Banca Intesa

Consolidated report as at 30th September 2004

This is an English translation of the Italian original "Relazione consolidata al 30 settembre 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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Banca Intesa

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Consolidated report
as at 30th September 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

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Board of Directors,
Board of Statutory Auditors
General Management
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*

General Management

General Manager	Corrado Passera

Board of Statutory Auditors

Chairman	Gianluca Ponzellini
Auditors	Paolo Andrea Colombo Franco Dalla Sega Bruno Rinaldi Carlo Sarasso

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

Gruppo Intesa in the third quarter of 2004

Executive summary

Results for the first nine months

Operations development in the third quarter confirmed the positive trends evidenced in the accounts in the first six months of the year, with a further improvement in operating margin (+12%) and a strong increase in net income which in the first nine months of the year reached 1,341 million euro, with a 29% rise with respect to the same period of the previous year.

Over the twelve months, net revenues recorded a 1.6% growth rate, despite the general economic situation and market trends did not favour the development of credit intermediation and financial transactions. It must also be noticed that overall growth was still affected by the policy aimed at reducing exposure to large corporates (down by 7 billion euro in the period) which was accompanied by a rise of similar amount in loans to the retail sector.

Considering the various captions of net interest and other banking income, while a small decrease in net interest income remained between the two periods under comparison, the other net revenue components all recorded a positive sign, especially commissions on services, up by 3.7%, thanks to the good result of placement of insurance policies and securities.

On the cost side, the effects of staff reductions and the interventions on other administrative costs were confirmed with an overall 4.5% decrease with respect to 30th September 2003, which determined a 12% growth rate in operating margin that almost reached 3 billion euro.

Adjustments and provisions affected the accounts to a far lower extent with respect to the previous year (–17%), due to both the decrease in net adjustments to loans (–14%), and in provisions for risks and charges (–32%). The rise in income from operating activities was therefore confirmed at approximately 30%.
Also considerable was the increase in net income which reached 1,341 million euro as at 30th September 2004, with an over 300 million euro improvement on the result of the same period of 2003 (+29%).

Quarterly development of the statement of income is consistent with that of previous periods, even though it was influenced in some components by seasonal factors.
After the decrease in the second quarter of the year, net interest income recommenced to grow, exceeding for the first time after many quarters, 1,250 million euro.
Commissions decreased, even though slightly, due to the lower contribution in the quarter of tax collection activities, while the forecasted decrease in profits on financial transactions is attributable to the fact that structured bonds issued by the Bank no longer made their contribution, following the decision to change the structure of option components and therefore not to realise any more up-front revenues.

A seasonal effect is instead present in the third quarter in the decrease in administrative costs, for which it is reasonable to forecast a moderate rise in the last part of the year. In conclusion however, total operating costs in 2004 should in any case be lower than in 2003, even significantly lower.

The satisfactory stability of revenues and cost decrease led operating margin in the third quarter to exceed one billion euro.
Thanks to adjustments and provisions for risks and charges which were lower than in previous periods, quarterly income from operating activities was far higher than in previous periods and almost reached 800 million euro.

Equally positive was net income for the quarter, which equalled 465 million euro, despite higher extraordinary charges and a heavier tax burden.

As concerns the balance sheet, loans to customers, with over 154 billion euro, confirmed the same levels as December 2003, though with a different mix deriving from the drop in the large corporates component – which decreased due to the aforementioned reduction policy – and the greater development of the retail component. As concerns the trend recorded by the aggregate, this was also affected by the securitisation of leasing contracts, as illustrated hereafter. Direct customer deposits instead booked a 3.6% rise to 178 billion euro, especially following the increase in issued bonds and repurchase agreements.
Indirect customer deposits confirmed the figure at the end of 2003 and almost reached 288 billion euro (+0.6%), customer deposits under administration recorded a rise exceeding 4% while managed funds decreased by roughly the same amount. Overall, the Group's customer deposits under administration reached 466 billion euro, with a 1.7% rise on the figure as at 31st December 2003.

The Business Plan

A brief update on the progress of the most important interventions set out by the 2003-2005 Business Plan is provided below, greater details will be contained in the 2004 Annual report and in the new 2005-2007 Business Plan, which – as scheduled – will be presented to Shareholders and to the market in Spring 2005.

Asset quality and risk profile. The shift of risk-weighted assets towards the retail business and the Italian market (from 53% of December 2001 to 71%) continued in the first nine months of 2004; the downsizing of operations in the large corporate and foreign market areas may now be considered complete.

Capital ratios. At the end of September 2004 capital ratios were at the levels set out in the forecasts contained in the Business Plan. In fact, the Tier 1 ratio totalled 8.6% with a rise both with respect to June 2004 (+31 b.p.) and to December 2003 (+73 b.p.), while the Core tier 1 ratio, that is the ratio between Tier 1 capital net of preference shares and risk-weighted assets, reached 7.6%. In July, as a confirmation of the positive trend recorded by capitalisation, the international agency Standard & Poor's raised the rating given to Banca Intesa from A- to the current A for long-term debt and from A-2 to A-1 for short-term debt, with a stable outlook.
Moody's improved Banca Intesa's outlook from stable to positive.

Rationalisation of the foreign network and of the equity investment portfolio. As already described in the Half-year report, as part of the disposal of non-strategic assets, during 2004 Banca Intesa signed a contract for the sale of Intesa Bank Canada to HSBC Bank Canada. The closing of the operation occurred on 31st May, at a price in line with carrying value.
As regards the sale of the assets of Sudameris Group, during 2004 Banca Intesa and BNP Paribas signed the agreement for the sale of the assets of the branch in Miami (USA) of Banque Sudameris, which is currently under way, with a consideration which is based on the customer assets under management transferred to BNP Paribas Investment Services.

In the first part of 2004 the assets and liabilities of the branches of Banque Sudameris in Panama and Grand Cayman were also sold, while in April the sale to Banco ACAC of the activities of Banque Sudameris in Uruguay was closed. Moreover, at the end of June Banco Sudameris Paraguay Saeca was sold to the Abbeyfield group. Finally, noteworthy are the stipulation of sales contracts for Caridata and for the real estate assets of Magazzini Generali Fiduciari Cariplo.

Projects for growth

New strategic initiatives. In line with the objective set out in the Business Plan of creating a Bank dedicated to private customers, Banca Intesa in the third quarter finalised the acquisition of Crédit Agricole Indosuez Private Banking Italia. The relative activities and skills have been added to those which were already present within the Group, thus creating **Intesa Private Banking**, the bank specialised in serving private customers and integrated in the

Retail Division, which may count on 375 private bankers and 65 private centres which serve the over 23,000 customers, with total deposits exceeding 30 billion euro. The organisational model enables to seize all the advantages typical of a specialised structure, at the same time exploiting the synergies with the over 2,000 branches of the Retail Division and the close relations that Gruppo Intesa has with over 800,000 Italian enterprises. The distinctive feature of Intesa Private Banking – which will be fully operational as of 1st January 2005 – is the flexibility in the relationship offered to the customer who maintains his/her reference private banker and may continue to use the operating capabilities of the Bank's branches as well as access a full range of financial products and services produced by both Gruppo Intesa and outside companies. The new structure wants to represent a reference point for its customers not only for financial issues. Its service range therefore also includes the following services: investment-related legal and tax consulting, fiduciary and legal entity advisory, real estate and art advisory.

To strengthen the presence of Banca Intesa in the Central-Eastern European area ***ZAO Banca Intesa Moscow*** started operations at the end of 2003. It is the only Italian bank with an operating licence in Russia and assists Italian companies already present in the area and those interested in operating in this important market, by favouring trade and investments between the two Countries.

The collaboration relations between our Group and the Generali group have been developed further with a new joint venture, called VUB Generali, which will operate in the pension funds market that is emerging in Slovakia and was set up by the respective subsidiaries in that Country, each with a 50% stake.

Finally, to support Italian companies in their import-export activities in other continents, important collaboration agreements with the Asian Development Bank and the African Export-Import Bank were signed last May.

Among the other projects aimed at pursuing the growth objectives the interventions for the rationalisation and enrichment of the **product portfolio** and the improvement of the effectiveness of production processes continued.

As already illustrated in the Half-year report, Progetto Arcobaleno (the Rainbow project), the new sales platform for the improvement of sales effectiveness and service quality, was rolled out to the entire network. Enhanced service quality is also pursued via the renewal of the structure of the branches. In fact, a new branch lay-out has been designed and is being tested. It simplifies customer access to bank services and facilitates the tasks of branch personnel.

Starting from the second quarter communication campaigns for two of the new key products targeted to the household segment were launched on all medias: the first, *Conto Intesa* is the new easy-to-use, transparent and advantageous current account, that enables the use of quality services, with a cost that is stable over time and decreases as the number of Banca Intesa products held by the account-holder increases. *Prestintesa* is instead an innovative personal loan which combines speed and simplicity of granting, extreme transparency in terms and the safety offered by the possibility of combining it with an insurance coverage. The new radio and press campaign for *Conto Intesa Business* commenced in September. *Conto Intesa Business* is the new current account targeted to the small business segment, which serves the needs of retailers, artisans and free-lance professionals characterised, among other things, by i) the incentives for the customer as the value of the relationships with the Bank increases, ii) transparency in conditions and a blocked fee until 2007, and iii) scalability, for the possibility of purchasing at reduced costs additional products and services. *Conto Intesa Personal* is instead an innovative current account with tailor-made solutions dedicated to customers searching for personalised solutions at a cost which recognises the value of investments at the Bank, and that enables access to innovative services, such as an integrated cash flow statement.

Dedicated to all SMEs with turnover between 2.5 and 50 million euro, *IntesaNova* finances companies which wish to acquire new packages and solutions in the Information & Communication Technology sector or which want to develop innovative projects in technologies specific to their sector. The new project started

implementation in the Machine Tools industry and will gradually be extended to all industries. Banca Intesa offers funding without real guarantees and at more favourable conditions – via specific credit lines – for the projects prepared by the company and validated by eminent partners such as Milano Polytechnic, Torino Polytechnic, Trento University – coordinated by Fondazione Politecnico di Milano. Other Universities will also be involved in the future.
The collaboration with these large university centres enables to define a company's innovation capacity, which becomes an additional element in the Bank's creditworthiness valuation.

Human capital

Personnel management and the training plan. As part of personnel qualification activities, in the first nine months of 2004, approximately 250,000 man-days of training were performed. Approximately 63% of the total 800,000 man-days indicated in the aforementioned Business Plan had therefore already been delivered as at 30th September 2004.
Considering a consistent consolidation area, in the first nine months of 2004 staff decreased by 2,047 units, which is the net result of the exits as provided for by Ministerial Decree 158 of 2000 and normal personnel turnover.

Financial highlights

	30/09/2004 (A)	31/12/2003 pro forma [1] (B)	30/09/2003 pro forma [1] (C)	% change (A/B)	% change (A/C)
Statement of income (in millions of euro)					
Net interest income	**3,709**	4,936	3,726		(0.5)
Interest margin	**3,871**	5,103	3,871		–
Net commissions	**2,524**	3,322	2,434		3.7
Net interest and other banking income	**7,258**	9,514	7,142		1.6
Operating costs	**(4,291)**	(6,080)	(4,492)		(4.5)
including Payroll	***(2,364)***	*(3,295)*	*(2,475)*		*(4.5)*
Operating margin	**2,967**	3,434	2,650		12.0
Net adjustments to loans and provisions for possible loan losses	**(628)**	(1,180)	(728)		(13.7)
Income from operating activities	**2,135**	1,721	1,645		29.8
Extraordinary income (loss)	**(70)**	131	78		
Net income for the period	**1,341**	1,214	1,038		29.2
Balance sheet (in millions of euro)					
Loans to customers	**154,291**	154,544	155,500	(0.2)	(0.8)
Securities [2]	**39,969**	29,432	31,966	35.8	25.0
including Investment portfolio	***5,303***	*5,316*	*5,644*	*(0.2)*	*(6.0)*
Equity investments	**4,856**	4,908	5,136	(1.1)	(5.5)
Total assets	**264,450**	259,527	276,452	1.9	(4.3)
Direct customer deposits	**177,938**	171,799	175,308	3.6	1.5
including Subordinated and perpetual liabilities	***9,960***	*10,603*	*11,241*	*(6.1)*	*(11.4)*
Indirect customer deposits	**287,991**	286,373	291,157	0.6	(1.1)
including Managed funds	***115,601***	*120,836*	*123,679*	*(4.3)*	*(6.5)*
Customer deposits under administration	**465,929**	458,172	466,465	1.7	(0.1)
Net interbank position	**(4,571)**	(3,177)	(988)	43.9	
Shareholders' equity [3]	**15,109**	15,093	14,576	0.1	3.7
				Change (amount) (A/B)	**Change (amount) (A/C)**
Operating structure					
Staff (number)	**57,352**	59,399	60,064	(2,047)	(2,712)
Branches (number)	**3,709**	3,709	3,795	–	(86)
including Italy	***3,086***	*3,087*	*3,169*	*(1)*	*(83)*
Abroad	***623***	*622*	*626*	*1*	*(3)*

[1] Figures restated on a consistent basis.
[2] Including own shares amounting to 4 million euro as at 30th September 2004, 1,017 million euro as at 31st December 2003 and 894 million euro as at 30th September 2003.
[3] Including net income for the period.

Financial ratios

	30/09/2004	31/12/2003 pro forma [1]	30/09/2003 pro forma [1]
Balance sheet ratios (%)			
Loans to customers/Total assets	**58.3**	59.5	56.2
Securities/Total assets	**15.1**	11.3	11.6
Direct customer deposits/Total assets	**67.3**	66.2	63.4
Managed funds/Indirect customer deposits	**40.1**	42.2	42.5
Statement of income ratios (%)			
Interest margin/Net interest and other banking income	**53.3**	53.6	54.2
Net commissions/Net interest and other banking income	**34.8**	34.9	34.1
Operating costs/Net interest and other banking income	**59.1**	63.9	62.9
Net income for the period/Average total assets (ROA) [2] [3]	**0.7**	0.4	0.5
Net income for the period/Average shareholders' equity (ROE) [3] [4]	**12.7**	9.3	10.7
Risk ratios (%)			
Net doubtful loans/Total loans to customers	**2.8**	3.0	3.1
Cumulated adjustments on doubtful loans/Gross doubtful loans to customers	**67.8**	65.2	64.2
Capital ratios (%)			
Tier 1 capital/Risk-weighted assets [5]	**8.6**	7.8	7.2
Total capital/Risk-weighted assets [5]	**11.9**	11.7	11.1
Risk-weighted assets (in millions of euro) [5]	**178,819**	182,344	193,440
EPS – Earnings per share – euro [3]	**0.26**	0.19	0.21

[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 30th September 2003 have not been restated.

Gruppo Intesa
Financial statements

Reclassified consolidated statement of income

(in millions of euro)

Captions	30/09/2004	30/09/2003 pro forma [1]	Changes amount	Changes %
Net interest income	**3,709**	3,726	(17)	(0.5)
Dividends and other revenues	**59**	56	3	5.4
Income from investments carried at equity	**103**	89	14	15.7
Interest margin	**3,871**	3,871	–	
Net commissions	**2,524**	2,434	90	3.7
Profits on financial transactions	**589**	581	8	1.4
Other operating income, net	**274**	256	18	7.0
Net interest and other banking income	**7,258**	7,142	116	1.6
Administrative costs	**(3,883)**	(4,005)	(122)	(3.0)
including Payroll	***(2,364)***	*(2,475)*	*(111)*	*(4.5)*
Other	***(1,519)***	*(1,530)*	*(11)*	*(0.7)*
Adjustments to fixed assets and intangibles	**(408)**	(487)	(79)	(16.2)
Operating costs	**(4,291)**	(4,492)	(201)	(4.5)
Operating margin	**2,967**	2,650	317	12.0
Adjustments to goodwill arising on consolidation and on application of the equity method	**(97)**	(94)	3	3.2
Provisions for risks and charges	**(106)**	(156)	(50)	(32.1)
Net adjustments to loans and provisions for possible loan losses	**(628)**	(728)	(100)	(13.7)
Net adjustments to financial fixed assets	**(1)**	(27)	(26)	(96.3)
Income from operating activities	**2,135**	1,645	490	29.8
Extraordinary income (loss)	**(70)**	78	(148)	
Income taxes for the period	**(681)**	(626)	55	8.8
Change in the reserve for general banking risks and other reserves	**21**	10	11	
Minority interests	**(64)**	(69)	(5)	(7.2)
Net income for the period	**1,341**	1,038	303	29.2

[1] Figures restated on a consistent basis.

Quarterly development of the reclassified consolidated statement of income

(in millions of euro)

Captions	2004			2003 [1]			
	Third quarter	Second quarter	First quarter [1]	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	**1,259**	**1,205**	**1,245**	**1,210**	**1,235**	**1,225**	**1,266**
Dividends and income from investments carried at equity	42	82	38	22	9	94	42
Interest margin	**1,301**	**1,287**	**1,283**	**1,232**	**1,244**	**1,319**	**1,308**
Net commissions	848	856	820	888	831	825	778
Profits on financial transactions	160	209	220	136	186	204	191
Other operating income, net	83	102	89	116	116	70	70
Net interest and other banking income	**2,392**	**2,454**	**2,412**	**2,372**	**2,377**	**2,418**	**2,347**
Administrative costs	(1,254)	(1,330)	(1,299)	(1,386)	(1,320)	(1,354)	(1,331)
including Payroll	*(771)*	*(791)*	*(802)*	*(820)*	*(813)*	*(822)*	*(840)*
Other	*(483)*	*(539)*	*(497)*	*(566)*	*(507)*	*(532)*	*(491)*
Adjustments to fixed assets and intangibles	(137)	(138)	(133)	(202)	(170)	(164)	(153)
Operating costs	**(1,391)**	**(1,468)**	**(1,432)**	**(1,588)**	**(1,490)**	**(1,518)**	**(1,484)**
Operating margin	**1,001**	**986**	**980**	**784**	**887**	**900**	**863**
Adjustments to goodwill arising on consolidation and on application of the equity method	(33)	(32)	(32)	(36)	(30)	(32)	(32)
Provisions for risks and charges	(11)	(56)	(39)	(43)	(21)	(102)	(33)
Net adjustments to loans and provisions for possible loan losses	(157)	(258)	(213)	(452)	(233)	(243)	(252)
Net adjustments to financial fixed assets	(6)	13	(8)	(177)	12	(7)	(32)
Income from operating activities	**794**	**653**	**688**	**76**	**615**	**516**	**514**
Extraordinary income (loss)	(61)	(13)	4	53	(19)	57	40
Income taxes for the period	(251)	(176)	(254)	46	(246)	(156)	(224)
Change in the reserve for general banking risks and other reserves	6	14	1	16	2	6	2
Minority interests	(23)	(20)	(21)	(15)	(24)	(26)	(19)
Net income for the period	**465**	**458**	**418**	**176**	**328**	**397**	**313**

[1] Figures restated on a consistent basis.

Reclassified consolidated balance sheet

(in millions of euro)

Assets	30/09/2004	31/12/2003 pro forma [1]	Changes	
			amount	%
1. Cash and deposits with central banks and post offices	**1,317**	1,576	(259)	(16.4)
2. Loans				
– loans to customers	**154,291**	154,544	(253)	(0.2)
– due from banks	**27,396**	28,449	(1,053)	(3.7)
3. Trading portfolio	**34,666**	24,116	10,550	43.7
including Own shares	***4***	*1,017*	*(1,013)*	*(99.6)*
4. Fixed assets				
a) investment portfolio	**5,303**	5,316	(13)	(0.2)
b) equity investments	**4,856**	4,908	(52)	(1.1)
c) tangible and intangible	**4,072**	4,273	(201)	(4.7)
5. Goodwill arising on consolidation	**476**	546	(70)	(12.8)
6. Goodwill arising on application of the equity method	**294**	286	8	2.8
7. Other assets	**31,779**	35,513	(3,734)	(10.5)
Total Assets	**264,450**	259,527	4,923	1.9

(in millions of euro)

Liabilities and Shareholders' Equity	30/09/2004	31/12/2003 pro forma [1]	Changes	
			amount	%
1. Debts				
– due to customers	**106,397**	104,605	1,792	1.7
– securities issued	**61,581**	56,591	4,990	8.8
– due to banks	**31,967**	31,626	341	1.1
2. Allowances with specific purpose	**4,658**	5,045	(387)	(7.7)
3. Other liabilities	**34,067**	35,234	(1,167)	(3.3)
4. Allowances for possible loan losses	**11**	24	(13)	(54.2)
5. Subordinated and perpetual liabilities	**9,960**	10,603	(643)	(6.1)
6. Minority interests	**700**	706	(6)	(0.8)
7. Shareholders' equity				
– share capital, reserves and reserve for general banking risks	**13,737**	13,849	(112)	(0.8)
– negative goodwill arising on consolidation	**29**	29	–	–
– negative goodwill arising on application of the equity method	**2**	1	1	
– net income for the period	**1,341**	1,214	127	10.5
Total Liabilities and Shareholders' Equity	**264,450**	259,527	4,923	1.9

Indirect customer deposits	**287,991**	286,373	1,618	0.6

[1] Figures restated on a consistent basis.

Quarterly development of the reclassified consolidated balance sheet

(in millions of euro)

Assets	2004			2003 [1]			
	30/09	30/06	31/03 [1]	31/12	30/09	30/06	31/03
1. Cash and deposits with central banks and post offices	**1,317**	1,229	1,293	1,576	1,352	1,336	1,329
2. Loans							
– loans to customers	**154,291**	154,124	153,173	154,544	155,500	160,534	160,875
– due from banks	**27,396**	29,718	30,929	28,449	36,010	33,648	33,039
3. Trading portfolio	**34,666**	35,941	39,145	24,116	26,322	31,868	28,192
including Own shares	***4***	*11*	*9*	*1,017*	*894*	*891*	*664*
4. Fixed assets							
a) investment portfolio	**5,303**	5,237	5,166	5,316	5,644	5,967	6,038
b) equity investments	**4,856**	4,815	4,845	4,908	5,136	5,167	4,921
c) tangible and intangible	**4,072**	4,060	4,104	4,273	4,426	4,494	4,544
5. Goodwill arising on consolidation	**476**	500	522	546	570	594	590
6. Goodwill arising on application of the equity method	**294**	270	278	286	285	293	250
7. Other assets	**31,779**	31,194	34,286	35,513	41,207	35,315	34,924
Total Assets	**264,450**	**267,088**	**273,741**	**259,527**	**276,452**	**279,216**	**274,702**

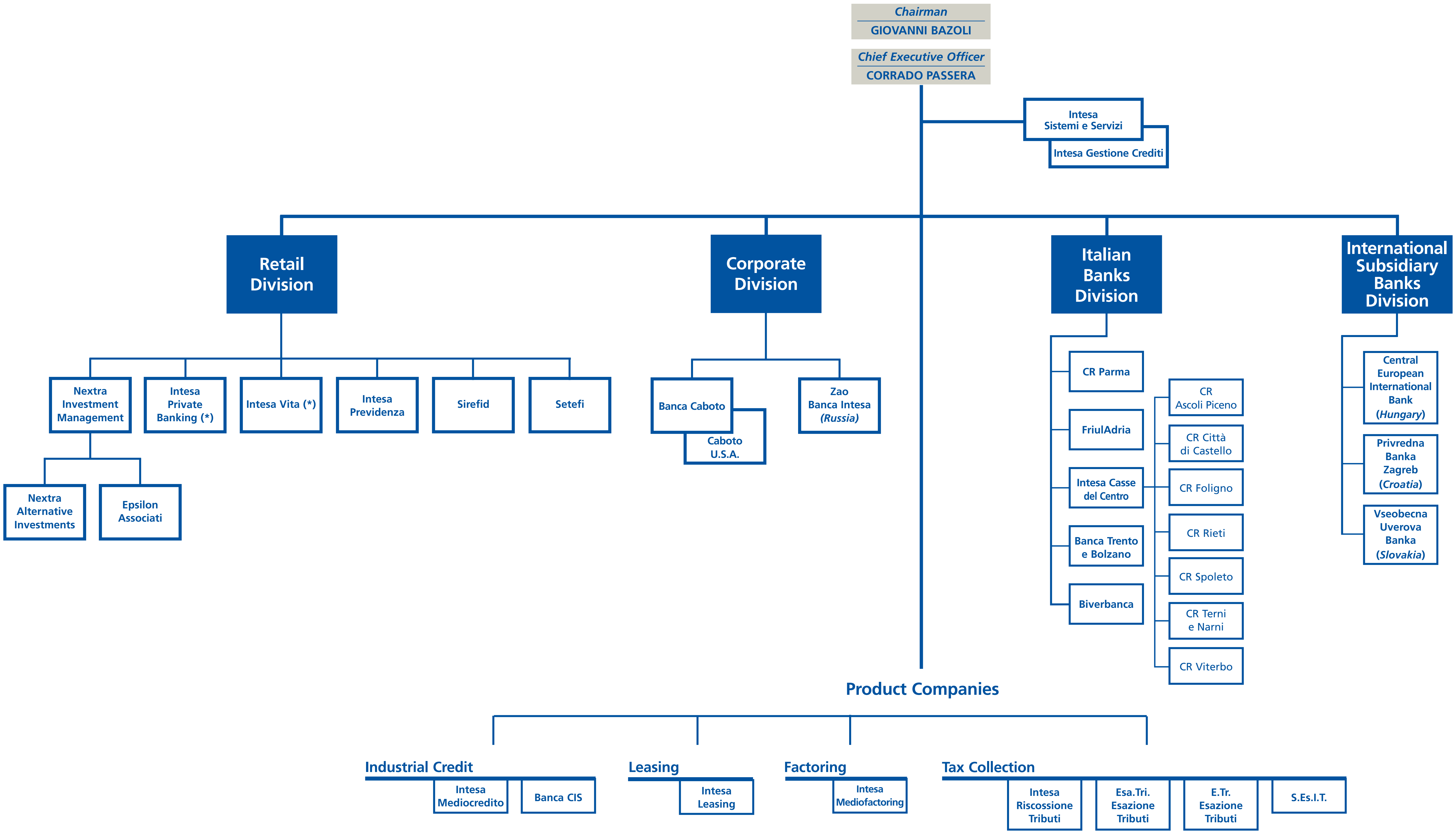
(in millions of euro)

Liabilities and Shareholders' Equity	2004			2003 [1]			
	30/09	30/06	31/03 [1]	31/12	30/09	30/06	31/03
1. Debts							
– due to customers	**106,397**	108,785	104,180	104,605	108,285	110,302	110,913
– securities issued	**61,581**	59,574	57,931	56,591	55,782	57,489	53,965
– due to banks	**31,967**	34,400	44,636	31,626	36,998	41,547	42,778
2. Allowances with specific purpose	**4,658**	4,443	5,298	5,045	5,372	5,236	5,379
3. Other liabilities	**34,067**	34,354	36,455	35,234	43,462	38,466	35,656
4. Allowances for possible loan losses	**11**	10	22	24	44	44	44
5. Subordinated and perpetual liabilities	**9,960**	10,182	10,288	10,603	11,241	11,248	11,456
6. Minority interests	**700**	682	723	706	692	668	712
7. Shareholders' equity							
– share capital, reserves and reserve for general banking risks	**13,737**	13,751	13,759	13,849	13,508	13,476	13,456
– negative goodwill arising on consolidation	**29**	29	29	29	29	29	18
– negative goodwill arising on application of the equity method	**2**	2	2	1	1	1	12
– net income for the period	**1,341**	876	418	1,214	1,038	710	313
Total Liabilities and Shareholders' Equity	**264,450**	**267,088**	**273,741**	**259,527**	**276,452**	**279,216**	**274,702**

Indirect customer deposits	**287,991**	287,867	289,325	286,373	291,158	288,741	282,410

[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 Consolidated report as at 30th September 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 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 2003 Annual report and the Half-year report 2004. 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 2003 Annual report and the Half-year report 2004, 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.

Consolidation area

With respect to Group composition in June 2004, there are no changes in the consolidation area while, with respect to September of last year, the most significant changes refer to the exits, following their sale, of: Banco Sudameris Colombia, Banco Sudameris Paraguay, Intesa Bank Canada, Bankhaus Löbbecke, Caboto International, Caridata and Carinord 1. Conversely among inclusions companies now consolidated, following their establishment, are: ZAO Banca Intesa, Intesa Real Estate and BI Private Equity.
Over the twelve months other company operations occurred, mostly mergers, which were described in previous periods and which have no effects on the consolidation area.

Due to the changes in the Group's consolidation area, statement of income and balance sheet figures relative to previous periods have been restated for the purpose of permitting consistent comparisons.

Information on specific issues

In relation to the problems concerning the determination of interest income, the actions illustrated in the 2003 Annual report and in the Half-year report 2004 are confirmed. In particular, as regards subsidised mortgages, the Parent Company had already started in 2003 the renegotiation, ascertaining the amounts due and their restitution considering the Decree of 31st March 2003. There remains only a limited number of positions which have not been renegotiated which will be included in a future intervention whose possible charges have been provisioned in a specific Allowance for risks and charges.

The conciliation activities with the customers holding Cirio, Giacomelli and Parmalat bonds in default, which were already described in the Half-year report as at June 2004, continued according to schedule, with the examination of the requests by the specific joint commissions made up of representatives of the Bank and Consumer associations. As at 30th September 2,000 requests had been examined and for these reimbursements exceeding 8 million euro had already been proposed.

Information regarding figures as at 31st December 2004

Banca Intesa notifies that – pursuant to provisions set forth in Art. 82, par. 2, of Consob Resolution 11971 – the draft Parent Company's report and the consolidated annual report as at 31st December 2004 will be available for Shareholders and the market within the maximum term of 90 days from the close of the period, instead of the quarterly report as at 31st December 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

World economy and trade continued to grow at relatively high rates also in the third quarter of 2004. The trend was encouraging, considering that consumers and enterprises had to face strong and unexpected rises in industrial and, especially, energy raw materials.

Under the pressure posed by the fact that all production capacity had been used, oil prices reached all-time peaks, slowing down recovery in consuming Countries. China was obliged to take measures to contain the steep growth in building and industrial activities. The increase in the energy bill, that could have reduced the growth rate of the main industrial economies by approximately half a percentage point, also provoked a global rise in inflation, but without determining a steep rise in projected inflation or significant price rises in manufactured goods and services.

After a first half partly above expectations, in the third quarter the economic expansion of the Euro Area started to slow down. However the real growth rate of GDP remained close to the potential growth rate (approximately 2%). The risks connected to the appreciation of the euro in international markets were temporarily overcome by the robust growth in world demand. Inflation, which already exceeded the European Central Bank's target in the first half, later settled between 2.1% and 2.5%. In view of this moderate economic growth combined with inflation being over target only as a result of external reasons that are not controllable with monetary policy instruments, official rates were maintained unchanged at 2.0%. Markets, that sometimes anticipate forthcoming rises in official rates, were immediately persuaded that no monetary squeeze would have taken place before 2005.

After having registered a good growth rate in the first half, also the Italian economy entered a new slowdown phase. The support from consumption, initially favoured by the real estate boom, vanished. Investments slowed down. The growth in exports, that was strong in the second quarter, subsequently declined. Prospects are that economic expansion will continue at very contained rates for the rest of the year, sustained by domestic demand rather than by foreign demand. The latter will be affected by the slowdown in world demand and by the loss in competitiveness linked to the new phase of stronger exchange rate.

Central-Eastern European Countries, where Gruppo Intesa is present, recorded sustained economic growth rates and relatively stable exchange rates to the euro. In line with the evolution of Western-European demand, signs of slowdown emerged in Hungary, Slovakia and Croatia. Russia continued to benefit from the increase in flows of foreign currencies guaranteed by oil and natural gas price rises, with positive effects on its overall financial stability and on its economic growth rates.

Financial markets were not affected by the rises in official rates decided by the Federal Reserve, which raised its main official rate from 1.0% to 1.75% and announced new rises for the forthcoming months. However, medium- and long-term rates declined, reflecting i) pessimism on economic recovery, ii) expectations of very modest rises in real interest rates, and iii) flows of purchases by foreign central banks aimed at stabilising exchange rates to the dollar. Also oil price rises were deemed to have a depressing effect on the economy rather than an inflationary effect. The trend of the American bond market influenced the European market, where yields on ten-year BTP (Italian fixed-rate Government bonds) decreased from 4.50% to 4.16% and performances remained solidly positive. As a consequence, stock market indices registered negative changes (–2.3% for the Euro Stoxx and –0.5% for the Mibtel). Market volatility gradually decreased during the year, as a result of a widespread pessimism on future economic developments that continued to curb the rotation of financial portfolios. With regard to demand, the fact that investors pursued attractive yields determined a contraction in the premiums paid by corporate issuers and by emerging Countries, also favouring the issue of new bonds.

The Italian banking system

In the third quarter bank rates closed the long-lasting downward cycle started in 2001, showing the beginning of a recovery from bottom levels. Despite diverse trends registered by product, sector and maturity, especially regarding the pricing of loans, interest rates were overall stable. A similar trend is likely to continue over the next few months, in line with market expectations that a rise in interest rates will not be decided by the European Central Bank before late Spring next year.

More precisely, in September on average estimated yields on loans to households and to non-financial companies reached 4.84%, 2 basis points higher than the minimum touched in June. In particular, interest rates on short-range loans (with maturity under one year) rose, between July and September, by 16 basis points to 5.58%, while estimated interest rates on longer-term loans remained stable, in the same period, at 4.79%. As to the breakdown by sectors, households and financial companies recorded opposite trends: on average interest rates on loans granted to the former continued to decline, reaching a minimum of 5.66% in September, while on average interest rates on loans to non-financial companies rose to 4.39%, from 4.34% at the end of the second quarter.

At the same time, in the third quarter funding interest rates remained practically unchanged from the previous months. In September, the estimated overall cost of funding from households and non-financial companies stood at 1.74%, virtually equal to the level recorded at the beginning of the year; also interest rates on customer deposits and on repurchase agreements were stable, at respectively 0.67% and 1.93%.

Trends of lending and funding interest rates determined a marginal increase in overall spreads between yields on loans and costs on deposits, that reached 3.10% in September, 1 basis point higher than June, but 12 basis points lower compared to the level of last January. Instead, the increase in short-term spreads (the difference between interest rates on loans with maturity under one year and interest rates on deposits), was much wider: from 4.56% in June to 4.71% in September.

In the third quarter, the evolution of the system's performing loans remained at growth rates exceeding 5%, in line with the changes registered on average in the first six months and with the growth rates recorded on average in the Euro Area. The re-composition between short-term and the longer-term components continued: in September the former registered a 3.2% reduction over the twelve months, against a 12.1% increase of the latter. The very slow trend characterising short-term loans during the year was attributable not only to the non-brilliant economic situation, which required lower operating capitals in the production sector, but also to the prudent attitude shown by banks in granting loans to companies, especially if of large size. By contrast, the strong expansion of long-term loans continued to benefit from low interest rates and, under a more structural profile, from the rising propensity of households for borrowing and of enterprises for postponing maturities of liabilities.

Breakdown of lending activities by sectors highlighted a rising demand in the retail segment, which continued in the first nine months of the year and recorded higher growth rates compared to non-financial companies: in September loans to households (including one-man businesses) rose by 12.2%, against a 4.7% rise in loans to non-financial companies. Lending activities in the production sector were mainly affected by the extreme weakness of industrial companies (40% of total loans to companies), which for many months showed a virtually unchanged demand for credit which was therefore declining in real terms.

The Italian banking system's doubtful loans continued to record sustained growth rates during the Summer months, even if slowing down slightly. In August a projected increase of 10.7% was recorded, +13.4% attributable to the corporate sector and 2.6% to households. Overall, the quality of the loan portfolio remained high, with the ratio between gross doubtful loans and total loans unchanged at 4.8% from the beginning of the year.

In the third quarter growth rates of customer deposits in Italian banks remained at rather high levels, above the levels registered by loans to customers. This trend mainly reflected a moderate slow down in the expansion of current accounts and at the same time a robust development of bonds. In September, bank accounts rose by 6.3% over the twelve months, while bonds continued to accelerate with a 12.3% growth rate. The evolution of these important funding instruments (approximately 85% of total funding activities) was consistent with households' current low propensity for risks, but also with banks' attitude favouring bond issues. With regard to the remaining contract types, in the period under consideration a consolidation of the trends showed in the first part of the year was registered: deposits repayable with notice period continued to grow at a regular rate (approximately 5%), while reductions, with two-digit percentage changes, characterised repurchase agreements (–10.7% in September) and time deposits (–11.7%).
The fairly sustained expansion of low-risk financial assets did not facilitate the recovery of indirect deposits, that continued to record a stagnant trend (in August–0.3% year-on-year, net of bonds and certificates of deposit). Among securities under administration and management, only BOT (short-term Government bonds), notwithstanding the modest yields offered, recorded rather high growth rates in the Summer months (+9.1% year-on-year in August), whereas all other securities registered negative changes of various magnitudes. The weakness of the overall aggregate was also due to the progressively worsening trend of the asset management component, the volumes of which, in August, recorded an 8.4% decrease over the twelve months.

Economic results in the period

CONSOLIDATED STATEMENT OF INCOME

General aspects

The first nine months of the current year closed with a consolidated net income for the period of 1,341 million euro, with a 29.2% increase with respect to the same period of 2003.
The Group's economic situation at the end of the third quarter was characterised by the stability of interest margin and by the increase in profits on financial transactions and non-interest income which, considered together, are on the way to represent approximately half of overall revenues. Important was also the contribution of further savings in operating costs achieved via the optimisation of resources and processes, and of lower net adjustments and provisions for risks and charges. This led to respectively a 12% increase in operating margin and to a 29.8% growth rate in income from operating activities. The aforementioned net income for the period reflected the deduction of net extraordinary charges of 70 million euro, mostly attributable to the Nextra/Parmalat settlement, which will be illustrated in greater detail hereafter and which was partly offset by extraordinary income from the real estate assets.

Interest margin

Interest margin was practically unchanged with respect to September 2003 (3,871 million euro). The slight reduction in net interest income (–0.5%) was in fact offset by an increase in income from investments carried at equity and dividends.

(in millions of euro)

Captions	30/09/2004	30/09/2003 pro forma	Changes	
			amount	%
Net interest income with customers				
• interest income	**5,480**	5,894	(414)	(7.0)
• interest expense	**(953)**	(1,186)	(233)	(19.6)
• interest expense on securities issued	**(1,327)**	(1,428)	(101)	(7.1)
• interest expense on subordinated liabilities	**(345)**	(388)	(43)	(11.1)
	2,855	2,892	(37)	(1.3)
Interest income on securities	**995**	953	42	4.4
Net interest income with banks				
• interest income	**607**	872	(265)	(30.4)
• interest expense	**(569)**	(795)	(226)	(28.4)
	38	77	(39)	(50.6)
Differentials on hedge contracts	**(209)**	(217)	(8)	(3.7)
Other net interest income	**30**	21	9	42.9
Total net interest income	**3,709**	3,726	(17)	(0.5)
Dividends and other revenues	**59**	56	3	5.4
Income from investments carried at equity	**103**	89	14	15.7
Interest margin	**3,871**	**3,871**	–	–

Naturally the trend of net interest income is the result of differentiated situations, on the basis of the specific territorial situations of Group entities and the consequently different macroeconomic and market situations, which therefore also led to extremely different volume development opportunities and interest rate trends, as is briefly illustrated in the comment to the individual results of Group companies.

The trend recorded by interest margin still partly reflected the effects of the recomposition of credit exposure between the retail component and the large corporate segment (the latter registered, over the twelve months, a 7 billion euro decrease in terms of weighted assets).

Consolidated interest margin was attributable for approximately 52% to the Parent Company, while the rest was generated by Italian (36%) and foreign subsidiaries (12%).

The table shows, in greater detail, a slight decrease in net interest income with customers that, at 2,855 million euro, recorded a 1.3% decrease with respect to the same figure of September 2003, and an increase in net interest income on the securities portfolio (995 million euro; +4.4%). This last rise absorbed most of the higher negative contribution of net interest income on the interbank market, that included the connected hedge transactions, mostly referred to this type of operations.

Dividends remained practically unchanged while, as already mentioned, income from companies carried at equity increased.

Quarterly development of the margin shows a strengthening in the trend and, in particular, the third quarter of the year showed the highest result in the last five quarters.

Net interest and other banking income

Net interest and other banking income (7,258 million euro), despite the slowdown in its quarterly development due to profits on financial transactions, registered a 1.6% rise over the twelve months, attributable to the positive flow of net commissions (+3.7%) and of other net operating income (+7%), as well as the confirmation of the satisfactory contribution of profits on financial transactions that recorded a 1.4% growth rate.

Consolidated net interest and other banking income was generated as follows: Banca Intesa approximately 51%, while Italian and foreign subsidiaries 39% and 10% respectively.

Net commissions

(in millions of euro)

Captions	30/09/2004	30/09/2003 pro forma	Changes	
			amount	%
Commercial banking activities	**1,803**	1,058	25	2.4
Management, dealing and consultancy	**1,055**	982	73	7.4
Tax collection	**190**	194	(4)	(2.1)
Other net commissions	**196**	200	(4)	(2.0)
Total net commissions	**2,524**	**2,434**	**90**	**3.7**

Net commissions contributed to net interest and other banking income for 2,524 million euro, with a 3.7% increase, on the reference figure. The improvement is attributable to both commissions on commercial banking activities (+2.4%) and to an even greater extent to commissions generated on management, dealing and consultancy, (+7.4%). With reference to the former, a particular impulse came from commission flows on current account management and fees on credit and debit cards, which posted increases of 4.3% and 8.5% respectively, while in the second operating area noteworthy was the rising contribution of dealing and placement of securities (+36.2%) and distribution of insurance products (+47.1%). The latter, as forecasted, is experiencing a phase of particular development. Conversely tax collection commissions decreased (–2.1%) also as a result of the regulatory uncertainties currently affecting this area.

Consolidated net commissions referred for approximately 46% to the Parent Company, to the same extent to Italian subsidiaries and for the remaining 8% to foreign subsidiaries.

Profits on financial transactions

As already mentioned, profits on financial transactions at 589 million euro, maintained an appreciable contribution to net interest and other banking income, even though the third quarter of 2004 showed a decrease in profitability compared to the previous two quarters, which led to register over the twelve months a contained progress (+1.4%).

The table below shows the significant performance of activities on equities, which, with 294 million euro improved by over 21% the results of the same period of the previous year and represented the most significant area. Profits on equities derived from the Parent Company for 69%, to Caboto for 27% and to other subsidiaries for the remaining 4%. Equity swaps particularly contributed to the result of this area.
Higher profits on equities were almost completely offset by lower profitability in the other operating areas. Profits on interest rate activities – which include transactions in the bond market, in interest rate derivatives and in debt securities derivatives – recorded a 4.6% decrease to 187 million euro. This

(in millions of euro)

Captions	30/09/2004	30/09/2003 pro forma	Changes	
			amount	%
Interest rates	**187**	196	(9)	(4.6)
Equity	**294**	242	52	21.5
Foreign exchange	**91**	116	(25)	(21.6)
Credit derivatives (trading book)	**17**	27	(10)	(37.0)
Profits on financial transactions	**589**	**581**	**8**	**1.4**

result was attributable for 45% to Banca Intesa, for 35% to Caboto and for 20% to other subsidiaries. Profits on foreign exchange recorded a 22% reduction to 91 million euro, over two thirds generated by Group subsidiaries and approximately one third by Banca Intesa and Caboto. Entirely ascribable to the Parent Company was instead the result of credit derivatives in the trading book, with profits which decreased by 37% to 17 million euro.
The overall result for the first nine months was also significantly influenced by considerable income connected to trading of the option component of structured bond issues, that in the third quarter considerably decreased in relation to the decision to change the structure of the aforementioned option components and therefore to no longer realise up-front income. Furthermore the caption included profits on the sale of part of the unlisted securities portfolio.

The contribution of other net operating income (274 million euro) to net interest and other banking income recorded a progress in excess of 7% with respect to the corresponding period of 2003. The contribution of the third quarter was lower compared to that of the previous periods.

Operating margin

Operating margin totalled 2,967 million euro with a 12% progress compared to September 2003. Operating margin for the third quarter equalled over one billion euro, and was at higher levels not only than those of the two previous quarters but also than all the periods of 2003.

Approximately 47% of consolidated operating margin was generated by the Parent Company, 45% by Italian subsidiaries while the remaining 8% by foreign subsidiaries.

The overall improvement in the margin reflected the 4.5% decrease in operating costs, which referred to both payroll (–4.5%) and, to a lower extent, also to other administrative costs (–0.7%). Depreciation and amortisation recorded a 79 million euro reduction (–16.2%).

Operating costs

As concerns payroll, the contraction mainly stemmed from the reduction of Group staff which, compared to September 2003 decreased by 2,712 units. This reduction was mostly attributable to the exit, at the end of the first quarter of 2004, of over 2,000 people as part of the procedures as per Ministerial Decree 158/2000 and partly due to normal personnel turnover.
Other administrative costs decreased – though to a more limited extent – as a result of diverse trends. In fact, the contractions in cost of management of real estate assets and legal and professional expenses were accompanied by higher charges related to the start of advertising campaigns for the launch of new products and higher IT expenses.

The adjustments to intangibles and fixed assets decreased respectively by approximately 14% and approximately 18% as a result of the extinguishing of the normal depreciation process of certain multiannual costs and of the disposal of certain real estate assets.

The reductions in operating costs and the simultaneous progress of income from operating activities led to a significant improvement in the cost/income ratio which decreased from 62.9% of September 2003 to 59.1%.

(in millions of euro)

Captions	30/09/2004	30/09/2003 pro forma	Changes	
			amount	%
Payroll	**2,364**	2,475	(111)	(4.5)
Administrative costs				
• general structure costs	**417**	410	7	1.7
• IT expenses	**294**	283	11	3.9
• indirect taxes and duties	**231**	244	(13)	(5.3)
• management of real estate assets	**231**	261	(30)	(11.5)
• legal and professional expenses	**146**	155	(9)	(5.8)
• advertising and promotional expenses	**78**	44	34	77.3
• indirect personnel costs	**46**	47	(1)	(2.1)
• other costs	**76**	86	(10)	(11.6)
	1,519	1,530	(11)	(0.7)
Adjustments to				
• intangibles	**202**	235	(33)	(14.0)
• fixed assets	**206**	252	(46)	(18.3)
Operating costs	**4,291**	**4,492**	**(201)**	**(4.5)**

Income from operating activities

Income from operating activities equalled 2,135 million euro up by 29.8% compared to the first nine months of 2003. This consolidated result is obtained after the registration of lower net adjustments and provisions (approximately –17%). In particular, net adjustments and provisions for possible loans losses equalled 628 million euro (–13.7%), provisions for risks and charges equalled 106 million euro (–32.1%), while net adjustments to goodwill confirmed the level of September 2003.

Adjustments, write-backs and provisions

(in millions of euro)

Captions	30/09/2004	30/09/2003 pro forma	Changes amount	Changes %
Net adjustments to/write-back of loans				
• doubtful loans	**(328)**	(174)	154	88.5
• substandard loans	**(275)**	(389)	(114)	(29.3)
• restructured loans and loans under restructuring	**65**	(9)	74	
• loans subject to Country risk	**49**	(24)	73	
• other	**(130)**	(118)	12	10.2
Net provisions for guarantees and commitments	**(7)**	(8)	(1)	(12.5)
	(626)	(722)	(96)	(13.3)
Provisions for possible loan losses	**(2)**	(6)	(4)	(66.7)
	(628)	(728)	(100)	(13.7)
Provisions for risks and charges	**(106)**	(156)	(50)	(32.1)
Adjustments to goodwill arising on consolidation and on application of the equity method	**(97)**	(94)	3	3.2
Adjustments to financial fixed assets	**(24)**	(42)	(18)	(42.9)
Write-back of financial fixed assets	**23**	15	8	53.3
	(1)	(27)	(26)	(96.3)
Total, net	**(832)**	**(1,005)**	**(173)**	**(17.2)**

Net adjustments to loans recorded a 96 million euro decrease (–13.3%) that stemmed from lower adjustments for 114 million euro and lower write-backs for 18 million euro.

More specifically, higher net adjustments to doubtful loans, mostly as a result of an analogous trend at the Parent Company, were accompanied by lower net adjustments to substandard loans also attributable to the Parent Company for approximately 70%.

As concerns restructured loans and loans under restructuring, as well as loans subject to Country risk, net write-backs for the two categories totalled 114 million euro, while net adjustments as at 30th September 2003 equalled 33 million euro.

Net adjustments to cover the intrinsic risk of performing loans – which reached in total 1,120 million euro – were strengthened to also adequately cover potential risk of the industrial sectors, including the automotive production sector, particularly affected by physiological risks connected to market and economic factors.

With respect to the corresponding period of the previous year there were lower needs for provisions to cover various risks and charges.

Adjustments to goodwill arising on consolidation and on application of the equity method were virtually unchanged with respect to September 2003 following the progressive amortisation of goodwill.

As part of the adjustments to/write-backs of financial fixed assets, which considered net almost completely offset each other, the most substantial amounts referred to registrations in the Parent Company's accounts regarding non-strategic equity investments.

Result from extraordinary activities and net income

Extraordinary activities recorded a net result of –70 million euro due to extraordinary charges for 408 million euro and extraordinary income for 338 million euro. The most significant extraordinary charge was certainly 160 million euro due to the settlement, illustrated in greater detail hereafter, between Nextra and the Commissioner of the Parmalat group. Revenues instead recorded the capital gains on the sale of real estate assets (145 million euro) attributable partly to the sale of assets and partly to the sale of the NewCo established via the spin-off of Intesa Real Estate.

The same period of the previous year had, on the contrary, recorded net extraordinary income of 78 million euro essentially as a result of the write-backs on treasury shares (+235 million euro) and charges due to provisions relative to the disengagement from South-American subsidiaries (157 million euro).

Net income for the period totalled 1,341 million euro, after the deduction of taxes of 681 million euro (+8.8%), and minority interests of 64 million euro and the use/change in the reserve for general banking risks and other reserves of 21 million euro.

(in millions of euro)

Captions	30/09/2004	30/09/2003 pro forma	Changes	
			amount	%
Income from operating activities	**2,135**	1,645	490	29.8
Extraordinary income	**338**	563	(225)	(40.0)
Extraordinary charges	**(408)**	(485)	(77)	(15.9)
Extraordinary income (loss), net	**(70)**	78	(148)	
Income taxes for the period	**(681)**	(626)	55	8.8
Use of allowance for risks and charges arising on consolidation	**6**	6	–	–
Change in the reserve for general banking risks	**15**	4	11	
Minority interests	**(64)**	(69)	(5)	(7.2)
Net income for the period	**1,341**	**1,038**	**303**	**29.2**

Main balance sheet aggregates

Loans to customers

Loans to customers as at 30th September 2004 equalled 154,291 million euro, practically unchanged with respect to the figure at the end of 2003. However, as already indicated in the report for the two previous periods, it must be noted that the quarterly figures were affected by the effects of 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 2004 with the issue of securities and the corresponding extinguishment of the aforementioned loan. Without this effect the change with respect to 31st December 2003 loans to customers would have shown a slight rise (+0.8%). Furthermore it must be noted that the trend recorded by loans was still influenced by the programmed reduction in exposure to large corporates (–5 billion euro, with respect to December 2003, in terms of risk-weighted assets).

Breakdown of the main contract types shows a strong acceleration in mortgages, which recorded an approximately 10% growth rate and represented approximately 44% of total disbursements to customers. Conversely a decrease, again of approximately 10%, was registered in advances and other loans, also due to the effects of the aforementioned securitisation. Current accounts stood on positions which were not too dissimilar to those of the end of 2003 (–3.8%) while repurchase agreements increased, even though from far more contained absolute levels.

In terms of contribution to the consolidated figure, the Parent Company was responsible for 60% while the Group's Italian subsidiaries represented 33% and foreign subsidiaries 7%.

(in millions of euro)

Subcaptions	30/09/2004	31/12/2003 pro forma	Changes	
			amount	%
Current accounts	**20,730**	21,553	(823)	(3.8)
Mortgages	**67,363**	61,378	5,985	9.8
Advances and other loans	**57,188**	63,715	(6,527)	(10.2)
Repurchase agreements	**4,738**	3,325	1,413	42.5
Doubtful loans	**4,272**	4,573	(301)	(6.6)
Total loans	**154,291**	**154,544**	**(253)**	**(0.2)**
including with residents in Italy	***132,924***	*133,458*	*(534)*	*(0.4)*
with residents in other EU Countries	***11,762***	*11,397*	*365*	*3.2*
with residents in non-EU Countries	***9,605***	*9,689*	*(84)*	*(0.9)*

The table below details geographic breakdown of loans to customers: domestic loans which represented 86% of the total were mainly concentrated in North-West Italy (44%). As concerns foreign counterparties, loans to customers not resident in Italy were granted for approximately 55% to EU residents, while the rest referred to non-EU borrowers.

Geographic areas	**30/09/2004**	**31/12/2003 pro forma**
North West	43.8%	44.9%
North East	17.5%	16.8%
Centre	13.8%	14.2%
South and Isles	11.0%	10.4%
Total Italy	**86.1%**	**86.3%**
France	0.7%	0.8%
Portugal	0.6%	0.8%
Germany	0.3%	0.3%
Spain	0.3%	0.3%
Holland	0.3%	0.4%
Belgium	0.1%	0.1%
Ireland	0.2%	0.2%
Luxembourg	0.3%	0.6%
United Kingdom	1.6%	1.0%
Slovakia	0.8%	0.7%
Hungary	2.3%	1.9%
Other EU Countries	0.1%	0.3%
Total EU Countries	**7.6%**	**7.4%**
United States of America	2.0%	1.8%
Croatia	2.1%	2.0%
Japan	0.2%	0.3%
Brazil	0.1%	0.1%
Peru	0.8%	0.8%
Other non-EU Countries	1.1%	1.3%
Total other non-EU Countries	**6.3%**	**6.3%**
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 which represented 63% of the total, and within these the most significant sectors were wholesale and retail trade and businesses offering other services for sale. The Group also pays great attention to consumer families and other categories which, together, absorbed approximately 23% of loans disbursed.

(in millions of euro)

Counterparties	**30/09/2004**	**31/12/2003 pro forma**
Governments	**2,145**	2,279
Other public entities	**4,240**	3,684
Financial institutions	**15,090**	16,908
Non-financial companies and family-run businesses	**97,462**	97,911
• *wholesale and retail trade, recovery and repairs*	***15,701***	*16,712*
• *construction and public works*	***9,721***	*9,567*
• *food products, beverages and tobacco-based products*	***4,020***	*4,033*
• *textiles, leather and footwear, clothing*	***4,149***	*4,026*
• *agricultural and industrial machinery*	***3,774***	*4,032*
• *metal products, excluding cars and means of transport*	***3,880***	*3,988*
• *energy products*	***2,483***	*3,189*
• *chemical products*	***2,477***	*2,718*
• *electric materials and supplies*	***1,989***	*2,275*
• *other industrial products*	***3,179***	*3,369*
• *agricultural and forestry products and fishing*	***3,393***	*3,161*
• *transport*	***2,029***	*2,272*
• *paper, paper products, printed products and publishing*	***1,828***	*1,920*
• *minerals and non-metal mineral based products*	***2,084***	*1,917*
• *rubber and plastic products*	***1,882***	*1,928*
• *other services for sale*	***24,457***	*22,074*
• *other non-financial companies*	***10,416***	*10,730*
Other	**35,354**	33,762
Total	**154,291**	**154,544**

Non-performing loans and Country risk

Total non-performing loans represented 5.7% of total loans to customers, not dissimilar from the percentage at the end of 2003. The various categories of non-performing loans recorded diverse trends.

Doubtful loans registered, in net terms, a 6.6% decrease to 4,272 million euro, and represented 2.8% of total loans (3% as at December 2003). The reduction is mainly attributable to lower net doubtful loans registered by Intesa Gestione Crediti while amounts related to other subsidiaries, though with variegated trends, contributed to the variation to a far lower extent. Cumulated adjustments to cover doubtful loans lead to a 67.8% coverage compared to the 65.2% of the end of previous year.

Conversely, *substandard loans* recorded a 17% rise to 4,138 million euro, equal to 2.7% of total loans to customers (2.3% as at December 2003). In this case 70% of the variation is attributable to an analogous trend at the Parent Company. As already illustrated in the Half-year report as at 30th June 2004, the rise is due to the classification in substandard loans of certain substantial positions for which the conditions have already been created for the possible return, in reasonable time frames, to regular conditions. The level of coverage of substandard loans was equal to 23.2% which, though lower than the figure of the end of 2003, is deemed to be sufficient to cover the related risks.

(in millions of euro)

	30/09/2004			31/12/2003 pro forma		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
Non-performing loans	**19,089**	**(10,315)**	**8,774**	18,399	(9,876)	8,523
• *Doubtful loans*	***13,284***	***(9,012)***	***4,272***	*13,131*	*(8,558)*	*4,573*
• *Substandard loans*	***5,387***	***(1,249)***	***4,138***	*4,700*	*(1,167)*	*3,533*
• *Restructured loans and loans under restructuring*	***185***	***(7)***	***178***	*465*	*(129)*	*336*
• *Loans subject to Country risk*	***233***	***(47)***	***186***	*103*	*(22)*	*81*
Performing loans	**146,637**	**(1,120)**	**145,517**	147,060	(1,039)	146,021
Total	**165,726**	**(11,435)**	**154,291**	**165,459**	**(10,915)**	**154,544**

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

(in millions of euro)

Counterparties	30/09/2004	31/12/2003 pro forma
Financial institutions	**167**	194
Non-financial companies and family-run businesses	**6,710**	6,339
• *construction and public works*	***1,277***	*1,232*
• *wholesale and retail trade, recovery and repairs*	***1,156***	*1,127*
• *textiles, leather and footwear, clothing*	***339***	*302*
• *food products, beverages and tobacco-based products*	***392***	*409*
• *agricultural and forestry products and fishing*	***292***	*307*
• *hotels and catering*	***303***	*219*
• *metal products, excluding cars and means of transport*	***209***	*218*
• *other industrial products*	***171***	*143*
• *agricultural and industrial machinery*	***158***	*176*
• *electric materials and supplies*	***151***	*126*
• *transport*	***215***	*200*
• *communication services*	***9***	*9*
• *sea and air carriers*	***67***	*149*
• *energy products*	***61***	*45*
• *minerals and non-metal mineral based products*	***105***	*108*
• *other services for sale*	***1,287***	*1,080*
• *other non-financial companies*	***518***	*489*
Other	**1,533**	1,573
Total	**8,410**	**8,106**

As regards other non-performing loan categories there is a close correlation between the reduction in *restructured loans and loans under restructuring*, which decreased to 178 million euro (336 million euro as at December 2003) and the rise in *loans subject to Country risk* which increased to 186 million euro compared to 81 million euro of the end of 2003. In fact, the two variations are essentially attributable to the return to regular conditions of a position previously included in restructured loans, referred to a borrower resident in Brazil and, therefore, now classified in "loans subject to Country risk". With regard to this last category it must however be noted that total on- and off-balance sheet exposures decreased, both in nominal and in value at risk terms, since the aforementioned increase in on-balance sheet exposure with a Brazilian customer was more than offset by decreases, referred to other Countries, in on-balance sheet exposures with banks, securities and off-balance sheet positions.

Cumulated adjustments on loans subject to Country risk guaranteed an overall 20% coverage, lower than the approximately 24% of December 2003 in consideration of the reduced exposure towards riskier Countries.

To cover performing loans there is a generic allowance of 1,120 million euro which ensures a coverage – net of repurchase agreements – of 0.8% which is deemed to be adequate to cover the intrinsic risk of performing positions, also including those granted to the industrial sectors, such as the automotive production, in which physiological risks are concentrated connected to market and economic factors.

(in millions of euro)

Countries	30/09/2004				31/12/2003 pro forma			
	Non-guaranteed exposure	Value at risk	Adjust-ments	Net amount	Non-guaranteed exposure	Value at risk	Adjust-ments	Net amount
Brazil	**353**	**348**	**69**	**284**	219	204	40	179
Peru	**57**	**50**	**11**	**46**	57	55	11	46
Colombia	**5**	**3**	**–**	**5**	22	22	5	17
Argentina	**55**	**55**	**32**	**23**	124	124	74	50
Dutch Antilles	**3**	**3**	**1**	**2**	33	13	4	29
Lebanon	**33**	**5**	**1**	**32**	34	6	1	33
Venezuela	**2**	**2**	**–**	**2**	2	2	–	2
Russia	**28**	**13**	**2**	**26**	23	17	3	20
Jordan	**20**	**11**	**2**	**18**	15	6	1	14
Uruguay	**8**	**7**	**2**	**6**	3	–	–	3
Indonesia	**–**	**–**	**–**	**–**	2	2	–	2
Cayman Islands	**10**	**8**	**1**	**9**	53	51	8	45
Panama	**5**	**5**	**1**	**4**	19	13	2	17
Other Countries	**42**	**23**	**5**	**37**	29	22	6	23
Total	**621**	**533**	**127**	**494**	**635**	**537**	**155**	**480**
including								
On-balance sheet loans								
– customers	***233***	***230***	***47***	***186***	*103*	*85*	*22*	*81*
– banks	***178***	***176***	***34***	***144***	*259*	*258*	*52*	*207*
– securities portfolio	***46***	***46***	***22***	***24***	*64*	*64*	*32*	*32*
Off-balance sheet loans								
– customers	***56***	***42***	***8***	***48***	*82*	*62*	*15*	*67*
– banks	***108***	***39***	***16***	***92***	*127*	*68*	*34*	*93*

Customer funds

Direct customer deposits recorded a 3.6% increase compared to as at 31st December 2003, and reached 177,938 million euro, ascribable to the positive trend of bond issues and other funding contracts, as highlighted in detail in the following table.

(in millions of euro)

Subcaptions	30/09/2004	31/12/2003 pro forma	Changes	
			amount	%
Deposits	**11,279**	10,521	758	7.2
Current accounts and other	**81,703**	83,384	(1,681)	(2.0)
Bonds	**52,544**	47,908	4,636	9.7
Certificates of deposit	**7,048**	7,512	(464)	(6.2)
Other	**4,819**	4,314	505	11.7
Repurchase agreements	**10,585**	7,557	3,028	40.1
Subordinated and perpetual liabilities	**9,960**	10,603	(643)	(6.1)
Total direct deposits (*)	**177,938**	171,799	6,139	3.6
Indirect customer deposits	**287,991**	286,373	1,618	0.6
Customer deposits under administration	**465,929**	**458,172**	**7,757**	**1.7**
(*) *including with residents in Italy*	***147,255***	*145,408*	*1,847*	*1.3*
with residents in EU Countries	***15,849***	*13,672*	*2,177*	*15.9*
with residents in non-EU Countries	***14,834***	*12,719*	*2,115*	*16.6*

Breakdown of single components showed the key contribution of bonds, which recorded an almost 10% rise with respect to the figure as at 31st December 2003, which completely absorbed the contraction in current accounts (–2%), subordinated and perpetual liabilities (approximately –6%) and certificates of deposit (–6.2%). Funding obtained via repurchase agreements also posted a substantial growth rate (+40%).

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

Indirect customer deposits

Indirect customer deposits confirmed the level as at 31st December 2003 (+0.6%). The positive performance of assets under administration and in custody (+4.1%) entirely absorbed the reduction in managed funds (–4.3%). Within managed funds noteworthy was the positive performance of insurance products, which recorded a growth rate exceeding 18% in terms of volumes.

(in millions of euro)

Subcaptions	30/09/2004	31/12/2003 pro forma	Changes	
			amount	%
Individual portfolio management schemes	**48,438**	48,317	121	0.3
Assets managed by mutual funds	**76,831**	87,347	(10,516)	(12.0)
Insurance products	**21,900**	18,528	3,372	18.2
minus Funds from individual portfolios placed in mutual funds	**(31,568)**	(33,356)	(1,788)	(5.4)
Total managed funds	**115,601**	120,836	(5,235)	(4.3)
Assets under administration and in custody	**172,390**	165,537	6,853	4.1
Indirect customer deposits	**287,991**	**286,373**	**1,618**	**0.6**

Securities portfolio

As at 30th September 2004 securities portfolio, net of treasury shares, equalled 39,965 million euro, approximately 40% higher compared to December 2003.
The rise referred to the trading portfolio which increased to 34,662 million euro (+50%) while the investment portfolio was in line with the figure at the end of 2003.

However it must be noted that the total size of the portfolio shows a decreasing trend with respect to the first two quarters of the current year, which testifies the constant attention paid to the optimisation of the liquidity profile and of investments.

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

(in millions of euro)

Subcaptions	30/09/2004		Implicit gains/losses	31/12/2003 pro forma		Implicit gains/losses
	Book value	Market value		Book value	Market value	
Investment portfolio	**5,303**	**5,691**	**388**	5,316	5,594	278
Trading portfolio						
– Government securities	**5,024**	**5,024**	**–**	3,934	3,934	–
– Bonds and other debt securities	**26,696**	**26,712**	**16**	17,162	17,197	35
• *listed*	***12,782***	***12,782***	***–***	*6,051*	*6,051*	*–*
• *unlisted*	***13,914***	***13,930***	***16***	*11,111*	*11,146*	*35*
– Shares, quotas and other forms of capital	**2,942**	**2,946**	**4**	2,003	2,058	55
• *listed*	***2,328***	***2,328***	***–***	*1,395*	*1,395*	*–*
• *unlisted*	***614***	***618***	***4***	*608*	*663*	*55*
Total trading portfolio	**34,662**	**34,682**	**20**	23,099	23,189	90
Own shares	**4**	**4**	**–**	1,017	1,017	–
Total	**39,969**	**40,377**	**408**	**29,432**	**29,800**	**368**

Net interbank position

After the significant decrease in the net debt position enacted in 2003, net interbank position highlighted a recovery as a result of a greater use of funding with notice period, which was not entirely offset by a decrease in the debt position repayable on demand.

(in millions of euro)

Captions	30/09/2004	31/12/2003 pro forma	Changes	
			amount	%
Net interbank position repayable on demand				
• current accounts	**957**	(935)	1,892	
• deposits	**(2,378)**	(3,778)	(1,400)	(37.1)
• other	**144**	23	121	
	(1,277)	**(4,690)**	**(3,413)**	**(72.8)**
Net interbank position with notice period				
• compulsory reserve requirement	**1,375**	1,089	286	26.3
• time deposits	**(9,674)**	(7,544)	2,130	28.2
• repurchase agreements	**3,924**	6,577	(2,653)	(40.3)
• other	**1,081**	1,391	(310)	(22.3)
	(3,294)	1,513	(4,807)	
Net interbank position	**(4,571)**	**(3,177)**	**1,394**	**43.9**

Shareholders' equity

The Group's shareholders' equity, including net income for the period of 1,341 million euro, amounted to 15,109 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 reserves [$]	Reserves for foreign exchange differences	Reserve for general banking risks	Revaluation reserves	Negative goodwill	Net income for the period	Total Shareholders' equity
Balance as at 31st December 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				(2)					(5)	(7)
Other variations										
– Free assignment of 318,486,977 Banca Intesa ordinary shares to the Shareholders				(1,013)						(1,013)
– Changes in the consolidation area				(2)			1	1		–
– Transfer to Share premium reserve from Reserve for own shares		2		(2)						–
– Changes in the reserve for general banking risks						(15)				(15)
– Changes in the reserve for foreign exchange differences					40					40
Net income for the period									1,341	1,341
Balance as at 30th September 2004	**3,561**	**5,406**	**773**	**3,521**	**39**	**80**	**357**	**31**	**1,341**	**15,109**

[*] Official figures not restated.

[$] The caption Other reserves includes 4 million euro of Reserve for own shares.

Shareholders' equity for supervisory purposes amounted to 20,811 million euro, against risk-weighted assets of 178,819 million euro. The total capital ratio equalled 11.9% and the Tier 1 ratio 8.6%. The ratio between Tier 1 capital net of preference shares and risk-weighted assets (Core Tier 1) equalled 7.6%.

(in millions of euro)

TOTAL CAPITAL AND CAPITAL RATIOS	30/09/2004	30/06/2004	31/03/2004	31/12/2003
Total capital				
Tier 1 capital	15,317	15,019	14,700	14,292
Tier 2 capital	6,913	7,001	7,234	7,585
Items to be deducted	(1,419)	(1,371)	(1,249)	(1,233)
Total capital	20,811	20,649	20,685	20,644
Capital requirements				
Credit risks	13,045	13,216	13,240	13,390
Market risks	1,039	1,107	1,090	970
Tier 3 subordinated loans	431	632	639	647
Other capital requirements	221	227	234	228
Total capital requirements	14,305	14,550	14,564	14,588
Risk-weighted assets	178,819	181,878	182,052	182,344
Capital ratios %				
Tier 1/Total risk-weighted assets	8.57	8.26	8.07	7.84
Total capital/Total risk-weighted assets	11.88	11.70	11.71	11.68
Excess capital	**6,506**	**6,099**	**6,121**	**6,056**

The following table 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 30/09/2004
Parent Company's balances as at 30th September 2004	14,600	1,203
Effect of full and proportional consolidation	1,151	600
Effect of consolidation of subsidiaries carried at equity	63	103
Reversal of write-downs on equity investments	(170)	(170)
Amortisation of goodwill arising on consolidation and on application of the equity method	(986)	(97)
Use of allowance for risks and charges arising on consolidation	38	6
Allocation of consolidation differences to the value of real estate assets	229	(6)
Restatement of goodwill	(5)	2
Dividends collected during the period		(26)
Dividends accrued, net of fiscal effects	(320)	(320)
Other changes	509	46
Consolidated balances as at 30th September 2004	**15,109**	**1,341**

The Parent Company Banca Intesa

Reclassified statement of income

(in millions of euro)

Captions	30/09/2004	30/09/2003 pro forma [1]	Changes amount	Changes %
Net interest income	**2,304**	2,334	(30)	(1.3)
Dividends and other revenues	**331**	476	(145)	(30.5)
Interest margin	**2,635**	2,810	(175)	(6.2)
Net commissions	**1,537**	1,456	81	5.6
Profits on financial transactions	**333**	322	11	3.4
Other operating income, net	**192**	201	(9)	(4.5)
Net interest and other banking income	**4,697**	4,789	(92)	(1.9)
Administrative costs	**(2,665)**	(2,786)	(121)	(4.3)
including Payroll	***(1,509)***	*(1,597)*	*(88)*	*(5.5)*
Other	***(1,156)***	*(1,189)*	*(33)*	*(2.8)*
Adjustments to fixed assets and intangibles	**(85)**	(104)	(19)	(18.3)
Operating costs	**(2,750)**	(2,890)	(140)	(4.8)
Operating margin	**1,947**	1,899	48	2.5
Provisions for risks and charges	**(64)**	(55)	9	16.4
Net adjustments to loans and provisions for possible loan losses	**(487)**	(523)	(36)	(6.9)
Net adjustments to financial fixed assets	**170**	(97)	267	
Income from operating activities	**1,566**	1,224	342	27.9
Extraordinary income	**17**	118	(101)	(85.6)
Income taxes for the period	**(380)**	(354)	26	7.3
Net income for the period	**1,203**	**988**	**215**	**21.8**

[1] Figures restated on a consistent basis.

Reclassified balance sheet

(in millions of euro)

Assets	30/09/2004	31/12/2003 pro forma [1]	Changes amount	Changes %
1. Cash and deposits with central banks and post offices	**563**	641	(78)	(12.2)
2. Loans				
– loans to customers	**101,937**	112,016	(10,079)	(9.0)
– due from banks	**37,102**	33,522	3,580	10.7
3. Trading portfolio	**27,294**	18,705	8,589	45.9
including Own shares	**–**	*1,015*	*(1,015)*	
4. Fixed assets				
a) investment portfolio	**769**	817	(48)	(5.9)
b) equity investments	**13,768**	13,619	149	1.1
c) tangible and intangible	**1,169**	1,176	(7)	(0.6)
5. Other assets	**18,119**	19,483	(1,364)	(7.0)
Total Assets	**200,721**	**199,979**	**742**	**0.4**

(in millions of euro)

Liabilities and Shareholders' Equity	30/09/2004	31/12/2003 pro forma [1]	Changes amount	Changes %
1. Debts				
– due to customers	**73,377**	76,964	(3,587)	(4.7)
– securities issued	**52,925**	49,087	3,838	7.8
– due to banks	**27,891**	25,755	2,136	8.3
2. Allowances with specific purpose	**2,887**	2,980	(93)	(3.1)
3. Other liabilities	**19,130**	20,080	(950)	(4.7)
4. Allowances for possible loan losses	**–**	–	–	
5. Subordinated and perpetual liabilities	**9,911**	10,368	(457)	(4.4)
6. Shareholders' equity				
– share capital, reserves and reserve for general banking risks	**13,397**	13,386	11	0.1
– net income for the period	**1,203**	1,359	(156)	(11.5)
Total Liabilities and Shareholders' Equity	**200,721**	**199,979**	**742**	**0.4**

Indirect customer deposits	**217,955**	213,889	4,066	1.9

[1] Figures restated on a consistent basis.

COMMENTS

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

Statement of income

Also at the end of September, the result of Banca Intesa was significantly higher than that of the same period of 2003 (approximately +22%), confirming the positive trend recorded in the previous quarters. After the results achieved in 2003 with the Group's achievement of the strategic repositioning and restructuring objectives indicated in the Business Plan, the phase more oriented to growth commenced in 2004.
Performance in the first nine months was realised despite the 6.2% decrease in interest margin, determined mainly by the reduction of dividends, in presence of an improvement in the trend recorded by net interest income, which contained its decrease to 1.3%. The contraction in interest margin was however mostly absorbed by the positive trend of net commissions and by the confirmation of profits on financial transactions. The key driver in the improvement was however represented by further savings in costs, both as concerns personnel costs and other administrative costs. Operating margin thus showed a 2.5% rise. Lower requirements of adjustments and provisions for credit risk and, especially, the considerable net write-backs of financial fixed assets enabled income from operating activities to record an approximately 28% progress. Despite the lower contribution of extraordinary income, the rise in net income for the period almost touched 22%.

Analysing the single intermediate margins, **interest margin** – as already indicated – registered a 6.2% decrease to 2,635 million euro, mostly as a result of lower dividends from subsidiaries, accounted for as accruals. Instead a far more contained decline was registered by net interest income (–1.3% to 2,304 million euro) whose trend is attributable to the same reasons already illustrated in the previous reports and has lasted for some time. The negative sign stemmed from the combined effect of the trend of average intermediated volumes and of the further reduction in spreads with respect to the same period of the previous year, both in the short- and in the medium-long term component.

More specifically, as concerns volumes and interest rate trends, the spread on domestic operations with non-financial companies and family-run businesses – that represented the most significant portion of the Bank's loans and deposits (approximately 70% and 80% respectively) – showed a reduction in the first four months of the year and a general recovery in the subsequent months – higher in the short-term component. The spread in any case reached lower levels compared to as at 30th September 2003. As regards volumes, there was a general stability of short-term components and an increasing trend in the medium- and long-term component both for customer loans and deposits.
Overall lending volumes also reflected the programmed reduction in exposure to large corporates.

Intermediation with customers generated net interest income of 1,525 million euro, down with respect to the first nine months of the previous year, mostly as a result of the transformation of Caboto into a bank and the consequent different recording of relations with the subsidiary both in the statement of income and in the balance sheet. Conversely both interest income on securities and on interbank activities increased, the latter confirming the positive contribution already recorded in the previous quarters, even considering the differentials on hedges, mainly connected to interbank operations.

It is also important to consider the incidence on interest margin of the higher cost of funding relative to increased financial operations and in particular to equity swaps, whose benefits are recorded in a specific caption in the statement of income (profits on financial transactions).

Quarterly development of net interest income in any case showed positive signs of recovery which, after the decline recorded in the second quarter, also attributable to considerable activities in the period in equity swaps, returned to the levels of the first three months of the year.

Net interest and other banking income equalled 4,697 million euro, with a slight decrease with respect to the same period of 2003 (–1.9%), since the positive contribution of net commissions and higher profits on financial transactions were not sufficient to offset the lower interest margin.

Net commissions equalled 1,537 million euro, with a 5.6% growth rate, due to the positive result of management, dealing and consultancy (+8.6%) ascribable to the further growth of commissions for distribution of insurance products (approximately +79%), while commissions on commercial banking activities confirmed the figure as at 30th September 2003 (–0.1%), and included the rising contribution of credit and debit cards (+8.1%) and current accounts (+2.9%).

Profits on financial transactions totalled 333 million euro, 3.4% higher than the figure of September 2003. All operating areas made a positive contribution. In detail, interest rates activities, which include the effects of trading and marking to market of bonds and interest rate derivatives, registered a net income of 84 million euro (*ex* 50 million euro), while equities – including equity swaps – recorded a 205 million euro profit, in line with the figure for the corresponding period of 2003 (206 million euro). Activities in currencies and currency derivatives, and in credit derivatives in the trading book registered a net income of 27 million euro (*ex* 39 million euro) and 17 million euro (*ex* 27 million euro) respectively. The overall result of financial operations for the first nine months was also significantly influenced by considerable income connected to trading of the option component of structured bond issues, that in the third quarter considerably decreased in relation to the decision to change the structure of the aforementioned option components and therefore to no longer record up-front revenues. Furthermore the caption included profits on the sale of part of the unlisted securities portfolio.

Net interest and other banking income also benefited from *other net operating income* of 192 million euro, that however booked a 4.5% decrease. The most significant items referred to recoveries of taxes and duties and of expenses sustained on behalf of customers.

Quarterly development of net interest and other banking income was affected by the lower contribution, in the third quarter, of profits on financial transactions compared to previous quarters, which did not entirely offset – as already illustrated – the unfavourable trend recorded by interest margin.

Operating margin equalled 1,947 million euro, with a 2.5% rise over the twelve months, and was influenced by the effect of the actions aimed at containing operating costs, which was one of the priority objectives of the Business Plan. On aggregate these costs recorded a 4.8% decrease with respect to September 2003, mainly due to payroll containment (–5.5% to 1,509 million euro) as a consequence of the reduction in the number of employees which was implemented – according to the guidelines agreed upon with Trade Unions – through the activation of the Solidarity Allowance. At the end of the third quarter, the net decrease in the number of resources over the twelve months equalled 2,100 units, mostly attributable to people that exited the Group using the procedures activated by Ministerial Decree 158/2000. Also other administrative costs decreased (–2.8% to 1,156 million euro), the most significant drops referred to legal and professional expenses, costs for management of real estate assets and indirect personnel costs, while increases were recorded by general structure costs, IT expenses and advertising and especially promotional expenses, in relation to the new campaign aimed at launching new products. Adjustments to both fixed assets and intangibles also decreased (approximately –18%), also as a consequence of the spin-off of real estate assets closed at the end of 2003.

As regards quarterly development, it must be highlighted that the more marked reduction in operating costs in the third quarter, also attributable to seasonal effects, enabled to absorb most of the decrease recorded by net interest and other banking income.

Lower need for adjustments for credit risk and, especially, the recording of considerable write-backs of financial fixed assets enabled **income from operating activities** to reach 1,566 million euro, with a 28% increase compared to the same period of the previous year.

Net adjustments to loans, amounting to 487 million euro, recorded a 6.9% overall reduction. Within net adjustments to loans the incidence of doubtful loans increased while the weight of substandard loans decreased. Net write-backs were instead recorded in restructured loans and in loans subject to Country risk.

The generic allowance was also adequately strengthened, and its cumulated provisions reached 626 million euro, which, with a net increase of 90 million euro with respect to December 2003, guaranteed a level of coverage (net of repurchase agreements and intergroup positions) of 0.75% deemed to be congruous to cover the physiological, potential risk intrinsic in performing loans. The generic allowance, as already illustrated in previous reports, maintains an adequate coverage of exposures also to the sectors which were more severely hit by the adverse economic situation, among which autovehicle production.

Adjustments for risks and charges recorded a 16.4% rise to 64 million euro.

Net write-backs of financial fixed assets (170 million euro) stemmed from adjustments for 27 million euro and write-backs for 197 million euro. As concerns the former, the most significant amounts referred to Magazzini Generali Cariplo (–10.5 million euro) and certain private equity stakes (–8.5 million euro in total), while write-backs mostly referred to Intesa Holding International (144 million euro), Intesa Gestione Crediti (23 million euro) and Intesa e.lab (14 million euro).

Extraordinary captions resulted in a net extraordinary income of 17 million euro, considerably lower than 118 million euro of September 2003 which had however benefited from the marking to market of treasury shares.
Extraordinary income, which summed up to 129 million euro, included the positive effects of the "elimination of registrations for purely fiscal purposes" – provided for by the reform of company law – relative to accelerated amortisation (44 million euro) net of the relevant tax effects (17 million euro) that resulted in a positive balance of 27 million euro. The caption includes the effect of the spin-off of part of the Group's real estate assets currently under way on the equity investment in IRE (28 million euro).

Among extraordinary charges, which amounted to 112 million euro, the most significant referred to the company's reorganisation and the disposal of equity investments (60 million euro).

Net income for the period equalled 1,203 million euro, approximately 22% higher than that of the first nine months of 2003. This result reflects the registration of income taxes for the period of 380 million euro, higher by over 7 b.p. than in the same period of last year.

Net of the effects of the "elimination of registrations for purely fiscal purposes", net income for the period would have been 1,176 million euro.

Balance sheet

As to the balance sheet, it must be noted that – for the purpose of a correct interpretation of the trend recorded by aggregates – as of 1st January 2004, relations with the subsidiary Caboto were reclassified in banking counterparties and this led to considerable decreases in loans to customers and customer deposits with respect to the figures of the previous reference periods.

At the end of September 2004 **loans to customers** amounted to 101,937 million euro with an approximately 9% decrease with respect to the 2003 financial statements, almost entirely ascribable to the domestic component (approximately –9%), related to the programmed reduction in exposure to large corporates. Breakdown of loans to customers showed that the captions that as at 31st December 2003 were significantly affected by intercompany relations with Caboto recorded the most significant decreases, especially repurchase agreements (–52.5%) and advances and other loans (–20.7%). This last decrease was also affected by the reduction in the Bank's exposure towards Intesa Leasing following the collection of the consideration for the loans sold last December as part of the securitisation closed in February 2004. Mortgages continued to progress and their significant increase (+11.7%) led this component to represent 42% of total loans to customers as at 30th September and enabled to amply absorb the decrease in current accounts (–8.9%).

As to non-performing loans, doubtful loans totalled 1,527 million euro with a 3.2% decrease compared to as at 31st December 2003, while substandard loans rose to 2,872 million euro, with a 17.2% increase, also following the persistent difficulties on the economic cycle, which led to record as substandard loans a few positions of significant amount. For some of these borrowers, financial and/or strategic solutions are being assessed and, in reasonable time frames, could lead such borrowers to return to financial equilibrium and therefore the positions may be reclassified in performing loans. Overall cumulated adjustments led to a 61% coverage of doubtful loans and a 23% coverage of substandard loans. As to restructured loans and loans subject to Country risk – categories which continue to have a contained incidence on total non-performing loans – the former recorded a further reduction to 108 million euro and the latter an increase to 167 million euro. Both reflected the exit from restructured loans of a position referred to a Brazilian counterparty which returned within performing loans and therefore was included in loans subject to Country risk.
Performing loans amounting to 97,263 million euro, as already mentioned, were covered by the generic allowance, which as at 30th September 2004 equalled 626 million euro.

With reference to funding aggregates, **customer deposits under administration** rose to 350,412 million euro, with a 1.3% increase with respect to 31st December 2003 which is the result of the stability of direct customer deposits and the rise in indirect customer deposits.
More specifically, *direct customer deposits*, showed a virtual stability (+0.2% to 132,457 million euro), since the positive performance of issued bonds (+11.3% to 43,745 million euro) entirely absorbed the decrease in current accounts and repurchase agreements, which were most affected by the different classification of the relationships with the subsidiary Caboto. The positive trend recorded by indirect *customer deposits* (+1.9% to 217,955 million euro) is the combined effect of the opposite trends of deposits under administration, up by 3.8%, and the decline in managed funds, down by 1.6%.

Securities portfolio equalled 28,063 million euro, with a considerable increase with respect to the 2003 Annual report (+52%) according to a trend already described in the past quarters as part of the strategy aimed at optimising investments and liquidity profile. The rise is entirely ascribable to the trading portfolio (+54% to 27,294 million euro), while the investment portfolio again decreased (approximately –6%), and only represented 2.7% of the total portfolio.
It must be noted that as at 30th September 2004 the Bank's portfolio no longer included treasury shares, since the residual shares, after the free distribution to Shareholders resolved upon by Ordinary Shareholders' Meeting of last April, had been sold on 30th June – with settlement on 5th July – at a price in line with carrying value.

Breakdown of consolidated results by business area

(in millions of euro)

	Retail Division		Corporate Division		Italian Banks Division		International Subsidiary Banks Division		Product Companies		Central Structures		Total	
	30/09/2004	30/09/2003 (*)	30/09/2004	30/09/2003 (*)	30/09/2004	30/09/2003 (*)	30/09/2004	30/09/2003 (*)	30/09/2004	30/09/2003 (*)	30/09/2004	30/09/2003 (*)	30/09/2004	30/09/2003 (*)
Net interest and other banking income	**3,701**	3,477	**1,047**	1,151	**1,073**	1,016	**754**	709	**523**	534	**160**	255	**7,258**	7,142
Operating costs	**(2,317)**	(2,442)	**(443)**	(473)	**(584)**	(583)	**(447)**	(456)	**(227)**	(228)	**(273)**	(310)	**(4,291)**	(4,492)
Operating margin	**1,384**	1,035	**604**	678	**489**	433	**307**	253	**296**	306	**(113)**	(55)	**2,967**	2,650
Provisions and net adjustments to loans and financial fixed assets	**(229)**	(247)	**(147)**	(89)	**(88)**	(64)	**(67)**	(166)	**(93)**	(126)	**(208)**	(313)	**(832)**	(1,005)
Income (Loss) from operating activities	**1,155**	788	**457**	589	**401**	369	**240**	87	**203**	180	**(321)**	(368)	**2,135**	1,645
Extraordinary income (loss)	**1**	3	**–**	4	**4**	5	**1**	(79)	**17**	16	**(93)**	129	**(70)**	78
Use of allowance for risks and charges arising on consolidation/ Change in the reserve for general banking risks	**–**	–	**14**	–	**1**	1	**–**	–	**–**	3	**6**	6	**21**	10
Income (Loss) before taxes and minority interests	**1,156**	791	**471**	593	**406**	375	**241**	8	**220**	199	**(408)**	(233)	**2,086**	1,733
RWA (billions of euro)	**57.0**	55.9	**43.4**	55.2	**23.0**	20.8	**14.0**	14.0	**24.4**	25.0	**17.1**	20.8	**178.9**	191.7
Allocated capital (billions of euro)	**3.8**	3.7	**2.6**	3.3	**1.4**	1.3	**0.8**	0.8	**1.5**	1.5	**1.0**	1.3	**11.1**	11.9
Income from operating activities on allocated capital (%)	**41.2%**	28.5%	**23.4%**	23.7%	**38.8%**	39.6%	**38.2%**	13.9%	**18.6%**	16.1%	**(41.9%)**	(36.7%)	**25.8%**	18.4%

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

Retail Division

The Division recorded an economic performance considerably better than that registered in the same period of the previous year and closed the period with an operating margin of 1,384 million euro and an income from operating activities of 1,155 million euro. The Retail Division is the centre driving the Bank's operations. The Division is always involved in new projects aimed at enhancing service quality and meeting customers' specific needs. In particular, with regard to households, new products, already mentioned elsewhere in the Report, such as *Conto Intesa, Carta Intesa, Prestintesa, Mutuo Protetto,* as well as a broad range of life insurance policies were highly appreciated by customers.

In fact 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. Its statement of income for the first nine months of the current year closed with a net income of 47.6 million euro, after having collected gross premiums of 4,199 million euro. As at 30th September 2004 Intesa Vita's shareholders' equity equalled 1,234 million euro, while technical reserves exceeded 21 billion euro.

The asset management sector reports to **Intesa Holding Asset Management**, that closed the period with a net income of only 0.1 million euro, due to the lack of the dividends, registered as accruals, of the subsidiary Nextra Investment Management as this company closed the period with a loss. In fact **Nextra Investment Management** closed the nine months with a loss of approximately 57 million euro due to the accounting in the third quarter of extraordinary charges for 160 million euro related to the Parmalat case, as later illustrated in the Report among the significant events occurred after the end of the period. Total assets under management by Nextra as at 30th September 2004 equalled 99.4 billion euro, placing the company in second position in the ranking for assets in mutual funds and sicavs of the Italian asset management companies (SGR) with a 15.1% market share.
Nextra Investment Management controls **Nextra Alternative Investment**, operating in hedge fund management, **Epsilon SGR** operating in collective asset management with systematic use of quantitative approaches and **Nextra Distribution Services** which distributes Nextra International Sicav in Italy and abroad. The three asset management companies closed the period with a total net income of 1.8 million euro, 2.2 million euro and 4.6 million euro respectively.

Intesa Previdenza, the Group company specialised in supplementary pension funds, as at 30th September 2004 managed net assets totalling 684 million euro, 76% of which (520 million euro) related to open-end pension funds (with a market share of approximately 26%) and the remaining 164 million euro to closed-end pension funds. Net collection was overall positive with 580 new customers in the only third quarter. The company recorded a modest loss in the period (0.3 million euro) and highlighted a net improvement compared to the loss of 1.3 million euro in the same period of 2003.

Setefi, the Group's business unit specialised in management of electronic payment systems, registered in the first nine months of the year positive results in terms of both volumes and margins. Net income for the period equalled 19.9 million euro (+4% on September 2003).
Operating figures recorded a generalised growth: the number of directly-issued or managed cards reached 2.6 million units with further increases compared to both 30th September of the previous year (approximately +32%) and the end of 2003 (approximately +26%). The number of proprietary POS terminals, which handled over 111 million transactions for a countervalue of 8.7 billion euro, rose to 87,780 units.

Corporate Division

The Corporate Division is charged with management and development of relations with large Italian and international groups, large mid-corporates, the State and public administrations as well as relations with financial institutions. In the first three quarters of 2004 the Corporate Division recorded positive results, even if not as favourable as those of the same period of 2003, due to the difficult economic situation continuing to affect certain production sectors and the connected need for higher adjustments to certain loan positions, coupled with the programmed reduction in operations with large corporates. The Division's operating margin amounted to 604 million euro and income from operating activities equalled 457 million euro.

As at 30th September 2004 **Banca Caboto** recorded a net income of 52.9 million euro, with an approximately 51% reduction compared to the same period of the previous year. Continuing the trend observed in the Half-year report, also results in the third quarter reflected the unfavourable market situation and the seasonal contraction in revenues that usually occurs in the Summer period. The management decision to contain the risk profile led to further extraordinary adjustments to corporate bonds, in relation to issuers' specific situations. Therefore net interest and other banking income for the period equalled 118 million euro, with a 31% reduction over the twelve months. Operating costs, although personnel costs were virtually stable, recorded an increase, also due to the expansion of company operations and to the development of the IT systems. Balance sheet figures highlighted, compared to December 2003, increases in repurchase agreements, up to 12 billion euro, and in the securities portfolio, which reached 4.3 billion euro.
As to the operating context, Caboto distinguished itself in the period by

conducting significant operations in the euromarket, while in the stock market – despite a context still characterised by cautiousness – the company confirmed its high position in the ranking of intermediaries, with a market share rising to 5.6%. With regard to equity derivatives Caboto continued to operate as market maker respectively in the market of IsoAlfa options with a market share of 11.6% and of Stock Futures with a market share of 20.4%. Also activities in structured products continued, particularly on the convertible bonds and equity linked markets, where Caboto plays a forefront role due to its intense use of the Group's alternative trading system (RetLots Exchange®).

Société Européenne de Banque, the Group subsidiary in Luxembourg, operates through a range of activities such as establishment and management of financial companies, administration of mutual funds, private banking and banking activities servicing corporate customers. In the first nine months of 2004 the company registered a net income of 5.6 million euro, compared to over 8 million euro recorded in the same period of 2003.

Intesa Bank Ireland continued its intense activities in the wholesale banking sector and recorded a net income for the period of approximately 11.2 million euro, with a reduction compared to 21 million euro of the same period of 2003. The considerable reduction in the exposure towards large multinationals implemented in the previous year was reflected in the financial statements.

ZAO Banca Intesa, the Group company established to assist Italian enterprises in the important Russian market, officially started operations last December. Start-up costs obviously affected company profitability and led to a loss for the period of 1.1 million euro.

The Parent Company's **foreign branches** (New York, London, Hong Kong, Shanghai and Tokyo) continued their activities aimed at supporting Italian enterprises, which can also count on the widespread network of Representative Offices which, during 2004, was further strengthened by the start-up of the Madrid and Tunis offices.

Italian Banks Division

The Division is in charge of Italian equity investments in banks and, for the purpose of optimising any possible commercial and efficiency synergy, operates in strict co-ordination with the Retail Division.
In the period closed in September 2004 Division banks overall increased the already positive results of September 2003, achieving an operating margin of 489 million euro and an income from operating activities of 401 million euro.

In the first three quarters of 2004 **Cassa di Risparmio di Parma e Piacenza** registered a net income for the period of 127.7 million euro, exceeding by 5.4% the corresponding figure of 2003. This increase concerned all intermediate income aggregates. Interest margin rose by 1.9% to 281.7 million euro and the excellent progression of net commissions (+11.5%), after having absorbed the modest decline of profits on financial transactions and of other operating income, led net interest and other banking income to record a 4.6% increase to 506.9 million euro. The moderate rise in administrative costs (approximately 1%) did not affect gross operating margin which equalled 257.3 million euro with a 7.5% rise from the same period of 2003. The need for provisions and adjustments to loans, related to requirements on the Parmalat position, absorbed higher resources (approximately +22% compared to the figure as at September 2003), but anyway led to an income from operating activities of 223 million euro (+5.6%).
As to the balance sheet, loans to customers (10,299 million euro) exceeded by 4.6% the December 2003 figure and direct customer deposits, with 11,212 million euro, registered a 1.7% increase. Also indirect customer deposits rose (23,547 million euro; +9.4%)

Banca Popolare FriulAdria closed the first nine months of 2004 with a net income exceeding 37 million euro, with a 25% increase from the same period a year earlier. Interest margin was virtually stable (–0.5%) while a significant contribution came from net commissions that led to a net interest and other banking income of 169 million euro, with a 7.3% rise from the same period of 2003. The moderate increase (approximately 1%) of operating costs had a contained effect on operating margin which

exceeded 74 million euro (+16.5%). This margin however was considerably eroded by higher net adjustments to loans and provisions for risks and charges. Nevertheless, income from operating activities, at 60.2 million euro, was still 7.5% higher than the corresponding figure of 2003.
Balance sheet figures highlighted the good trend of loans to customers which exceeded 3 billion euro (+10% compared to 31st December 2003) and also of direct customer deposits, close to 2.8 billion euro, that recorded a 2.1% rise. Finally indirect customer deposits were virtually stable (–0.8%) and still exceeded 5 billion euro, though with a slight decline in the asset management component (–2%).

In the first nine months of 2004 **Banca di Trento e Bolzano** generated a net income of 10.8 million euro, slightly exceeding that recorded as at September 2003. Interest margin of 35.2 million euro rose by 5.4%, while, within non-interest margin, net commissions recorded an increase that was offset by a lower contribution from profits on financial transactions. This led to a net interest and other banking income of 60.2 million euro which was still 3% higher than the September 2003 figure. The increase in operating costs was contained to 1.6% concurring therefore to maintain operating margin (19 million euro) 6.1% higher compared to the same period of 2003. Higher adjustments to loans were physiologically related to the increase in loans to customers.
Balance sheet aggregates highlighted, compared to the end of 2003, an 8.1% rise in loans to customers to 1,636 million euro and a moderate decline in direct customer deposits (1,514 million euro; –5.4%). Indirect customer deposits, at 2,024 million euro, registered a considerable rise (+8.6%), also with regard to the asset management component.

Cassa di Risparmio di Biella e Vercelli (Biverbanca) closed the period with a net income of 14 million euro, corresponding to a 19.9% decrease compared to the same period of 2003.
Interest margin registered an approximately 8% increase to 56.7 million euro. Also net interest and other banking income recorded a positive trend (93.3 million euro; +2.3%) with a strong expansion in net commissions (+8.5%) and a reduction in net profits on financial transactions. Lower operating costs (–1.8%) led operating margin (40.6 million euro) to exceed the 2003 figure (+8.2%). However higher provisions and adjustments to loans coupled with higher extraordinary charges heavily affected the subsidiary's profitability.
As to the balance sheet, appreciable improvements were achieved compared to the 2003 balance sheet, both in loans to customers (1,902 million euro; +3.5%) and in direct customer deposits (2,190 million euro; +3.5%). Indirect customer deposits rose to 2,962 million euro (approximately +6%).

The Saving Banks in Central Italy are united under the control of **Intesa Casse del Centro** and in the period registered an overall growth in profitability. This trend is noticeable in almost all operating margins and is originated both by higher income and by lower operating costs. More in particular, net incomes generated by each Saving Bank are the following: Cassa di Risparmio di Viterbo, 13.1 million euro (+55% with respect to September 2003); Cassa di Risparmio di Ascoli Piceno, 11.4 million euro (+20%); Cassa di Risparmio di Terni e Narni, 8.1 million euro (+12%); Cassa di Risparmio di Rieti, 7.2 million euro (+18%); Cassa di Risparmio di Foligno, 6.6 million euro (+14%); Cassa di Risparmio di Spoleto, 5.8 million euro (+14%) and Cassa di Risparmio di Città di Castello, 2 million euro (+32%).
With regard to the main balance sheet aggregates, loans to customers recorded an approximately 7.3% increase compared to December 2003 and direct customer deposits were practically stable (+0.3%). Indirect customer deposits rose to 4,773 million euro (+3.9%).

International Subsidiary Banks Division

The expansion of the Group's operations in the Eastern-European markets and the almost completed withdrawal from Latin-American Countries considerably improved the economic performance of the foreign banks network. In fact the Division closed the period with an operating margin of 307 million euro and an income from operating activities of 240 million euro.

Eastern Europe

The positive trend of the Hungarian economy favoured the operating activities of the **Central-European International Bank**

(CIB) group which registered a consolidated net income for the period close to 50 million euro with an approximately 25% increase compared to the same period of the previous year. This result was due to the rise in interest margin (+37%), resulting from higher volumes and spreads, as well as to the appreciable contribution from net commissions (+37%) and net profits on financial transactions (+13%). The rise in lending activities required higher provisions for risks and charges that, however, did not affect CIB's excellent performance.
Balance sheet figures confirmed the rise in operating volumes: as at 30th September 2004 loans to customers rose to 3,761 million euro (+16.4% from December 2003) and direct customer deposits increased to 2,667 million euro (+18.4%).

The Croatian macroeconomic scenario continued to record positive growth rates and the **Privredna Banka Zagreb (PBZ)** group achieved a net income for the first nine months of 2004 amounting to approximately 75 million euro with an 8% rise from September 2003. Net interest income was practically stable, the increase was mainly due to the considerable rise in non-interest income, especially with regard to net commissions, up by 13%, and to profits on financial transactions. Balance sheet figures as at 30th September 2004, compared to the end of the previous year, highlighted loans to customers for 3,173 million euro (+2.9%) and direct customer deposits for 4,026 million euro (+9.5%).

Also the **Vseobecna Uverova Banka (VUB)** group benefited from economic conditions favourable to the development of its operations. The period closed with a net income of 54 million euro, approximately 11% up from the corresponding figure of 2003. VUB's profitability was mainly due to the rise in net commissions (+20%) and in profits on financial transactions, in addition to the confirmation of the already appreciable interest margin (+1.4%). As at 30th September 2004, the main balance sheet aggregates recorded, compared to the previous year, loans to customers for 1,440 million euro (+11.6%) and direct customer deposits for 4,065 million euro (+10.6%).

The other geographic areas

In a mixed scenario, where a moderately positive economic context co-existed with a fragile socio-political situation, the **Banco Wiese Sudameris** group improved its contribution to the Group's consolidated financial statements with an economic result virtually at breakeven (–0.6 million euro) against a loss of 4.4 million euro as at September 2003. The economic performance, in consistent monetary terms (taking account of the exchange rate of the local currency against the euro), was characterised by a slight reduction in interest margin (–2%) and by a substantial rise in net commissions (+10.9%), offset by a lower contribution from financial transactions leading net interest and other banking income to a level approximately 5% down compared to 30th September 2003. More balanced conditions were however re-established with the high savings achieved in operating costs (–9.4%) and also partly with lower provisions and adjustments of various nature. In fact, income from operating activities equalled 6.7 million euro, against 2.1 million euro as at 30th September 2003, and absorbed the still substantial net extraordinary charges.
Balance sheet aggregates highlighted loans to customers for 1,162 million euro (–3.5% on the 2003 balance sheet) and direct customer deposits for 1,871 million euro (+2.1%).

Banque Sudameris S.A. – which practically almost terminated its activities as a bank holding company maintaining so far only the assets pertaining to its French subsidiary – closed the nine months of 2004 with a net income of 6 million euro. This result reflected a net interest and other banking income of 15 million euro, entirely absorbed by operating costs, and a key contribution coming from substantial net write-backs of various nature. Following the disposals already implemented, also balance sheet aggregates highlighted a considerable decrease.

Banca Intesa (France) mainly operates in the corporate sector, as reference bank for the Italian enterprises operating in France and offers a range of diversified services. The company is gradually withdrawing from all assets and liabilities not included in its assigned core business and transferred from the pre-existing Group entities in France from the merger of which the current subsidiary was established. The company closed the period with a net income of 14.7 million euro (3.8 million euro as at September 2003).

Product companies

The Product companies play a key role in favouring and supporting the Group's growth. Their activities cover the operating areas of medium- and long-term lending, leasing, factoring and tax collection.
Overall, the performance of these areas was positive, enabling the Division to virtually confirm its good operating profitability with an operating margin of 296 million euro, and to improve income from operating activities to 203 million euro.

Banca Intesa Mediocredito closed the statement of income as at 30th September 2004 with a net income for the period of 54.2 million euro, with a 29% increase compared to the September 2003 figure.
The improvement was mainly due to interest margin that, with 138.9 million euro, registered a 4.7% rise, on a consistent basis, with respect to the same period a year earlier. Instead, net commissions and other net operating income declined and reduced to +1.5% the improvement for net interest and other banking income. Operating costs were reduced (–3.4%) and thus operating margin (108.9 million euro) exceeded by 3.1% the corresponding figure as at September 2003. Provisions and net adjustments recorded a 2.3% increase. A significant contribution finally came from net extraordinary income that included the "elimination of registration for purely fiscal purposes".
Balance sheet figures showed, compared to the end of the previous year, a virtual stability in loans to customers (–1.4%) and a moderate contraction in direct customer deposits (–5.1%).

In the first nine months of 2004, **Banca CIS** recorded a net income of 9.7 million euro with a 7.8% reduction compared to the figure for the same period of 2003, adjusted, for a consistent comparison, to exclude the extraordinary income linked to the transfer of retail operations. Interest margin, due to the structural reduction in unit margins in the reference market, recorded the highest decrease (26.6 million euro; –10.3%). The drop was instead less evident in net interest and other banking income, as a result of a less marked decline in net commissions. Operating costs, in line with the same period of 2003 and net adjustments to loans, much lower due to substantial write-backs, drove net income from operating activities to 16.8 million euro, up by 10.7%.
The balance sheet aggregates, compared to December 2003, highlighted a rise of 4.7% in loans to customers and an approximately 15% increase in interbank funding, which represented 81% of overall funding.

In the nine months of 2004 **Intesa Leasing** stipulated – through the network of Group banks – 13,617 new contracts, for an overall countervalue of 1,906 million euro, with significant rises, compared to the same period of 2003, both in number (+9.1%) and in new investments (+30.9%), that were mainly related to the real estate sector (41% of the total) and to the ships and aeroplanes sectors (36% of the total). As at 30th September 2004, the portfolio of leased assets, net of relevant adjustments, totalled 6,480 million euro (+6.7% with respect to 31st December 2003). Implicit loans connected to leasing operations amounted to 5,186 million euro (+7.5%). As concerns the statement of income, net income for the period equalled 19.5 million euro, with a 5.3% reduction from the same period of the previous year. Net financial income, instead, equalled 18.8 million euro, against 20.2 million euro of September 2003.

Intesa Mediofactoring, closed the first nine months of 2004 with a net income of 26.9 million euro, up by approximately 50% with respect to 17.9 million euro as at September 2003. Net interest and other banking income, compared to the same period of 2003, recorded an increase close to 3% mainly attributable to the combined effect of the higher commission income from factoring activities (+1.1%), lower operating expenses (–23%) and the significant rise of net interest margin (+2%). Administrative costs highlighted a further drop both in payroll (–5.3%) and in other administrative costs (–3.6%) and also net adjustments to loans recorded a contraction of approximately 34%. The resulting income from operating activities was 58% higher than that of the same period of 2003. These appreciable results were achieved despite lower turnover in the period (–5.8%) and lower loans to customers, which dropped by 3.4%. Both reductions however were entirely attributable to the programmed contraction of activities towards certain customers.

The tax collection sector continued to be affected by an uncertain situation because of the slow progress in the legislation that should reform the tax collection system and the lack of clearness regarding means and magnitude of the compensation payable by the State for tax collection activities, did not compromise the operations of the Group's tax collection companies **Intesa Riscossione Tributi (IRT)**, **Esa.Tri.**, **E.Tr.** and **S.Es.I.T.**, that closed the first nine months with positive results. As already illustrated in the Half-year report, considering the expected legislative reform, a reorganisation was deemed advisable aimed at streamlining the Group's tax collection area and concentrating all tax collection activities in one company, identified in E.Tr., to which – with effect as of 1st July 2004 – IRT transferred its operations, essentially consisting of its stakes in Esa.Tri. and S.Es.I.T. IRT will later be merged in Banca Intesa. On an individual basis, the companies recorded the following net incomes: 9 million euro for IRT, 19 million euro for Esa.Tri., 7.7 million euro for E.Tr. and 0.5 million euro for S.Es.I.T.

Central structures

The Business Plan assigns to the central structures, namely the Parent Company's Central Departments and the Service Companies, the task of sustaining and favouring ongoing processes aimed at achieving growth and improvement. In particular, the results of the activities performed by the Service Companies are illustrated hereunder.

As regards **Intesa Sistemi e Servizi (ISS)** last July the Board of Directors of Banca Intesa approved the merger project of ISS with effect as of 1st January 2005 when its activities will be progressively transferred to an *ad hoc* ICT Systems Department, already created within the Parent Company. The company closed the period with a net income of 0.4 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, reducing the costs of these activities and increasing the capacity of recovery. The company closed the period with a net income of 23.2 million euro, compared to 10 million euro recorded in the same period of the previous year.
During the period no loans were acquired from Group companies and as at 30th September 2004 IGC held a nominal portfolio amounting to 9.3 billion euro, with a net book value of 1.6 billion euro, while the doubtful loan portfolio under management on behalf of Group companies amounted to 6 billion euro. In the period the company recorded 247.7 million euro of repayments on the proprietary doubtful loan portfolio, including write-backs of adjustments and write-backs on repayments of 67.2 million euro, as well as 251.3 million euro of repayments on the doubtful loan portfolio under management. On Intesa SEC NPL's portfolio repayments equalled 77.4 million euro.

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.

Market risks originated by the Finance and Treasury area, the Capital Markets area (which includes Banca Caboto) and the positions of the Central Departments, highlighted an average risk equal to 17.4 million euro as at 30th September 2004. The figure is referred to the position of Banca Intesa and Banca Caboto, in Italy and in the foreign branches (London, New York, Hong Kong). Risk is estimated by calculating VaR in time-series simulation (99% confidence level and one working day holding period) applied to open exposure to interest rates, CDS spreads, stock prices, foreign exchange and implicit volatilities. To this are added the risk of the alternative investment portfolio and correlation risk.

(average values in millions of euro)

Daily value at risk (VaR) of the trading portfolio of Banca Intesa and Banca Caboto			
	30/09/2004	**30/06/2004**	**31/12/2003**
Banca Intesa	15.2	17.3	20.0
Banca Caboto	2.2	2.3	2.4
Total	**17.4**	**19.6**	**22.4**

The risk profile of Banca Intesa's trading portfolios (Finance-Treasury and Central Departments, inclusive of strategic trading) was still characterised by linear or plain vanilla instruments, while a greater contribution to option and exotic risks stemmed from the trading activities of the Capital Markets area (that includes Banca Caboto). During the third quarter Banca Intesa's risk profile was characterised by a progressive decrease in the weight of interest rate risk, which almost decreased to the size of equity risk (stable the portion invested in funds and the foreign exchange risk component). The contribution to risks of the operations of Milano continued to be far higher than that of foreign branches (concentrated on trading in interest rate and foreign exchange markets). Also the risk profile of Banca Caboto presented a downward trend during the quarter, and interest rate and equity risk remained the most important of the portfolio.

Credit derivatives

The daily spread VaR of the single name trading CDS portfolio is combined with the monthly CreditVar analysis (applied to the entire CDS portfolio, both in the trading and banking book) which estimates default risk. At the end of the quarter CreditVar was decreasing and totalled 13.2 million euro (one working day holding period and 99% confidence level). The adopted methodology is based on the simulation of the value of the portfolio in presence of numerous scenarios envisaging the deterioration of counterparty creditworthiness and of underlying assets, as well as their potential bankruptcy.

Operations in credit derivatives also includes activities in Collateralized Debt Obligations (CDO) concentrated in the trading book and, in terms of notional, mainly made up of synthetic senior and supersenior positions (with AAA rating). The potential impact of

(percentage on area total)

Contribution of risk factors to overall VaR					
	30/09/2004				
	Shares	Funds	Rates [(1)]	Foreign Exchange	Correlation [(2)]
Banca Intesa	29%	34%	32%	5%	0%
Banca Caboto	20%	0%	63%	0%	17%
Total	**28%**	**31%**	**36%**	**4%**	**2%**

[(1)] Including spread Var for the single name trading CDS portfolio.
[(2)] The correlation represents the estimated effect deriving from the relation which links the various risk factors: the tighter the relation, the higher the correlation.

bankruptcy is applied to specific *tranches* via loss distribution reconstruction using MonteCarlo simulation.

ALM

The Asset & Liability Management (ALM) system covers Banca Intesa's entire on- and off-balance sheet operations as regards the banking book; currently considerable shifts in the yield curve (200 bps) would produce negligible changes in market value compared to the size of capital for supervisory purposes.
The Liquidity Policy system, operational from the beginning of the year, showed a substantial equilibrium in the average maturities of investments and funding as well as good degree of diversification both in short-term funding contracts and in the lending counterparties.

Credit risk

The usual weekly analysis and monitoring of credit risk of large international customers (in terms of internal and agency ratings, spreads and expected default frequencies) showed in the last quarter a further reduction in overall exposure, a strengthening in concentration in the European area and an improvement in the portfolio's average risk.

Country risk

During the third quarter of the year, the monitoring of Banca Intesa's exposure to Country risk continued.
As part of this monitoring a series of instruments were developed further, such as for example a new model for rating Countries, an extension of the new automated procedure for monitoring exposure (MRP) and a more precise estimate of Credit VaR, which enable to identify with greater accuracy and timeliness with respect to the past the Bank's overall exposure to Countries at risk. The perimeter of this monitoring is more estensive than the perimeter of Country risk considered in financial statements and for supervisory purposes. Nonetheless coverage requirements in any case confirm that provisions already made are in any case congruous.

Operational risk

The Risk Management Department is also in charge of the development of an operational risk monitoring system. The realisation of an internal model, developed consistently with the approach used for credit and market risks, enables both to calculate the economic capital to cover operational risk, and to be compliant with the most advanced standards required by the future framework on capital ratios (Basel II).
Gruppo Intesa is fine-tuning its framework for operational risk management, focused on the realisation of a new risk management model as well as the application of standard methodologies and instruments which enable it to calculate risk exposure, to monitor the losses and to define the mitigation actions for each operating business unit. Banca Intesa's Internal Model is devised to combine all the main qualitative and quantitative information sources homogeneously. The qualitative component focuses on the valuation of the risk profile of each unit and is based on the assessment of significant scenarios. The quantitative component is instead based on the analysis and on statistic models containing historical loss data.

Shareholder base and Banca Intesa's stock price performance

Shareholder base

Banca Intesa's shareholder base as at 30th September 2004, detailed in the following table, includes reference shareholders which are part of a Voting syndicate and hold 45.88% of the Bank's ordinary shares (40.77% is vested in the Syndicate) and approximately 195,000 shareholders holding 54.12%.

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	17,294,793	358,075,975	5.76	6.05
including					
• *Assicurazioni Generali*	*1,000,000*	*–*	*1,000,000*		
• *Alleanza Assicurazioni*	*248,169,637*	*67,201*	*248,236,838*		
• *other subsidiary companies*	*91,611,545*	*17,227,592*	*108,839,137*		
Fondazione CARIPARMA	254,375,410	6,139,792	260,515,202	4.30	4.40
"Gruppo Lombardo"	204,839,873	2,882,302	207,722,175	3.46	3.51
including					
• *Banca Lombarda e Piemontese*	*139,963,274*	*204,336*	*140,167,610*		
• *I.O.R.* (*)	*42,917,536*	*2,677,966*	*45,595,502*		
• *Mittel*	*21,959,063*	*–*	*21,959,063*		
Commerzbank A.G.	200,290,976	65,642,610	265,933,586	3.39	4.50
Total Shareholders in the Syndicate	**2,411,882,692**	**302,366,124**	**2,714,248,816**	**40.77**	**45.88**
Total other Shareholders	–	3,201,458,410	3,201,458,410		54.12
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.

It is hereby notified that the Management Committee of the Voting syndicate of Banca Intesa, held on 18th October 2004, acknowledged that within the term of 15th October 2004 Commerzbank had given notice of cancellation of its membership to the Shareholders' Agreement due to expire on 15th April 2005. Moreover, the Management Committee acknowledged that the Agreement has been tacitly renovated for three years, until 15th April 2008, among the other five Syndicate members (Crédit Agricole, Fondazione Cariplo, Generali group, "Gruppo Lombardo" and Fondazione Cariparma) and confirmed Giovanni Bazoli as Chairman.
Lastly, it is hereby notified that I.O.R. and Mittel communicated that as of 15th April 2005 they will reduce their syndicated holdings from 0.72% to 0.50% and from 0.37% to 0.25% respectively. Consequently, the syndicated holding of "Gruppo Lombardo" will decrease from 3.46% to 3.12% of the ordinary share capital of Banca Intesa.

Stock price performance

The fact that the expected economic recovery did not manifest itself, the uncertainties of the geopolitical situation and the tensions on oil prices led European stock markets to close the first 9 months of the year on the same level of the end of 2003, with a +1.5% rise of the DJ Eurostoxx index from the beginning of the year. On average the Italian market slightly outperformed the other markets and recorded in the same period a 5.5% progress. The domestic banking sector generally underperformed the market and closed the first nine months with a modest 1.4% decrease, compared to a stable trend of European banks (the European banking index recorded a +0.2% growth rate from the beginning of the year).
After a negative performance in the first four months of the year with a 2.635 euro minimun in April (–15% from the beginning of the year), the Banca Intesa ordinary share progressively recovered and closed the first nine months of the year with a modest 1.3% decrease, practically in line with the performance of Italian bank stocks. The Banca Intesa saving share instead registered a 5.1% progress from the beginning of the year, reducing its discount with respect to the ordinary share to 22%, from 27% of the end of 2003.

It must be noted that last April Banca Intesa distributed, relative to the 2003 fiscal year, dividends for a total of 330 million euro and assigned for free to shareholders 318,486,977 shares, with a carrying value of 1,013 million euro.

Significant subsequent events

Subsequently to the date of close of the period under examination, on 6th October 2004, Banca Intesa's Board of Directors approved the settlement between its subsidiary Nextra and the Commissioner of the Parmalat group related to the bonds issued by Parmalat B.V., purchased by Nextra in June-July 2003, for a principal amount of 300 million euro and subsequently resold in October of the same year.

The settlement was closed on 14th October and the related charge of 160 million euro was already recorded in Nextra's statement of income as at 30th September. The consequent loss of 57 million euro which results in the accounts of the subsidiary at that date will be covered by the shareholders Banca Intesa and Intesa Holding Asset Management.

In no way will either the clients or capital strength of Nextra be affected by the extraordinary settlement cost.

In the consolidated statement of income at that date, such cost is offset by the extraordinary income from the Group's real estate companies.

The settlement will forever preclude the admissibility of any revocatory action and/or action for damages against both Nextra and Gruppo Intesa referred to the aforementioned operation and the settlement was pursued for the sole purpose of preventing the spreading of any concerns among customers in the wake of Nextra's involvement in long-lasting legal actions. Also in the stipulation of the settlement agreement, Nextra confirmed the fairness of its behaviour and, in particular, its absolute ignorance of the insolvency situation of the Parmalat group.

Projections for the whole year

The positive results achieved in the first nine months enable to confirm the indications already provided in the Half-year report of a net income for 2004 significantly higher than the figure for 2003.

The Board of Directors

Milano, 8th November 2004