long-term lending, leasing, factoring and tax collection. These sectors evidenced a trend that was, on the whole, positive, allowing the Division to close the period with an operating margin of 89 million euro and an income from operating activities of 64 million euro.

Notwithstanding the economic situation which continued to be characterised by companies' low propensity to invest in innovation and technology, **Banca Intesa Mediocredito** recorded positive results also in the first quarter of 2004. In fact, the period closed with a net income of 21 million euro, with an approximately 15% increase with respect to the first quarter of 2003. The analysis of the statement of income evidenced a virtual stability of interest margin (+0.3% to 50 million euro), which benefited from the dividends of the subsidiary Banca CIS. The slight rises in the negative balance of net commissions and in operating costs determined a decline in operating margin, to 40 million euro (–2.6%), entirely absorbed at the level of income from operating activities (+9.1% to 28.5 million euro) due to lower net adjustments to loans (–23%).
As to the balance sheet, the small reduction in loans to customers compared to December 2003 (–1.3% to 13,461 million euro) was connected to the focusing of activities on longer-term operations and covered by real guarantees. As to liabilities, the company continued to obtain funding from the Parent Company to cover requirements and to decrease securities issued (–0.9% to 1,662 million euro).

Banca CIS closed the statement of income for the first quarter of 2004 with a net income of 2.8 million euro, considerably lower than that recorded in the first quarter of 2003, which however included extraordinary revenues derived from the sale to Banca Intesa of the retail business, within the project aimed at rationalising company operations. Furthermore, the reduction in interest rates and the cessation of the revenues connected with the sale of retail activities in the first quarter of 2003 determined a contraction of interest margin, down to 8.5 million euro (approximately –14%), and, consequently, of net interest and other banking income, which equalled 11.9 million euro (–7.2%), due to the positive trend of net commissions (approximately +20%). Notwithstanding actions aimed at containing operating costs (–1.2%) and lower adjustments to loans (approximately –10%), income from operating activities decreased by 17%.
With regard to the balance sheet, loans to customers evidenced figures in line with December 2003 (1,123 million euro, –0.6%), while direct customer deposits decreased by approximately 14%. Indirect customer deposits were unchanged from the end of 2003.

In the first quarter of 2004 **Intesa Leasing** stipulated 4,739 new contracts totalling 507 million euro, with an increase both in number (+30%) and in new investments (+23%) compared to the same period of 2003. The portfolio of leased assets – including those assets with loans transferred through the securitisation structured in the third quarter of 2003 – totalled, net of the relevant adjustments, 6,206 (+2.2% from 31st December 2003), while the credits connected to leasing operations amounted to 4,909 million euro (+1.8% from 31st December 2003). The statement of income closed with a net income of 8.2 million euro, down from 8.7 million euro in the first quarter of 2003 due to lower revenues determined by the completion of the securitisation. Net financial income, instead, amounted to 8.1 million euro against 7.3 million euro recorded in the same period a year earlier (+10.8%).

Intesa Mediofactoring, closed the first quarter of 2004 with a net income of 10.1 million euro, with a considerable increase (+63%) compared to 6.2 million euro in the first quarter of 2003. The statement of income recorded improvements in all operating margins. More in detail, the rise in interest margin (approximately +10%), was attributable to improved spreads, whilst non-interest income, approximately 5% higher, benefited from the positive trend of commissions (+3.3%) and from lower operating charges. These factors led to an over 7% increase in net interest and other banking income, which, together with the substantial drop in operating costs (–8%) and lower adjustments and provisions, determined the considerable progress of operating margin (+45%). These results were achieved despite a decreasing turnover in the period (approximately –7% compared to the first quarter of 2003) and lower loans (approximately –9% from the end of 2003), in the framework of the portfolio re-qualification process which had already characterised the previous year.

The tax collection sector continued to be characterised by the uncertain situation already evidenced in the Report to the 2003 financial statements. In fact, the legislative provision, aimed at the reorganisation of the sector, which should have included the resumption of the compensation for tax collection activities at the level of 2003, has not been issued yet. However the uncertainties on the evolution of the regulative context did not affect the activities of **Intesa Riscossione Tributi** and of its subsidiaries **Esa.Tri., E.Tr.** and **S.Es.I.T.** Even if legal provisions have not been issued, the tax collection holding company closed the quarter with a net income of 4 million euro, against the loss of 1.2 million euro in the same period of 2003 due to i) higher revenues from coercive collection activities, ii) tight control of operating costs, and iii) a reduction in financial charges. The quarter closed with a positive result for all subsidiaries (3.7 million euro for Esa.Tri., 1.6 million euro for E.Tr., 0.2 million euro for S.Es.I.T.) with higher revenues from tax collection activities, a virtual stability of operating costs and a marked drop in financial charges.

Central structures

The central structures, namely the Parent Company's Central Units and the Service Companies, have the task of sustaining and favouring ongoing processes aimed at achieving growth and improvement.

Intesa Sistemi e Servizi (ISS), the company in charge of all information and communication technology activities for Banca Intesa and for certain Group companies, continued the development and implementation of IT systems, in connection with numerous projects under way within the Business Plan. In line with the pricing policy adopted towards its customers, all within the Group, the company closed the quarter with a net income of 0.2 million euro.

Intesa Gestione Crediti (IGC) has the mission, exclusively within the Group, to increase profitability and effectiveness in the management and recovery of non-performing loans, acquired from Group banks or still in their books.
The company closed the first quarter of 2004 with a net income of 6.1 million euro, compared to 4.2 million euro in the same period of the previous year.
During the period under consideration no loans were acquired from Group companies. As at 31st March 2004 IGC held a nominal portfolio amounting to approximately 9.5 billion euro, while the doubtful loan portfolio under management amounted to 6.2 billion euro. In the period the company recorded 98.2 million euro of repayments on the proprietary doubtful loan portfolio, including write-backs of adjustments and write-backs of repayments of 21.8 million euro, as well as 104.8 million euro of repayments on the doubtful loan portfolio under management from Group companies, including 21.8 million euro on Intesa SEC NPL's portfolio.

Risk control

Market risk

As indicated in the previous reports, market risks of Banca Intesa and of Banca Caboto are measured daily, and limits assigned to operating units are monitored with the same frequency.

Banca Intesa

As at 31st March 2004 VaR [1] (assuming a 99% confidence level and a one working day holding period) of Banca Intesa's trading portfolio totalled 13.8 million euro. The figure referred to Banca Intesa's trading positions, in Italy and in the foreign branches of London, New York and Hong Kong. In the quarter the risk profile changed with reference to the equity and foreign exchange rates markets.
The most important stress event was the trend recorded by the European stock markets due to the terrorist attack of Madrid last March, with the consequent rally of implicit volatilities and the reduction of risk diversification effects.
Likewise, the increase in volatility of foreign exchange markets, in particular of the euro-dollar exchange rate which represents the most important segment of forex activity, offered opportunities for higher dynamism in portfolio management notwithstanding the allocated limits.
Estimated risk on the portfolios of the Foreign branches was very contained and was mostly related to the management of foreign exchange risk, while interest rate and equity risks remained marginal. In the operations managed by the trading rooms in Milano equity risk referred to both proprietary trading activity on domestic and European markets and the negotiation of investments in funds.

(in millions of euro)

Value at risk (VaR) of the trading portfolio of Banca Intesa		
Risk factors	**31/03/2004**	**31/12/2003**
Interest rate	4.80	4.20
Equity	10.00	7.30
Foreign exchange	0.70	0.30
Total (*)	**13.80**	**10.40**

(*) The sum of individual values is greater than the total because the method used to aggregate the risks of individual activities takes into account the correlations that exist between the different risk factors.

Banca Caboto

With regard to Banca Caboto, VaR (again assuming a one working day holding period and a 99% confidence level) showed a marked increase at the end of the quarter to 2.83 million euro. The figure reflected i) the calculation of linear risks of the entire portfolio using the same methodology applied to Banca Intesa, ii) with the addition, for the equity structured products at the London branch, of the non-linear risk component (gamma-vega), and iii) for the remaining part of the portfolio, of a further non-linear risk component, calculated with the Mark-to-Future (MTF) methodology via time-series simulation. The calculation model

(1) VaR is the maximum possible loss on a portfolio determined by the market, given a certain probability and assuming that positions require a set time to be liquidated.

(in millions of euro)

Value at risk (VaR) of the trading portfolio of Banca Caboto		
Risk factors	**31/03/2004**	**31/12/2003**
Interest rate	1.28	0.69
Equity	0.90	0.49
Volatility (MTF)	0.87	0.87
Total (*)	**2.83**	**1.89**

(*) The sum of individual values is greater than the total because the method used to aggregate the risks of individual activities takes into account the correlations that exist between the different risk factors.

was validated by the Bank of Italy last December, and is part of the quarterly reporting of capital for supervisory purposes to cover market risks.
Equity risk, net of the aforementioned structured equity portfolio, was mostly due to arbitrages on the stock market (which make a modest contribution to the risk of Banca Caboto's entire portfolio). Interest rate risk stemmed from market making on interest rate derivatives and on the bond markets; it increased in January, and then again in March, as a result of the higher volatilities observed on such markets. In this area the most significant component was non-Government securities, mainly issued by Italian financial institutions. Exposure to emerging Countries remained limited.
Weekly stress tests are carried out on the whole portfolio; among these, the correlation stress (which involves the equity portfolio, as well as the interest rate derivatives book) confirmed to be the most significant and showed at the end of March a potential loss of 1.57 million euro.

Credit risk

In the first quarter Banca Intesa continued activities aimed at analysing and monitoring large corporate clients which, on a weekly basis, allows to verify the credit risk of every corporate customer, providing an analysis of the geographic and sector composition of the portfolio, as well as its breakdown in terms of rating, spread and default frequency. This type of monitoring is combined with the overall risk index which is applied to single entities (Synthetic customer risk index), aimed at the early identification of potentially critical situations and the activation, according to predefined rules, of the Watchlist loans process.
As concerns large international clients managed by the foreign network, in the last quarter there was a significant improvement in the average quality of the loan portfolio, estimated using the Expected default frequency of borrowers (EDF), which was at an investment grade equivalent level and equalled 0.71%. The improvement with respect to the weighted average EDF of December, that totalled 1.17%, was the combined effect of the reduction in the portion of speculative customers and the marked contraction in average risk inside that same class.
Agency and internal ratings showed conversely a practical stability in portfolio quality, though accompanied by a slight increase in the speculative component.

With regard to Credit derivatives, a CreditVaR analysis of the overall portfolio (banking and trading) of Credit Default Swaps (CDS) is produced monthly. The adopted methodology is based on the simulation of the value of the portfolio exposed to credit risk in presence of numerous scenarios of counterparty creditworthiness and underlying assets. As at 31st March 2004 CreditVaR of the portfolio (assuming a one day usage period and a 99% confidence level) amounted to 0.6 million euro. The sole trading component is monitored daily using: time-series simulation for the calculation of Value at Risk (SpreadVaR); expected shortfall and mark to market, due to the oscillations of the spread. As at 31st March 2004 SpreadVaR (assuming a one working day holding period and a 99% confidence level) amounted to approximately 0.6 million euro (with oscillations in the quarter between 400 and 600 thousand euro). The risk profile remained stable with a slight increase in March due to stock market volatility which led to higher spreads volatility.

Operational risk

Banca Intesa is implementing an operational risk management system, focused on the identification of methodologies and instruments which enable it to calculate exposure both for regulatory and internal purposes via the identification of areas of particular vulnerability.

The model combines qualitative and quantitative information. The qualitative component is focused on the definition of the risk profile of each unit through the assessment of significant scenarios. The quantitative component is instead based on statistic models containing historical loss data. The use of the Internal Model led to the determination of the capital at risk to be allocated to each of the Group's operating units and its integration in the performance valuation system: the estimated figure for Banca Intesa is, to date, of a few hundred million euro.

Shareholder base and Banca Intesa's stock price performance

Shareholder base

The table below shows Banca Intesa's shareholder base, updated following the free assignment of Banca Intesa ordinary shares resolved upon the Shareholders' Meeting of 15th April 2004. Reference shareholders, which are part of a Voting syndicate, hold 45.91% of the Bank's ordinary shares (40.77% is vested in the Syndicate); approximately 195,000 shareholders hold 54.08%; the remaining 0.01% is represented by treasury 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.	876,110,007	191,313,552	1,067,423,559	14.81	18.04
Fondazione CARIPLO	535,485,244	19,093,075	554,578,319	9.05	9.38
GENERALI group	340,781,182	17,581,873	358,363,055	5.76	6.06
including					
• Assicurazioni Generali	50,806,355	–	50,806,355		
• Alleanza Assicurazioni	198,363,282	67,201	198,430,483		
• other companies	91,611,545	17,514,672	109,126,217		
Fondazione CARIPARMA	254,375,410	6,139,792	260,515,202	4.30	4.40
"Gruppo Lombardo"	204,839,873	4,112,353	208,952,226	3.46	3.53
including					
• Banca Lombarda e Piemontese	139,963,274	204,336	140,167,610		
• I.O.R. (*)	42,917,536	3,908,017	46,825,553		
• Mittel	21,959,063	–	21,959,063		
Commerzbank A.G.	200,290,976	65,642,610	265,933,586	3.39	4.5
Total Shareholders in the Syndicate	**2,411,882,692**	**303,883,255**	**2,715,765,947**	**40.77**	**45.91**
Total other Shareholders	–	3,199,213,508	3,199,213,508		54.08
Own shares	–	727,771	727,771		0.01
Total	**2,411,882,692**	**3,503,824,534**	**5,915,707,226**		**100.00**

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

As is generally known, on 11th April 2000 the main Shareholders of Banca Intesa signed a Voting syndicate which modified and/or integrated the one stipulated on 15th April 1999. The agreement is designed to censure continuity and stability of management policies regarding the activities of Banca Intesa and its subsidiaries and to guarantee the Banking group's independence and managerial autonomy in the future.

None of the parties to the Agreement may individually control the Company. The Syndicate operates through: a) the *General Meeting*, comprising representatives of the parties to the Syndicate and which meets to consider any matter of common interest relating to the management of Banca Intesa and its subsidiaries; b) the *Management Committee*, which is composed by a number of members equal to the number of parties forming the Syndicate, plus a Chairman, if not elected among the Committee members. The Management Committee establishes Group budget, policies and strategies, financial reporting and dividend policies, capital increases, mergers, changes to the Company's Articles of Association, acquisitions and divestments of controlling interests and of financially or strategically significant businesses and, generally speaking, it expresses its view – in advance – on all relevant decisions for Banca Intesa and its subsidiaries. Furthermore, it appoints the Chairman, the Managing Director and/or the General Manager of Banca Intesa and the Chairmen, the General Managers and the Managing Directors of the principal subsidiaries; c) the *Chairman*, elected by the Management Committee, by an absolute majority of syndicated holdings. The transfer of the syndicated shares is subject to pre-emption, with the exception of the transfer in favour of parent, subsidiary or sister companies as well as for the transfer of shares syndicated within "Gruppo Lombardo". The Agreement expires on 15th April 2005 and it will be tacitly renovated every three years, save for cancellation six months before the expiry date.

Stock price performance

The first quarter of the year was negatively affected by the fact that the expected economic recovery did not materialise, by the deterioration of the geopolitical situation and by the consequences of the Parmalat default. In this context, especially problematic for the banking system, the Italian stock market recorded a modest 1.9% progress from the beginning of the year, in line with the European markets trend. The banking sector generally underperformed the market: Italian banks closed the quarter with a 6.4% decrease, significant more than the decline of European banks (–1% from the beginning of 2004).
After a positive 2003, the Banca Intesa ordinary share closed the first quarter of the year with a 13.2% decline, underperforming both the market as a whole and the banking sector. The Banca Intesa saving share instead recorded a 5.7% decrease, thus reducing its discount with respect to the ordinary share to 20% from 27% of the end of 2003.

Significant subsequent events

The significant events which occurred between the end of the quarter and the approval of this report are described in the Introduction to this report, in addition to those no events occurred capable of significantly affecting management strategies or which may produce appreciable economic effects on the Group's results.

Projections for the whole year

The Executive summary mentioned that the positive trend recorded in the first quarter is mostly attributable to i) the results produced by interventions on costs and on credit quality, ii) increased efficiency of operating structures, and iii) new products. All three, for their very nature, produce lasting effects.

It is therefore possible to forecast for the entire year a further progress in economic results with respect to 2003, in line with the commitments made in the strategic plan.

The Board of Directors

Milano, 11th May 2004

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