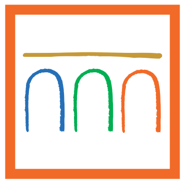

Banca Intesa

Consolidated report as at 31st March 2005

This is an English translation of the Italian original "Relazione consolidata al 31 marzo 2005" and has been prepared solely for the convenience of the reader.

The version in Italian takes precedence and will be made available to interested readers upon written request to Banca Intesa S.p.A. Corporate image and marketing communications Via Monte di Pietà, 8 20121 Milano, Italy Fax +39 02 879.63638.

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Consolidated report as at 31st March 2005

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, General Management, Board of Statutory Auditors and Independent Auditors

Board of Directors

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

* *Members of the Executive Committee*

General Management

General Manager	Corrado Passera

Board of Statutory Auditors

Chairman	Gianluca Ponzellini
Auditors	Rosalba Casiraghi Paolo Andrea Colombo Franco Dalla Sega Livio Torio

Independent Auditors RECONTA ERNST & YOUNG S.p.A.

The first quarter of 2005

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

As of 1st January 2005 companies with securities listed in the markets of the European Union must prepare their consolidated financial statements according to IAS/IFRS [1].
Banca Intesa decided to adopt the new principles starting from this first Consolidated Report as at 31st March 2005.

The application of the new standards led to important modifications in the representation of transactions, in the valuation of assets and liabilities and in the very structure of the financial statements.
The rules which discipline the first-time adoption of IAS/IFRS require the preparation, with the same principles, of at least one comparison period. However, the delay with which IAS 39 – which is by far the most significant for the banking industry – was homologated led the European legislator to exclude that comparative figures for 2004 need comply to IAS 39. Therefore, figures for 2004 and as at 31st March 2004 are not comparable with reference to the valuation of financial instruments.
However, to permit a comparison as consistent as possible, the effects on figures as at 1st January 2004 and for 2004 of the application of IAS 39 from 1st January of last year have been estimated.

This first Consolidated report of 2005 contains the new compulsory forms proposed by the Bank of Italy in a first consultation document diffused to the banking industry last February.
Therefore, these are provisional forms, which may be subject to modifications.
In commenting operations development in the period more condensed tables are used – these may also be subject to improvements – which present the figures for 2004 comprehensive of the estimated effects of IAS 39 and reclassified to consider the contribution of the various operating areas.
Lastly, capital ratios are determined applying the so-called "prudential filters" supplied by the Basel Committee through press releases in 2004.

[1] International Accounting Standards (IAS) have been issued by the International Accounting Standards Board (IASB). IAS issued after July 2002 have been called International Financial Reporting Standards (IFRS).

Gruppo Intesa in the first quarter of 2005 Executive summary

Results for the first three months

The analysis of results for the first quarter of 2005 must be carried out considering that, with respect to previous financial statements, the accounting principles used to prepare the financial statements have been modified, new compulsory forms have been used and the contents of certain captions have been changed.

As already described, for the purpose of permitting a consistent comparison between the figures for the first quarter of 2005 and those for the first quarter of 2004, the figures for the previous period have been reconstructed by applying the new principles and using, where necessary, reasonable estimates. The comparison, which presents evident complexities, is overall based on prudential decisions and is a reliable presentation of operations development between the two periods.

The difficulties essentially refer to the reconstruction of transactions to be recorded using IAS 39 which are, for the banking industry, by far the most significant. In fact, this principle sets out the recognition and measurement of loans, financial assets held for investment and trading and hedging transactions.
These problems and critical issues, which were further accentuated by the delay in the homologation of IAS 39, were clear for the Community Legislator which allowed the companies involved not to restate the figures for the first quarter of 2004 as concerns transactions provided for by IAS 39 as well as IAS 32.

Two statements of income for the first quarter of 2004 and for the whole of 2004 have been reconstructed. The first without the effects of the application of IASs 32 and 39, as requested by the Legislator, the second instead considers these effects.
The comments hereafter refer to the latter, opportunely reclassified.
Consolidated net income for the first quarter of 2005 amounted to 620 million euro, up by 45% from the consistent figure of the first quarter of 2004 (426 million euro). It must be noted that consolidated net income for the same period of the previous year, determined based on former accounting principles totalled 418 million euro.

Operating income recorded a 10% rise, thanks to the 4.1% rise of net interest income, the 15.1% increase in net fee and commission income and the 65% expansion in profits on trading, which includes the various components of financial transactions.

The decrease in operating costs continued, on a 3.8% average, which led to an operating margin of 1,191 million euro, over 30% higher than in the first quarter of 2004.

Net adjustments to loans remained on the same levels as in the previous year, provisions for legal disputes and amounts reclaimed increased and profits on equity investments rose, income before tax from continuing operations exceeded one billion euro, with an almost 50% growth rate with respect to the same period of the previous year.

Net income for the first quarter of 2005, despite the rise in the tax rate, totalled 620 million euro, with a 45.5% increase with respect to the consistent figure for the same period of 2004.

The most significant balance sheet aggregates highlight loans to customers which slightly decreased to 156.9 billion euro from 159.4 billion euro of December 2004 (-1.6%).

Direct customer deposits totalled 172.1 billion euro and posted a 4% decrease, especially for the reduction in repurchase agreements and bond issues.

Indirect customer deposits recorded a 1.3% progress ascribable exclusively to assets under administration and in custody, while managed funds continued to be affected by the adverse market trend though it maintained the levels of December 2004, especially thanks to the strong development of insurance products.

The 2003/2005 Business Plan

Risk profile. The objective set out in the Business Plan of decreasing exposure in terms of risk-weighted assets with large corporates, especially international without sound relations with Italy, at the same time shifting in the asset mix to the retail business may be considered fully achieved. In fact, in March 2005 the retail business reached 70% of loans to customers, outperforming 68% indicated as the target for 2005 in the Business Plan.

Capital ratios. The virtuous trend achieved by the Group in terms of risk profile, the sale of non-strategic assets, the improvement in economic results and the optimisation of capital deployment, determined the improvement in capital ratios, that as at 31st March 2005, despite the effects of the first-time adoption of IAS/IFRS, remained at absolutely strong levels with the Tier 1 ratio – that is the ratio between Tier 1 capital and risk-weighted assets – at 7.76% and the Core Tier 1 ratio – that is the ratio between Tier 1 capital net of preference shares and risk-weighted assets – at 6.90%. The positive valuation of the results achieved came from Standard & Poor's, that improved from stable to positive the outlook for the ratings of long-term (A) and short-term debt (A-1).

Platforms for growth. Various projects aimed at pursuing growth and value creation were implemented in the first quarter of 2005 and referred to various areas of interventions.

- *New products*: the launch of numerous new products continued in 2005, supported by considerable advertising investments, among which:
  - *Mutuo 95:* for the purpose of consolidating leadership on the real estate mortgage market, Banca Intesa commercialised a new product line called "Mutuo 95", which finances up to 95% of the cost of the asset;
  - *Conto Intesa PMI,* the first current account for SMEs which satisfies basic needs, common to all SMEs and allows the customer to choose all additional services.
- *Training:* to confirm the importance and the priority attributed by the Business Plan to the valorisation and professional development of personnel, the target of 800 thousand man-days of training set out in the three-year plan has been achieved for over 80% with approximately 64,000 man-days delivered in the first quarter of 2005.

New strategic initiatives

According to the initiatives for growth set out in the Business Plan, various agreements for the acquisition of new equity stakes in Italy and abroad were concluded in the first quarter of 2005.

At the end of March, Banca Intesa, Banche Popolari Unite (BPU), Banca Popolare di Ancona (BPA, BPU group) and five minority shareholders of BPA signed an agreement for the sale of 99.9% of the share capital of Cassa di Risparmio di Fano (Carifano) owned by BPA. A 30% stake will be acquired by Intesa Casse del Centro, a Gruppo Intesa holding company which controls seven Savings Banks in Central Italy, for a consideration of 98 million euro; the remaining 69.9% stake will be acquired by a newco of the above-mentioned five minority shareholders of BPA. Gruppo Intesa will finance the acquisition by the vehicle company with 182 million euro, through a five-year loan, guaranteed by the entire stake in Carifano, and will thus receive the related voting rights. Intesa Casse del Centro will purchase the stakes in Carifano held by the vehicle company after at least 36 months have elapsed from the date of the agreement finalisation. With this transaction, Intesa Casse del Centro significantly strengthens its presence in the Marche region where its branches' market share will increase from 5% to 8.5%, while the overall presence of Gruppo Intesa in the region rises to 107 branches, corresponding to a 10% market share. The finalisation of the transaction is subject to obtaining the relevant authorisations required by the law.

As concerns foreign operations, in February Banca Intesa and the controlling shareholders of **Delta Banka Belgrade**, signed a share purchase agreement for the acquisition of 75% plus one share for a consideration of 277.5 million euro, with the possibility

under certain circumstances of acquiring up to 100% of the voting share capital of Delta Banka. The transaction is expected to close early in the second quarter of 2005, after the regulatory authorisations in Serbia and Italy. Delta Banka is the second largest bank in Serbia and Montenegro in terms of total assets, has a nationwide network of 144 branches and 16 outlets serving over 400,000 clients.

Again in February Banca Intesa and **ABS Banka Sarajevo**, reached an agreement on the terms of a tender offer for ABS Banka's shares. The tender offer will be launched on 100% of the share capital of ABS Banka for a total cash consideration of approximately 11.9 million euro. Its closing is conditional, amongst other elements, upon no less than 50% plus one shares of the share capital of ABS Banka being tendered by its shareholders, although Banca Intesa may, at its sole discretion, decide to accept a lower percentage. The tender offer is expected to take place in June, following the approval of the regulatory authorities of Bosnia and Herzegovina and Italy. ABS Banka has a nationwide network of 41 branches serving 100,000 clients.

Lastly, in April, Banca Intesa and the shareholders of **Small Business Credit Bank (KMB)** of the **Russian Federation**, which has over 50 branches in all the important cities and more than 35,000 clients, signed a share purchase agreement for the acquisition of a 75% stake minus one share of KMB. Banca Intesa will pay a consideration of 90 million dollars, thus valuing the whole bank at 120 million dollars. Banca Intesa also signed an agreement with EBRD (the European Bank for Reconstruction and Development), which is one of the founding shareholders of KMB and will keep a 25% stake plus one share in the bank, that entails a put-call option exercisable from 2010. The finalisation of the transaction is expected to take place in the summer, following approval of relevant regulatory authorities; once the acquisition has been finalised the bank will be renamed Intesa KMB.

Gruppo Intesa Financial highlights

	31/03/2005	31/03/2004 including IAS 39 (*)	% change	31/03/2004 except IAS 39 (§)
Statement of income (in millions of euro)				
Net interest income	**1,334**	1,282	4.1	1,246
Net fee and commission income	**955**	830	15.1	824
Profits (Losses) on trading	**185**	112	65.2	225
Other operating income (expenses)	**0**	23		31
Operating income	**2,507**	2,280	10.0	2,359
Operating costs	**-1,316**	-1,368	-3.8	-1,383
Operating margin	**1,191**	912	30.6	976
Net adjustments to loans and receivables	**-193**	-194	-0.5	-214
Net income	**620**	426	45.5	451

	31/03/2005	31/12/2004 including IAS 39 (*)	% change	31/12/2004 except IAS 39 (§)
Balance sheet (in millions of euro)				
Loans to customers	**156,915**	159,447	-1.6	159,568
Net financial assets held for trading	**32,496**	27,883	16.5	34,255
Financial assets available for sale	**4,979**	5,157	-3.5	–
Securities	**8,199**	8,391	-2.3	14,230
Total assets	**261,950**	271,105	-3.4	276,135
Customer deposits	**172,113**	179,282	-4.0	182,975
Indirect customer deposits	**296,862**	293,000	1.3	293,000
including Managed funds	***118,080***	*117,905*	*0.1*	*117,905*
Net interbank position	**-11,438**	-5,770	98.2	-5,492
Shareholders' equity	**13,886**	13,969	-0.6	15,635

Operating structure	31/03/2005	31/12/2004	Change amount
Staff (number) (#)	**57,919**	57,632	287
Branches (number)	**3,681**	3,698	-17
including Italy	***3,056***	*3,080*	*-24*
Abroad	***625***	*618*	*7*

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments.
(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments.
(#) Figure restated for consistency of consolidation area as at 31/12/2004.

Financial ratios

	31/03/2005	31/12/2004 including IAS 39 (*)
Balance sheet ratios (%)		
Loans to customers / Total assets	**59.9**	58.8
Securities / Total assets	**3.1**	3.1
Direct customers deposits / Total assets	**65.7**	66.1
Managed funds / Indirect customer deposits	**39.8**	40.2
Statement of income ratios (%)		
Net interest / Operating income	**53.2**	54.4
Net commission / Operating income	**38.1**	36.7
Operating costs / Operating income	**52.5**	59.1
Net income for the period / Average total assets (ROA) (&)	**0.9**	0.7
Net income for the period / Average shareholders' equity (ROE) (&)	**19.5**	15.8
Risk ratios (%)		
Net doubtful loans / Loans to customers	**1.9**	1.9
Cumulated adjustments on doubtful loans / Gross doubtful loans to customers	**76.3**	76.2
Capital ratios (%)		
Tier 1 capital net of preference shares / Risk-weighted assets (Core Tier 1)	**6.90**	6.69
Tier 1 capital / Risk-weighted assets	**7.76**	7.64
Total capital / Risk-weighted assets	**10.94**	11.02
Risk-weighted assets (in millions of euro)	**184,528**	182,042
Basic earnings per share (basic EPS) - euro (&)	**0.400**	0.292
Diluted earnings per share (diluted EPS) - euro (&)	**0.396**	0.290

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments.
(&) Figures for the period have been annualised.

IAS/IFRS first-time adoption

Introduction

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

EU regulation

For this purpose, in 2002 the Commission issued a Regulation (1606/02 of 19th July 2002) for the implementation of uniform accounting policies from 2005. EU listed companies are now required to apply IAS/IFRS in the preparation of their consolidated financial statements. This process is aimed at making listed companies' financial information comparable and of a high quality, to enhance competition, favour market expansion and improve investor protection.
IFRS are issued by the International Accounting Standards Board® (IASB), an independent body set up to develop high-quality accounting standards in the public interest. The aforementioned EU Regulation 1606/02 sets forth that such standards are homologated by the European Commission and published in the Official Journal of the European Union.

The homologation process of the new standards has been completed. More specifically, IAS 39 was ratified in December 2004 and introduces far-reaching innovations in the accounting treatment of financial instruments compared to the accounting principles previously adopted by most European Countries. Its approval required considerable effort from EU and national bodies to reach common conclusions. Certain provisions of IAS 39 are still under discussion and have therefore been carved out at the time of homologation.
The list of IAS/IFRS approved by the European Commission is included in the attachments.

Italian legislation

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

Main changes introduced by IAS/IFRS

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

New recognition and classification criteria

IAS/IFRS introduced a number of important changes to the recognition criteria of assets and liabilities, mainly arising from the general principle of economic substance over legal form. IFRS allow the recognition or derecognition of an item only when the risks and rewards incidental to ownership of the assets being purchased or sold have been actually transferred. Contrary to Italian accounting principles, under which the transfer of legal title is in itself sufficient to recognise an asset in the financial statements of the buyer (and, similarly, to derecognise it from the financial statements of the seller), IAS/IFRS require that the risks and rewards of ownership be substantially transferred, i.e., that the rights to receive the cash flows stemming from the asset sold be transferred.
Consequently, if the transaction does not meet the requirement for derecognition, the related assets continue to be recorded in the seller's financial statements, even when title thereto has been transferred.
The effect of the new treatment is particularly significant when applied to finance lease transactions, for which the use of the so-called "financial method" is required. Under such method, the lessor should recognise a receivable while the lessee should recognise the leased asset and related payable. The effect is also significant when the new treatment is applied to securitisation and factoring transactions, for which special attention should be paid to ascertain whether the risks incidental to the assets have been substantially transferred.

Further changes relate to the initial recognition of financial instruments.
Financial assets and liabilities should normally be initially recognised at their fair value[2] adjusted by any transaction costs or revenues, which are therefore capitalised and attributed to profit and loss over the term of the transaction, using the effective interest rate (the so-called "amortised cost"). Any difference between the market value and the consideration paid/received in a transaction should be recognised in the statement of income upon initial recognition.
With reference to combined financial instruments, i.e., those comprising a host contract and an embedded derivative, IAS/IFRS require that the latter be recognised separately from the host contract, if the contract as a whole is not measured at fair value or when the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract.

Changes in the recognition criteria also affect certain types of intangible assets and provisions to the allowances for risks and charges. With reference to the former, under IFRS, expenses incurred for research, advertising, training, restructuring and internally generated trademarks and other rights do not qualify for recognition as intangible assets. As concerns the allowances for risks and charges, provisions can be made only when it is probable that an outflow of resources will be required to settle an existing obligation and a reliable estimate of the amount of the obligation

[2] Fair value is the amount for which an asset can be exchanged or a liability settled between knowledgeable, willing parties in an arm-length transaction.

can be made. Such estimate should also consider estimated payment times. Recognition of so-called "share-based payments" (usually when an entity's employees or directors are granted options to subscribe the entity's shares as consideration for their services) has changed dramatically under IFRS. The accounting policies previously applied by the Group did not require that any expense be recognised in the statement of income, but rather that an increase in share capital be recognised when options were exercised. IFRS require that granted options be carried at fair value and that an equivalent amount be recognised in the statement of income as labour costs.

With respect to the classification of assets and liabilities, changes relating to financial instruments are particularly important. IAS/IFRS require loans and receivables, payables, securities and derivatives be accounted for on the basis of the purposes for which an entity holds them rather than their nature. The classification of financial instruments should be established upon initial recognition and can be subsequently modified only under restricted conditions. IAS 39 identifies four categories of financial instruments: financial assets and liabilities designated at fair value through profit and loss (basically, assets and liabilities held for trading purposes, and those assets that the entity decides to measure at fair value, regardless of the reasons for which it holds them), financial assets available for sale, investments held to maturity, loans and non-traded financial liabilities[3]. The classification of financial instruments is relevant also for the purposes of their valuation, since the first two categories are to be measured at fair value while the other two at cost or amortised cost[4].

Another significant classification change relates to equity investments. Previous accounting policies allowed an entity to classify any investment in equities as an equity investment. IFRS permit such classification only for investments in subsidiaries, associates or jointly controlled entities. All other equities should be classified as financial assets designated at fair value through profit and loss or financial assets available for sale.

New measurement criteria

The main changes in measurement criteria relate to financial instruments, fixed assets and intangibles and post-employment benefits.
As mentioned above, financial instruments are to be measured at fair value, in case of derivatives held for trading or available for sale, and at cost or amortised cost, in case of investments held to maturity or loans, receivables and payables. Any profits or losses arising from the measurement of trading instruments must be recognised in the statement of income while those relating to assets available for sale are recognised in equity until they are realised. Since non-hedging derivatives were already measured at fair value under previous accounting policies, the main change introduced by IFRS relates to the application of fair value measurement to instruments that are not listed in an active market, the fair value of which is determined using internal measurement models that incorporate other observable market parameters.

IAS/IFRS require financial instruments other than those classified as financial assets and liabilities designated at fair value through profit and loss to be systematically assessed for impairment (i.e. that the book value of the asset is not fully recoverable). Such assessment must be carried out either individually or collectively (on groups of assets with similar risks). Contrary to previous accounting policies, determination of impairment losses should consider the estimated recovery times as well as estimated recoverable amounts.

[3] Categories of financial instruments provided for by IAS 39:
- assets held for trading, which include the assets which are bought to be sold in the short term, or which are part of portfolios which are managed together for the purpose of realising profits in the short term, as well as the assets which the entity in any case decides to record at fair value through profit and loss;
- assets held to maturity, non-derivative assets with a fixed maturity and fixed or determinable payments for which there is the intention and capacity to hold the assets to maturity;
- loans and receivables, non-derivative assets with fixed or determinable payments, not listed on an active market;
- assets available for sale, which are specifically designated as such or in any case are determined as residual since such assets do not fit in the previous categories.

[4] Amortised cost differs from cost since it requires the progressive amortisation of the differential between book value and nominal value of an asset or liability on the basis of the effective interest rate.

An issue related to financial instrument measurement is the accounting treatment of derivatives hedging financial risks and the related hedged items. Under IAS/IFRS, there are the following three different types of hedging relationship: fair value hedges of financial assets and liabilities, where changes in the fair value of both the hedged item and hedging derivative are recognised through profit and loss; cash flow hedges and hedges of net investments in foreign operations, where changes in the fair value of the hedging derivative are recognised in equity (while the hedged item is carried at cost or amortised cost). This criterion derives from the requirement to measure all derivatives (including hedging derivatives) at fair value. On the contrary, under previous accounting policies, hedging derivatives were carried at cost, in line with the criterion applied to hedged items.

As regards fixed assets and intangibles, changes relate to the option given to an entity to recognise such items at fair value, as an alternative to the purchase cost, (with changes in fair value recognised in equity, except for those relating to real estate investments [5], which should be recognised through profit and loss) and the substitution of regular amortisation for intangibles with indefinite useful lives (as, for instance, goodwill) by the performance of "impairment tests", i.e., an entity shall assess whether the assets have been impaired. IAS/IFRS require fixed assets carried at cost be amortised on the basis of their useful lives, or separately over the useful lives of the individual components forming them, if different.
Under IFRS, pension plans, and all post-employment benefits in general, are classified into the following two categories: defined contribution plans, where only contributions due by the entity are recognised, and defined benefit plans, where the allocation should include an actuarially-determined estimate of the amount that the entity will pay upon completion of employment.

First-time adoption of international accounting standards

Since a considerable number of entities are involved in the transition to IFRS, IASB issued a special standard, named IFRS 1, which regulates first-time adoption in a consistent and coordinated fashion. Such standard requires:
- the preparation of a IAS/IFRS-compliant opening balance sheet at the transition date;
- the application of IAS/IFRS in the preparation of the first set of IFRS-compliant financial statements, including all comparative figures presented (with a number of exceptions, which are mandatory, and exemptions which are optional, expressly provided for by IFRS 1);
- the preparation of disclosures on the impact of IFRS adoption.

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

The opening balance sheet as at 1st January 2004, and as at 1st January 2005 for financial instruments and insurance contracts, should be prepared in accordance with IAS/IFRS, by:
- recognising all assets and liabilities whose recognition is required by IFRS (thus including those not required by local

[5] Real estate investments are the real estate assets held for the purpose of receiving a profit and/or benefiting from a rise in value.

accounting principles);
- derecognising all assets and liabilities which were recognised under local accounting principles but do not qualify for recognition under IAS/IFRS;
- reclassifying all recognised assets and liabilities in line with the new requirements;
- measuring assets and liabilities in accordance with IAS/IFRS.

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

First-time adoption of IAS/IFRS by Gruppo Intesa

Upon first-time adoption, the Group was required to choose how to classify financial instruments, whether to adopt certain allowed alternative treatments and whether to apply any of the exemptions (which are optional) from backdated application set out in IFRS 1.

Moreover, Gruppo Intesa decided to use the faculty provided for by IFRS 1 and applied IAS 32 and IAS 39 to financial instruments from 1st January 2005. Accordingly, figures as at 31st December 2004 and as at 31st March 2004 are not comparable as concerns the measurement of financial instruments. However, in order to make comparison as consistent as possible, the Group has estimated, on the basis of available data, the effects that would have arisen on the figures as at 1st January 2004 and for the year ended as at 31st December 2004 if the Group had applied IAS 39 from 1st January 2004.

Gruppo Intesa reclassified its financial instruments (comprising securities, loans and receivables, payables, derivatives and equity investments) in accordance with the classification criteria required by IAS/IFRS under a specific provision of IFRS 1. Such provision allows an entity to use those categories upon first-time adoption, waiving the general rule that provides for using such classification exclusively when the financial instrument is acquired.
Gruppo Intesa decided not to take the option to measure any asset at fair value (fair value option), regardless of its function.

Securities have been mainly classified as financial assets held for trading. With reference to the management of the investment portfolio (now "Investments held to maturity"), the Group revised the relevant standard resolutions leading to a reduction in this portfolio. Certain unlisted securities subscribed for the purpose of providing financing to the issuer have been classified as loans to customers. Those securities that do not qualify for recognition in one of the above categories have been classified as "Financial assets available for sale".

Loans to customers and due from banks have maintained their classification, both when generated by Group companies and when acquired from third parties. Repurchase agreements, trade receivables and finance lease receivables are still classified as loans and receivables (for the latter the Group already used the so-called financial method for the consolidated financial statements). On the other hand, with respect to receivables arising from factoring transactions, since IFRS do not specifically regulate such transactions, especially those where receivables are factored under risk-mitigation clauses (which is a typical contractual characteristic in the Italian market), the Group maintained the recognition of the related financing only to the extent of the amount advanced on the portfolio factored with recourse (which, contrary to previous accounting policies, is now not accounted for since it is recognised by the transferor). As a general rule, receivables acquired without recourse have been recognised after having verified that no contractual provisions exist such as to make them not eligible for recognition.

Funding from customers and banks have been classified as in the past, as due to banks and due to customers, securities issued and subordinated liabilities.

Derivatives have been classified, according to their purpose, as trading or hedging derivatives. Trading derivatives have been classified as assets/liabilities held for trading, respectively based on their positive or negative carrying value. Hedging derivatives, if designated as "effective" hedges, have been recognised as hedging derivatives under assets, if positive, and liabilities, if negative. In the case of "non-effective" hedges, or for hedging relationships that do not qualify for

hedge accounting under IAS/IFRS, derivatives have been classified as held for trading.

Equity investments have been classified as such only when relating to investments in subsidiaries, associates and jointly controlled entities. All other equity investments have been classified as "financial assets available for sale", except when, in limited cases, the Group was negotiating their disposal and the equities have been classified as "financial assets held for trading". In consideration of its peculiarity, the stake in the Bank of Italy is recorded at cost, though not consolidated. In accordance with IFRS and their interpretations, especially SIC 12, the area of consolidation has been revised to include certain subsidiaries for which full consolidation is required. Such subsidiaries were previously excluded from consolidation since they do not carry out banking or financial activities, or, if they do, their total assets are immaterial. In addition to these, two special purpose entities (SPE/SPV), in which the Group has no investment, but which are controlled by the Group under the provisions of SIC 12, are now consolidated.

The Group has opted not to measure real estate assets at fair value, keeping them at purchase cost, net of cumulated depreciation and any impairment losses. However, the carrying amount of land has been separated and the related cumulated depreciation derecognised.

Upon first-time adoption, IFRS 1 provides for a number of exemptions. The main exemptions applied by the Group are the following:

- *business combinations*: under this exemption, an entity can opt not to apply IAS/IFRS retrospectively to business combinations that occurred before the date of first-time adoption. Accordingly, existing goodwill can be recognised at the last carrying amount under previous accounting policies;
- *revalued carrying amount as deemed cost*: this exemption permits past revaluations to be considered as an integral part of cost upon first-time adoption. This applies to both fixed assets revalued as permitted by specific laws (Monetary revaluation laws) and equity investments, revalued in accordance with Law 218 of 1990 ("Amato" law) as part of the restructuring and privatisation process of the Italian banking system. Real estate assets are therefore not measured at fair value as an alternative to cost;
- *employee benefits*: IAS 19 permits the use of the "corridor approach", according to which an entity may opt not to recognise a part of actuarial gains or losses when the change over the previous period is below 10%. Under this exemption, the corridor approach can only be applied prospectively, i.e., only to periods subsequent to first-time adoption and, therefore, all actuarial gains and losses existing on first-time adoption have been recognised;
- *derecognised assets/liabilities*: an entity can opt not to recognise financial assets and liabilities disposed of and derecognised under previous accounting policies before 1st January 2004 if such derecognition does not comply with IAS 39 requisites. This involves all securitisation transactions carried out by the Group.

As concerns the exemption from the application of IFRS 2 (Share-based payments), Banca Intesa could not apply it for its stock option plan connected to the 2003-2005 Business Plan, since the options were assigned after the effective date for the adoption of the new standard. The new standard was therefore applied as of 1st January 2004.

The complete illustration of the new principles adopted is set out in the chapter relative to the accounting criteria used in this Consolidated report as at 31st March 2005.

Reconciliation tables and illustration notes

The reconciliation of shareholders' equity at the transition dates (1st January 2005 for IAS 39 and 1st January 2004 for all other standards), as at 31st March 2004 and as at 31st December 2004, as well as the reconciliation of net income for the quarter ended as at 31st March 2004 and for the whole of 2004 are set out below.

The reconciliation tables set out below have been drawn up pursuant to provisions set forth by IFRS 1 and recalled by Consob in its Regulation 14990 of 14th April 2005. These tables, since they have been prepared for the purposes of the transition to international accounting standards, must not be considered substitutive of the greater information which will be provided in the first annual report drawn up according to IAS/IFRS.
The values in the reconciliation tables could be subject to variations which may become necessary if some new IAS were introduced or IAS in force is modified or modified an interpretation of such IAS, even with backdated effects before the publication of the Annual Report 2005. The fiscal effects of the first-time adoption of the new principles may be redetermined in case of modification of regulations in force. Furthermore, these figures may be subject to changes of insignificant amount, for the complete adaptation to IAS/IFRS – in a subsequent moment – of consolidated companies carried at equity.

Since, as mentioned above, IAS 39 has been applied from 1st January 2005, the Group has estimated the effects of IAS/IFRS adoption on financial instruments as at 1st January 2004, as at 31st March 2004 and for the whole of 2004 for comparative purposes on the basis of the available information.

The reconciliation of shareholders' equity as at 1st January 2004, as at 31st December 2004 with the exclusion of IAS 39 and as at 1st January 2005, as well as the reconciliation, excluding IAS 39, of net income as at 31st December 2004 have been audited by the Independent Auditors. The Independent Auditors Report is included at the end of this section.

Based on the analysis of the new standards and their application, the Group identified the following impacts on financial statement captions.

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

(in millions of euro)

	01/01/2004	01/01/2004	31/03/2004	31/03/2004	31/12/2004	01/01/2005
	Impact of IAS/IFRS first-time adoption	Impact of IAS/IFRS first-time adoption (including IAS 39)	Impact of IAS/IFRS first-time adoption	Impact of IAS/IFRS first-time adoption (including IAS 39)	Impact of IAS/IFRS first-time adoption	Impact of IAS/IFRS first-time adoption (including IAS 39)
Shareholders' equity (as per Legislative Decree 87/92)	**15,093**	**15,093**	**14,208**	**14,208**	**15,564**	**15,564**
RESERVES	**–872**	**–3,400**	**176**	**–2,401**	**189**	**–2,372**
- **Due from banks and loans to customers**						
- analytical measurement of non-performing loans	–	–1,361	–	–1,349	–	–1,328
- collective measurement of performing loans	–	–290	–	–260	–	–212
- other impacts	–	–106	–	–120	–	–110
- **Financial assets held for trading**						
- fair value measurement of trading securities and related derivatives	–	63	–	48	–	17
- fair value measurement of derivatives: credit risk adjustment and bid-ask spread	–	–165	–	–157	–	–179
- fair value measurement of derivatives separation of embedded derivatives from bonds issued	–	–223	–	–296	–	–349
- fair value measurement of equity investments classified as held for trading	–	–154	–	–139	–	–117
- **Hedging derivatives**						
- fair value hedges: fair value measurement of hedging derivatives and hedged items	–	12	–	9	–	6
- hedge accounting adjustments	–	–215	–	–231	–	–219
- **Fixed assets and intangibles**						
- derecognition of depreciation of land	166	166	173	173	195	195
- items that do not qualify for recognition as intangibles	–16	–16	–15	–15	–14	–14
- goodwill impairment	–194	–194	–161	–161	–62	–62
- **Allowances**						
- collective measurement of guarantees given	–	–75	–	–74	–	–74
- unrecognised allowances for risks and charges and discounting of provisions	179	183	177	184	64	79
- actuarial valuation of employee termination indemnities and allowances for pensions	4	4	6	6	12	12
- **Other impacts**	–1,011	–1,029	–4	–19	–6	–17
VALUATION DIFFERENCES	**–**	**–43**	**–**	**–13**	**–**	**83**
- **Financial assets available for sale**						
- fair value measurements of debt securities	–	17	–	20	–	44
- fair value measurements of equities	–	6	–	35	–	92
- **Cash flow hedges**						
- cash flow hedges: fair value measurement of derivatives	–	–66	–	–68	–	–53
Tax impact	**–106**	**681**	**–111**	**700**	**–112**	**687**
IAS/IFRS minority interests	**–9**	**15**	**–9**	**16**	**–6**	**7**
Total impacts of IAS/IFRS first-time adoption	**–987**	**–2,747**	**56**	**–1,698**	**71**	**–1,595**
IAS/IFRS Shareholders' equity	**14,106**	**12,346**	**14,264**	**12,510**	**15,635**	**13,969**

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

The table below indicates the impact on net income for the various periods determined by the adoption of the new principles.

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

(in millions of euro)

	31/03/2004	31/03/2004	31/12/2004	31/12/2004
	Impact of IAS/IFRS first-time adoption	Impact of IAS/IFRS first-time adoption (including IAS 39)	Impact of IAS/IFRS first-time adoption	Impact of IAS/IFRS first-time adoption (including IAS 39)
Net income (as per Legislative Decree 87/92)	**418**	**418**	**1,884**	**1,884**
- Net interest income	–3	41	–16	222
- Net fee and commission income	1	3	4	9
- Profits (Losses) on trading	0	–117	1	–234
- Other operating income (expenses)	6	8	22	22
- Operating costs	1	2	4	7
- Goodwill impairment	32	32	130	130
- Adjustments and provisions	3	23	12	–41
- Change in the reserve for general banking risks and other reserves	–1	–1	–163	–163
- Taxes and other	–6	17	–22	5
Total impacts of IAS/IFRS first-time adoption	**33**	**8**	**–28**	**–43**
IAS/IFRS net income	**451**	**426**	**1,856**	**1,841**

Due from banks and loans to customers

Analytical measurement of non-performing loans

Under IAS/IFRS, financial assets are to be carried at amortised cost based on the present value of estimated future cash flows. Non-performing loans, i.e. those for which there is objective evidence that an impairment loss has been incurred, should be measured analytically, also considering their recovery times. Contrary to accounting policies applied until 2004, this entails measuring the present value of the estimated recoverable amounts.
With respect to doubtful loans, the estimated recoverable amounts have been discounted to consider the estimated recovery times using the average rates existing when the loans became doubtful where the original rates were no longer available. Recovery cash flows of the most significant positions have been distributed over time on an analytical basis, and on a statistical basis for the remaining positions.
Substandard loans with repayment plans exceeding 18 months or that it is very likely will become doubtful have been discounted at their effective rates (most positions bear floating interest rates). Time distribution has been defined based on the relevant repayment plans or time-series of average recovery times of loans, real estate enforcement proceedings and bankruptcy proceedings.

Collective measurement of performing loans[6]

When there is no evidence of any irregularities, loans should be measured "collectively", by grouping them in accordance with the level of risk and calculating the estimated impairment loss for each category on the basis of historical loss data.

As far as possible, the provisions on performing loans have been measured in line with the approach provided for by supervisory reporting requirements, namely the "New Capital Accord" commonly known as Basel II. Specifically, the risk components to be considered under the new supervisory requirements, i.e., the probability of default (PD)[7] and loss given default (LGD)[8], have been used – where available – also for financial statement purposes. Loans have been grouped using, as a starting point, the ratio between these two parameters, since they reflect all the main features which should be considered in grouping loans and calculating provisions under IAS/IFRS. The one-year period used to measure the probability of default approximates the definition of incurred loss, i.e. a loss based on an event that has occurred but has not yet been considered by an entity when reviewing the level of risk of a specific borrower, provided for by international standards. Adjustments to cover generic risk of performing loans already included the adjustments for the Fiat *convertendo* loan as at 31st December 2004. As required by IAS/IFRS, upon first-time adoption, the option embedded in the loan that lending banks have granted to Fiat, which entails the commitment to subscribe a reserved capital increase, has been separated. The valuation of the loan has been replaced by the value of the option. Therefore, adjustments relating to this loan have been reclassified in the caption relating to the measurement of derivatives, and collective write-downs of loans have been decreased by the same amount.

The overall impact of first-time adoption on performing loans therefore derives both from the new accounting treatment (generic provisions) and from the above reclassification.

Other impacts of loan measurement

Other impacts of loan measurement arise from the discounting of certain specific loans whose rates of return are not in line with market rates and from the write-down of overdue interest. Under IFRS, revenue can only be recognised when it is probable that the future economic benefits arising from the transaction will flow to the entity. Accordingly, overdue interest is recognised only if its recoverability is certain (on a cash basis).

A comparison of the carrying amount of loans to customers as at 31st December 2004 before and after IAS/IFRS adoption is set out in the following table.

The increase in performing loans following the adoption of IAS/IFRS is attributable to the inclusion in the consolidation area of certain vehicle companies (SPE/SPV) and by the reclassification in loans represented by securities.

[6] With reference to a homogeneous group of performing financial instruments, collective valuation defines the measure of credit risk intrinsic in such positions, even though they have not been yet attributed to a specific position.

[7] PD – Probability of Default measures the probability of default of a borrower in one year.

[8] LGD – Loss Given Default measures the estimated rate of loss in case of default of a borrower.

(in millions of euro)

Loans to customers	31/12/2004 before IAS/IFRS adoption	31/12/2004 after IAS/IFRS adoption	Difference
	Coverage = 67%	Coverage = 76%	
Doubtful loans			
- gross carrying amount	12,710	12,710	
- adjustments	–8,494	–9,683	1,189
- net carrying amount	4,216	3,027	
Net doubtful loans/Total loans to customers	2.7%	1.9%	
	Coverage = 23%	Coverage = 26%	
Substandard and restructured loans			
- gross carrying amount	5,006	5,006	
- adjustments	–1,144	–1,283	139
- net carrying amount	3,862	3,723	
	Coverage = 0.56% (*)	Coverage = 0.69%	
Performing loans			
- gross carrying amount	150,713	153,764	
- adjustments	–848 (*)	–1,067	219 (**)
- net carrying amount	149,865	152,697	

(*) To enable a comparison with the figure calculated on IAS/IFRS first-time adoption, the figure does not include the adjustment for the Fiat *convertendo* loan (245 million euro).
(**) The figure does not include the write-back of generic adjustments relating to banking counterparties (7 million euro).

Financial assets held for trading

Fair value measurement of trading securities and related derivatives

Securities classified as financial assets held for trading must be measured at fair value. Contrary to previous accounting policies, this treatment applies also to unlisted securities, leading to the recognition of gains.
The Group has then measured the fair value of unlisted securities included in the above categories using market prices made available by information providers or internal measurement models. Meanwhile, the fair value of the derivatives managed together with these securities has been recognised. Furthermore, for securities already recorded at fair value, compliance with the valuation with respect to IAS/IFRS was also verified.

Fair value measurement of derivatives held for trading

IAS/IFRS require that derivatives be measured at fair value. The fair value should be calculated by considering all significant risk components and other observable market data, when using internal measurement models. Therefore, contrary to previous accounting policies, when recalculating the fair value of derivatives under IFRS, the Group considered the counterparty credit risk determined on the basis of the credit rating and the bid-ask spread [9] for net open positions.
Fair value of such contracts also includes the valuation (-103 million euro) of options correlated to equity investments recorded, in application of IAS/IFRS, in assets available for sale also recorded at fair value.

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

Under IFRS, derivatives should be recognised separately even when embedded in host financial instruments (so-called combined financial instruments) if the latter are not measured at fair value.
In this case, IAS/IFRS allow an entity to recognise revenues when these products are sold only to the extent that they can be determined as the difference between the sale price of the financial instrument and its fair value measured using parameters of the same market as that on which the instrument has been sold. In the case of structured bonds, the only parameter available from the placement market must be derived from the retail market (since the Group mainly places these products on this market) and relates to the financial instrument as a whole, rather than its individual components.

[9] The bid-ask spread is the difference between the purchase and sale price of a financial instrument or of a group of financial instruments.

It would be necessary to make reference to the wholesale market to obtain a parameter to be used in the measurement of the embedded component. Therefore, under IAS/IFRS, profits on these products should be allocated over their residual life through the adjustment of the related amortised cost. The different accounting treatment has an impact only on revenues' recognition times and does not affect the overall profitability of such products.
Upon first-time adoption, the residual profits (at the time of transition) previously recognised have been therefore taken to shareholders' equity, following the recognition at fair value of the hedged item, which considers the cost of funding on the basis of IAS/IFRS.

Measurement of equity investments classified as held for trading
IAS/IFRS require unconsolidated equity investments be measured at fair value. Therefore, the Group has determined the fair value of equity investments classified as assets held for trading using methodologies that are normally used in standard market practice (stock exchange quotations, similar transactions, financial ratios and equity, financial and performance measurement models). The equity investments in Banco ABN Amro Real, Bayerische Hypo und Vereinsbank and Commerzbank have been classified in this category.

Hedging derivatives

The application of fair value in the valuation of derivatives also refers to contracts stipulated for hedging financial risks. This leads – in the case of hedging of the variation in the market value of another financial instrument (fair value hedge[10]) – to the need of extending, for the purposes of a consistent valuation method, the same valuation criteria to the hedged item. This principle of consistency may only be maintained in presence of effective hedges, that is hedges in which the changes in fair value offset, within precise thresholds, opposite changes in the value of the hedged item. Instead, in the case of cash flow hedges[11], IAS 39 requires the valuation at fair value (with recognition of the effect in a reserve in shareholders' equity) of the sole hedging derivative. Furthermore, derivative contracts stipulated between Group companies may no longer be accounted in consolidated financial statements. These new rules have led to revise the accounting and valuation criteria of hedges. Hedges have been divided in fair value hedges of specific captions and cash flow hedges of specific captions or portfolios of liabilities. In certain cases it has been necessary to close the contracts in advance, subsequently stipulating new hedges compliant with the requisites of IAS 39.

Fair value hedges: fair value measurement of hedging derivatives and hedged items
For the reasons set out above, upon IAS/IFRS first-time adoption, hedged balance sheet items in a fair value hedge and the related hedging derivatives have been measured at fair value. These items were previously recognised at cost.

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

[10] Fair value hedge covers the risk deriving from the variation in the fair value of a caption in the balance sheet attributable to a specific risk.
[11] Cash flow hedge is the hedge of the exposure to variability in cash flows that is attributable to a particular risk.

Fixed assets and intangibles

Derecognition of depreciation of land

Under IFRS, fixed assets should be depreciated over their useful lives or over the useful lives of the individual components forming them, if different. This means that the carrying amount of a building should be accounted for separately from the carrying amount of the land on which the building stands, based on the assumption that land is not a depreciable asset. Therefore, previous depreciation charged to land is to be derecognised.

Accordingly, for those buildings where the Group owns both the building and the land on which it stands, the Group has accounted for the building and the land separately and has derecognised the portion of accumulated depreciation attributable to such land.

The carrying amount of land has been calculated on the basis of specific expert opinion.

Items that do not qualify for recognition as intangibles

Under IFRS, an item qualifies for recognition as intangibles only if it is probable that it will generate future economic benefits and its cost can be measured reliably.

In accordance with the above principle, the Group has derecognised those items that do not qualify for recognition as intangibles, mainly start-up costs.

Goodwill impairment

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

Allowances

Collective measurement of guarantees given

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

Unrecognised allowances for risks and charges and discounting of provisions

Under IFRS, allowances can be recognised when it is probable that an outflow of resources will be required to settle an existing obligation and a reliable estimate of the amount of the obligation can be made. Therefore, the Group has derecognised allowances previously accounted for which are no longer allowed under international standards.

In addition, where the effect of the time value of money is material, IAS/IFRS require the amount of an allowance be equal to the present value of the expenditures expected to be necessary to settle the obligation. The time value of money relating to allowances recognised in Gruppo Intesa's consolidated financial statements has been considered material only with respect to allowances for legal disputes and amounts reclaimed, considering that a long time period is usually required to settle the litigation. Therefore, they have been adjusted to take their present value into account.

Actuarial valuation of employee termination indemnities and pension funds

IFRS require defined benefit pension plans be measured on the basis of the actuarially-determined amount that an entity will pay to employees upon termination of the labour agreement.

The Group has verified the valuations of the defined benefit plans recognised in accordance with previous accounting policies and has adjusted provisions if such valuations did not comply with IAS/IFRS requirements.

Although this issue is still being discussed in Italy, following recent interpretations on the accounting treatment of TFR (the Italian employee termination indemnities), it should be accounted for as a defined benefit plan, and therefore on the basis of actuarial valuations, rather than as prescribed by relevant Italian legislation.

Other impacts

Other residual impacts of first-time adoption are mainly related to the effects of IAS/IFRS on investments carried at equity, as well as to the derecognition of treasury shares which,

pursuant to international principles, have been deducted from shareholders' equity since it is no longer possible to record them among assets. The value of the treasury shares amounted to 1,017 million euro as at 1st January 2004 and decreased to 10 million euro as at 31st December 2004 mostly as a result of the free assignment to Shareholders carried out by the Parent Company at the time of distribution of the dividend for 2003.

Financial assets available for sale

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

Fair value measurement of debt securities

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

Fair value measurement of equities

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

Cash flow hedges

Cash flow hedges: fair value measurement of derivatives

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

Share-based payments

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

Tax impact

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

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

Furthermore, no deferred tax liabilities are recorded for reserves which are subject to a suspended tax regime since the size of the available reserves which have already been taxed leads to believe that the Bank will not undertake any transactions which may lead to tax the untaxed reserves.

Summary

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

– Core Tier 1 ratio[12] decreased from 7.59% to 6.69%;
– Tier 1 ratio from 8.53% to 7.64%;
– Total capital ratio from 11.60% to 11.02%.

However, the ratios remain significantly above the minimum capital requirements in force.

[12] The Core Tier 1 ratio is the ratio between Tier 1 capital net of preference shares and total risk-weighted assets. Preference shares are innovative capital instruments which are normally issued by foreign subsidiaries and included in Tier 1 capital if they have characteristics which guarantee the capital soundness of banks and of their risk-weighted assets.
The Tier 1 ratio is the same ratio except for the fact that at the numerator includes preference shares.

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

(in millions of euro)

Captions	31st December 2004 (A)	Impact of IAS/IFRS first-time adoption (except IAS 39) (B)	Impact of IAS/IFRS first-time adoption (IAS 39) (C)	31st December 2004 IFRS (except IAS 39) (D=A+B)	31st December 2004 IAS/IFRS (E=A+B+C)
Net interest income	4,962	–16	238	4,946	5,184
Dividends and income from investments carried at equity	220	–	–	220	220
Interest margin	**5,182**	**–16**	**238**	**5,166**	**5,404**
Net commissions	3,447	4	5	3,451	3,456
Profits (Losses) on financial transactions	737	1	–235	738	503
Other operating income, net	360	22	–	382	382
Net interest and other banking income	**9,726**	**11**	**8**	**9,737**	**9,745**
Administrative costs	–5,247	–22	3	–5,269	–5,266
- including Payroll	*–3,147*	*–8*	–	*–3,155*	*–3,155*
Other	*–2,100*	*–14*	*3*	*–2,114*	*–2,111*
Adjustments to fixed assets and intangibles	–583	26	–	–557	–557
Operating costs	**–5,830**	**4**	**3**	**–5,826**	**–5,823**
Operating margin	**3,896**	**15**	**11**	**3,911**	**3,922**
Adjustments to goodwill arising on consolidation and on application of the equity method	–130	130	–	–	–
Provisions for risks and charges	–167	17	11	–150	–139
Net adjustments to loans and provisions for possible loan losses	–887	–5	–58	–892	–950
Net adjustments to financial fixed assets	–19	–	–6	–19	–25
Income from operating activities	**2,693**	**157**	**–42**	**2,850**	**2,808**
Extraordinary income (loss)	–61	–34	–	–95	–95
Income taxes for the period	–805	–10	27	–815	–788
Change in the reserve for general banking risks and other reserves	163	–163	–	–	–
Minority interests	–106	22	–	–84	–84
Net income for the period	**1,884**	**–28**	**–15**	**1,856**	**1,841**

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

(in millions of euro)

Captions	31st March 2004 (A)	Impact of IAS/IFRS first-time adoption (except IAS 39) (B)	Impact of IAS/IFRS first-time adoption (IAS 39) (C)	31st March 2004 IFRS (except IAS 39) (D=A+B)	31st March 2004 IAS/IFRS (E=A+B+C)
Net interest income	1,246	–3	44	1,243	1,287
Dividends and income from investments carried at equity	38	–	–	38	38
Interest margin	**1,284**	**–3**	**44**	**1,281**	**1,325**
Net commissions	822	1	2	823	825
Profits (Losses) on financial transactions	220	0	–117	220	103
Other operating income, net	88	6	2	94	96
Net interest and other banking income	**2,414**	**4**	**–69**	**2,418**	**2,349**
Administrative costs	–1,303	–5	1	–1,308	–1,307
- including Payroll	*–804*	*–2*	–	*–806*	*–806*
Other	*–499*	*–3*	*1*	*–502*	*–501*
Adjustments to fixed assets and intangibles	–133	6	–	–127	–127
Operating costs	**–1,436**	**1**	**1**	**–1,435**	**–1,434**
Operating margin	**978**	**5**	**–68**	**983**	**915**
Adjustments to goodwill arising on consolidation and on application of the equity method	–32	32	–	–	–
Provisions for risks and charges	–39	3	5	–36	–31
Net adjustments to loans and provisions for possible loan losses	–213	–	24	–213	–189
Net adjustments to financial fixed assets	–8	–	–9	–8	–17
Income from operating activities	**686**	**40**	**–48**	**726**	**678**
Extraordinary income (loss)	4	–1	–1	3	2
Income taxes for the period	–254	–5	24	–259	–235
Change in the reserve for general banking risks and other reserves	1	–1	–	–	–
Minority interests	–19	–	–	–19	–19
Net income for the period	**418**	**33**	**–25**	**451**	**426**

The two tables above indicate the effects of the transition to IAS/IFRS on the statements of income as at 31st December 2004 and as at 31st March 2004.

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

(in millions of euro)

IAS/IFRS / Legislative Decree 87/92	Net interest income	Dividends and profits on investments carried at equity	Net fee and commis-sion income	Profits (Losses) on trading	Other operating income (expenses)	Operating costs	Net adjust-ments to loans and receivables	Income (Loss)/ Provisions	Taxes on income from continuing operations	Minority interests	Total
Net interest income	5,166			18							**5,184**
Dividends and income from investments carried at equity		220									**220**
Net commissions	–18		3,474								**3,456**
Profits (Losses) on financial transactions				503							**503**
Other operating income, net					69	280	33				**382**
Operating costs						–5,762	–61				**–5,823**
Adjustments to goodwill arising on consolidation and on application of the equity method											**–**
Provisions for risks and charges								–139			**–139**
Net adjustments to loans and provisions for possible loan losses							–950				**–950**
Net adjustments to financial fixed assets							–25				**–25**
Extraordinary income (loss)	–2		–9	66	–35	–103	–54	33	9		**–95**
Income taxes for the period									–788		**–788**
Minority interests										–84	**–84**
Total	**5,146**	**220**	**3,465**	**587**	**34**	**–5,585**	**–1,057**	**–106**	**–779**	**–84**	**1,841**

Restatement of the statement of income as per Legislative Decree 87/92 to IAS/IFRS statement of income: as at 31st March 2004

(in millions of euro)

IAS/IFRS / Legislative Decree 87/92	Net interest income	Dividends and profits on investments carried at equity	Net fee and commis-sion income	Profits (Losses) on trading	Other operating income (expenses)	Operating costs	Net adjustments to loans and receivables	Income (Loss)/ Provisions	Taxes on income from continuing operations	Minority interests	Total
Net interest income	1,284			3							**1,287**
Dividends and income from investments carried at equity		33		5							**38**
Net commissions	–4		829								**825**
Profits (Losses) on financial transactions				103							**103**
Other operating income, net					24	63	9				**96**
Operating costs						–1,419	–15				**–1,434**
Adjustments to goodwill arising on consolidation and on application of the equity method											**–**
Provisions for risks and charges								–31			**–31**
Net adjustments to loans and provisions for possible loan losses							–189				**–189**
Net adjustments to financial fixed assets							–17				**–17**
Extraordinary income (loss)	2		1	1	–1	–12	1	10			**2**
Income taxes for the period									–235		**–235**
Minority interests										–19	**–19**
Total	**1,282**	**33**	**830**	**112**	**23**	**–1,368**	**–211**	**–21**	**–235**	**–19**	**426**

The two tables above restate the captions of the previous statements of income with the new reclassified statement of income published in the present report.

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

(in millions of euro)

Assets	31st December 2003 pro forma (*) (A)	Impact of IAS/IFRS first-time adoption (except IAS 39) (B)	1st January 2004 IAS/IFRS (except IAS 39) (C=A+B)
1. Cash and deposits with central banks and post offices	1,576	–98	1,478
2. Loans			
- loans to customers	154,614	1,993	156,607
- due from banks	28,521	163	28,684
3. Trading portfolio	24,117	–146	23,971
including Own shares	*1,017*	*–1,017*	–
4. Fixed assets			
a) investment portfolio	5,318	75	5,393
b) equity investments	4,908	–11	4,897
c) tangible and intangible	4,274	–525	3,749
5. Goodwill arising on consolidation	546	–194	352
6. Goodwill arising on application of the equity method	286	–	286
7. Other assets	35,518	–833	34,685
Total Assets	**259,678**	**424**	**260,102**

Liabilities and Shareholders' Equity	31st December 2003 pro forma (*) (A)	Impact of IAS/IFRS first-time adoption (except IAS 39) (B)	1st January 2004 IAS/IFRS (except IAS 39) (C=A+B)
1. Debts			
- due to customers	104,676	125	104,801
- securities issued	56,591	2,612	59,203
- due to banks	31,668	174	31,842
2. Allowances with specific purpose	5,047	24	5,071
3. Other liabilities	35,240	–1,535	33,705
4. Allowances for possible loan losses	25	–	25
5. Subordinated and perpetual liabilities	10,603	–	10,603
6. Minority interests	735	11	746
7. Shareholders' equity			
- share capital, reserves and reserve for general banking risks	13,849	–987	12,862
- negative goodwill arising on consolidation	29	–	29
- negative goodwill arising on application of the equity method	1	–	1
- net income for the period	1,214	–	1,214
Total Liabilities and Shareholders' Equity	**259,678**	**424**	**260,102**

(*) Figures restated on a consistent basis, as published in the Annual Report 2004 and presented in the attachments to this Report.

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

(in millions of euro)

Assets	31st December 2004 (A)	Impact of IAS/IFRS first-time adoption (except IAS 39) (B)	Impact of IAS/IFRS first-time adoption (IAS 39) (C)	31st December 2004 IFRS (except IAS 39) (D=A+ B)	1st January 2005 IAS/IFRS (including IAS 39) (E=A+B+C)
1. Cash and deposits with central banks and post offices	1,488	–18	0	1,470	1,470
2. Loans					
- loans to customers	157,698	1,870	–1,570	159,568	157,998
- due from banks	28,730	126	21	28,856	28,877
3.Trading portfolio	33,576	908	123	34,484	34,607
including Own shares	*10*	*–10*	–	–	–
4. Fixed assets					
a) investment portfolio	5,158	61	390	5,219	5,609
b) equity investments	4,834	–55	–27	4,779	4,752
c) tangible and intangible	4,075	–558	–	3,517	3,517
5. Goodwill arising on consolidation	484	–83	–	401	401
6. Goodwill arising on application of the equity method	253	68	–	321	321
7. Other assets	38,302	–782	2,250	37,520	39,770
Total Assets	**274,598**	**1,537**	**1,187**	**276,135**	**277,322**

Liabilities and Shareholders' Equity	31st December 2004 (A)	Impact of IAS/IFRS first-time adoption (except IAS 39) (B)	Impact of IAS/IFRS first-time adoption (IAS 39) (C)	31st December 2004 IFRS (except IAS 39) (D=A+ B)	1st January 2005 IAS/IFRS (including IAS 39) (E=A+B+C)
1. Debts					
- due to customers	109,542	68	–	109,610	109,610
- securities issued	61,417	2,670	1,185	64,087	65,272
- due to banks	34,214	134	–10	34,348	34,338
2. Allowances with specific purpose	4,715	106	667	4,821	5,488
3. Other liabilities	39,121	–1,556	1,024	37,565	38,589
4. Allowances for possible loan losses	4	–4	–	–	–
5. Subordinated and perpetual liabilities	9,278	–	–	9,278	9,278
6. Minority interests	743	48	–13	791	778
7. Shareholders' equity					
- share capital, reserves and reserve for general banking risks	13,649	94	–1,651	13,743	12,092
- negative goodwill arising on consolidation	29	–	–	29	29
- negative goodwill arising on application of the equity method	2	5	–	7	7
- net income for the period	1,884	–28	–15	1,856	1,841
Total Liabilities and Shareholders' Equity	**274,598**	**1,537**	**1,187**	**276,135**	**277,322**

The tables above highlight the effects that the first-time adoption of IAS/IFRS would have had on the balance sheet as at 1st January 2004, as at 31st December 2004 and as at 1st January 2005 using the financial statement forms in force at the time.
Column (B) includes, in addition to the effects of the transition to IAS/IFRS with the exclusion of IAS 39, the variations in the consolidation area, the insertion in a specific caption of accruals and deferrals as well as the reclassification in due to customers of the assets which are to be leased.
Column (D) of the form as at 31st December 2004 (IFRS – excluding IAS 39) presents – after a further restatement according to the classifications set out by IAS/IFRS in force as of 1st January 2005 – the comparison column of the balance sheet as at 31st March 2005 included in the section Gruppo Intesa financial statements.

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

(in millions of euro)

Captions	31st December 2004	1st January 2005 IAS/IFRS (including IAS 39)	Changes
Total capital			
Positive items	16,871	15,173	–1,698
- including preferred shares	1,717	1,717	–
Negative items	–1,307	–1,273	34
Tier 1 capital	15,564	13,900	–1,664
Tier 2 capital	6,714	6,773	59
Items to be deducted	–1,117	–620	497
Total capital	21,161	20,053	–1,108
Risk-weighted assets	182,486	182,042	–444
Capital requirements			
Core tier 1 ratio	7.59	6.69	–0.90
Tier 1 capital ratio	8.53	7.64	–0.89
Tier total ratio	11.60	11.02	–0.58
Excess margins			
Market risks	1,210	1,240	30
Credit risks	13,112	13,046	–66
Tier 3 subordinated loans	–	–	–
Other capital requirements	277	277	–
Total capital requirements	14,599	14,563	–36
Shareholders' equity for supervisory purposes	21,161	20,053	–1,108
Excess capital	6,562	5,490	–1,072

Independent Auditors’ Report on the first-time adoption of IAS/IFRS

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INDEPENDENT AUDITOR'S REPORT
ON THE STATEMENTS OF RECONCILIATION
TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")
WITH THE DESCRIPTION OF THE EFFECTS OF THE TRANSITION TO IFRS
(Translation from the original Italian text)

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

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

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

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

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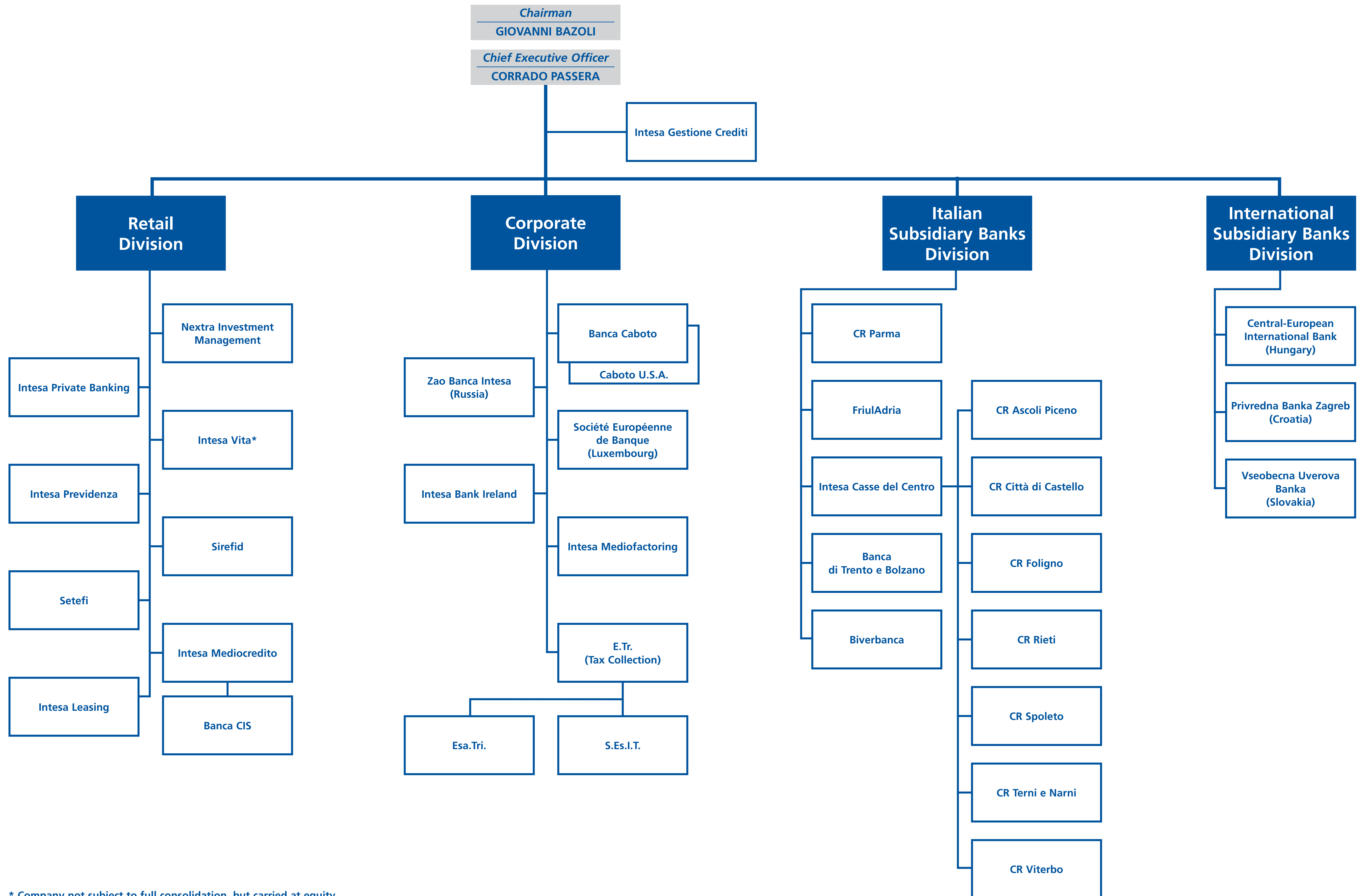
4. We draw your attention to the fact that, as described in the explanatory notes, the data presented in the IFRS Reconciliation Statements will be utilized for inclusion as comparative information in the first complete set of consolidated financial statements as of Decemeber 31, 2005; such data may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

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

Milan, June 8, 2005

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

Main Group Companies



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

Gruppo Intesa
Financial statements

CONSOLIDATED BALANCE SHEET

(in millions of euro)

Assets	31/03/2005	31/12/2004 except IAS 39 [(§)]	Changes	
			amount	%
Cash and cash balances with central banks	1,237	1,470	–233	–15.9
Financial assets held for trading	56,549	58,207	–1,658	–2.8
Financial assets designated at fair value through profit and loss	–	–	–	
Financial assets available for sale	4,979	–	4,979	
Investments held to maturity	2,395	5,219	–2,824	–54.1
Due from banks	23,590	28,856	–5,266	–18.2
Loans to customers	156,915	159,568	–2,653	–1.7
Hedging derivatives	1,118	–	1,118	
Fair value change of hedged items	–	–	–	
Equity investments	1,641	4,772	–3,131	–65.6
Technical reserves of reinsurers	–	–	–	
Fixed assets	2,953	2,982	–29	–1.0
Intangibles	1,210	1,257	–47	–3.7
including				
– goodwill	*696*	*722*	*–26*	*–3.6*
Tax assets	3,520	4,447	–927	–20.8
a) current	*1,460*	*1,403*	*57*	*4.1*
b) deferred	*2,060*	*3,044*	*–984*	*–32.3*
Non-current assets (or disposal groups) held for sale and discontinued operations	8	7	1	14.3
Other assets	5,835	9,350	–3,515	–37.6
Total Assets	**261,950**	**276,135**	**–14,185**	**–5.1**

[(§)] Figures restated under IAS/IFRS. except for IAS 39 relating to financial instruments.

CONSOLIDATED BALANCE SHEET

(in millions of euro)

Liabilities and Shareholders' Equity	**31/03/2005**	**31/12/2004** except IAS 39 [§]	**Changes**	
			amount	**%**
Due to banks	35,028	34,348	680	2.0
Due to customers	109,655	115,936	–6,281	–5.4
Securities issued	53,241	57,761	–4,520	–7.8
Financial liabilities held for trading	24,053	23,952	101	0.4
Hedging derivatives	1,358	–	1,358	
Fair value change of hedged items	–	–	–	
Subordinated liabilities	9,217	9,278	–61	–0.7
Tax liabilities	1,286	1,964	–678	–34.5
a) current	*822*	*1,462*	*–640*	*–43.8*
b) deferred	*464*	*502*	*–38*	*–7.6*
Liabilities in disposal groups held for sale and discontinued operations	–	–	–	
Other liabilities	10,399	13,260	–2,861	–21.6
Employee termination indemnities	1,087	1,105	–18	–1.6
Allowances for risks and charges	1,954	2,105	–151	–7.2
a) pensions and similar commitments	*290*	*288*	*2*	*0.7*
b) other allowances	*1,664*	*1,817*	*–153*	*–8.4*
Technical reserves	–	–	–	
Revaluation reserves and valuation differences	599	459	140	31
a) financial assets available for sale (+/-)	*153*	–	*153*	
b) fixed assets (+)	–	–	–	
c) cash flow hedges (+/-)	*–31*	–	*31*	
d) legally-required revaluations	*357*	*357*	–	–
e) other	*120*	*102*	*18*	*17.6*
Shares with the right of recession	–	–	–	
Equities	–	–	–	
Reserves	3,712	4,363	–651	–14.9
Share premium reserve	5,406	5,406	–	–
Share capital	3,561	3,561	–	–
Treasury shares (–)	–12	–10	2	20.0
Minority interests (+/–)	786	791	–5	–0.6
Net income (loss)	620	1,856	–1,236	
Total Liabilities and Shareholders' Equity	**261,950**	**276,135**	**–14,185**	**–5.1**

[§] Figures restated under IAS/IFRS. except for IAS 39 relating to financial instruments.

CONSOLIDATED STATEMENT OF INCOME

(in millions of euro)

	First quarter of 2005	First quarter of 2004 except IAS 39 [(§)]	Changes	
			amount	%
Interest and similar income	2,391	2,353	38	1.6
Interest and similar expense	–1,057	–1,107	–50	–4.5
Net interest income	**1,334**	**1,246**	**88**	**7.1**
Fee and commission income	1,085	966	119	12.3
Fee and commission expense	–130	–142	–12	–8.5
Net fee and commission income	**955**	**824**	**131**	**15.9**
Dividend and similar income	32	5	27	
Profits (Losses) on trading	128	220	–92	–41.8
Fair value adjustments in hedge accounting	0	0	–	
Profit (Loss) on disposal of	26	–2	28	
a) loans and receivables	*–1*	–	*1*	
b) financial assets available for sale	*25*	–	*25*	
c) investments held to maturity	*2*	*–2*	*4*	
Valuation differences on financial assets designated at fair value through profit and loss	–	–	–	
Valuation differences on financial liabilities designated at fair value through profit and loss	–	–	–	
Net interest and other banking income	**2,475**	**2,293**	**182**	**7.9**
Net impairment losses on	–189	–222	–33	–14.9
a) loans and receivables	*–192*	*–214*	*–22*	*–10.3*
b) financial assets available for sale	–	*–8*	*–8*	
c) investments held to maturity	*3*	–	*3*	
d) other financial assets	–	–	–	
Net income from banking activities	**2,286**	**2,071**	**215**	**10.4**
Net premium income	–	–	–	
Other net income (expense) from insurance	–	–	–	
Net income from banking and insurance activities	**2,286**	**2,071**	**215**	**10.4**
Administrative expenses	–1,283	–1,316	–33	–2.5
a) personnel expenses	*–788*	*–809*	*–21*	*–2.6*
b) other administrative expenses	*–495*	*–507*	*–12*	*–2.4*
Net provisions for risks and charges	–46	–22	24	
Adjustments to fixed assets	–62	–67	–5	–7.5
Adjustments to intangibles	–56	–60	–4	–6.7
including: *– goodwill*	–	–	–	
Valuation differences on fixed assets and intangibles designated at fair value through profit and loss	–	–	–	
Other operating expenses (income)	85	91	–6	–6.6
Operating expenses	**–1,362**	**–1,374**	**–12**	**–0.9**
Profits (Losses) on investments carried at equity	33	33	–	–
Profits (Losses) on investments	59	–1	60	
Income (Loss) before tax from continuing operations	**1,016**	**729**	**287**	**39.4**
Taxes on income from continuing operations	–372	–259	113	43.6
Income (Loss) after tax from continuing operations	**644**	**470**	**174**	**37.0**
Income (Loss) after tax from non-current assets (or disposal groups) held for sale and discontinued operations	–	–	–	
Minority interests	–24	–19	5	26.3
Net income (loss)	**620**	**451**	**169**	**37.5**

[(§)] Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments.

CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(in millions of euro)

2004														
	Amount as at 31/12/2003 [*]	Changes in initial balances (Transition to IAS/IFRS)	Amounts as at 01/01/2004	Allocation of net income		Changes in reserves	Operations on shareholders' equity carried out in the period						Net income as at 31/12/2004	Restated Shareholders' equity as at 31/12/2004 [$]
				Reserves	Dividends and other allocations		Issue new shares	Purchase treasury shares	Extraord. distrib.	Extraord. changes in shareholders' equity	Derivatives on treasury shares	Stock options		
Share capital														
a) ordinary shares	3,076		3,076											3,076
b) other	485		485											485
Share premium reserve	5,404		5,404			2								5,406
Reserve														
a) legal	773		773											773
b) statutory	61		61	879		144				7				1,091
c) other	2,643	30	2,673			–175				–7			[#] 8	2,499
Treasury shares	1,017	–1,017	–					–10						–10
Revaluation reserves and valuation differences														
a) financial assets available for sale														–
b) fixed assets														–
c) cash flow hedges														–
d) legally-required revaluations	356		356			1								357
e) other	64		64			38								102
Net income	1,214		1,214	–879	–335								1,856	1,856
Total	**15,093**	**–987**	**14,106**	**–**	**–335**	**10**	**–**	**–10**	**–**	**–**	**–**	**–**	**1,864**	**15,635**

[*] Determined using Italian accounting principles (Legislative Decree 87/92).
[$] Except for IAS 39.
[#] The amount refers to the allocation to reserves of the charges for 2004 (redetermined according to IAS/IFRS) related to the stock option plan.

(in millions of euro)

First quarter of 2005														
	Restated shareholders' equity as at 31/12/2004 [*]	Changes in initial balances (Transition to IAS/IFRS)	Amounts as at 01/01/2005	Allocation of net income		Changes in reserves	Operations on shareholders' equity carried out in the period						Net income as at 31/03/2005	Shareholders' equity as at 31/03/2005
				Reserves	Dividends and other allocations		Issue new shares	Purchase treasury shares	Extraord. distrib.	Extraord. changes in shareholders' equity	Derivatives on treasury shares	Stock options		
Share capital:														
a) ordinary shares	3,076		3,076											3,076
b) other	485		485											485
Share premium reserve	5,406		5,406											5,406
Reserves:														
a) legal	773		773											773
b) statutory	1,091		1,091											1,091
c) other	2,499	–1,751	748	1,120		–22							[#] 2	1,848
Treasury shares	–10	–	–10					–2						–12
Revaluation reserves and valuation differences														
a) financial assets available for sale		117	117			36								153
b) fixed assets			–											–
c) cash flow hedges		–32	–32			1								–31
d) legally-required revaluations	357		357											357
e) other	102		102			18								120
Net income	1,856		1,856	–1,120	–736								620	620
Total	**15,635**	**–1,666**	**13,969**	**–**	**–736**	**33**	**–**	**–2**	**–**	**–**	**–**	**–**	**622**	**13,886**

[*] Except for IAS 39.
[#] The amount refers to the allocation to reserves of the charges for the first quarter of 2005 related to the stock option plan.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of euro)

	31/03/2005 (*)	31/03/2004 except IAS 39 (§)
OPERATING ACTIVITIES		
1. Cash flow from operations	1,110	887
2. Cash flow from decreases in financial assets	9,126	2,359
3. Cash flow used for increases in financial assets	–438	–18,308
4. Cash flow from increases in financial liabilities	3,638	15,591
5. Cash flow used for reimbursement/repurchase of financial liabilities	–13,149	–710
Net cash flow from (used for) operating activities	**287**	**–181**
INVESTING ACTIVITIES		
1. Cash flow from investing activities	175	303
2. Cash flow used for investing activities	–38	–61
Net cash flow from (used for) investing activities	**137**	**242**
FUNDING ACTIVITIES	**–738**	**–335**
Net cash flow from (used for) funding activities	**–738**	**–335**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**–314**	**–274**
RECONCILIATION		
Captions		
Cash and cash equivalents at beginning of period	1,551	1,589
Net increase (decrease) in cash and cash equivalents	–314	–274
Cash and cash equivalents at end of period	**1,237**	**1,315**

(*) The statement of cash flows as at 31st March 2005 reflects the liquidity generated from operations and changes which occurred in assets and liabilities as of 1st January 2005 (thus considering the application of IAS/IFRS, including IAS 39) to the date of close of the quarter.
(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments.

Report on operations

Accounting criteria and consolidation area

The consolidated financial statements have been prepared in compliance with the accounting principles issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and homologated by the European Commission as set forth by Community Regulation 1606 of 19th July 2002. This Regulation sets out the application by listed companies of international accounting standards in the preparation of their financial statements as of 2005.

The consolidated financial statements for the first quarter of 2005 have been prepared with the application of international accounting standards as permitted by Consob Resolution 14990 of 14th April 2005 which modified Issuer Regulations.
The aforementioned resolution sets out that the contents of the quarterly report, if drawn up according to IAS principles, may be alternatively aligned to the provisions of Issuer Regulations (Attach 3D) or of IAS 34, relative to interim reports.
The present quarterly report complies with Attach 3D of Issuer Regulations and, furthermore, presents the information required by IAS 34.
The illustration of the impact of the first-time application of international accounting standards required by IFRS 1 is contained in a specific section at the beginning of this Consolidated report.

In the preparation of the quarterly report, the principles in force at the reference date of the financial statements have been used (including the interpretation documents called SIC and IFRIC); homologated with EU Regulations 1725 of 29th September 2003 (published on the EUOJ L 261 of 13th October 2003), 707 of 6th April 2004 (published on the EUOJ L 111 of 17th April 2004), 2236 of 29th December 2004 (published on the EUOJ L 392 of 31st December 2004), 2237 of 29th December 2004 (published on the EUOJ L 393 of 31st December 2004), 2238 of 29th December 2004 (published on the EUOJ L 394 of 31st December 2004) and 211 of 4th February 2005 (published on the EUOJ L 41 of 11th February 2005).
IAS 39 homologated by the European Commission diverges from that prepared by the IASB since certain elements which are still under discussion (fair value macrohedging of portfolios of assets and liabilities, hedging of on demand deposits and application of the fair value option on liabilities) have not been homologated. However, these aspects are not relevant for Gruppo Intesa. Furthermore, in consideration of discussions still under way at the international level, Gruppo Intesa did not apply the so-called fair value option to asset captions.

The illustration of accounting principles is provided in the following chapter.

It must be noted that the Consolidated Report as at 31st March 2005 has not been audited.

Accounting criteria

The financial statements are made up of the Balance sheet, the Statement of income, the Changes in shareholders' equity, the Statement of cash flows and the Notes to the consolidated financial statements; the Report on operations has also been included.
The compulsory forms, the changes in shareholders' equity and the statement of cash flows included in the section relative to financial statements have been presumed – precise indications by the competent Regulatory bodies have not yet been issued – from a consultation document diffused to the banking industry by the Bank of Italy last February.
The compulsory forms present, in addition to figures for the quarter, the corresponding comparative figures referred, for the balance sheet to as at 31st December 2004 and for the statement of income to as at 31st March

2004. In such forms, based on provisions contained in IFRS 1 (First-time adoption of international accounting standards) the restatement of the figures related to the previous period has not been carried out with respect to financial instruments (IAS 39, 32 and IFRS 4), which therefore reflect the means of registration and measurement set out by the former Italian accounting principles. Thus in the valuation of the captions relative to loans, deposits, securities, derivatives, equity investments and hedging transactions the accounting principles used until 2004 and described in the Annual Report 2004 have been applied. The divergences of such principles with respect to IAS/IFRS are illustrated in detail in the section relative to the first-time adoption of the new international accounting standards.

However, for the purpose of simplifying comparison of the figures in the various periods – as already specified in the introductory chapter – condensed forms which compare figures as at 31st March 2005 with as at 31st December 2004 (for the balance sheet) and as at 31st March 2004 (for the statement of income) restated considering a reasonable estimate of the impacts produced by the application of IAS 39 are also supplied.
Furthermore, balance sheet and statement of income figures of the previous periods have been adapted for the purpose of ensuring their consistency with reference to the variations in the consolidation area due to the application of IAS/IFRS. In compliance with provisions of Art. 5 of Legislative Decree 38 of 28th February 2005, the financial statements have been drawn up in euro. The amounts indicated in this Report are expressed in millions of euro, unless otherwise specified.

Consolidation area

The consolidated financial statements include Banca Intesa and the companies which it directly and indirectly controls, including in the consolidation area – as specifically set out by the new principles – also the companies operating in dissimilar sectors from the Parent Company as well as private equity investments. Similarly, special purpose companies are included (SPE/SPV) when the requisite of effective control recurs, even if there is no direct or indirect stake in the company.

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

The table above indicates the equity investments which are included in the full consolidation area following the adoption of international accounting standards.

The limited variations in the consolidation area, due to purchases or disposals which occurred in 2004, have been considered in the restatement of statement of income figures as at 31st March 2004.

In the first quarter of 2005 no changes in the consolidation area occurred.

Means of consolidation

Subsidiaries are subject to full consolidation whereas non-controlling equity investments are carried at equity. The sole exception is the equity stake in the Bank of Italy which was booked at cost and was not consolidated.

Full consolidation
This method involves the "line by line" aggregation of the individual amounts reported in the balance sheets and statements of income of the subsidiary companies concerned. Following the allocation to minority shareholders of their interests, in a specific caption in equity and the results for the period, the residual value is eliminated against the book value of the subsidiaries concerned.

Any differences arising on consolidation are allocated, where possible, to the assets and liabilities of the consolidated subsidiary as goodwill in the caption Intangibles at the date of first consolidation and, subsequently, in Other reserves. Negative differentials are recorded in the statement of income.
Assets, liabilities, income and charges between consolidated companies are integrally eliminated.

The economic results of a subsidiary acquired during the period are consolidated from the date of its acquisition. Conversely, economic results of a subsidiary sold are included in the consolidated financial statements until the date in which control ceased. The difference between the sale price and the book value at the date of disposal (including foreign exchange differences recorded in shareholders' equity on consolidation, over time), is accounted for in the statement of income.
Companies for which the shares have been received as pledges with voting rights are not consolidated, in consideration of the substance underlying the pledge which is that of guaranteeing loans and not of exercising control and direction over financial and economic policies for the purpose of benefiting from the relevant economic benefits.

The financial statements of the Parent Company and of other companies used to prepare the consolidated financial statements refer to the same date. In certain marginal cases the last official figures are used.
Where necessary – and without prejudice to absolutely marginal cases – the financial statements of companies which are drawn up using different accounting criteria, are restated to be compliant with the standards used by the Group.

Measurement using the equity method
The equity method requires the initial recognition of the equity investment at cost and its subsequent adjustment based on the stake in the subsidiary's shareholders' equity.

Any difference between the value of the equity investment and the shareholders' equity of the subsidiary is treated as the differentials arising on full consolidation as indicated above.
The valuation of the portion of shareholders' equity does not consider any potential voting rights.

The *pro quota* results of the period of the subsidiary are recorded in a specific caption of the consolidated statement of income.

If there is evidence that the value of an equity investment may have decreased, the recoverable value is estimated, considering the net present value of future cash flows that the equity investment may generate, including the value of final disposal of the investment.
If the recovery value is under book value the relative difference is recorded in the statement of income.

For consolidation of equity investments in associates the most recent figures approved by the companies have been used. In certain cases these have not yet applied IAS/IFRS and, therefore, for such companies, financial statements drawn up according to local regulations are used, after the estimate of the insignificance of the relative differences.

Use of estimates

The preparation of interim financial statements normally requires a more widespread use of estimation methods with respect to annual financial statements, with reference to both certain asset and liability captions and certain statement of income effects connected to measurement. This, however, does not affect the reliability of financial statements. In particular, estimates of the relevant contribution have been used only for a limited number of companies carried at equity.

The methodology adopted to restate 2004 figures according to IAS is described above.

Information regarding half-year figures as at 30th June 2005

Banca Intesa notifies that the Half-Year Report as at 30th June 2005 will be available for Shareholders and the market instead of the quarterly report as at 30th June 2005 according to the means and timing set forth by Consob Resolution 11971 as modified by Resolution 14990 of 14th April 2005.

The accounting standards

The accounting standards used to prepare this quarterly report are described in this chapter. These standards – with the modifications/integrations which may be due to regulatory changes – will be applied to Gruppo Intesa in the interim financial statements and the Annual Report 2005.

FINANCIAL ASSETS HELD FOR TRADING

Classification criteria

This category exclusively includes debt securities and equities and the positive value of derivative contracts held for trading. Derivative contracts include those embedded in combined financial portfolios which are subject to separate registration when:

- their characteristics and risks are not strictly correlated to the characteristics of the underlying contract;
- embedded instruments, even though separate, fully satisfy the definition of derivate;
- hybrid instruments to which they belong are not recorded at fair value through profit and loss.

Recognition criteria

Initial recognition of financial assets occurs at settlement date, for debt securities and equities and at trade date for derivative contracts.

On initial recognition, financial assets held for trading are recorded at cost, intended as the fair value of the instrument, without considering transaction costs or revenues directly attributable to the instrument.

Any embedded derivatives in combined financial instruments not directly connected to the latter and with the characteristics to satisfy the definition of derivative are recorded separately from the host contract at fair value, while the host contract is recorded using its accounting criterion.

Measurement criteria

After initial recognition assets held for trading are recorded at fair value.

For the determination of the fair value of financial instruments listed on active markets [13], market quotes are used (bid-ask prices or average prices). If the market for a financial instrument is not active, estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: methods based on the valuation of listed instruments with the same characteristics, calculation of discounted cash flows, option pricing valuation models, recent comparable transactions.

Equities and correlated derivative instruments, for which it is not possible to determine a reliable fair value according to the guidelines listed above, are maintained at cost.

Derecognition criteria

A financial asset is derecognised when the contractual rights to the cash flows from the assets expire or when the asset is sold transferring substantially all the risks/rewards of the asset.

[13] A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and whose prices represent actual and regularly occurring market transactions considering a normal reference period.

FINANCIAL ASSETS AVAILABLE FOR SALE

Classification criteria

The present category includes the non-derivative financial assets that do not fall within any of the other categories such as Loans and receivables, Assets held for trading or Investments held to maturity.

In particular, this caption also includes equity investments which are not held for trading and do not qualify as investments in subsidiaries, associates or entities subject to joint control, including private equity investments, as well as the portions of syndicated loans that, from inception, are destined for sale.

Recognition criteria

Initial recognition of the financial asset occurs at settlement date for debt securities and equities and at disbursement date for loans.

On initial recognition, assets are recorded at cost, intended as the fair value of the instrument, inclusive of transaction costs and revenues directly attributable to the instrument. If recognition occurs following the reclassification of Assets held to maturity, recognition value is represented by fair value at the time of transfer.

Measurement criteria

After initial recognition, assets available for sale continue to be measured at fair value, through the registration in the statement of income of the value corresponding to amortised cost, while gains or losses deriving from a change in fair value are recorded in a specific caption in shareholders' equity, "valuation differences", until the financial asset is derecognised or a permanent loss occurs. On the sale of the financial asset or on recognition of a loss, the cumulated profit or loss must be reversed to the statement of income.
Equities and correlated derivative instruments, for which it is not possible to determine a reliable fair value according to the guidelines listed above, are maintained at cost.
The assessment of objective evidence of impairment is carried out at the close of every annual or interim financial statements.

If the reasons for impairment cease to exist, following an event which occurred after the registration of the impairment, value recoveries are posted through the statement of income in the case of loans or debt securities, and through shareholders' equity in the case of equities. The size of the recovery may in no case exceed amortised cost of the instrument without the aforementioned adjustments.

Derecognition criteria

A financial asset is derecognised when the contractual rights to the cash flows from the assets expire or when the asset is sold transferring substantially all the risks and rewards of ownership of the asset.

INVESTMENTS HELD TO MATURITY

Classification criteria

Debt securities with fixed or determinable payments and maturity, which the entity has the positive intention and ability to hold to maturity, are classified in this category. If following a change in intention or in ability it is no longer appropriate to maintain an investment as held to maturity, this is reclassified in assets available for sale.

Recognition criteria

Initial recognition of financial assets occurs at settlement date.

On initial recognition financial assets classified in the present category are recorded at cost, inclusive of any costs and revenues directly attributable to the asset.
If inclusion in this category occurs following the reclassification of Assets available for sale, the fair value of the asset at the date of reclassification is used as the new amortised cost of the asset.

Measurement criteria

After the initial recognition, investments held to maturity are valued at amortised cost, using the effective interest method.

Profits or losses referred to investments held to maturity are recorded in the statement of income when assets are derecognised or impaired, and through the amortisation process.

At the close of annual and interim financial statements, these are assessed to identify if they show objective evidence of possible impairment.

If such evidence exists, the loss is measured as the difference between the carrying value of the asset and the net present value of the estimated future cash flows, discounted at the original effective interest rate. The loss is recorded in the statement of income.

If the reasons for impairment cease to exist following an event which occurred after the registration of impairment losses, value recoveries are posted through the statement of income.

Derecognition criteria

A financial asset is derecognised when the contractual rights to the cash flows from the assets expire or when the asset is sold transferring substantially all the risks and rewards of the asset.

LOANS AND RECEIVABLES

Classification criteria

Loans and receivables include loans to customers and due from banks, both disbursed directly and acquired by third parties, which entail fixed or in any case determinable payments, which are not listed on an active market and which are not classified at inception in Assets available for sale.

The caption loans to customers also includes commercial loans, repurchase agreements, financial lease receivables and securities underwritten at issue or via private placements, with determined or determinable payments, not listed in active markets.

The caption loans to customers also includes loans deriving from factoring activities, that is advances on the portfolio factored with recourse, which remains in the financial statements of the transferor. As concerns receivables acquired without recourse, these are included in loans to customers, after having verified that no contractual provisions exist such as to significantly alter risk exposure of the transferee.

Recognition criteria

Initial recognition of a loan occurs at disbursement date or, in the case of a debt security, at settlement date, based on the fair value of the financial instrument, equal to the amount disbursed, or subscription price inclusive of the costs/revenues directly attributable to the single loan and determinable from inception, even though settled at a later date. Costs that, even with the aforementioned characteristics, are reimbursed by the borrower or are classifiable as normal internal administrative costs are excluded.

For loans concluded at conditions other than market conditions, fair value is determined using specific valuation techniques; the difference with respect to the amount disbursed or subscription price is directly recorded in the statement of income.

Contango loans and repurchase agreements with the obligation to repurchase or resell at a later date are recognised as funding or investment transactions. In particular, spot sales and forward repurchases are recognised as payables for the amount received spot, while spot purchases and forward sales are recognised as receivables for the amount paid spot.

Measurement criteria

After initial recognition, loans are measured at amortised cost, equal to initial value increased/decreased by principal repayments, adjustments/recoveries and amortisation – calculated using the *effective interest method* – of the difference between amount disbursed and amount to be reimbursed at maturity, typically attributable to the costs/revenues directly connected to the single loan. The effective interest rate is the

rate that exactly discounts estimated future cash payments of the loan, for principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to the loan. This measurement method uses a financial approach and enables to distribute the economic effect of the costs/revenues through the expected life of the loan.

The amortised cost method is not used for loans whose short maturity implies that the application of the discounting approach leads to immaterial effects. Such loans are recorded at historical cost and costs/revenues referred thereto are attributed to the statement of income in a straight line over the contractual life of the loan.
An analogous measurement criterion is applied to loans with unspecified maturity or with notice period.

At every close of annual or interim financial statements, loans are reassessed for the purpose of identifying those which, due to events occurred after initial recognition, show objective evidence of possible impairment. These include doubtful loans, substandard or restructured loans according to the current rules issued by the Bank of Italy, consistent with IAS regulations.

Such non-performing loans are subject to an analytical assessment process and the adjustment of each loan is equal to the difference between carrying value at the time of valuation (amortised cost) and net present value of expected future cash flows, calculated applying the original effective interest rate.

Forecasted future cash flows consider expected recovery times, presumed recoverable value of any guarantees as well as costs which it is deemed will be sustained for the recovery of the exposure. Cash flows relating to loans for which recovery is expected to occur within a short time are not discounted.

The original effective rate of each loan remains unchanged over time even though the relationship has been restructured with a variation of the contractual interest rate and even though the relationship, in practice, no longer bears contractual interest.
The adjustment is recorded in the statement of income.

The original value of loans is reinstated in subsequent years to the extent that the reasons which had led to the impairment cease to exist, provided that such valuation is objectively attributed to an event which occurred subsequent to the impairment.
The recovery is recorded in the statement of income and may in no case exceed the loan's amortised cost if the aforementioned impairment loss had not occurred.

Loans for which no individual evidence of impairment exists and therefore, normally, performing loans, including those granted to counterparties resident in Countries at risk, are subject to collective measurement.
This measurement occurs for groups of loans with the same credit risk characteristics and the relevant percentage losses are estimated considering historical loss data, based on objective elements observable at measurement date, which enable to estimate the intrinsic loss for each loan category.

Collective adjustments are recorded in the statement of income. At the close of each annual or interim financial statements any additional adjustments or recoveries are recalculated as differences with reference to the entire portfolio of performing loans at the same date.

Derecognition criteria

Loans sold are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the loan. Conversely, if the risks and rewards relative to the sold loans are maintained, such loans continue to be recorded in assets, even though the title of the loan has been transferred.

In case it is not possible to ascertain the substantial transfer of risks and rewards, the loans are derecognised where no control over the loans has been maintained. If this is not the case, the conservation, even partial of such control implies that the loans continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of loans sold and to variations in the relevant cash flows.

Lastly, loans sold are derecognised if the entity retains the contractual rights to receive

the cash flows of the loan, but assumes a contractual obligation to pay such cash flows, and only such cash flows to third parties.

HEDGING TRANSACTIONS

Types of hedges

Hedging transactions are aimed at neutralising potential losses on a specific item or group of items, attributable to a certain risk, via the gains achieved on another instrument or group of instruments if such risk should actually occur.

Gruppo Intesa uses the following three types of hedging transactions:
– fair value hedge, which has the objective of covering exposure to variation in the fair value of a caption in the balance sheet attributable to a specific risk;
– cash flow hedge, which has the objective of covering exposure to variations in future cash flows attributable to particular risks associated with balance sheet captions;
– hedges of net investments in foreign currency, which refer to the coverage of the risks of net investments in foreign operations expressed in foreign currency.

Only hedging transactions which involve counterparties outside the Group may qualify for hedge accounting. Therefore, every result attributable to internal deals between various Group entities has been eliminated from the consolidated financial statements.

Measurement criteria

Hedging derivatives are measured at fair value; in particular:

– in the case of fair value hedges, the change in the fair value of the hedged item is offset by the change in fair value of the hedge. Offsetting is recognised via the registration in the statement of income of the gains and losses referred to both the hedged item (as concerns the variations produced by the underlying risk factor), and the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect;

– in the case of cash flow hedges, changes in fair value are recorded in equity, for the effective portion of the hedge, and these are recorded in the statement of income only when, with reference to the hedged item, there is a variation in the flows to be hedged;

– hedges of net investments in foreign currency are treated in the same way as cash flow hedges.

Derivatives are designated as hedging instruments if at inception of the hedge there is formal designation and documentation of the hedging relationship between the hedged item and the hedging instrument and if this is effective over the entire period of hedge.

The effectiveness of the hedge depends on the extent to which variations in the fair value of the hedged item or the relating expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is appraised by comparing the aforementioned variations, considering the intent pursued by the entity at the time in which it entered the hedging transaction.

A hedge is effective (in the limits set out by the 80-125% range) when the variations in fair value (or cash flows) of the hedging financial instrument almost completely neutralise the changes in the fair value of the hedged item, for the type of risk being hedged.

Assessment of hedge effectiveness is carried out at the close of the financial statements using:

– *prospective tests*, which justify the application of hedge accounting, since these prove the expected effectiveness of the hedge;

– *retrospective tests*, which highlight the degree of hedge effectiveness reached in the period to which they refer. In other words, these measure to what extent results achieved differ from perfect hedging.

If such assessments do not confirm hedge effectiveness, hedge accounting is discontinued and the derivative is reclassified in instruments held for trading.

EQUITY INVESTMENTS

Classification and measurement criteria

The caption includes the interests held in:

- associates, which are carried at equity. The equity investment in the Bank of Italy is an exception and stated at cost, considering its peculiarity.
  Companies in which the Group holds a 20% or higher stake in voting share capital and companies which, due to specific legal agreements, such as the participation to voting syndicates, must be considered subject to significant influence are considered associates;
- companies subject to joint control, which it was decided to carry at equity as an alternative to proportional consolidation. Joint control exists when there are contractual, shareholder or other agreements, which entail joint management of operations and joint appointment of directors;
- certain subsidiaries which, due to their negligible size, are carried at cost.

If there is evidence of impairment, recovery value of the equity investment is estimated, considering the net present value of the future cash flows which may be generated by the investment, included the final disposal value.
If recovery value is lower than carrying value, the relevant difference is recorded in the statement of income.

If the reasons for impairment are removed following an event subsequent to the registration of impairment, recoveries are recorded in the statement of income.

Derecognition criteria

Financial assets are derecognised when the contractual rights to the cash flows from the assets expire or when the asset is sold transferring substantially all the risks and rewards connected to the asset.

FIXED ASSETS

Classification criteria

Fixed assets include land, buildings, investment property, technical plants, furniture and fittings and any type of equipment.
They are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.
The caption also includes the goods used in finance lease contracts, even though the title remains in the books of the lessor.

Recognition criteria

Fixed assets are initially measured at cost which comprises in addition to their purchase price any costs directly attributable to the purchase and condition necessary for them to be capable of operating.

Extraordinary maintenance expenses which lead to a rise in future economic benefits, increase the value of assets, while other ordinary maintenance costs are recorded in the statement of income.

Measurement criteria

Fixed assets, including buildings not used for operations, are measured at cost, net of depreciation and impairment losses.
Fixed assets are systematically depreciated over their useful life, adopting the straight line method with the exception of:
- land, irrespectively of whether acquired individually or embedded in the value of buildings, since it has an indefinite useful life. If its value is incorporated in the value of the building, by applying a component approach, land is considered separable from the building; the division between the value of the land and that of the building is calculated on the basis of a specific independent expert opinion solely for entire buildings owned by the Bank;
- works of art, since the useful life of a work of art cannot be estimated and its value is normally destined to increase over time.

At every close of annual or interim financial statements, if there is some evidence that an asset may have been impaired, carrying value of the asset and its recovery value – equal to the lower between fair value, net of any sale costs, and the value in use of the asset, intended as net present value of future cash flows originated by the asset – are compared. Any impairment losses are recorded in the statement of income.

If the reasons for impairment cease to exist, a value recovery is recorded which may not exceed the value that the asset would have had, net of depreciation determined in absence of previous impairments.

Derecognition criteria

A fixed asset is derecognised from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its use or disposal.

INTANGIBLES

Classification criteria

Intangibles include goodwill, restructuring costs of branches and other rented real estate assets and software to be used over a number of years.

Goodwill is the positive difference between purchase cost and fair value of assets and liabilities acquired.

Restructuring costs of rented real estate assets are capitalised considering that during the rental contract the renting company has control over the assets and may draw future economic benefits from such assets.

Other intangible assets are recognised as such if they may be identified and stem from legal or contractual rights.

Recognition and measurement criteria

An intangible asset may be recognised as goodwill when the positive difference between fair value of shareholders' equity acquired and the purchase cost of the equity investment (inclusive of accessory costs) is representative of the future income-generation potential of the equity investment.

If such difference should be negative (badwill) or if goodwill may not be attributed considering future income-generation potential of the equity investments, the same difference is directly recorded in the statement of income.

Once a year (or every time that there is evidence of impairment losses) an impairment test is carried out for goodwill. This requires the identification of the unit generating cash flows to which goodwill is attributed. Any impairment losses are determined on the basis of the difference between the recognition value of goodwill and its recovery value, if lower. Such recovery value is equal to the lower between the fair value of the unit generating cash flows, net of any sale prices and the relevant value in use. The consequent adjustments are posted in the statement of income.

Other intangible assets are recognised at cost, adjusted for any accessory charges only if it is probable that the future economic benefits attributable to the assets are realised and if the cost of the asset may be reliably determined. If this is not the case the cost of the intangible asset is recorded in the statement of income in the year in which it was sustained.

The cost of intangibles is amortised in a straight line based on the intangible's useful life. If the useful life is indefinite, amortisation is not recorded, and the value of the intangible is periodically assessed. Restructuring costs for rented real estate assets are amortised over a period which does not exceed the term of the contract.

At every close of annual financial statements, in presence of evidence of impairment losses, the asset's recovery value is estimated. The impairment loss, which is recorded in the statement of income, is equal to the difference between the book value of the assets and the recovery value.

Derecognition criteria

An intangible asset is derecognised from balance sheet on disposal and if no future economic benefits are expected.

NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE AND DISCONTINUED OPERATIONS

The assets/liabilities in this caption are measured at the lower between carrying value and their fair value net of sale cost.

The relevant revenues and charges (net of tax impact) are recorded in the statement of income in a separate caption.

DUE TO BANKS, DUE TO CUSTOMERS, SECURITIES ISSUED AND SUBORDINATED LIABILITIES

Classification criteria

Due to banks, due to customers, securities issued and subordinated liabilities include various forms of funding on the interbank market and with customers and funding via certificates of deposit and bonds issued, net of any amounts repurchased.

It also includes the payables recorded by the lessee as part of finance lease transactions.

Recognition criteria

Initial recognition of such financial liabilities occurs at the time of collection of the sums deposited or at the issue of debt securities.

Initial recognition is based on the fair value of the liabilities, normally equal to the amount collected or the issue price, increased by any additional charges/revenues directly attributable to the single funding or issuing transaction and not reimbursed by the funding counterparty. Internal, administrative costs are excluded.

Fair value of financial liabilities which are issued under market conditions is estimated and the difference from market value is directly recorded in the statement of income.

Measurement criteria

After initial recognition, financial liabilities are measured at amortised cost with the effective interest method.
An exception is made for short-term liabilities, where time value is immaterial, which are stated at collected amount and for which costs are recorded through profit and loss on a straight line basis over the contractual life of the liability.

Derecognition criteria

Financial liabilities are derecognised from the balance sheet when they have expired or extinguished. Derecognition also occurs for repurchase of previously-issued securities. The difference between the book value of the liability and amount paid for repurchase is recorded in the statement of income.

Placement of own securities, subsequently to their repurchase, is considered a new issue with recognition at the new placement price, with no effects on the statement of income.

FINANCIAL LIABILITIES HELD FOR TRADING

The caption includes the negative value of fair value measurement of derivatives held for trading as well as liabilities, also measured at fair value, determined by short selling generated by securities trading activities.

EMPLOYEE TERMINATION INDEMNITIES

Employee termination indemnities are recorded based on their actuarial value.

For the purposes of defining actuarial value, the Projected unit credit method is used. This method sets out that future obligations are forecasted using past time series analyses and the demographic curve and that such future cash flows are discounted based on a market interest rate. The provisions made in each period of service are considered separately and give rise to an additional unit of benefit entitlement for the purposes of the final obligation. The rate used to discount future flows is the average swap curve on measurement dates, weighted based on percentage amount paid and advanced, for each maturity with respect to the total to be paid and advanced until the expiry of the entire obligation.
Costs to service the plan are accounted for in

personnel costs as the net provisions made, provisions accrued in previous years and not yet accounted for, accrued interest, expected revenues deriving from assets which service the plan and actuarial gains and losses.
The latter are recorded using the "corridor approach", that is as the excess cumulated actuarial gains/losses, recorded at the end of the previous period with respect to the higher between 10% of net present value of rewards generated by the plan and 10% of fair value of assets to service the plan. This excess is also considered together with the avarage expected life of the participants to the plan.

ALLOWANCES FOR RISKS AND CHARGES

Pensions and similar commitments

Allowances for pensions and similar commitments are set up based on internal agreements and the relevant provisions are determined as follows:
– net present value of the defined benefit obligations at the time of close of the financial statements;
– plus (minus) every unrecognised profit (loss) deriving from the application of the actuarial methodology,
– minus any pension costs relative to past labour services to be recognised,
– minus the fair value of assets to service the plan at the date of close of the financial statements.

The costs to service the plan are recorded in the statement of income based on a "corridor approach".

Other allowances

Other allowances for risks and charges record provisions relative to current obligations originated from a past event for which a disbursement will probably arise to meet the obligation, provided that the size of the disbursement may be estimated reliably. Where time value is significant, provisions are discounted using current market rates. Provisions are recorded in the statement of income.

Allowances in this caption include both analytical and collective provisions, related to the possible disbursements deriving from credit risk related to guarantees and commitments.

FOREIGN CURRENCY TRANSACTIONS

Initial recognition

Foreign currency transactions are recorded, on initial recognition, in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

Reporting at subsequent balance sheet dates

At every close of annual or interim financial statements, captions in foreign currency are measured as follows:
– foreign currency monetary items shall be translated using the closing rate;
– non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction;
– non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised through profit and loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss shall be recognised directly in equity.
Conversely, when a gain or loss on a non-monetary item is recognised through profit and loss, any exchange component of that gain or loss shall be recognised through profit and loss.

Conversion of financial statements of foreign subsidiaries

The conversion into euro of the financial statements of foreign subsidiaries is carried out applying the closing spot exchange rates.

Foreign exchange differences on the shareholders' equity of the foreign subsidiaries are recorded in the valuation differences in consolidated shareholders' equity and reversed to the statement of income in the year of disposal of the equity investment.

TAX ASSETS AND LIABILITIES

Income taxes

The Group records the impact of current and deferred tax applying the tax rates in force in the Countries in which consolidated subsidiaries operate.

Income taxes are recorded in the statement of income with the exception of those relative to items directly recognised in equity.

The provision for income taxes is determined with reference to a prudent estimate of the current, prepaid and deferred taxation. In particular, prepaid and deferred taxes are determined irrespective of temporal limits and according to all temporary differences between book value attributed to assets or liabilities and the corresponding values for fiscal purposes.

Deferred tax assets are recognised to the extent that they are recoverable, based on the continuing capacity to generate taxable income of the relevant company or of the Parent Company, following the exercise of the option relative to the "fiscal consolidation".

Deferred tax liabilities have been fully accounted for, with the sole exceptions of higher asset values in equity investments subject to a suspended tax regime and shareholders' equity reserves subject to a suspended tax regime, since the size of the available reserves which have already been taxed, leads to believe that the Bank will not undertake any transactions which may lead to tax the untaxed reserves.

Prepaid and deferred taxes are accounted for in the balance sheet with open balances and without offsetting effects, the former in the "Tax assets" caption and the latter in the "Tax liabilities" caption.

In addition, this item reflects the deferred taxation on consolidation adjustments, if it is likely that the taxes concerned will become payable by a Group company.
These taxes essentially reflect those arising from the allocation of positive consolidation differences in the assets of the consolidated company.

Deferred tax assets and liabilities are systematically valued considering any changes in fiscal regulations or tax rates and the situation of the Group companies involved.
The allowance also contains provisions for tax charges which could derive from assessments already notified, or in any case from litigations currently under way with Fiscal Authorities.

OTHER INFORMATION

Treasury shares

Any treasury shares held are directly deducted from equity. Similarly, their original cost and the profits or losses deriving from their subsequent sale are recorded in equity.

Share-based payments

The stock option plan resolved upon by the Extraordinary Shareholders' Meeting of Banca Intesa held on 17th December 2002, represents a share-based payment. The relevant fair value and the corresponding increase in shareholders' equity have been determined with respect to fair value of the options at assignment date.

The fair value of the option is calculated using a model which considers, in addition to information such as strike price and expiry date of the option, spot price of the shares and their expected volatility, expected dividends and the risk-free interest rate, as well as the specific characteristics

of the plan which presents two exercise periods, two option classes with different expiry dates and different exercise conditions. The pricing model values the option and the probability of realisation of the market condition, separately. The combination of the two values supplies the fair value of the assigned instrument.

The decrease in the number of financial instruments granted is accounted for as a cancellation of part of the instruments assigned.

Recognition of revenues

Revenues are recognised when they are collected or in any case when it is probable that the future rewards will be received and such rewards may be quantified in a reliable way. In particular:

- overdue interest, which may be provided for by the relevant contracts is recorded in the statement of income solely at the time of collection;

- dividends are posted in the statement of income when their distribution is approved;

- revenues from trading of financial assets held for trading, determined by the difference between transaction price and the fair value of the instrument are recognised in the statement of income at the time of the transaction if the fair value is determinable with reference to parameters or transactions recently closed on the same market. The gains relative to financial instruments for which the aforementioned measurement is not possible are recorded in the statement of income during the life of the transaction.

The macroeconomic scenario and lending and deposit collecting activities

The macroeconomic scenario

In the first months of 2005 **world economy** registered, on the one hand, the slowdown in growth rates and, on the other hand, inflation persistently above expectations and deteriorated prospects for future price rises, also fuelled by continuing price increases in energy raw materials.
In the **United States** the Central Bank considered the slowdown in growth rates a temporary phase and was focused on curbing the upward price trend by maintaining tight monetary policy also in the second quarter.
Unlike the United States, in the **Euro Area** the modest recovery in growth rates recorded in the first quarter was accompanied by worsened prospects for the middle of the year. Fragile domestic demand continues to represent a risk for a steady recovery and prevents the Central Bank from increasing official rates, despite a surplus in liquidity that could endanger medium-term price stability.
After the contraction in the fourth quarter of 2004, the **Italian economy** recorded an unexpected reduction in GDP also in the first months of this year. Industrial production, stagnant in the first two months, registered a net and widespread drop in March. Entrepreneurs' confidence in economic prospects deteriorated and there are no clear signs that the Country is overcoming the crisis. Domestic demand is still weak, while exports, already down in real terms at the end of 2004, are struggling to recover. In view of these uncertainties, 2005 is unlikely to register any growth in economic activities. Moreover, the slow expansion in consumption, deriving from an increase in available income, will need support from enterprises' capital expenditures to avert a reduction in average annual GDP compared to 2004.

In **financial markets** interest rate trends reflected rising concerns first for American inflation and then for the solidity of the growth. In the dollar yield curve, medium- and long-term interest rates reached their twelve-month peaks at the end of March and sharply dropped in April. Euro Area interest rates recorded similar trends; however, spreads between T-Note and Bund widened to over 100 basis points on the ten-year maturity, as a result of the different economic cycles in the two areas.

The evolution of the **foreign currency markets** was more stable, the EUR/USD exchange rate fluctuated between 1.34 and 1.27. Investors' attitude towards the European currency appeared more prudent compared to 2004. The currencies of Central and Eastern-European Countries where Gruppo Intesa is present registered modest fluctuations against the euro, allowing Hungarian and Croatian Central Banks to substantially reduce interest rates.

The Italian **Stock Market** was partly influenced by United States indices, that were affected by increases in interest rates, by concerns over inflation and, more recently, by slowdown in growth rates. However, against a reduction in S&P500 and Nasdaq indices, Italian indices increased, with a better result on average than the other European markets. In April, however, risk aversion hit also the Italian market, which declined compared to the levels at the end of March.

Italian lending and deposit collecting activities

In the first quarter of the year **bank interest rates** fluctuated around the minimum touched at the end of 2004, keeping a slightly downward trend, in line with the small reduction registered by money market yields. The virtual stability of bank interest rates is likely to continue over the forthcoming months, in line with market

expectations that the European Central Bank will not raise official rates in the near future. With regard to interest on loans, the estimated average yields of loans to households and non-financial companies were slightly under the levels reached at the end of 2004. As to interest on deposits, the evolution of interest rates has been more stable for some months, with the average cost of household and company deposits in line with the fluctuations registered over the whole of 2004. The moderately downward trend of interest on loans determined a slight contraction between December and March in estimated bank spreads, from 3.04% to 3%, whilst short-term spreads registered a more marked reduction, from 4.85% to 4.68%.

In the quarter, performing **loans** of the banking industry recorded a substantial expansion from the previous year, strengthening the similar trend registered in the Euro Area average. This reflected a consistently very solid performance of longer-term loans, but also a gradual improvement, after a negative 2004, in short-term loans.
Also in the first quarter, low interest rates continued to give strong support to the growth in loan demand, both for households and companies. In fact, the demand for housing mortgages and for loans to the production sector remained very strong. From the risk standpoint, the first months of 2005 highlighted a reduction in the annual growth rate of doubtful loans.
The improvement in overall loan portfolio quality was particularly evident in the corporate sector, whereas doubtful loans in the household sector registered a certain acceleration.

In the first quarter growth rates in **deposit collecting** activities performed by Italian banks remained rather high, although with diverse trends for different types of contract. In fact, current accounts sharply dropped in March, after the February peak, while bonds, despite a slight slowdown, still recorded a considerable increase. Higher growth rates in more liquid instruments confirmed the uncertain climate characterising investment decisions.

In 2005 **indirect customer deposits** recorded virtually stable volumes, in line with 2004. The disappointing trend of the aggregate was mainly due to the poor performance of the asset management component, which recorded a continuously declining market value also in the first months of this year.

Economic results in the period

General aspects

The tables below and the relative comments, analyse the results recorded in the statement of income as at 31st March 2005 – the first drawn up using IAS/IFRS – compared to those of the same period of the previous year, restated using IAS/IFRS, included IAS 39. For the banking industry the provisions of the latter are by far the most significant and the most complex to apply, since they refer to the classification, recognition and measurement of financial instruments, which make up the ordinary operations of a bank.
In the construction of the comparative figures for 2004, as already indicated above, estimates have been used where necessary, these are based on reasonable elements and are such to enable a reliable representation of the figures for the first quarter of last year.

Figures as at 31st March 2004 with the exclusion of the effects of IAS 39 are indicated in the last column of the tables hereafter.

Reclassified consolidated statement of income

(in millions of euro)

	31/03/2005	31/03/2004 including IAS 39 (*)	Changes		31/03/2004 except IAS 39 (§)
			amount	%	
Net interest income	**1,334**	1,282	52	4.1	1,246
Profits (Losses) on investments carried at equity	**33**	33	0	0.0	33
Net fee and commission income	**955**	830	125	15.1	824
Profits (Losses) on trading	**185**	112	73	65.2	225
Other operating income (expenses)	**0**	23	–23		31
Operating income	**2,507**	2,280	227	10.0	2,359
Personnel expenses	**–787**	–809	–22	–2.7	–809
Other administrative expenses	**–411**	–432	–21	–4.9	–447
Adjustments to fixed assets and intangibles	**–118**	–127	–9	–7.1	–127
Operating costs	**–1,316**	–1,368	–52	–3.8	–1,383
Operating margin	**1,191**	912	279	30.6	976
Net provisions for risks and charges	**–46**	–18	28		–22
Net adjustments to loans and receivables	**–193**	–194	–1	–0.5	–214
Net impairment losses on other assets	**3**	–17	20		–8
Profits (Losses) on investments held to maturity and on other investments	**61**	–3	64		–3
Income (Loss) before tax from continuing operations	**1,016**	680	336	49.4	729
Taxes on income from continuing operations	**–372**	–235	137	58.3	–259
Income (Loss) after tax from non-current assets (or disposal groups) held for sale and discontinued operations	**0**	0	0	0.0	0
Minority interests	**–24**	–19	5	26.3	–19
Net income	**620**	**426**	**194**	**45.5**	**451**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments.
(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments.

The first quarter of 2005 closed with a net income of 620 million euro, up by 45.5% compared to the corresponding figure for 2004, which was the combined result of higher operating income, from 2,280 million euro to 2,507 million euro (+10%), and a reduction in operating costs from 1,368 million euro to 1,316 million euro (-3.8%). Net income also benefited from higher profits on disposal of investments which more than offset the rise in net provisions for risks and charges.

Operating income

In the first quarter of 2005, operating income reached 2,507 million euro, with a 10% increase compared to the same figure in the first quarter of 2004. This aggregate reflects the result of net interest income, up by 4.1%, net fee and commission income that recorded an over 15% rise, as well as decidedly higher profits on trading (+65%).

Net interest income

(in millions of euro)

Subcaptions	31/03/2005	31/03/2004 including IAS 39 (*)	Changes		31/03/2004 except IAS 39 (§)
			amount	%	
Relations with customers	**1,451**	1,466	–15	–1.0	1,512
Relations with banks	**–24**	50	–74		54
Securities issued	**–420**	–427	–7	–1.6	–440
Subordinated liabilities	**–104**	–134	–30	–22.4	–134
Differentials on hedging derivatives	**9**	–61	70		–58
Financial assets held for trading	**273**	250	23	9.2	250
Investments held to maturity	**29**	29	–	–	29
Financial assets available for sale	**28**	26	2	7.7	26
Interest on non-performing assets	**86**	76	10	13.2	–
Interest expenses on allowances for risks and charges	**–5**	–4	1	25.0	–4
Other net interest income	**11**	11	0	0.0	11
Net interest income	**1,334**	1,282	52	4.1	1,246
Fair value adjustments in hedge accounting	**0**	0	0	0.0	–
Net interest income	**1,334**	**1,282**	**52**	**4.1**	**1,246**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments.
(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments.

The variation in net interest income with customers (-15 million euro) must be considered together with interest expense with customers. The latter, in fact, decreased on both securities issued (-7 million euro) and subordinated liabilities (-30 million euro). Interbank relationships presented a negative variation in net interest income of 74 million euro, compared to a positive variation of 70 million euro in differentials on hedging derivatives which mainly cover operations with banks.

Fair value adjustments in hedge accounting, which presented a balance equal to zero, stemmed from the imbalance of positive and negative variations in the fair value of hedging derivatives and in the relevant assets and liabilities hedged.

Profits (Losses) on investments carried at equity

The Group’s profits on investments carried at equity remained at 33 million euro, equal to the figure for the first quarter of 2004.

Net fee and commission income

(in millions of euro)

Captions	31/03/2005	31/03/2004 including IAS 39 (*)	Changes		31/03/2004 except IAS 39 (§)
			amount	%	
Commercial banking activities	**356**	353	3	0.8	353
Management, dealing and consultancy	**490**	354	136	38.4	354
Tax collection	**29**	54	–25	–46.3	54
Other net fee and commission income	**80**	69	11	15.9	63
Total net fee and commission income	**955**	**830**	**125**	**15.1**	**824**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments.
(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments.

Net fee and commission income increased by 15.2% to 955 million euro, highlighting a moderate rise in the positive contribution of commercial banking activities (+0.8%) and a significant growth rate in management, dealing and consultancy (+38.4%). In this last caption considerable rises were recorded by dealing and placement of securities, on which income more than tripled, and distribution of insurance products that more than doubled commission flows. Conversely, decreases were posted in individual portfolio management schemes (-15.4%), a sector which continues to be affected by an unfavourable market trend, and in tax collection, still influenced by the lack of definition in the regulations regarding the additional remuneration of the service to be borne by tax authorities.

Profits (Losses) on trading

(in millions of euro)

Captions	31/03/2005	31/03/2004 including IAS 39 (*)	Changes		31/03/2004 except IAS 39 (§)
			amount	%	
Interest rates	**13**	5	8		96
Equity	**114**	62	52	83.9	89
Foreign exchange	**32**	39	–7	–17.9	34
Credit derivatives (trading book)	**1**	6	–5	–83.3	6
Total profits (losses) on trading	**160**	112	48	42.9	225
Profits (Losses) on disposal of financial assets available for sale	**25**	–	25		–
Profits on trading	**185**	**112**	**73**	**65.2**	**225**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments.
(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments.

Profits on trading also significantly increased. The caption comprises profits and losses on disposal of financial assets held for trading or available for sale, as well as valuation differences on financial assets available for trading designated at fair value through profit and loss, it also includes dividends on equities held for trading or available for sale. The caption reached 185 million euro with a rise, on the comparative figure for the first quarter of 2004, exceeding 65% and was made up of profits on trading for 160 million euro and profits on disposal of financial assets available for sale for 25 million euro.

As concerns trading activities, the most significant component referred to trading on equities – in which the Parent Company Banca Intesa and Banca Caboto are particularly active – with net revenues of 114 million euro (*ex* 62 million euro) 32 million euro of which were represented by

dividends (*ex* 5 million euro). The caption also includes the valuation effects on certain equity investments classified as held for trading in the first-time adoption of IAS/IFRS. Foreign exchange activities were practically stable and are mostly conducted by the Parent Company and the foreign subsidiaries, namely the Eastern-European subsidiaries.
Conversely, profits on activities on interest rates and credit derivatives were on far lower absolute levels.

Other operating income (expenses)

The caption which net had a balance equal to zero, is the result of other operating income – among which rentals, non-recurring and other income – of 53 million euro, which was offset by other operating expenses of the same amount, inclusive of reorganisation charges, contributions to various organisms, other charges for litigations and provisions for customer restoration, non-recurring and other charges, since, in the new reclassified statement of income, the caption has a residual content.

Operating margin

The combined effect, on the one hand, of the growth in operating income and, on the other hand, of the contraction in operating costs led operating margin to reach 1,191 million euro, 30.6% higher than 912 million euro realised in the quarter closed on 31st March 2004.

Operating costs

(in millions of euro)

Captions	31/03/2005	31/03/2004 including IAS 39 (*)	Changes		31/03/2004 except IAS 39 (§)
			amount	%	
Personnel expenses	**787**	809	–22	–2.7	809
Administrative expenses					
– general structure costs	**124**	138	–14	–10.1	138
– IT expenses	**93**	91	2	2.2	91
– indirect taxes and duties	**89**	76	13	17.1	76
– management of real estate assets	**77**	80	–3	–3.8	80
– legal and professional expenses	**37**	30	7	23.3	45
– advertising and promotional expenses	**24**	16	8	50.0	16
– indirect personnel costs	**12**	20	–8	–40.0	20
– other costs	**39**	41	–2	–4.9	41
– recovery of expenses and charges	**-84**	–60	24	40.0	–60
	411	432	–21	–4.9	447
Adjustments to					
– intangibles	**56**	60	–4	–6.7	60
– fixed assets	**62**	67	–5	–7.5	67
Operating costs	**1,316**	**1,368**	**–52**	**–3.8**	**1,383**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments.
(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments.

The attentive cost containment action, which characterised the previous periods, continued also in the first quarter of 2005 and led to savings of 3.8% compared to the same period of 2004.

Lower costs referred to both personnel expenses, 787 million euro (-2.7%), and administrative expenses, 411 million euro (-4.9%). Within the latter, the various expense captions highlighted opposite trends with increases in IT, legal and professional expenses and advertising and promotional expenses, and decreases in general structure costs and expenses for management of real estate assets. The rise in indirect taxes and duties was offset by higher recoveries from customers that, in the new reclassified statement of income, directly adjust the relevant charge.

Adjustments to intangibles and fixed assets recorded an overall 7.1% decrease mainly as a result of the completion of the normal amortisation process of certain intangibles, as well as for lower adjustments related to the disposal of certain real estate assets.

Income (Loss) before tax from continuing operations

Income (Loss) before tax from continuing operations of 1,016 million euro (+49.4% on the corresponding figure of March 2004) also reflected the registration of net provisions and adjustments for 236 million euro and net profits on the sale of equity investments for 61 million euro, which referred to the sale of the equity stake in the subsidiary Milano Zerotre for 46 million euro.

Net provisions for risks and charges

Net provisions for risks and charges amounted to 46 million euro and mainly referred to legal disputes and amounts reclaimed.

Net adjustments to loans and receivables

Net adjustments to loans and receivables (193 million euro) is practically unchanged compared to the first quarter of the previous year. In particular, this net result is the imbalance between adjustments of 394 million euro and recoveries of 201 million euro.

More specifically, net impairment losses on doubtful loans increased from 68 million euro of March 2004 to 88 million euro of the first quarter of 2005 while net impairment losses on other non-performing loans (substandard and restructured loans) decreased from 93 million euro to 68 million euro.

(in millions of euro)

Captions	31/03/2005	31/03/2004 including IAS 39 (*)	Changes		31/03/2004 except IAS 39 (§)
			amount	%	
Net impairment losses on loans and receivables					
– doubtful loans	**–88**	–68	20	29.4	–30
– other non-performing loans	**–68**	–93	–25	–26.9	–93
– performing loans	**–4**	–35	–31	–88.6	–93
Net provisions for guarantees and commitments	**–33**	2	–35		2
Net adjustments to loans and receivables	**–193**	**–194**	**–1**	**–0.5**	**–214**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments.
(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments.

Collective adjustments on performing loans equalled 4 million euro, which is deemed to be sufficient to maintain a generic coverage of performing positions to the levels required by the relative risk configurations.

Lastly, provisions on guarantees and commitments totalled 33 million euro. The rise with respect to the figure for the first quarter of 2004 was influenced by the downgrading of certain foreign car manufacturers.

Net income

Lastly, net income of 620 million euro was net of taxes on income from continuing operations amounting to 372 million euro – corresponding to 36.6% of income before tax – and of minority interests of 24 million euro.

Main balance sheet aggregates

(in millions of euro)

Assets	31/03/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Cash and cash balances with central banks	**1,237**	1,551	–314	–20.2
Financial assets held for trading	**56,549**	57,916	–1,367	–2.4
Financial assets available for sale	**4,979**	5,157	–178	–3.5
Investments held to maturity	**2,395**	2,450	–55	–2.2
Due from banks	**23,590**	28,557	–4,967	–17.4
Loans to customers	**156,915**	159,447	–2,532	–1.6
Hedging derivatives	**1,118**	1,262	–144	–11.4
Equity investments	**1,641**	1,697	–56	–3.3
Fixed assets	**2,953**	2,979	–26	–0.9
Intangibles	**1,210**	1,265	–55	–4.3
Tax assets	**3,520**	4,824	–1,304	–27.0
Non-current assets (or disposal groups) held for sale and discontinued operations	**8**	7	1	14.3
Other assets	**5,835**	3,993	1,842	46.1
Total Assets	**261,950**	**271,105**	**–9,155**	**–3.4**

Liabilities and Shareholders' Equity	31/03/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Due to banks	**35,028**	34,327	701	2.0
Due to customers	**172,113**	179,282	–7,169	–4.0
Financial liabilities held for trading	**24,053**	30,033	–5,980	–19.9
Hedging derivatives	**1,358**	1,480	–122	–8.2
Tax liabilities	**1,286**	1,369	–83	–6.1
Liabilities in disposal groups held for sale and discontinued operations	**–**	–	–	
Other liabilities	**10,399**	6,869	3,530	51.4
Employee termination indemnities	**1,087**	1,091	–4	–0.4
Allowances for risks and charges	**1,954**	1,907	47	2.5
Share capital	**3,561**	3,561	–	–
Share premium reserve	**5,406**	5,406	–	–
Reserves	**3,700**	2,617	1,083	41.4
Revaluation reserves and valuation differences	**599**	544	55	10.1
Minority interests	**786**	778	8	1.0
Net income (loss)	**620**	1,841	–1,221	
Total Liabilities and Shareholders' Equity	**261,950**	**271,105**	**–9,155**	**–3.4**

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

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

Loans to customers

(in millions of euro)

Subcaptions	31/03/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Current accounts	**18,886**	20,118	–1,232	–6.1
Mortgages	**69,094**	68,238	856	1.3
Advances and other loans	**57,825**	56,946	879	1.5
Repurchase agreements	**2,566**	5,660	–3,094	–54.7
Non-performing loans	**6,728**	6,750	–22	–0.3
Total loans	***155,099***	*157,712*	*–2,613*	*–1.7*
Loans represented by securities	***1,816***	*1,735*	*81*	*4.7*
Loans to customers	**156,915**	**159,447**	**–2,532**	**–1.6**

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

Loans to customers, which also include loans represented by securities, recorded a moderate decline (-1.6%) to 156,915 million euro compared to the 159,447 million euro of December 2004.

The decline mostly derives from repurchase agreements, which more than halved, and current accounts (-6.1%), while the progress in mortgages continued (+1.3%) – though with a more contained growth rate after the strong rise of 2004 – and mortgages now represent approximately 44% of total loans to customers. Also advances and other loans increased (+1.5%) and underwriting of securities for the purpose of financing the issuer (+4.7%). Excluding the decline in repurchase agreements – which decreased considerably in the quarter in consideration of the trend of market interest rates – total loans to customers would have recorded a moderate 0.4% expansion.

Non-performing loans

(in millions of euro)

	31/03/2005			31/12/2004 including IAS 39 (*)		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
Non-performing loans	17,726	–10,998	6,728	17,716	–10,966	6,750
Doubtful loans	*12,668*	*–9,664*	*3,004*	*12,710*	*–9,683*	*3,027*
Substandard loans	*4,939*	*–1,303*	*3,636*	*4,767*	*–1,258*	*3,509*
Restructured loans	*119*	*–31*	*88*	*239*	*–25*	*214*
Performing loans	151,231	–1,044	150,187	153,764	–1,067	152,697
Total	**168,957**	**–12,042**	**156,915**	**171,480**	**–12,033**	**159,447**

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

Total non-performing loans, net, equalled 6,728 million euro, slightly lower than in December 2004 (-0.3%), thus also confirming, at approximately 4.3%, the percentage incidence on the total loan portfolio. This trend derived from a reduction of doubtful loans (-0.8%) to 3,004 million euro, and a more marked decrease in restructured loans, down from 214 million euro at the end of 2004 to 88 million euro in March 2005. Doubtful loans continued to represent under 1.9% of overall loans and the relative cumulated adjustments guaranteed a 76.3% coverage with a slight improvement on the figure of last December (76.2%). Conversely, substandard loans, 3,636 million euro, reached a net value 3.6% higher than at the end of 2004, even though, in terms of incidence on total loans, the percentage remains very similar (2.3% *ex* 2.2%). It must also be noted that substandard loans include certain substantial positions for which the conditions have been created for the possible return, in reasonable time frames, to regular conditions. Substandard loans had a degree of coverage of 26.4%, unchanged with respect to the figure at the end of 2004.

To cover the implicit risk of performing loans there are collective adjustments, which cumulated totalled 1,044 million euro, and as at December 2004, represented an average 0.7% coverage of performing positions. Such cumulated provisions are deemed to be adequate to cover the risk physiologically intrinsic in performing loans.

Customer funds

(in millions of euro)

Subcaptions	31/03/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Deposits	**11,186**	10,971	215	2.0
Current accounts and other	**83,818**	84,528	–710	–0.8
Certificates of deposit	**4,194**	5,569	–1,375	–24.7
Other	**3,283**	3,814	–531	–13.9
Repurchase agreements	**7,174**	9,367	–2,193	–23.4
Due to customers	***109,655***	*114,249*	*–4,594*	*–4.0*
Securities issued	***53,241***	*55,423*	*–2,182*	*–3.9*
Subordinated liabilities	***9,217***	*9,610*	*–393*	*–4.1*
Total direct deposits	**172,113**	**179,282**	**–7,169**	**–4.0**
Indirect customer deposits	**296,862**	**293,000**	**3,862**	**1.3**
Customer deposits under administration	**468,975**	**472,282**	**–3,307**	**–0.7**

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

Direct customer deposits totalled 172,113 million euro, with a 4% contraction which was attributable, as concerns the most significant changes, to the decrease in repurchase agreements (-23.4%), and certificates of deposit (-24.7%), in addition to the policy of a lower recourse to bond issues (-3.9%) and subordinated liabilities (-4.1%). Conversely, deposits and current accounts, considered together, basically confirmed the levels of the end of the previous year (-0.5%).

Indirect customer deposits

(in millions of euro)

Subcaptions	31/03/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Individual portfolio management schemes	**48,828**	49,762	–934	–1.9
Assets managed by mutual funds	**74,566**	75,793	–1,227	–1.6
Insurance products	**23,870**	23,000	870	3.8
minus Funds from individual portfolios placed in mutual funds	**–29,184**	–30,650	–1,466	–4.8
Total managed funds	**118,080**	117,905	175	0.1
Assets under administration and in custody	**178,782**	175,095	3,687	2.1
Indirect customer deposits	**296,862**	**293,000**	**3,862**	**1.3**

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

Indirect customer deposits recorded a similar trend as in previous periods, with an overall progress to 296,862 million euro (+1.3%), entirely due to assets under administration and in custody (+2.1%).
Managed funds, in fact, continued to be negatively affected by the unfavourable economic situation and the difficulties which have been characterising the industry for some time. Managed funds remained practically flat (+0.1% on the figure at the end of 2004) despite the appreciable development of insurance products (+3.8%).

Financial instruments held for trading

(in millions of euro)

Captions	31/03/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Bonds and other debt securities	**29,799**	29,487	312	1.1
Equities and quotas of O.I.C.R.	**5,612**	3,321	2,291	69.0
Trading portfolio	***35,411***	*32,808*	*2,603*	*7.9*
Positive value of debt securities derivatives and interest rate derivatives	**18,076**	21,609	–3,533	–16.3
Positive value of currency derivatives	**1,099**	1,547	–448	–29.0
Positive value of equity derivatives and stock indices derivatives	**1,583**	1,615	–32	–2.0
Postive value of credit derivatives	**380**	337	43	12.8
Positive value of trading derivatives	***21,138***	*25,108*	*–3,970*	*–15.8*
Financial assets held for trading	**56,549**	**57,916**	**–1,367**	**–2.4**

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

Financial assets held for trading comprise both debt securities and equities, including certain equity investments which have been designated as held for trading at the time of their initial recognition, as well as the positive value of trading derivatives.

Securities held for trading recorded an approximately 8% expansion to 35,411 million euro, which was the combined effect of the stability of debt securities and the rise, close to 70%, of equities.
As concerns derivatives held for trading with a positive value (21,138 million euro, -15.8% on December 2004) the most significant component referred to contracts on debt securities and interest rates which represented approximately 85% of the total.

Financial liabilities held for trading, which

mostly stemmed from the negative value of trading derivatives, totalled 24,053 million euro (-19.9%) and, as in the case of assets, were mostly related to derivatives on debt securities and interest rates (77%).

(in millions of euro)

Captions	31/03/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Negative value of debt securities derivatives and interest rate derivatives	**18,540**	22,962	–4,422	–19.3
Negative value of currency derivatives	**1,290**	2,244	–954	–42.5
Negative value of equity derivatives and stock indices derivatives	**1,891**	1,847	44	2.4
Negative value of credit derivatives	**448**	460	–12	–2.6
Negative value of trading derivatives	***22,169***	*27,513*	*–5,344*	*–19.4*
Other liabilities held for trading	***1,884***	*2,520*	*–636*	*–25.2*
Financial liabilities held for trading	**24,053**	**30,033**	**–5,980**	**–19.9**

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

Financial assets available for sale

(in millions of euro)

Captions	31/03/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Bonds and other debt securities	**2,298**	2,635	–337	–12.8
Equities and quotas of O.I.C.R.	**111**	89	22	24.7
Securities available for sale	***2,409***	*2,724*	*–315*	*–11.6*
Equity investments	**1,255**	1,047	208	19.9
Private equity investments	**1,308**	1,386	–78	–5.6
Equity investments available for sale	***2,563***	*2,433*	*130*	*5.3*
Loans available for sale	***7***	*–*	*7*	
Financial assets available for sale	**4,979**	**5,157**	**–178**	**–3.5**

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

The caption totalled 4,979 million euro, 3.5% lower than at the end of 2004, and was made up, almost to the same extent, by debt securities and equities which are not held for trading of 2,409 million euro (-11.6% on the end of the previous year) and by equity investments and private equity investments of 2,563 million euro (+5.3%). The caption also includes a small amount of loans to customers designated as available for sale referring to portions of syndicated loans which are to be placed with third parties.

Investments held to maturity

(in millions of euro)

Captions	31/03/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Government securities	**2,099**	2,148	–49	–2.3
Bonds and other debt securities	**296**	302	–6	–2.0
Investments held to maturity	**2,395**	**2,450**	**–55**	**–2.2**

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

The caption refers to debt securities which the holding entity has declared will be held to maturity and exclusively records investments held by certain Group companies.

Hedging derivatives

(in millions of euro)

Captions	31/03/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Positive value of fair value hedge derivatives	**1,096**	1,233	–137	–11.1
Positive value of cash flow hedge derivatives	**22**	29	–7	–24.1
Positive values	***1,118***	*1,262*	*–144*	*–11.4*
Negative value of fair value hedge derivatives	**–1,274**	–1,398	–124	–8.9
Negative value of cash flow hedge derivatives	**–84**	–82	2	2.4
Negative values	***–1,358***	*–1,480*	*–122*	*–8.2*
Total	**–240**	**–218**	**22**	**10.1**

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

The table above illustrates the total of hedging derivatives.

In particular fair value hedge derivatives presented an overall negative balance of 178 million euro, offset by analogous variations in hedged items, while the value of cash flow hedge derivatives presented a negative balance of 62 million euro, offset, net of accruals for the period and tax effects, by valuation differences recorded in shareholders' equity.

Equity investments

(in millions of euro)

Captions	31/03/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Equity investments in associates	**1,208**	1,264	–56	–4.4
Other equity investments	**433**	433	–	–
Total	**1,641**	**1,697**	**–56**	**–3.3**

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

Equity investments in associates and companies subject to joint control are recorded in the consolidated balance sheet based on the pro quota value of the associate's shareholders' equity, and totalled 1,208 million euro, 4.4% lower than in December 2004.

As illustrated in the accounting principles, the stake in the Bank of Italy is recorded at cost (433 million euro) in consideration of the peculiarity of the equity investment.

Net interbank position

(in millions of euro)

Captions	31/03/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Net interbank position repayable on demand				
– loans	**2,217**	2,727	–510	–18.7
– deposits	**–8,468**	–6,201	2,267	36.6
	–6,251	–3,474	2,777	79.9
Net interbank position with notice period				
– loans	**21,373**	25,830	–4,457	–17.3
– deposits	**–26,560**	–28,126	–1,566	–5.6
	–5,187	–2,296	2,891	
Net interbank position	**–11,438**	**–5,770**	**5,668**	**98.2**

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

The net interbank position as at 31st March 2005 more clearly evidenced the trend which had already emerged during 2004 towards a rise in the debt position which, in the quarter, doubled, up from 5,770 million euro to 11,438 million euro due to lower investments of 4,967 million euro and higher funding of 701 million euro.
In absolute terms, the overall change in the negative balance almost affected to the same extent both the on demand and the with notice period components (+2,777 million euro and +2,891 million euro respectively).

Shareholders' equity

The Group's shareholders' equity, including net income for the period, amounted to 13,886 million euro and included valuation differences for a total of 599 million euro which, for 357 million euro referred to legally-required revaluations based on laws prior to the introduction of IAS/IFRS, for 122 million euro derived from fair value measurement of financial assets available for sale and cash flow hedge derivatives and for 120 million euro represented foreign exchange differences on conversion of financial statements denominated in foreign currencies, of which 65 million euro referred to European subsidiaries which had adopted the euro as the local currency.

Revaluation reserves and valuation differences

(in millions of euro)

Captions	Revaluation reserves and valuation differences as at 31/12/2004 including IAS 39 (*)	Change in the period	Revaluation reserves and valuation differences as at 31/03/2005
Financial assets available for sale	117	36	**153**
Fixed assets	–	–	**–**
Cash flow hedges	–32	1	**–31**
Legally-required revaluations	357	–	**357**
Other	102	18	**120**
Total valuation differences	**544**	**55**	**599**

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

Shareholders' equity for supervisory purposes amounted to 20,180 million euro, against risk-weighted assets of 184,528 million euro. The total capital ratio equalled 10.94% and the Tier 1 ratio 7.76%. The ratio between Tier 1 capital net of preference shares and risk-weighted assets (Core Tier 1) equalled 6.90%.

(in millions of euro)

Total capital and capital ratios	31/03/2005	31/12/2004 including IAS 39 (*)
Total capital		
Tier 1 capital	**14,317**	13,900
Tier 2 capital	**6,468**	6,773
Items to be deducted	**–605**	–620
Total capital	**20,180**	20,053
Capital requirements		
Credit risks	**13,120**	13,046
Market risks	**1,361**	1,240
Tier 3 subordinated loans	**–**	–
Other capital requirements	**281**	277
Total capital requirements	**14,762**	14,563
Risk-weighted assets	**184,528**	182,042
Capital ratios %		
Core Tier 1/Total risk-weighted assets	**6.90**	6.69
Tier 1/Total risk-weighted assets	**7.76**	7.64
Total capital/Total risk-weighted assets	**10.94**	11.02
Excess capital	**5,418**	5,490

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

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

(in millions of euro)

Items	Shareholders' equity	including net income as at 31/03/2005
Parent Company's balances as at 31st March 2005	12,734	313
Effect of consolidation of subsidiaries subject to control and joint control	568	317
Effect of consolidation of subsidiaries carried at equity	–42	33
Reversal of write-downs on FTA on consolidated equity investments	295	–
Allocation of consolidation differences to the value of real estate assets	228	–1
Restatement of goodwill	–7	–
Dividends collected during the period	–	–25
Other changes	110	–17
Consolidated balances as at 31st March 2005	**13,886**	**620**

The Parent Company Banca Intesa

The results of the Parent Company in the first quarter of 2005 have also been determined using IAS/IFRS. For the purpose of providing a consistent comparison, the results of the first quarter of the previous year have been restated in order to include the estimate of the effects which would have been recorded if IAS 39 had already been applied as of 1st January 2004. The comparison, which in itself is evidently complex, is overall based on prudential decisions and is deemed to be a reliable representation of the evolution of operations in the two periods under comparison.

Banca Intesa's quarterly statement of income – which represents by far the most significant component of the Group's consolidated financial statements – closed with a net income of 313 million euro, highlighting positive results, higher than in the comparison period for all intermediate margins. These results also stemmed from the interventions set out in the Business Plan which in almost all cases reached the programmed targets ahead of schedule.

With reference to the components of the reclassified statement of income, **operating income**, made up of revenues, costs and valuation effects on ordinary operations, totalled 1,514 million euro, approximately 18% higher with respect to the comparative figure, with positive trends recorded by all its components.
More specifically, *net interest income* – including differentials on hedges – highlighted, with 795 million euro, a 3.7% improvement, mostly connected to higher interest on financial assets held for trading, while among *dividends*, that amounted to 22 million euro (*ex* 1 million euro), the most significant amounts referred to Milano Zerotre (10 million euro) and Intesa Bank Ireland (9 million euro).
Net fee and commissions income was significantly higher (approximately +23% to 612 million euro), and benefited from the significant consolidation of flows from commercial banking activities (+1.3%) and, especially, from the considerable contribution of dealing, management and consulting (+53%) connected to the substantial placements of bonds issued by third parties and insurance products.
Profits (losses) on trading, 69 million euro (compared to 10 million euro of the reference period), include – in addition to the reversal to the statement of income of profits and losses realised on financial assets available for sale (12 million euro) – profits, losses and valuation effects of assets and liabilities available for sale for a total of 57 million euro (*ex* 10 million euro). A more detailed examination of the single areas which make up this result showed that the negative contribution of operations in the interest rate area (-16 million euro, *ex* -36 million euro) and the decline in profits related to credit derivatives in the trading book (1 million euro, *ex* 6 million euro) were entirely offset by the higher contributions of the equities area (52 million euro, *ex* 27 million euro) and forex activities (20 million euro, *ex* 13 million euro).
Again within the components of operating income, also *other net operating income* increased (+33% to 16 million euro). The caption does not include the recoveries of expenses and taxes and duties, which, in the reclassified statement of income, are directly deducted from other administrative expenses.

Operating costs continued to decrease in the first quarter of 2005, to 847 million euro, corresponding to a 3.5% drop ascribable to lower *personnel expenses* (-5.8% to 508 million euro), due to the reduction in headcount (-2,300 units over the twelve months) enacted also via the activation of the Solidarity Allowance. *Administrative expenses* remained at the same levels as in the comparison period (265 million euro), despite the higher expenses for IT, legal and professional services in relation

to the projects for growth under way, and for advertising campaigns connected to the launch of new products, according to the trends already evidenced during the previous year. *Adjustments to fixed assets and intangibles* was also in line with the comparative figure (74 million euro).

The balance between operating income and operating costs led to an **operating margin** of 667 million euro, approximately 63% higher than the comparative figure.

Income before tax from continuing operations equalled 533 million euro, compared to 248 million euro in the first quarter of 2004. More specifically, this result reflected the deduction of *net provisions for risks and charges* of 40 million euro, mostly related to legal disputes and amounts reclaimed, and *net adjustments to loans and receivables* of 114 million euro, that recorded a decrease (approximately -23%) attributable to lower requirements both on non-performing positions (doubtful and substandard) and on performing loans, only partly absorbed by higher net provisions for guarantees and commitments. Income before tax from continuing operations also included *Profits on investments held to maturity and on other investments* of 20 million euro (5 million euro the comparative figure), mostly made up of gains on the sale of equity stakes in subsidiaries and associates (17 million euro, of which 14 million euro relative to Milano Zerotre).

As already indicated, **net income** in the first quarter, after the registration of *taxes on income from continuing operations* of 220 million euro, totalled 313 million euro, more than double the figure for the first quarter of 2004.

As concerns balance sheet aggregates, as at 31st March 2005, **loans to customers** confirmed, with a total of 102,569 million euro, the volumes of the comparison figure as at 31st December 2004 (-0.4%). This trend is the net result of opposite trends in the various contract types which make up the aggregate. In particular, the growth of mortgages continued, though with a slower trend with respect to the past (+1.8% to 43.960 million euro), while advances and other loans remained practically stable (-0.2% to 38.975 million euro) and current accounts was also virtually unchanged (-0.8% to 14,230 million euro). Repurchase agreements recorded instead a marked drop (approximately -60% to 826 million euro).
In application of provisions contained in IAS, loans to customers also include securities underwritten at the time of issue for the purpose of financing the issuer (820 million euro, +36% approximately).

Non-performing loans, which at the end of March amounted to 3,758 million euro (+1.6%) included doubtful loans of 1,074 million euro (+2%) and substandard loans of 2,684 million euro (+1.5%). The relative cumulated provisions determined an overall coverage of 48% (71% for doubtful loans, 25% for substandard loans). Performing loans were instead covered – based on historical loss data – by collective provisions of 525 million euro, which lead to a 0.5% coverage.

Conversely, **direct customer deposits** recorded a downward trend and totalled 127,456 million euro (-3.7%). In addition to the reduction recorded in current accounts (-3.2% to 64,785 million euro), partly due to the transfer of positions to Intesa Private Banking, the Group's new bank specialised in serving private customers, the declines, now physiological, of certificates of deposit (-15.6%) and deposits (-3.7%) continued. These phenomena combined with the decrease in repurchase agreements (approximately -11%) and, especially, the lower recourse – after a prolonged expansion phase – of issued bonds.
The decrease highlighted by **indirect customer deposits** (-3% to 212,967 million euro) is instead essentially attributable to the aforementioned transfer of position to Intesa Private Banking.

Financial instruments held for trading comprised among assets (36,545 million euro in total, -4.1% with respect to as at 31st December 2004) debt securities and equities for 25,158 million euro (+0.1%) as well as the positive value of derivatives held for trading amounting to 11,387 million euro (approximately -12%). The relevant liabilities (13,155 million euro, approximately -18%) were mostly made up of negative value of derivatives held for trading (12,570 million euro, approximately -13.6%).
The imbalance between positive and negative value of derivatives was negative and totalled 1,183 million euro.

Financial assets available for sale (2,401 million euro, approximately -5%) comprised debt securities and equities amounting to 545 million euro, equity investments of 978 million euro and private equity investments of 871 million euro. It also included 7 million euro of loans, attributable to portions of syndicated loans destined to be placed with third parties.

As concerns **hedges**, the positive value of hedging derivatives totalled 1,077 million euro, of which 1,055 million euro relative to fair value hedges while the contracts with negative values totalled 1,395 million euro, of which 1,353 million euro referred to fair value hedges.

Equity investments, that amounted to 10,809 million euro (-0.6%), comprised controlling equity stakes for 9,012 million euro, equity stakes in associates of 1,449 million euro and other equity investments of 348 million euro.

Breakdown of consolidated results by business area and geographic area

In this chapter consolidated results are broken down by business area (the so-called primary segment foreseen by IAS 14) and by geographic area (secondary segment).

BUSINESS AREAS

(in millions of euro)

	Retail Division		Corporate Division		Italian Subsidiary Banks Division		International Subsidiary Banks Division		Central Structures		Total	
	31/03/05	31/03/04	31/03/05	31/03/04	31/03/05	31/03/04	31/03/05	31/03/04	31/03/05	31/03/04	31/03/05	31/03/04
Operating income	**1,395**	1,213	**435**	433	**378**	346	**252**	232	**47**	56	**2,507**	2,280
Operating costs	**–719**	–752	**–191**	–189	**–181**	–185	**–142**	–141	**–83**	–101	**–1,316**	–1,368
Operating margin	**676**	461	**244**	244	**197**	161	**110**	91	**–36**	–45	**1,191**	912
Provisions and adjustments	**–58**	–116	**–44**	–55	**–18**	–31	**–26**	–26	**–29**	–4	**–175**	–232
Income (Loss) before tax from continuing operations	**618**	345	**200**	189	**179**	130	**84**	65	**–65**	–49	**1,016**	680
Rwa (billions of euro)	**77.8**	76.7	**49.9**	50.5	**24.0**	21.6	**14.3**	12.6	**18.5**	20.3	**184.5**	181.7
Allocated capital (billions of euro)	**5.0**	4.9	**3.0**	3.0	**1.4**	1.3	**0.9**	0.8	**1.1**	1.2	**11.4**	11.2
Income from continuing operations on allocated capital (%)	**50.3%**	28.0%	**27.0%**	25.0%	**50.3%**	40.4%	**39.7%**	35.1%	**–23.8%**	–15.9%	**36.2%**	24.3%

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

(in millions of euro)

	Retail Division		Corporate Division		Italian Subsidiary Banks Division		International Subsidiary Banks Division		Central Structures		Total	
	31/03/05	31/03/04	31/03/05	31/03/04	31/03/05	31/03/04	31/03/05	31/03/04	31/03/05	31/03/04	31/03/05	31/03/04
Loans to customers	**77,973**	76,417	**40,742**	43,568	**22,664**	22,020	**10,961**	10,771	**4,575**	6,671	**156,915**	159,447
Due from banks	**791**	689	**12,089**	14,611	**4,633**	4,882	**3,663**	3,437	**2,414**	4,938	**23,590**	28,557
Due to customers	**52,481**	53,666	**20,849**	24,076	**16,176**	16,603	**12,148**	12,512	**8,001**	7,392	**109,655**	114,249
Due to banks	**17,857**	18,145	**18,549**	21,138	**2,330**	2,317	**3,944**	3,678	**-7,652**	-10,951	**35,028**	34,327
Securities issued	**22,815**	25,077	**6,141**	5,966	**6,980**	6,685	**817**	823	**16,488**	16,872	**53,241**	55,423

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

Retail Division

The Retail Division is in charge of traditional lending and deposit collecting activities and also of collateral activities such as i) asset management, ii) the offer of bankassurance and insurance products, iii) private banking, iv) medium- and long-term credit, and v) consumer credit through the management of electronic payment instruments.
In the first quarter of 2005 the Division recorded a decidedly positive performance with an operating margin of 676 million euro (approximately +47% on the same figure of the previous year) and with an income before tax from continuing operations of 618 million euro (+79.7%).
The Division's balance sheet figures highlighted loans to customers of 77,793 million euro (+2%) and customer deposits, including debt securities issued, of 75,296 million euro (approximately –4.4%).

The Division's operating margin also benefited from the commissions for the distribution of **Intesa Vita** insurance products placed through the branch network. Intesa Vita is a subsidiary of the Generali group and is consolidated by Gruppo Intesa with the equity method. The statement of income for the quarter closed with a net income of 2.5 million euro, after having collected gross premiums of 1,509 million euro. As at 31st March 2005 Intesa Vita's shareholders' equity equalled 1,254 million euro, while technical reserves exceeded 22 billion euro.

The asset management sector of the Group reports to **Intesa Holding Asset Management** and, in particular, **Nextra Investment Management**, which operates in mutual funds/sicavs, in individual portfolio management schemes and in real estate funds, with total assets under management that, as at 31st March 2005, amounted to 94 billion euro, against 98 billion euro at the end of 2004. The unfavourable economic situation and the persisting difficulties characterising the sector continued to negatively influence assets under management. The consequent lower commission flows also affected company profitability and the first quarter of 2005 closed with a net income of 10.7 million euro, with a considerable reduction compared to 2004 (17.9 million euro).
Nextra Investment Management controls **Nextra Alternative Investments**, 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 net income of 1.7 million euro, 0.7 million euro and 6.6 million euro respectively, compared to an overall result of 1.6 million euro of March 2004.

Intesa Previdenza, the Group company specialised in supplementary pension funds, as at 31st March 2005 managed net assets of 775 million euro (736 million euro as at the end of 2004), of which 594 million euro related to open-end pension funds (equal to approximately 77% of the total). At the end of March, the company – with a market share of approximately 26% – could number approximately 135,000 subscribers.
The statement of income closed the first quarter with a net income of 0.6 million euro, up from 0.2 million euro a year earlier mainly as a result of cost containment actions and increased commercial synergies with the Parent Company.

Setefi, company specialised in management of electronic payment systems, with a number of directly-issued or managed cards close to 2.9 million euro and over 107,000 proprietary and third-party POS terminals expanded its total transaction volumes by approximately 10%. The company closed the quarter with a net income of 6.8 million euro, with an over 6% increase compared to the March 2004 result.

Intesa Private Banking, fully operational as of 1st January 2005, after the negative result of 2004, deriving from the expenses linked to the corporate and organisational restructuring, posted for the first quarter of this year a net income of 6.3 million euro, mainly due to the increase in assets under administration, linked to the gradual transfer to the new bank of Banca Intesa's private customers.
At the end of March 2005, the company recorded direct customer deposits exceeding 500 million euro and indirect customer deposits exceeding 12 billion euro, that included 8 billion euro of assets under management.

In the first quarter of 2005 **Banca Intesa Mediocredito** recorded a net income of 25 million euro, 4.3% higher than the previous year. The reduction in net interest income and

in the dividends collected from the subsidiary Banca CIS was balanced by higher net fee and commission income and, especially, by considerably lower impairment losses on loans and receivables as well as by substantial savings on operating costs.
Balance sheet figures show, compared to December 2004, a 2.2% reduction in loans to customers and a related contraction in interbank funding (-1.5%).

In the first quarter of 2005 **Banca CIS** registered a net income of 2.8 million euro, in line with 2004.
Despite an approximately 11% contraction in net interest income, due to lower unit margins, and a reduction in net fee and commission income of approximately 25%, resulting from no non-recurring income, the statement of income closed at breakeven due to lower operating costs (-3.8%) and impairment losses on loans and receivables more than halved compared to March 2004.
As to the balance sheet, loans to customers increased by 2.1% to 1,248 million euro from the end of 2004 and interbank funding rose by 1.6% to 862 million euro.

In the first quarter of 2005 **Intesa Leasing** stipulated – through the network of Group banks – 4,800 new contracts, for an overall countervalue of 544 million euro (+7.3% compared to the previous year), that were for over 40% related to the real estate sector.
As at 31st March 2005, loans to customers – almost exclusively generated by leasing operations – amounted to 6,133 million euro, practically in line with December 2004.
With regard to the statement of income, the company closed the quarter with a net income of 6.8 million euro, slightly lower than the March 2004 figure (7.1 million euro) which had, however, benefited from the additional return generated by the sale of a security deriving from the securitisation of performing loans structured at the end of 2003.

Corporate Division

The Corporate Division operates in the management and development of relations with mid and large Italian and international groups, the State and public administrations and with financial institutions. The Corporate Division also coordinates factoring and tax collection activities performed by Group subsidiaries. In the first quarter of 2005, the Division recorded a consolidation of its profitability, with an operating margin in line with the first quarter of 2004 (244 million euro) and an income before tax from continuing operations of 200 million euro, with a 6.2% improvement.
The Division's balance sheet figures highlighted loans to customers of 40,742 million euro (-6.5%) and customer deposits, including debt securities issued, of 26,990 million euro (-10.2%).

In the first quarter of this year, **Banca Caboto** played a primary role in the main issues launched in the primary bond market and achieved the second position among Italian banks in the primary stock market, where it participated in six operations consisting of placements, rights issues and public tenders. Operations in the secondary bond market, particularly in corporate and financial securities, were affected by the initial shrinking of spreads, whilst in the domestic stock market Caboto established itself as one of the main operators. With regard to interest rate derivatives activities, the results were lower than those achieved in the first quarter of 2004, whereas in the equity derivatives sector Caboto confirmed its leadership as market maker. Positive results were achieved in structured equity products and in equity financing activities.
The important operations concluded determined an increase in net fee and commission income (+38%) both for equity origination and for bond market activities. Profits on trading, instead, decreased (-11%), due to the lower contribution from the securities portfolio and from interest rate derivatives products. Operating costs registered an approximately 3% contraction as a result of cost optimisation in the equity origination area coupled with lower costs for consultancies and administrative services, and therefore led to a net income of 23 million euro, with a 6.5% increase on the corresponding period of 2004.

In view of the peculiarities characterising factoring activities, that are not regulated by specific IAS/IFRS, **Intesa Mediofactoring** will not draw up the financial statements for 2005 on the basis of the international standards. However, for the preparation of the consolidated report as at 31st March 2005, the company drew up the compulsory financial statement forms based on the best interpretation of the existing international standards. The statement of income for the

quarter, drawn up according to IAS/IFRS, recorded a net income of 11.8 million euro (+6.7%) although the negative situation of the sector led to a reduction in turnover (-11.2%) and in loans to customers (-12.3%) over the twelve months. The contraction in volumes affected net interest income (-11.5%) but the concurring increase in the average price charged for its operations determined a 6.4% rise in net fee and commission income. A strong positive contribution came from lower impairment losses on loans and receivables (-40%), that offset higher operating costs (+3.1%).
The statement of income for the period, drawn up on the basis of Italian accounting principles, recorded a net income of 11.1 million euro.

In view of the peculiarities of their activities, also the Group tax collection companies will not draw up the financial statements for 2005 on the basis of IAS/IFRS. The results achieved in the first quarter of 2005 by the subsidiaries operating in the sector – redefined according to international accounting principles for the consolidated financial statements – were heavily affected by the persisting uncertainties on sector's regulatory situation, considering that the provision quantifying the additional compensation for tax collection activities had not yet been issued. In particular, **Esa.Tri.** and **E.Tr.** closed the quarter with a loss of approximately 5 million euro each, whilst **S.Es.I.T.** recorded a loss of 3.1 million euro. The results for the period, drawn up on the basis of Italian accounting principles, evidenced a loss of 5.4 million euro, 6.3 million euro and 3.3 million euro respectively for Esa.Tri, E.Tr. and S.Es.I.T.

Société Européenne de Banque recorded a net income for the quarter of 2.7 million euro, virtually in line with 2004. This result is attributable to the activities that the company continues to perform in Luxembourg, mainly in support of corporate customers as well as in the private banking and mutual funds management areas.

Intesa Bank Ireland, despite the considerable downsizing of the exposure towards large multinationals implemented last year, continued its activities with positive results in the wholesale banking sector. In fact, the company closed the first quarter of 2005 with a net income of 4.1 million euro, down compared to the March 2004 result (5.1 million euro) which was however characterised by considerable write-backs of adjustments to loans.

ZAO Banca Intesa started its second full year of operations which are aimed at providing assistance to Italian enterprises in the important Russian market, and its profitability was still marginally affected by start-up costs. In fact, it closed the first quarter of 2005 with a limited loss of 0.3 million euro.

Italian Subsidiary Banks Division

The Italian Subsidiary Banks Division, which for the purpose of optimising any possible commercial synergy, operates in strict coordination with the Retail Division, is in charge of Italian subsidiary banks operating in the retail business, guaranteeing, at the same time, a widespread presence in the Italian regions with the higher growth potential.
The Division's positive performance for the first quarter of 2005 is confirmed by an operating margin of 197 million euro (approximately +22% on the first quarter of 2004) and an income before tax from continuing operations of 179 million euro (+37.2%).
The Division's balance sheet figures highlighted loans to customers of 22,664 million euro (+2.9%) and customer deposits, including debt securities issued, of 23,156 million euro (-0.6%).

The statement of income as at 31st March 2005 of **Cassa di Risparmio di Parma e Piacenza** closed with a net income of 56.7 million euro (+27.4%). This result was achieved, as concerns revenues, with an effective protection of net interest income (+1.4%) by offsetting the contraction in spreads through i) the increase in average intermediated volumes, ii) the confirmation of net fee and commission income flows (+0.8%) and iii) the collection of profits on disposal of financial assets available for sale. As concerns charges, operating costs were slightly higher (+1.2%) following a more intense development of new production activities, whereas net impairment losses on loans and receivables were much lower, mainly as a result of write-backs on collective valuations.
Balance sheet figures showed, compared to December 2004, a 2.2% increase to 10,699 million euro in loans to customers and a rise close to 1% in customer deposits, including debt securities issued (11,461 million euro).

Indirect customer deposits exceeded 24.5 billion euro with a 3.3% rise.

Banca Popolare FriulAdria closed the first quarter of 2005 with a net income of 13.1 million euro, with an approximately 64% increase compared to the same period of the previous year. In particular, net interest income recorded a 2.8% rise due to higher intermediated volumes, and net fee and commission income increased by 8.1%. Substantial savings were achieved on operating costs, following the cessation of costs linked to the Solidarity Allowance and of integration charges. Also impairment losses on loans and receivables registered an appreciable reduction.
The main balance sheet aggregates did not record significant changes compared to December 2004: loans to customers amounted to 3,387 million euro, customer deposits, including debt securities issued, equalled 2,744 million euro and indirect customer deposits totalled 5,229 million euro.

In the first quarter of 2005 **Banca di Trento e Bolzano** registered a net income of 5.5 million euro compared to 3.1 million euro in the same period a year earlier. In addition to the increase in net interest income and net fee and commission income, a considerable contribution to overall profitability came from the profit generated by the sale of Government securities classified as available for sale. Higher net impairment losses on loans and receivables, the cessation of write-backs of other financial assets registered in 2004 and higher operating costs linked to the bank's expansion eroded part of the revenues, however without changing the positive economic performance.
Total loans to customers (1,774 million euro) recorded a 3.3% rise on December 2004 whilst direct customer deposits, following the cessation of provincial treasury services, registered a 9.4% reduction to 1,529 million euro, with a negative impact also on indirect customer deposits (1,897 million euro, -12.7%).

In the first quarter of 2005 **Cassa di Risparmio di Biella e Vercelli** registered a net income of 9.4 million euro (+77.4% on the March 2004 figure) as a result of an increase in all the main income items: net interest income rose by 17.8% and net fee and commission income by 16.1%. Overall charges recorded a slight reduction, since higher personnel expenses and other administrative expenses were more than balanced by a contraction in net provisions for risks and charges.
Balance sheet figures evidenced that, compared to December 2004, loans to customers rose by 4.6% to 2,130 million euro, whereas customer deposits, including debt securities issued, declined by 2.3% to 2,217 million euro. Indirect customer deposits increased to 3.2 billion euro (+3%).

The Saving Banks in Central Italy, united under the control of **Intesa Casse del Centro**, registered better overall results due to higher income and lower operating costs. The Saving Banks, considered on a single basis, registered the following net incomes: Cassa di Risparmio di Viterbo, 6.4 million euro (+28.2%); Cassa di Risparmio di Ascoli Piceno, 4.2 million euro (+35%); Cassa di Risparmio di Terni e Narni, 3.2 million euro (+26.8%); Cassa di Risparmio di Rieti, 3.6 million euro (+60%); Cassa di Risparmio di Foligno, 2.6 million euro (+50%); Cassa di Risparmio di Spoleto, 2.3 million euro (+38.7%); Cassa di Risparmio di Città di Castello, 1.1 million euro (+98.3%).
The main balance sheet aggregates showed, over the twelve months, an increase in loans to customers (4,276 million euro, +12%) and a virtual stability in customer deposits (5,161 million euro). Indirect customer deposits registered an appreciable rise (+5.7%) to 4,893 million euro.

International Subsidiary Banks Division

Positive results were also achieved by the Group entities operating in foreign markets, particularly in the Eastern-European Countries, which present the most attractive growth opportunities. The Division coordinating foreign subsidiaries recorded an operating margin of 110 million euro (+20.4% on the first quarter of the previous year) and an income before tax from continuing operations of 84 million euro (approximately +28%).
The Division's balance sheet figures evidenced loans to customers of 10,961 million euro (+1.8%) and customer deposits, including debt securities issued of 12,965 million euro (-2.8%).

Despite the slowdown in industrial production and the moderate devaluation of the local currency, the Hungarian economy maintained a virtually positive trend.
The **Central-European International Bank** group recorded a net income for the period

of 20 million euro, far higher than that of the same period of 2004 (approximately 15 million euro). The quarterly statement of income showed an increase in net interest income (+6.3%), a considerable rise in net fee and commission income (+30%), and profits on trading amply higher than those of the same period of 2004. Impairment losses on loans and receivables recorded a marked reduction, whilst operating costs rose as a result of the expansion in the Group's operations.
Balance sheet aggregates evidenced, compared to December 2004, an increase both in loans to customers (4,165 million euro, +4.7%) and in direct customer deposits (approximately 2,600 million euro, +4.8%).

The main indicators for the Croatian economy showed certain signs of tension, mainly concerning industrial production and the deficit of the balance of trade, in presence of a persistingly-high foreign debt. The **Privredna Banka Zagreb (PBZ)** group, however, recorded a profitable performance, closing the quarter with a net income exceeding 26 million euro (approximately +9%). The result for the period mainly stemmed from the positive trend of net interest income and from appreciable savings in operating costs, despite higher net impairment losses on loans and receivables.
Main balance sheet figures evidenced, compared to December 2004, a significant increase in loans to customers (3,361 million euro, +6%) and a rise to 4,073 million euro in direct customer deposits (+2.7%).

As regards the Slovakian economy, industrial production declined and the local currency recently showed signs of weakness against the euro, the balance of trade and inflation recorded improvements and unemployment was stable. In such context, the **Vseobecna Uverova Banka (VUB)** group posted a net income of approximately 20 million euro, with respect to 12 million euro in March 2004. This result was achieved through the net growth in interest income and commission income, as well as lower net impairment losses, that easily absorbed the increase in operating costs.
Balance sheet aggregates recorded, compared to December 2004, an approximately 11% contraction both in loans to customers and in direct customer deposits, that equalled respectively 1,626 million euro and 4,032 million euro.

In Peru, where all main economic indicators show gradual improvements, the Group is present with **Banco Wiese Sudameris (BWS)**. The South-American subsidiary is not obliged to adopt IAS/IFRS but, for the preparation of Banca Intesa's consolidated financial statements, the statement of income and the balance sheet of BWS and of its subsidiaries were redetermined in accordance with those principles. On that basis, the quarter evidenced a contained net income of 0.2 million euro compared to a loss of 0.9 million euro in the first quarter of 2004. An increase was registered for both net interest income (approximately +4%) and net fee and commission income (approximately +11%). The rise in net impairment losses on loans and receivables was practically offset by the reduction in operating costs and enabled BWS to maintain the aforementioned improvement in net income.
Main balance sheet figures evidenced an increase both in loans to customers (1,129 million euro, +3.9%) and in customer deposits (1,750 million euro, approximately +2%).
On the basis of the local accounting principles the quarter closed with a net income of 1.5 million euro.

Banca Intesa (France) is not obliged, on the basis of local regulations, to adopt IAS/IFRS starting from the financial statements for 2005. However, for the preparation of the Group's consolidated financial statements, the company drew up its reporting in compliance with the aforementioned principles. This exposed the statement of income to the volatility linked to the fair value of securities and derivatives. The important write-back of adjustments to loans that had been registered by the company in the first quarter of 2004 also did not recur. The statement of income as at 31st March 2005 recorded a loss of 1.8 million euro against a net income, on a consistent basis, of 0.8 million euro as at 31st March 2004.
Net income, determined on the basis of French accounting principles, was instead positive for 0.8 million euro.

Central structures

Banca Intesa's central structures guarantee the governance and control of the Group's operating units, sustaining and favouring, at the same time, processes aimed at achieving growth.

Intesa Gestione Crediti (IGC) reports directly

to the Central Structures and is the company responsible for the management and recovery of non-performing loans. The company closed the quarter with a net income of 29.1 million euro, compared to approximately 16 million euro of March 2004. Over the three months of 2005 no loans were acquired from Group companies and as at 31st March IGC held a nominal portfolio amounting to approximately 9 billion euro, with a net book value of 1.1 billion euro, while the doubtful loan portfolio under management on behalf of Group companies amounted to 5.6 billion euro. In the period the company recorded 81 million euro of repayments on the proprietary doubtful loan portfolio and 92 million euro of repayments on the doubtful loan portfolio under management (including the securitised doubtful loan portfolio).

GEOGRAPHIC AREAS

(in millions of euro)

	Italy		Eastern Europe		Other Countries		Total	
	31/03/05	**31/03/04**	**31/03/05**	**31/03/04**	**31/03/05**	**31/03/04**	**31/03/05**	**31/03/04**
Operating income	**2,158**	1,993	**208**	194	**141**	93	**2,507**	2,280
Operating costs	**–1,139**	–1,197	**–114**	–108	**–63**	–63	**–1,316**	–1,368
Operating margin	**1,019**	796	**94**	86	**78**	30	**1,191**	912
Provisions and adjustments	**–151**	–204	**–12**	–20	**–12**	–8	**–175**	–232
Income (Loss) before tax from continuing operations	**868**	592	**82**	66	**66**	22	**1,016**	680
Rwa (billions of euro)	**159.0**	155.6	**11.0**	9.3	**14.5**	16.8	**184.5**	181.7
Allocated capital (billions of euro)	**9.3**	9.1	**0.7**	0.6	**1.4**	1.5	**11.4**	11.2
Income from continuing operations on allocated capital (%)	**37.3%**	26.0%	**46.9%**	44.0%	**18.9%**	5.9%	**35.6%**	24.3%

Comparative figures calculated using IAS/IFRS including estimated impact of application of IAS 39 relating to financial instruments.
Breakdown by geographic area is carried out with reference to the Country of residence of Group entities.

(in millions of euro)

	Italy		Eastern Europe		Other Countries		Total	
	31/03/05	**31/03/04**	**31/03/05**	**31/03/04**	**31/03/05**	**31/03/04**	**31/03/05**	**31/03/04**
Loans to customers	**140,094**	142,631	**9,195**	9,073	**7,626**	7,743	**156,915**	159,447
Due from banks	**7,940**	15,794	**3,105**	2,753	**12,545**	10,010	**23,590**	28,557
Due to customers	**85,370**	94,230	**10,316**	10,682	**13,969**	9,337	**109,655**	114,249
Due to banks	**24,529**	25,079	**3,473**	3,152	**7,026**	6,096	**35,028**	34,327
Securities issued	**49,860**	53,893	**397**	123	**2,984**	1,407	**53,241**	55,423

Comparative figures calculated using IAS/IFRS including estimated impact of application of IAS 39 relating to financial instruments.
Breakdown by geographic area is carried out with reference to the Country of residence of Group entities.

The geographic areas

Gruppo Intesa has its strongest point in the domestic market, with particular presence in the North-Western and North-Eastern areas. In fact, approximately 85% both of operating margin and of income before tax from continuing operations was generated in Italy. Eastern-European markets, that constitute the most attractive foreign operating area, contributed for approximately 8% of the total. Also the ratio between income before tax from continuing operations and capital employed, close to 50%, testified the positive performance of Eastern-European Countries.

Likewise, also balance sheet aggregates were mainly generated by the Italian market. Loans granted by the domestic network represented 89% of the consolidated total, whereas loans granted by Eastern-European Countries represented 6%. 83% of customer deposits, including debt securities issued, was collected by the Italian operating network whilst 7% was attributable to Eastern-European subsidiaries.

Risk management and the controls system

As already described in previous Reports, Banca Intesa attributes great importance to risk management and controls system.

The company functions in charge of monitoring risks and control systems, the Credit, Internal Auditing and Risk Management Departments operate together with the operating functions of the Bank and the most important Group companies as well as the other Head Office Departments, for the purpose of constantly monitoring characteristic risks: market, counterparty, credit, liquidity, operational and Country risks.

Market risks

The activities for the quantification of trading risks is based on the distribution of daily estimates of operating VaR that are used to assess the sensitivity of the trading portfolios to adverse market movements relatively to the following risk factors: interest rates, equity and market indices, foreign exchange rates, implicit volatilities, spreads in Credit Default Swaps. These estimates are mostly calculated based on simulations of past time-series, a 99% confidence level and one-working day holding period; delta-gamma-vega VaR is also calculated for the structured equity positions of Banca Caboto in London. This methodology sets out the full-revaluation of all the trading contracts based on the past returns of the risk variables, weighted with exponential formulas. VaR is complemented by the calculation of other risk indicators (such as PV01, Credit Sensitivity CS01, Vega1%, directional stress tests, correlation stress tests, inflation stress tests) which improve the accuracy of the risk profiling, especially in presence of non-linear components.
As already described in the Annual Report 2004, the Supervisory authority validated the internal models for the measurement of capital absorption of Banca Intesa (2001) and Banca Caboto (2003). The model relative to credit derivatives (credit default swaps) was validated in 2004. VaR is periodically compared with the daily profit and loss results actually realised by the trading desks for the purpose of backtesting the model.

In the first quarter of 2005 market risks originated by Banca Intesa and Banca Caboto showed a growth which led period-end VaR to 16.8 million euro (average for the first quarter of 2005), in line with the figure of the end of 2004, of 15.4 million euro (average for the fourth quarter of 2004). This risk exposure was measured summing up past time-series simulation VaR (99% confidence level and one-working day holding period), VaR of structured equity portfolios of Banca Caboto in London (99% confidence level and one-working day holding period), risk of the alternative investments portfolio and the stress tests applied to illiquid parameters (correlation).

Daily value at risk (VaR) of the trading portfolio of Banca Intesa and Banca Caboto

(average values in the period in millions of euro)

	1st quarter 2005	4th quarter 2004
Banca Intesa	14.5	13.1
Banca Caboto	2.3	2.3
Total	**16.8**	**15.4**

The breakdown of risk profile at the beginning of 2005 with regard to the various risk factors showed for Banca Intesa, the prevalence of equity risk (48% of overall VaR) and for Banca Caboto, of interest rate risk (47% of the total).

Contribution of risk factors to overall VaR

(period-end percentage on area total)

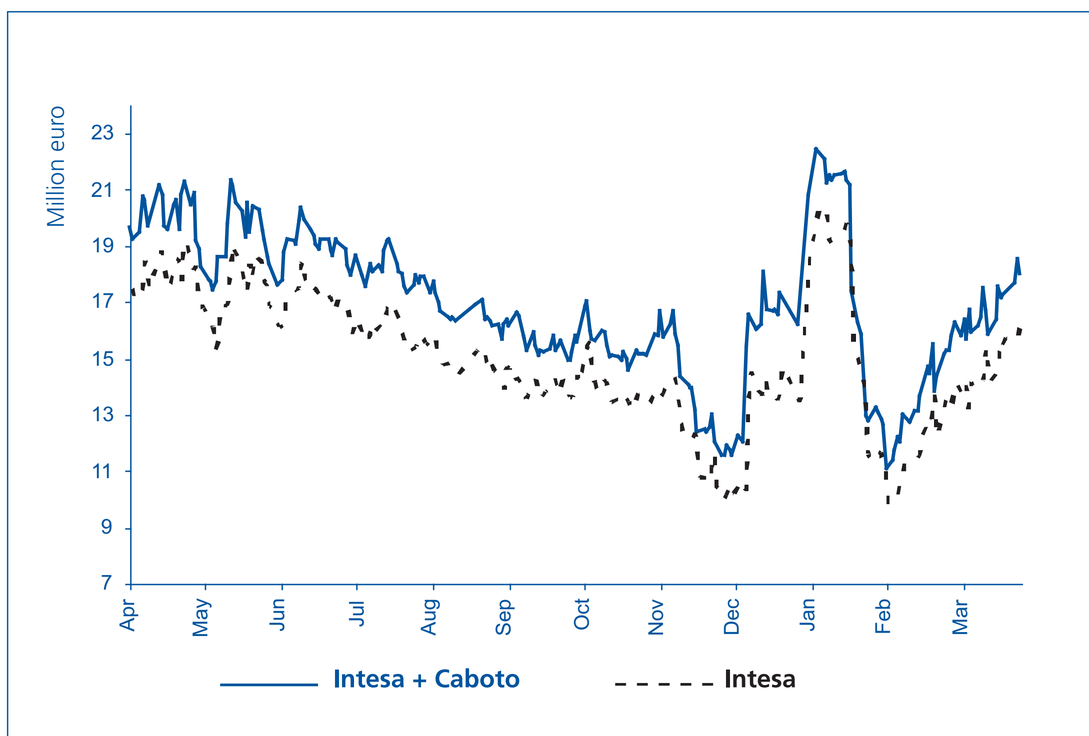
1st quarter 2005	Shares	Funds	Rates*	Foreign Exchange	Correlation
Banca Intesa	48%	19%	30%	3%	0%
Banca Caboto	31%	0%	47%	0%	22%
Total	**46%**	**16%**	**32%**	**3%**	**3%**

** inclusive for Banca Intesa of VaR of single name trading CDS.*

In the first quarter of 2005 the portfolios of Banca Intesa recorded a peak in January, due to the inclusion in VaR of the equity investments in Commerzbank and HVB, classified as held for trading, and to single market opportunities which occurred in equity markets. Towards the end of the same month, a decrease occurred due to the disposal of such equity investments and to sales in the equity markets. The subsequent increase in February and March is connected to the purchase of hedging derivatives for the Fiat *convertendo*. This purchase, though a hedge from the Bank's risk, led to a rise in market risks since, in the reference period, the hedged item had not yet been recorded in the trading book.
A slight increase was recorded in mutual fund exposure while the interest rate component was stable. The contribution to risk profile of the operations in Milano continued to be considerably higher than that made by foreign offices (concentrated on trading on interest rates and foreign exchange rates). Banca Caboto's risk profile remained stable on the level for the period: with respect to the previous quarter equity risk and correlation risk increased deriving from structured products of the London branch.

The following graph clearly shows the aforementioned trend of market risks for the portfolios of Banca Intesa and Banca Caboto (the daily results indicated below do not contain the weekly estimate of the stress tests applied to illiquid parameters).

Market risks trend - Daily VaR 99%, in millions of euro



In the period average use of operational limits sub-allocated to organisational units equalled 46% in Banca Intesa and 35% in Banca Caboto.

Credit derivatives

Banca Intesa’s trading activities in Credit Default Swaps (CDS) showed in the first quarter an average VaR in past time-series simulation of 1.04 million euro (99% confidence level, one-working day holding period) and a practically constant trend in the quarter; the prevalent sectors were communications and consumer cyclical, lower only than the investment in diversified indices. With the application of international accounting standards the reclassification in the trading book of residual positions in the banking book led to a loss of importance of the latter.

Banca Intesa’s activities in Collateralized Debt Obligations (CDO) were concentrated in the trading book and, in terms of notional, were mainly made up of synthetic senior and supersenior positions (with rating of AAA). Within the portfolio, the transactions with underlying ABS, with high rating and recovery rates increased.

Issuer and counterparty risk

Issuer risk in the trading portfolio is analysed in terms of mark to market, by aggregating exposures in rating classes and is monitored using a system of operating limits based on both rating classes and concentration indices. Counterparty risk, measured in terms of substitution cost, is monitored both in terms of exposures and sector and risk class aggregates.

ALM and liquidity risk

An ALM system capable of managing hedge accounting consistently with international accounting standards was realised in the first quarter of 2005. The search for an almost perfect balance between the average maturity of loans and deposits, as well as the considerable degree of diversification both of shorter-term lending contracts and funding counterparties, was enacted via the monitoring of liquidity limits, funding concentration ratios and exposure on the interbank market. In the first quarter of 2005 such indicators did not evidence any critical situations.
The rules and processes for the management of any emergencies caused by a liquidity crisis are set out in the Contingency Liquidity Plan which is activated in the event of systemic or specific crises (short- or long-term), that are monitored daily by specific indicators.

Credit risk

The activities for the implementation of the New Capital Accord, generally referred to as Basel II, continued in the first quarter of 2005. As part of this project, the rating models were chosen based on their capacity to better represent customer risk profiles, diversifying the methodologies (scoring models, quali-quantitative statistical models and judgemental models) for the purpose of optimising the information set available and seizing the specific characteristics of each customer segment. In particular, over 15 differentiated rating models were developed based on the type of borrowing counterparty, sector and turnover. The use of various models, based on differentiated valuation scales (from 9 to 17 depending on the segment), required the insertion of the single estimates in a single master scale which aggregates counterparties on the basis of homogenous default probabilities (PD). Overall, the ratings developed in the project cover approximately 90% of borrowing counterparties and 80% of the Bank's loan portfolio.
The typical weekly analysis and monitoring of the individual credit risk and portfolio credit risk of large international customers, highlighted in the first quarter an improvement in average loan portfolio quality in terms of probability of default (Expected Default Frequency) which decreased from 0.49% at the end of 2004 to the current 0.35%. In particular, the improvement referred to lower investment grade equivalent and speculative equivalent customers, both following the variation in customer definitions and the widespread decrease in risk of the single counterparties. Agency ratings, which are basically more viscous with respect to market measures in seizing changes, conversely highlighted a practical stability in the portfolio's global quality.
The operational implementation plan in the Group's subsidiaries is under completion. The perimeter for the extension of the internal rating based approach (IRB) was defined. The IRB approach is aimed at complying with the requisites issued by the Bank of Italy and concentrating efforts on the most significant subsidiaries or those which may be integrated with a limited technical and organisational effort. As part of the planned roll-out, in the first quarter the Group's internal rating system was extended to the subsidiaries BTB and FriulAdria. In parallel, the consolidation phase for planning the extention to Cariparma commenced.

Country risk

Assessment of creditworthiness of sovereigns is based on an Internal Country Rating model which is used quarterly to update the rating of over 190 Countries (at risk and not at risk). This model is based first of all on a quantitative analysis of the ratings issued by the main agencies (Moody's, S&P's and Fitch) and the main macroeconomic indicators relative to the single Countries; the analysis also includes an indicator relative to the political situation of the Countries analysed. In the first quarter of 2005 Banca Intesa's credit portfolio – as concerns Country risk – was still concentrated in Countries with high ratings (exposures to investment grade Countries represented 72% of overall exposure in the first quarter of 2005), and in particular with A+/A- rating (32% of the total). The rating of the portfolio improved during the first quarter of 2005, percentage exposure to speculative grade Countries decreased, with respect to the end of 2004, to 28%.

Operational risk

Banca Intesa is elaborating a framework for the proactive management of Operational risk centred on the realisation of a new governance model, as well as of methodologies and instruments which permit to calculate the risk exposure for each operating unit of the Bank. Among the numerous objectives of this project, compliance with the requisites of the New Capital Accord regarding the use of AMA (Advanced Measurement Approach) internal models for the calculation of the capital requirement for Operational risk is particularly important. The guiding principle of the framework assigns responsibility over the identification, analysis and mitigation of risks to the organisational units. Within such units approximately 350 professionals have been identified, responsible for feeding the model for the relevant unit, managing at local level operational risks and reporting to the unit's management. The Risk Management Department is responsible for planning and implementation of the framework, measurement of the risk profiles, monitoring and controlling limits, verification of effectiveness of mitigation measures and reporting to top management.
Banca Intesa's Internal Model is structured so to integrate the results deriving from qualitative analyses based on Self Risk Assessment and quantitative analyses, deriving from statistical calculation of loss data. The qualitative approach is based on the valuation of the risk profile of the organisational units, based on scenario simulations defined using a proprietary risk classification model.
The main fully consolidated companies have long been involved in the activities for the implementation of the reference framework for operational risk management; in the first quarter an analysis was conducted to monitor the advancement of such activities and identify eventual gaps with respect to the requisites set out for the use of an Internal Model. The means of interventions and shared priorities and planning necessary to consolidate the infrastructures required for the correct functioning of the framework will be defined following this analysis and based on information gathered.

Shareholder base and Banca Intesa's stock price performance

Shareholder base

On 3rd May 2005 the main shareholders of Banca Intesa signed the updated and amended text of the Voting Syndicate in force until 15th April 2008.
The Agreement is designed to ensure continuity and stability of management policies regarding the activities of Banca Intesa and its subsidiaries and to guarantee the Banking group's independence and managerial autonomy in the future.
The parties to the Agreement are divided into five groups and the shares deposited in the Voting Syndicate are identified in the following table.

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.	1,064,827,301	2,596,258	1,067,423,559	18.00	18.04
Fondazione CARIPLO	535,485,244	19,093,075	554,578,319	9.05	9.38
Generali group	340,781,182	16,975,281	357,756,463	5.76	6.05
including					
• *Assicurazioni Generali*	*1,290,949*	*975*	*1,291,924*		
• *Alleanza Assicurazioni*	*248,169,637*	*67,201*	*248,236,838*		
• *Other subsidiary companies*	*91,320,596*	*16,907,105*	*108,227,701*		
Fondazione CARIPARMA	254,375,410	6,139,792	260,515,202	4.30	4.40
"Gruppo Lombardo"	184,541,810	26,732,928	211,274,738	3.12	3.57
including					
• *Banca Lombarda e Piemontese*	*139,963,274*	*5,059,638* (a)	*145,022,912*		
• *I.O.R*	*29,578,536* (b)	*14,714,227*	*44,292,763*		
• *Mittel*	*15,000,000*	*6,959,063* (c)	*21,959,063*		
Total Shareholders in the Syndicate	**2,380,010,947**	**71,537,334**	**2,451,548,281**	**40.23**	**41.44**
Total other Shareholders	**-**	**3,464,158,945**	**3,464,158,945**		**58.56**
Total	**2,380,010,947**	**3,535,696,279**	**5,915,707,226**		**100.00**

(a) Including 4,855,302 shares via the subsidiary Banco di Brescia.
(b) Shares with beneficial interest in favour of Mittel.
(c) Via the subsidiary Mittel Generale Investimenti.

Fondazione Cariplo, the Generali group and "Gruppo Lombardo" are attributed the faculty of gradually increasing their syndicated holdings up to a maximum, respectively, of 11%, 9% and 5% of the ordinary share capital.

Lastly, it must be noted that already on 18th October 2004 the Management Committee of the Syndicate acknowledged the cancellation of Commerzbank from the Syndicate as of 15th April 2005.

Transactions with related parties

The relationships with subsidiaries are seen within the normal operations of a multifunctional Group. The economic effects connected with the above-mentioned relationships are normally regulated on the basis of market conditions applied to primary customers.

The relationships with other related parties – other than subsidiaries – are, normally,

regulated at market rates or are aligned with the most favourable conditions applied to personnel.

Compensation paid to Directors and Statutory Auditors is defined by a specific Shareholders' Meeting resolution and the most updated amounts are indicated in the notes to the financial statements as at 31st December 2004.

As concerns the stock option plan resolved upon by the Extraordinary Shareholders' Meeting held on 17th December 2002 in favour of managers of Banca Intesa and Group companies, the Board of Directors on 26th April 2005 verified that the performance objectives for the exercise of the options related to the years 2003 and 2004 had been achieved.
In particular:
– the financial indicator EVA®- Economic Value Added for the Group was positive in 2004 for an amount of 312 million euro while it was negative in 2002 for 1,187 million euro;
– the total return on the Banca Intesa ordinary shares in the years 2003 and 2004 was approximately 82%;
– market capitalisation increased by 10.5 billion euro between the end of 2002 and the end of 2004.

Managing Director & CEO Corrado Passera and the top executives exercised their options within the period 2nd-13th May 2005, pursuant to provisions contained in the Internal dealing code.
In total, on 27th May approximately 65 million ordinary shares had been subscribed following the exercise of the aforementioned options. Of these approximately 40 million shares had later been sold in the "block market". The top managers, who on 26th April 2005 had disclosed their intention to invest in Banca Intesa shares at least 50% of the respective capital gains achieved, maintained an even higher portion invested in Banca Intesa shares. The CEO instead invested an amount corresponding to the entire capital gain in Banca Intesa shares.

Stock price performance

In a context of weak economic growth, the Italian stock market recorded in the first quarter of the year a positive 5% performance, in line with European market trends: +4.3% the DJ Euro Stoxx index. The Italian banking sector outperformed both the European banking sector and the whole domestic market: Italian banks closed the first quarter with a 10.5% progress with respect to the end of 2004 compared to a +4.2% variation of the European banking index and +5% change in the Comit index.
After the strong progress recorded in 2004, the Banca Intesa ordinary share registered in the first quarter of 2005, a performance in line with the banking sector (+10,7%). In the same period, the Banca Intesa saving share registered a 12.2% progress, thus slightly reducing its discount with respect to the ordinary share from 11% at the end of 2004 to 10%.

Earnings per share

The new international standards attribute particular importance to this return indicator and dedicate to its measurement a specific document: IAS 33.
EPS – Earnings Per Share – may be calculated in two ways: "basic" and "diluted" EPS.

Basic EPS is calculated by dividing net income attributable to holders of ordinary shares (therefore deducted the dividend to be distributed to holders of saving shares) by the weighted average number of ordinary shares outstanding.

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

	Annualised attributable net income (*) (in millions of euro)	Weighted average number of ordinary shares	Euro
Basic EPS	2,364	5,915,707,226	0.400
Diluted EPS	2,364	5,963,665,459	0.396

(*) Net income is not indicative of forecasted net income for the whole of 2005, since obtained by annualising net income for the first quarter and deducting estimated dividend reserved to saving shares (assumed equal to that resolved upon for net income for 2004) and the estimated net income reserved to the Allowance for charitable contributions, also assumed unchanged with respect to 2004.

Dividend yield

The table below sets out the unit dividend attributed in the last 5 years to saving shares and ordinary shares.

(in euro)

	2004	2003	2002	2001	2000
Ordinary share Dividend per share (*)	0.105	0.049	0.015	0.045	0.093
Saving share Dividend per share (*)	0.116	0.060	0.028	0.080	0.103

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

Significant subsequent events

In April 2005, Banca Intesa and the shareholders of Small Business Credit Bank (KMB) signed a share purchase agreement for the acquisition of a 75% stake minus one share in KMB. This transaction has already been described in the initial chapter which illustrates the most significant events of the first part of 2005.

On 26th April 2005 the Board of Directors of Banca Intesa resolved upon a capital increase for a maximum amount of 20,783,222.72 euro, with a share premium of 61,843,550.44 euro, to service the stock option plan resolved upon by the Shareholders' Meeting of 17th December 2002. More detailed information on this transaction is provided in the previous chapter.

As already described in greater detail in the specific chapter, on 3rd May 2005 the main shareholders of Banca Intesa signed the amended text of the Voting Syndicate agreement in force until 15th April 2008. It must be noted that Commerzbank A.G. no longer takes part in the Voting Syndicate, since it cancelled its participation according to the terms set out in the agreement.

Projections for the whole year

As concerns the forecast for 2005, the objective of a further considerable increase in net income indicated in the 2003-2005 Business Plan is confirmed and is taken as a starting point of the 2005-2007 Business Plan which will be presented in the next few weeks.

The Board of Directors

Milano, 30th May 2005

Attachments

- List of IAS/IFRS homologated by the European Commission
- Consolidated financial statements as at 31st March 2004 and as at 31st December 2004
- Parent Company's financial statements as at 31st March 2005
- Reconciliation of shareholders' equity and net income as per Legislative Decree 87/92 to IAS/IFRS shareholders' equity and net income

List of IAS/IFRS homologated by the European Commission

INTERNATIONAL FINANCIAL REPORTING STANDARDS		Regulation homologation
IFRS 1	First-time adoption of International Financial Reporting Standards	707/2004 mod. 2236/2004 - 2237/2004 - 2238/2004 - 211/2005
IFRS 2	Share-based payments	211/2005
IFRS 3	Business combinations	2236/2004
IFRS 4	Insurance contracts	2236/2004
IFRS 5	Non-current assets held for sale and discontinued operations	2236/2004
IAS 1	Presentation of financial statements	2238/2004
IAS 2	Inventories	2238/2004
IAS 7	Cash flow statements	1725/2003 mod. 2238/2004
IAS 8	Accounting policies, changes in accounting estimates, and errors	2238/2004
IAS 10	Events after the balance sheet date	2238/2004
IAS 11	Construction contracts	1725/2003
IAS 12	Income taxes	1725/2003 mod. 2236/2004 - 2238/2004 - 211/2005
IAS 14	Segment reporting	1725/2003 mod. 2236/2004 - 2238/2004
IAS 16	Property, plant and equipment	2238/2004 - 211/2005
IAS 17	Leases	2238/2004
IAS 18	Revenue	1725/2003 mod. 2236/2004
IAS 19	Employee benefits	1725/2003 mod. 2236/2004 - 2238/2004 - 211/2005
IAS 20	Accounting for Government grants and disclosure of Government assistance	1725/2003 mod. 2238/2004
IAS 21	The effects of changes in foreign exchange rates	2238/2004
IAS 23	Borrowing costs	1725/2003 mod. 2238/2004
IAS 24	Related party disclosures	2238/2004
IAS 26	Accounting and reporting by retirement benefit plans	1725/2003
IAS 27	Consolidated and separate financial statements	2238/2004
IAS 28	Investments in associates	2238/2004
IAS 29	Financial reporting in hyperinflationary economies	1725/2003 mod. 2238/2004
IAS 30	Disclosures in the financial statements of banks and similar financial institutions	1725/2003 mod. 2238/2004
IAS 31	Interests in joint ventures	2238/2004
IAS 32	Financial instruments: disclosure and presentation	2237/2004 mod. 2238/2004 - 211/2005
IAS 33	Earnings per share	2238/2004 - 211/2005
IAS 34	Interim financial reporting	1725/2003 mod. 2236/2004 - 2238/2004
IAS 36	Impairment of assets	2236/2004 mod. 2238/2004
IAS 37	Provisions, contingent liabilities and contingent assets	1725/2003 mod. 2236/2004 - 2238/2004
IAS 38	Intangible assets	2236/2004 mod. 2238/2004 - 211/2005
IAS 39	Financial instruments: recognition and measurement	2086/2004 mod. 2236/2004 - 211/2005
IAS 40	Investment property	2238/2004
IAS 41	Agriculture	1725/2003 mod. 2236/2004 - 2238/2004

INTERPRETATIONS		Regulation homologation
IFRIC 1	Changes in existing decommissioning, restoration and similar liabilities	2237/2004
SIC 7	Introduction of the euro	1725/2003 mod. 2238/2004
SIC 10	Government assistance - no specific relation to operating activities	1725/2003
SIC 12	Consolidation – special purpose entities	1725/2003 mod. 2238/2004
SIC 13	Jointly controlled entities – non-monetary contributions by venturers	1725/2003 mod. 2238/2004
SIC 15	Operating leases – incentives	1725/2003
SIC 21	Income taxes – recovery of revalued non-depreciable assets	1725/2003 mod. 2238/2004
SIC 25	Income taxes – changes in the tax status of an enterprise or its shareholders	1725/2003 mod. 2238/2004
SIC 27	Evaluating the substance of transactions in the legal form of a lease	1725/2003 mod. 2238/2004
SIC 29	Disclosure - service concession arrangements	1725/2003
SIC 31	Revenue – barter transactions involving advertising services	1725/2003 mod. 2238/2004
SIC 32	Intangible assets – website costs	1725/2003 mod. 2236/2004 - 2238/2004

Consolidated financial statements as at 31st March 2004 and as at 31st December 2004

Pursuant to recommendations issued by CESR – Committee of European Securities Regulators – the consolidated financial statements, prepared according to the criteria set forth by Legislative Decree 87/92, as published in the Consolidated Report as at 31st March 2004 and the Annual Report 2004 are included hereafter.

In particular, the attachments as at 31st March 2004 are:
- Reclassified consolidated balance sheet;
- Reclassified consolidated statement of income.

Instead, the attachments as at 31st December 2004 are:
- Reclassified consolidated balance sheet;
- Reclassified consolidated statement of income;
- Consolidated balance sheet;
- Consolidated statement of income.

RECLASSIFIED CONSOLIDATED BALANCE SHEET AS AT 31st MARCH 2004

(in millions of euro)

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

Liabilities and Shareholders' Equity	31/3/2004	31/12/2003 pro forma [1]	Changes	
			amount	%
1. Debts:				
- due to customers	**104,225**	104,639	–414	–0.4
- securities issued	**57,960**	56,623	1,337	2.4
- due to banks	**44,642**	31,630	13,012	41.1
2. Allowances with specific purpose	**5,292**	5,031	261	5.2
3. Other liabilities	**36,461**	35,242	1,219	3.5
4. Allowances for possible loan losses	**22**	24	–2	–8.3
5. Subordinated and perpetual liabilities	**10,288**	10,603	–315	–3.0
6. Minority interests	**723**	706	17	2.4
7. Shareholders' equity:				
- share capital, reserves and reserve for general banking risks	**13,759**	13,849	–90	–0.6
- negative goodwill arising on consolidation	**29**	29	–	–
- negative goodwill arising on application of the equity method	**2**	1	1	
- net income for the period	**418**	1,214	–796	–65.6
Total Liabilities and Shareholders' Equity	**273,821**	**259,591**	**14,230**	**5.5**
Indirect customer deposits	**289,526**	286,575	2,951	1.0

[1] Figures restated on a consistent basis considering the consolidation area as at 31st March 2004.

RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME AS AT 31st MARCH 2004 (*)

(in millions of euro)

Captions	31/03/2004	31/3/2003 pro forma (1)	Changes	
			amount	%
Net interest income	**1,247**	1,268	–21	–1.7
Dividends and other revenues	**5**	22	–17	–77.3
Income from investments carried at equity	**33**	21	12	57.1
Interest margin	**1,285**	1,311	–26	–2.0
Net commissions	**825**	782	43	5.5
Profits on financial transactions	**220**	193	27	14.0
Other operating income, net	**92**	71	21	29.6
Net interest and other banking income	**2,422**	2,357	65	2.8
Administrative costs	**–1,306**	–1,340	–34	–2.5
including Payroll	***–807***	*–845*	*–38*	*–4.5*
Other	***–499***	*–495*	*4*	*0.8*
Adjustments to fixed assets and intangibles	**–134**	–154	–20	–13.0
Operating costs	**–1,440**	–1,494	–54	–3.6
Operating margin	**982**	863	119	13.8
Adjustments to goodwill arising on consolidation and on application of the equity method	**–32**	–32	0	
Provisions for risks and charges	**–39**	–33	6	18.2
Net adjustments to loans and provisions for possible loan losses	**–213**	–258	–45	–17.4
Net adjustments to financial fixed assets	**–8**	–32	–24	–75.0
Income from operating activities	**690**	508	182	35.8
Extraordinary income	**1**	46	–45	–97.8
Income taxes for the period	**–255**	–225	30	13.3
Change in the reserve for general banking risks and other reserves	**1**	2	–1	–50.0
Minority interests	**–19**	–18	1	5.6
Net income for the period	**418**	**313**	**105**	**33.5**

(1) Figures restated on a consistent basis considering the consolidation area as at 31st March 2004.

(*) With respect to the reconciliation tables presented in the chapter relative to IAS/IFRS first-time adoption, figures as at 31st March 2004 show certain marginal differences attributable to variations in the consolidation area occurred in 2004.

RECLASSIFIED CONSOLIDATED BALANCE SHEET AS AT 31st DECEMBER 2004

(in millions of euro)

Assets	31/12/2004	31/12/2003 pro forma (1)	Changes	
			amount	%
1. Cash and deposits with central banks and post offices	**1,488**	1,576	–88	–5.6
2. Loans				
- loans to customers	**157,698**	154,614	3,084	2.0
- due from banks	**28,730**	28,521	209	0.7
3. Trading portfolio	**33,576**	24,117	9,459	39.2
including Own shares	***10***	*1,017*	*–1,007*	*–99.0*
4. Fixed assets				
a) investment portfolio	**5,158**	5,318	–160	–3.0
b) equity investments	**4,834**	4,908	–74	–1.5
c) tangible and intangible	**4,075**	4,274	–199	–4.7
5. Goodwill arising on consolidation	**484**	546	–62	–11.4
6. Goodwill arising on application of the equity method	**253**	286	–33	–11.5
7. Other assets	**38,302**	35,518	2,784	7.8
Total Assets	**274,598**	**259,678**	**14,920**	**5.7**

Liabilities and Shareholders' Equity	31/12/2004	31/12/2003 pro forma (1)	Changes	
			amount	%
1. Debts				
- due to customers	**109,542**	104,676	4,866	4.6
- securities issued	**61,417**	56,591	4,826	8.5
- due to banks	**34,214**	31,668	2,546	8.0
2. Allowances with specific purpose	**4,715**	5,047	–332	–6.6
3. Other liabilities	**39,121**	35,240	3,881	11.0
4. Allowances for possible loan losses	**4**	25	–21	–84.0
5. Subordinated and perpetual liabilities	**9,278**	10,603	–1,325	–12.5
6. Minority interests	**743**	735	8	1.1
7. Shareholders' equity				
- share capital, reserves and reserve for general banking risks	**13,649**	13,849	–200	–1.4
- negative goodwill arising on consolidation	**29**	29	–	–
- negative goodwill arising on application of the equity method	**2**	1	1	
- net income for the period	**1,884**	1,214	670	55.2
Total Liabilities and Shareholders' Equity	**274,598**	**259,678**	**14,920**	**5,7**

Guarantees, commitments and credit derivatives	**107,549**	105,287	2,262	2.1
Indirect customer deposits	**293,001**	287,523	5,478	1.9

(1) Figures restated on a consistent basis considering the consolidation area as at 31st December 2004.

RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME AS AT 31st DECEMBER 2004

(in millions of euro)

Captions	31/12/2004	31/12/2003 pro forma [1]	Changes	
			amount	%
Net interest income	**4,962**	4,937	25	0.5
Dividends and other revenues	**77**	70	7	10.0
Income from investments carried at equity	**143**	96	47	49.0
Interest margin	**5,182**	5,103	79	1.5
Net commissions	**3,447**	3,326	121	3.6
Profits on financial transactions	**737**	717	20	2.8
Other operating income, net	**360**	373	–13	–3.5
Net interest and other banking income	**9,726**	9,519	207	2.2
Administrative costs	**–5,247**	–5,398	–151	–2.8
including Payroll	***–3,147***	*–3,298*	*–151*	*–4.6*
Other	***–2,100***	*–2,100*	*–*	
Adjustments to fixed assets and intangibles	**–583**	–690	–107	–15.5
Operating costs	**–5,830**	–6,088	–258	–4.2
Operating margin	**3,896**	3,431	465	13.6
Adjustments to goodwill arising on consolidation and on application of the equity method	**–130**	–130	–	
Provisions for risks and charges	**–167**	–199	–32	–16.1
Net adjustments to loans and provisions for possible loan losses	**–887**	–1,180	–293	–24.8
Net adjustments to financial fixed assets	**–19**	–204	–185	–90.7
Income from operating activities	**2,693**	1,718	975	56.8
Extraordinary income (loss)	**–61**	131	–192	
Income taxes for the period	**–805**	–580	225	38.8
Change in the reserve for general banking risks and other reserves	**163**	26	137	
Minority interests	**–106**	–81	25	30.9
Net income for the period	**1,884**	1,214	670	55.2

[1] Figures restated on a consistent basis considering the consolidation area as at 31st December 2004.

CONSOLIDATED BALANCE SHEET AS AT 31st DECEMBER 2004

(in millions of euro)

	Assets	31/12/2004	31/12/2003	Changes	
				amount	%
10.	Cash and deposits with central banks and post offices	1,488	1,591	–103	–6.5
20.	Treasury bills and similar bills eligible for refinancing with central banks	5,031	3,739	1,292	34.6
30.	Due from banks	28,730	28,537	193	0.7
	a) repayable on demand	*2,718*	*2,520*	*198*	*7.9*
	b) other	*26,012*	*26,017*	*–5*	*–*
40.	Loans to customers	157,698	154,992	2,706	1.7
	including				
	- with public funds under administration	*67*	*59*	*8*	*13.6*
50.	Bonds and other debt securities	31,102	22,889	8,213	35.9
	a) public entities	*10,049*	*6,311*	*3,738*	*59.2*
	b) banks	*11,179*	*8,774*	*2,405*	*27.4*
	including				
	- own bonds	*2,273*	*1,900*	*373*	*19.6*
	c) financial institutions	*7,033*	*5,108*	*1,925*	*37.7*
	including				
	- own bonds	*–*	*150*	*–150*	
	d) other issuers	*2,841*	*2,696*	*145*	*5.4*
60.	Shares, quotas and other forms of capital	2,591	2,015	576	28.6
70.	Equity investments	4,747	4,713	34	0.7
	a) carried at equity	*1,035*	*1,045*	*–10*	*–1.0*
	b) other	*3,712*	*3,668*	*44*	*1.2*
80.	Investments in Group companies	87	71	16	22.5
	a) carried at equity	*43*	*22*	*21*	*95.5*
	b) other	*44*	*49*	*–5*	*–10.2*
90.	Goodwill arising on consolidation	484	546	–62	–11.4
100.	Goodwill arising on application of the equity method	253	286	–33	–11.5
110.	Intangibles	560	621	–61	–9.8
	including				
	- start-up costs	*8*	*16*	*–8*	*–50.0*
	- goodwill	*–*	*–*	*–*	
120.	Fixed assets	3,515	3,664	–149	–4.1
140.	Own shares or quotas (nominal value euro 1,411,725)	10	1,017	–1,007	–99.0
150.	Other assets	35,758	33,099	2,659	8.0
160.	Accrued income and prepaid expenses	2,544	2,435	109	4.5
	a) accrued income	*1,830*	*1,978*	*–148*	*–7.5*
	b) prepaid expenses	*714*	*457*	*257*	*56.2*
	including				
	- discounts on securities issued	*34*	*43*	*–9*	*–20.9*
	Total Assets	**274,598**	**260,215**	**14,383**	**5.5**

CONSOLIDATED BALANCE SHEET AS AT 31st DECEMBER 2004

(in millions of euro)

	Liabilities and Shareholders' Equity	31/12/2004	31/12/2003	Changes	
				amount	%
10.	Due to banks	34,214	31,720	2,494	7.9
	a) repayable on demand	*6,132*	*7,214*	*–1,082*	*–15.0*
	b) time deposits or with notice period	*28,082*	*24,506*	*3,576*	*14.6*
20.	Due to customers	109,443	105,029	4,414	4.2
	a) repayable on demand	*82,914*	*80,851*	*2,063*	*2.6*
	b) time deposits or with notice period	*26,529*	*24,178*	*2,351*	*9.7*
30.	Securities issued	61,417	56,659	4,758	8.4
	a) bonds	*53,003*	*47,908*	*5,095*	*10.6*
	b) certificates of deposit	*6,326*	*7,576*	*–1,250*	*–16.5*
	c) other	*2,088*	*1,175*	*913*	*77.7*
40.	Public funds under administration	99	90	9	10.0
50.	Other liabilities	35,349	32,233	3,116	9.7
60.	Accrued expenses and deferred income	3,772	3,021	751	24.9
	a) accrued expenses	*1,942*	*1,948*	*–6*	*–0.3*
	b) deferred income	*1,830*	*1,073*	*757*	*70.5*
70.	Allowance for employee termination indemnities	1,117	1,186	–69	–5.8
80.	Allowances for risks and charges	3,598	3,847	–249	–6.5
	a) pensions and similar commitments	*288*	*289*	*–1*	*–0.3*
	b) taxation	*1,417*	*1,614*	*–197*	*–12.2*
	c) risks and charges arising on consolidation	*–*	*68*	*–68*	
	d) other	*1,893*	*1,876*	*17*	*0.9*
90.	Allowances for possible loan losses	4	28	–24	–85.7
100.	Reserve for general banking risks	–	95	–95	
110.	Subordinated and perpetual liabilities	9,278	10,603	–1,325	–12.5
120.	Negative goodwill arising on consolidation	29	29	–	–
130.	Negative goodwill arising on application of the equity method	2	1	1	
140.	Minority interests	743	706	37	5.2
150.	Share capital	3,561	3,561	–	–
160.	Share premium reserve	5,406	5,404	2	–
170.	Reserves	4,325	4,433	–108	–2.4
	a) legal reserve	*773*	*773*	*–*	*–*
	b) reserve for own shares	*10*	*1,017*	*–1,007*	*–99.0*
	c) statutory reserves	*1,084*	*61*	*1,023*	
	d) other reserves	*2,458*	*2,582*	*–124*	*–4.8*
180.	Revaluation reserves	357	356	1	0.3
200.	Net income for the period	1,884	1,214	670	55.2
	Total Liabilities and Shareholders' Equity	**274,598**	**260,215**	**14,383**	**5.5**

CONSOLIDATED BALANCE SHEET AS AT 31st DECEMBER 2004

(in millions of euro)

	Guarantees and Commitments	31/12/2004	31/12/2003	Changes	
				amount	%
10.	Guarantees given	22,158	22,298	–140	–0.6
	including				
	- acceptances	*333*	*294*	*39*	*13.3*
	- other guarantees	*21,825*	*22,004*	*–179*	*–0.8*
20.	Commitments	46,611	48,153	–1,542	–3.2
	including				
	- for sales with commitment to repurchase	–	–	–	
30.	Credit derivatives	38,780	34,884	3,896	11.2
	Total Guarantees and Commitments	**107,549**	**105,335**	**2,214**	**2.1**

CONSOLIDATED STATEMENT OF INCOME AS AT 31st DECEMBER 2004

(in millions of euro)

		31/12/2004	31/12/2003	Changes	
				amount	%
10.	Interest income and similar revenues	9,470	10,117	–647	–6 4
	including from				
	- loans to customers	*7,224*	*7,719*	*–495*	*–6.4*
	- debt securities	*1,307*	*1,240*	*67*	*5.4*
20.	Interest expense and similar charges	–4,535	–5,266	–731	–13.9
	including on				
	- deposits from customers	*–1,277*	*–1,527*	*–250*	*–16.4*
	- securities issued	*–2,227*	*–2,373*	*–146*	*–6.2*
30.	Dividends and other revenues	502	575	–73	–12.7
	a) from shares, quotas and other forms of capital	*440*	*489*	*–49*	*–10.0*
	b) from equity investments	*56*	*58*	*–2*	*–3.4*
	c) from investments in Group companies	*6*	*28*	*–22*	*–78.6*
40.	Commission income	4,031	3,940	91	2.3
50.	Commission expense	–584	–609	–25	–4.1
60.	Profits (Losses) on financial transactions	313	483	–170	–35.2
65.	Gross returns (losses) on investment of the allowances for pensions and similar commitments	6	6	–	–
70.	Other operating income	519	603	–84	–13.9
80.	Administrative costs	–5,247	–5,434	–187	–3.4
	a) payroll	*–3,147*	*–3,324*	*–177*	*–5.3*
	including				
	– wages and salaries	*–2,221*	*–2,328*	*–107*	*–4.6*
	– social security charges	*–611*	*–649*	*–38*	*–5.9*
	– termination indemnities	*–135*	*–152*	*–17*	*–11.2*
	– pensions and similar commitments	*–103*	*–109*	*–6*	*–5.5*
	b) other	*–2,100*	*–2,110*	*–10*	*–0.5*
85.	Allocation (Use) of net returns (losses) on investment of the allowances for pensions and similar commitments	–6	–6	–	–
90.	Adjustments to fixed assets and intangibles	–713	–831	–118	–14.2
100.	Provisions for risks and charges	–172	–207	–35	–16.9
110.	Other operating expenses	–133	–216	–83	–38.4
120.	Adjustments to loans and provisions for guarantees and commitments	–1,700	–2,051	–351	–17.1
130.	Write-back of adjustments to loans and provisions for guarantees and commitments	711	830	–119	–14.3
140.	Provisions for possible loan losses	–1	–1	–	–
150.	Adjustments to financial fixed assets	–43	–214	–171	–79.9
160.	Write-back of financial fixed assets	24	10	14	
170.	Income from investments carried at equity	143	84	59	70.2
180.	**Income from operating activities**	**2,585**	**1,813**	**772**	**42.6**
190.	Extraordinary income	763	1,316	–553	–42.0
200.	Extraordinary charges	–716	–1,117	–401	–35.9
210.	**Extraordinary income, net**	**47**	**199**	**–152**	**–76.4**
220.	Use of allowance for risks and charges arising on consolidation	68	7	61	
230.	Change in the reserve for general banking risks	95	19	76	
240.	Income taxes	–805	–741	64	8.6
250.	Minority interests	–106	–83	23	27.7
260.	**Net income for the period**	**1,884**	**1,214**	**670**	**55.2**

Parent Company's financial statements as at 31st March 2005

The Parent Company's separate financial statements set out hereafter are:
- Parent Company's balance sheet as at 31st March 2005;
- Parent Company's statement of income as at 31st March 2005.

Furthermore, the Reconciliation of shareholders' equity and net income as per Legislative Decree 87/92 to IAS/IFRS shareholders' equity and net income at transition date is also included.

PARENT COMPANY'S BALANCE SHEET AS AT 31st MARCH 2005

(in millions of euro)

Assets	31/03/2005	31/12/2004 except IAS 39 [§]	Changes	
			amount	%
Cash and cash balances with central banks	603	655	–52	–7.9
Financial assets held for trading	36,545	40,334	–3,789	–9.4
Financial assets designated at fair value through profit and loss	–	–	–	
Financial assets available for sale	2,401	–	2,401	
Investments held to maturity	–	717	–717	
Due from banks	36,077	36,664	–587	–1.6
Loans to customers	102,569	102,874	–305	–0.3
Hedging derivatives	1,077	–	1,077	
Fair value change of hedged items	–	–	–	
Equity investments	10,809	13,435	–2,626	–19.5
Fixed assets	1,398	1,423	–25	–1.8
Intangibles	378	406	–28	–6.9
including				
- goodwill	–	–	–	
Tax assets	2,246	2,646	–400	–15.1
a) current	*912*	*1,684*	*–772*	
b) deferred	*1,334*	*962*	*372*	*38.7*
Non-current assets (or disposal groups) held for sale and discontinued operations	–	–	–	
Other assets	2,494	4,231	–1,737	–41.1
Total Assets	**196,597**	**203,385**	**–6,788**	**–3.3**

[§] Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments. The effects of the merger of Intesa Sistemi e Servizi in Banca Intesa are also included.

PARENT COMPANY'S BALANCE SHEET AS AT 31st MARCH 2005

(in millions of euro)

Liabilities and Shareholders' Equity	**31/03/2005**	**31/12/2004** except IAS 39 [(§)]	**Changes**	
			amount	**%**
Due to banks	30,772	27,488	3,284	11.9
Due to customers	76,474	80,129	–3,655	–4.6
Securities issued	45,248	48,817	–3,569	–7.3
Financial liabilities held for trading	13,155	14,237	–1,082	–7.6
Hedging derivatives	1,395	–	1,395	
Fair value change of hedged items	–	–	–	
Subordinated liabilities	9,102	9,385	–283	–3.0
Tax liabilities	444	411	33	8.0
a) current	*300*	*277*	*23*	*8.3*
b) deferred	*144*	*134*	*10*	*7.5*
Liabilities in disposal groups held for sale and discontinued operations	–	–	–	
Other liabilities	5,110	6,129	–1,019	–16.6
Employee termination indemnities	835	841	–6	–0.7
Allowances for risks and charges	1,328	1,564	–236	–15.1
a) pensions and similar commitments	*105*	*105*	–	–
b) other allowances	*1,223*	*1,459*	*–236*	*–16.2*
Revaluation reserves and valuation differences	1,177	987	190	19.3
a) financial assets available for sale (+/-)	*199*	–	*199*	
b) fixed assets (+)	–	–	–	
c) cash flow hedges (+/-)	*–9*	–	*9*	
d) legally-required revaluations	*987*	*987*	–	–
e) other	–	–	–	
Shares with the right of recession	–	–	–	
Equities	–	–	–	
Reserves	2,277	3,121	–844	–27.0
Share premium reserve	5,406	5,406	–	–
Share capital	3,561	3,561	–	–
Treasury shares (-)	–	–	–	
Net income	313	1,309	–996	–76.1
Total Liabilities and Shareholders' Equity	**196,597**	**203,385**	**–6,788**	**–3.3**

[(§)] Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments. The effects of the merger of Intesa Sistemi e Servizi in Banca Intesa are also included.

PARENT COMPANY'S STATEMENT OF INCOME AS AT 31st MARCH 2005

(in millions of euro)

	First quarter 2005	First quarter 2004 except IAS 39 (§)	Changes	
			amount	%
Interest and similar income	1,599	1,599	–	–
Interest and similar expense	–803	–840	–37	–4.4
Net interest income	**796**	**759**	**37**	**4.9**
Fee and commission income	670	555	115	20.7
Fee and commission expense	–58	–59	–1	–1.7
Net fee and commission income	**612**	**496**	**116**	**23.4**
Dividend and similar income	40	5	35	
Profits (Losses) on trading	39	126	–87	–69.0
Fair value adjustments in hedge accounting	–1	–	1	
Profit (Loss) on disposal of	12	–	12	
a) loans and receivables	–	–	–	
b) financial assets available for sale	*12*	–	*12*	
c) investments held to maturity	–	–	–	
Valuation differences on financial assets designated at fair value through profit and loss	–	–	–	
Valuation differences on financial liabilities designated at fair value through profit and loss	–	–	–	
Net interest and other banking income	**1,498**	**1,386**	**112**	**8.1**
Net impairment losses on	–114	–183	–69	–37.7
a) loans and receivables	*–114*	*–178*	*–64*	*–36.0*
b) financial assets available for sale	–	–	–	
c) investments held to maturity	–	*–5*	*–5*	
d) other financial assets	–	–	–	
Net income from banking activities	**1,384**	**1,203**	**181**	**15.0**
Administrative expenses	–837	–856	–19	–2.2
a) personnel expenses	*–515*	*–545*	*–30*	*–5.5*
b) other administrative expenses	*–322*	*–311*	*11*	*3.5*
Net provisions for risks and charges	–40	–17	23	
Adjustments to fixed assets	–32	–33	–1	–3.0
Adjustments to intangibles	–42	–41	1	2.4
including				
- goodwill	–	–	–	
Other operating expenses (income)	80	64	16	25.0
Operating expenses	**–871**	**–883**	**–12**	**–1.4**
Profits (Losses) on investments	20	6	14	
Income (Loss) before tax from continuing operations	**533**	**326**	**207**	**63.5**
Taxes on income from continuing operations	–220	–135	85	63.0
Income (Loss) after tax from continuing operations	**313**	**191**	**122**	**63.9**
Income (Loss) after tax from non-current assets (or disposal groups) held for sale and discontinued operations	–	–	–	
Net income (loss)	**313**	**191**	**122**	**63.9**

(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments. The effects of the merger of Intesa Sistemi e Servizi in Banca Intesa are also included.

Reconciliation of Parent Company's shareholders' equity and net income as per Legislative Decree 87/92 to IAS/IFRS shareholders' equity and net income

Reconciliation of Parent Company's Shareholders' equity as per Legislative Decree 87/92 to IAS/IFRS Shareholders' equity

(in millions of euro)

	01/01/2004	01/01/2004	31/03/2004	31/03/2004	31/12/2004	01/01/2005
	Impact of IAS/IFRS first-time adoption	**Impact of IAS/IFRS first-time adoption** (including IAS 39)	**Impact of IAS/IFRS first-time adoption**	**Impact of IAS/IFRS first-time adoption** (including IAS 39)	**Impact of IAS/IFRS first-time adoption** [(#)]	**Impact of IAS/IFRS first-time adoption** (including IAS 39) [(#)]
Shareholders' equity (as per Legislative Decree 87/92)	**14,745**	**14,745**	**13,736**	**13,736**	**14,547**	**14,547**
RESERVES	**–1,283**	**–3,074**	**–387**	**–2,256**	**–97**	**–2,023**
- Due from banks and loans to customers						
- analytical measurement of non-performing loans	–	–480	–	–500	–	–558
- collective measurement of performing loans	–	–199	–	–180	–	–123
- other impacts	–	–131	–	–138	–	–113
- Financial assets held for trading						
- fair value measurement of trading securities and related derivatives	–	76	–	48	–	12
- fair value measurement of derivatives: credit risk adjustment and bid-ask spread	–	–150	–	–139	–	–165
- fair value measurement of derivatives: separation of embedded derivatives from bonds issued	–	–223	–	–296	–	–349
- fair value measurement of equity investments classified as held for trading	–	–154	–	–139	–	–116
- Hedging derivatives						
- fair value hedges: fair value measurement of hedging derivatives and hedged items	–	8	–	8	–	8
- hedge accounting adjustments	–	–176	–	–176	–	–173
- Fixed assets and intangibles						
- derecognition of depreciation of land	170	170	174	174	185	185
- items that do not qualify for recognition as intangibles	–1	–1	–1	–1	–1	–1
- goodwill impairment	–34	–34	–33	–33	–30	–30
- Allowances						
- collective measurement of guarantees given	–	–69	–	–69	–	–68
- unrecognised allowances for risks and charges and discounting of provisions	41	44	41	48	43	57
- actuarial valuation of employee termination indemnities and allowances for pensions	–8	–8	–6	–6	–2	–2
- Dividends accrued	**–482**	**–482**	**–605**	**–605**	**–293**	**–293**
- Reserve for own shares	**–1,015**	**–1,015**	**–2**	**–2**	**–**	**–**
- Other impacts	**46**	**–250**	**45**	**–250**	**1**	**–294**
VALUATION DIFFERENCES	**–**	**95**	**–**	**105**	**–**	**163**
- Financial assets available for sale						
- fair value measurement of debt securities	–	12	–	12	–	12
- fair value measurement of equities	–	93	–	103	–	161
- Cash flow hedges						
- cash flow hedges: fair value measurement of derivatives	–	–10	–	–10	–	–10
Tax impact	**–71**	**376**	**–71**	**406**	**–66**	**442**
Total impacts of IAS/IFRS first-time adoption	**–1,354**	**–2,603**	**–458**	**–1,745**	**–163**	**–1,418**
IAS/IFRS Shareholders' equity	**13,391**	**12,142**	**13,278**	**11,991**	**14,384**	**13,129**

[(#)] Including the effects of the merger of Intesa Sistemi e Servizi in Banca Intesa.

Reconciliation of Parent Company's net income as per Legislative Decree 87/92 to IAS/IFRS net income

(in millions of euro)

	31/03/2004	31/03/2004	31/12/2004	31/12/2004
	Impact of IAS/IFRS first-time adoption [(#)]	Impact of IAS/IFRS first-time adoption (including IAS 39) [(#)]	Impact of IAS/IFRS first-time adoption [(#)]	Impact of IAS/IFRS first-time adoption (including IAS 39) [(#)]
Net income for the period (as per Legislative Decree 87/92)	**311**	**311**	**1,141**	**1,141**
- Net interest income	–3	5	–12	84
- Dividends	–124	–124	189	189
- Net commissions	–	–	–	–
- Profits (Losses) on financial transactions	–	–120	–	–255
- Other operating income, net	–	–	–	–
- Operating costs	5	5	17	17
- Goodwill	–	–	–	–
- Adjustments and provisions	3	36	14	36
- Change in the reserve for general banking risks and other reserves	–	–	–	–
- Taxes and other captions	–1	30	–40	22
Total impact of IAS/IFRS first-time adoption	**–120**	**–168**	**168**	**93**
IAS/IFRS net income	**191**	**143**	**1,309**	**1,234**

[(#)] Including effects of the merger of Intesa Servizi e Sistemi in Banca Intesa.

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