Banca Intesa

Consolidated report as at 30th September 2005

Banca Intesa

Registered office Piazza Paolo Ferrari 10 20121 Milano Italy
Telephone +39 02 879.11 info@bancaintesa.it www.bancaintesa.it

Investor Relations Piazza della Scala 6 20121 Milano Italy
Fax +39 02 879.42587 investorelations@bancaintesa.it

Consolidated report as at 30th September 2005

Banca Intesa S.p.A.
Share capital 3,596,249,720.96 euro fully paid-in – Milano Company Register and Fiscal Code No. 00799960158
Member of the National Interbank Deposit Guarantee Fund – Included in the National Register of Banks No. 5361
Gruppo Intesa included in the National Register of Banking Groups

Contents

Board of Directors, 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 third 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 such principles already starting from the Consolidated report as at 31st March 2005.

As already explained in that Consolidated report, 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 30th September 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.

In this Report the financial statement forms are the same as those used in the Consolidated report as at 31st March 2005 and in the Consolidated report as at 30th June 2005. The forms are those proposed by the Bank of Italy in the first consultation document diffused to the banking industry last February. Therefore, these are provisional forms, and may be subject to modifications.
In commenting operations development in the period more condensed tables are presented – also already used in the previous 2005 interim reports – 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. These condensed tables may also be subject to further modifications.
Lastly, capital requirements are determined applying the so-called "prudential filters" indicated by the Basel Committee through press releases in 2004 and used last May for the simulation, requested by the Bank of Italy, of the impacts on the capital requirements of the banking system following the application of the new standards.
In conclusion, for the purpose of improving the comparability of interim reports in this transition phase, this Consolidated report has the same structure as the previous interim reports. Integrations and/or modifications of the forms and their contents will be introduced in the Annual report 2005 and, therefore, in the interim reports of 2006.

In consideration of the relevance of the effects of the changes in the accounting principles on Gruppo Intesa's financial statements, this Consolidated report again includes the chapter dedicated to "IAS/IFRS first-time adoption" which was already present in the Consolidated report as at 31st March 2005 and in the Consolidated report as at 30th June 2005 and briefly describes the new principles and their effects on first-time adoption.

(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 third quarter of 2005 Executive summary

Results for the first nine months

As already described in the previous interim reports, the analysis of results for the first nine months of 2005 must be carried out considering that, with respect to the Annual report 2004 and to the interim reports of the previous year, the accounting principles used to prepare the financial statements have been modified, new 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 first quarters of 2005 and the corresponding periods of 2004, the figures for the previous year 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 various periods of 2004 as concerns transactions provided for by IAS 39 and IAS 32.

Two statements of income as at 30th September 2004 and 31st December 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.

The statement of income as at 30th September 2005 confirms the significant increases in margins which had already characterised the accounts of March and June.
Operating income exceeded 7.5 billion euro, with a 12% growth rate over the twelve months and reflected the generalised increase in revenues, both interest income and commissions.
Operating costs decreased, though moderately, as significant cuts had already been enacted in previous periods and despite higher charges related to the renewal of the national labour contract for the banking sector and costs related to develop and rationalise, structures, increase the efficiency of IT and processes and, lastly, support external growth.
Operating margin therefore reached 3.5 billion euro, with a progress exceeding 31% compared to the first nine months of 2004.
Provisions for risks and charges, which significantly increased from the comparison period, reflected the need to prudentially cover the risks in any case latent in the revocatory actions notified in the quarter to certain Group companies as part of the Parmalat procedure, while net adjustments to loans and receivables again decreased.
Income before tax from continuing operations posted an almost 40% improvement and exceeded 2.9 billion euro, which enabled an almost 500 million euro rise in net income (+36.3%), despite the higher tax burden attributable to certain regulatory changes under definition.

Quarterly development also shows that the third quarter generated better results than the previous periods, with operating income significantly over 2.5 billion euro, operating margin which almost touches 1.2 billion euro and income before tax from continuing

operations exceeding 1 billion euro.
Net income for the period reached 645 million euro, higher than the 580 million euro of the second quarter and the 620 million euro of the first quarter.

As regards main balance sheet aggregates, loans to customers, at 159 billion euro (+0.8%), confirmed the figures at the end of 2004, despite the significant reduction of repurchase agreements. Excluding the latter, loans to customers would have recorded a 2.6% rise.

Direct customer deposits confirmed, at 179 billion euro, the figures at the end of 2004 (-0.3%), despite a decrease in issued bonds. Indirect customer deposits, increased to 313 billion euro and instead highlighted a satisfactory growth rate (+7.2%) attributable to both assets under administration and in custody (+7.8% to 188 billion euro) and managed funds (+6.4% to 125 billion euro), which benefited from the positive contribution of the bancassurance sector.

As provided for by IFRS 5, assets, relevant liabilities and income or losses which are no longer related to continuing operations and which are undergoing disposal have been recorded in a specific caption. These mostly refer to the sale of a significant portion of the doubtful loan portfolio, illustrated in the Consolidated report as at 30th June 2005 and commented again below.

The 2005-2007 Business Plan

With the new Business Plan, Banca Intesa wants to compete with the best Euro Zone banks. The value creation objective will be achieved through all three main drivers: sustainable growth, strict cost discipline, optimal risk management and capital allocation.

Sustainable growth is testified by the positive trend recorded by revenues in the first nine months of 2005 (+12% compared to a 7.4% annual average set out in the Plan). This occurred via the management of the Group’s endogenous and exogenous growth, as well as via an attentive policy aimed at valorising resources and a massive investment plan in innovation.

With reference to **internal growth** various projects implemented by Divisions during the third quarter are set out below.
Retail Division: in the Retail segment the increase in personal loans (Prestintesa) and mortgages continued, favoured in particular by the implementation of a more modern system to support advisory services to customers and by the expansion of the product range (Mutuo Flex, a product with flexible capital reimbursement, Prestintesa Maxi and Intesa Proteggi Mutuo Business an insurance policy for mortgage holders etc.). In the SMEs and Private segments particular attention was paid to the measurement and monitoring of the level of customer satisfaction to identify possible actions to optimise service via commercial policies differentiated by product.
Corporate Division: the process aimed at improving the portfolio’s risk profile continued, with a reduction in absolute terms of higher-risk assets and non-strategic relations with Foreign Corporates to optimise capital allocation and value generation. For Large- and Mid-corporate companies, Capital Market and Structured Finance products have been developed with a progressive increase in the number of deals closed by Structured Finance in particular syndicated lending, acquisition finance and real estate. As part of Investment Banking the process for the integration with the Group’s commercial network continued thanks to the definition of the Relation and Product interaction model and the structuring of the relevant commercial process.
Italian Subsidiary Banks Division: the development of new products and services continued: Intesa Nova, multifunctional project aimed at innovative entrepreneurs; Mutuo 100%; insurance products with multirisk coverage for holders of personal loans and mortgages. Furthermore, 5 of the 54 new branches set out by the Plan have been opened. In order to perfect this growth process, an essential factor is the valorisation of employees which is developed via incentive systems, the definition of new training programmes, the optimisation of support tools and the development of the sense of belonging.
International Subsidiary Banks Division: as part of the Retail project with reference to the Central-European International Bank (CIB), 12 of the programmed 42 branches were opened and were applied the new lay-out and an agreement for the sale of bank products via retail outlets was stipulated. In the first nine months of 2005 also Privredna Banka Zagreb (PBZ) further

developed the retail business via the launch of new products (policies in cooperation with Generali, credit cards, internet banking with additional services such as the possibility of underwriting funds on line, etc.), and the opening of 3 new branches of the 20 set out by the Plan; particular attention was paid to factoring a market in which the bank was always present as one of the main players; in this area operating structures and IT supports were further enhanced, and a specific advertising campaign was launched. In the Slovakian market the main actions taken by Vseobecna Uverova Banka (VUB) referred to the launch of new Retail products/services (mortgages, consumer lending, etc.), the consolidation of the Private Banking offering and the expansion of the offering to SMEs. As concerns **external growth**, as part of the strategy aimed at consolidating the Group's presence in Central-Eastern Europe, noteworthy is the acquisition occurred in August of ***Delta Banka***, the second largest bank in Serbia and Montenegro in terms of total assets; the signing of the agreement for the acquisition of ***UPI Banka*** in Bosnia-Herzegovina with closing programmed at the beginning of 2006 and, lastly, the closing of the acquisition of ***Small Business Credit Bank (KMB)*** bank active especially in lending and leasing for SMEs in the Russian Federation. In Italy, in March 2005 Banca Intesa, Banche Popolari Unite (BPU), Banca Popolare di Ancona (BPA, BPU group) and BPA's five minority shareholders signed an agreement for the sale of 99.9% of the share capital of ***Cassa di Risparmio di Fano*** held by BPA, for 30% to Intesa Casse del Centro (transaction closed last July) and for the remaining 69.9% to a vehicle company, with a call option in favour of Gruppo Intesa. With this transaction, Intesa Casse del Centro significantly strengthens its presence in the Marche territory and the overall presence of Gruppo Intesa in the region in terms of branches' market share reached approximately 10%.

Particularly important within sustainable growth, are both the **enhancement of human resources**, via an on-going training programme for a total of approximately 190,000 man-days of training delivered in the first nine months of 2005 of the 800,000 man-days programmed in the 2005-2007 period, and the realisation of the **investment plan in innovation**: investments amounting to approximately 700 million euro were made in 2005 of the almost 2 billion euro set out in the plan. In particular, such investments are aimed at improving customer service quality, with reference to both the sales channel (via for example the development of innovative channels) and the type of services offered (via for example the corporate banking platform for SMEs and Small Businesses).

Strict operating cost discipline, already commenced in the previous business plan, is an objective confirmed in the current business plan; in fact the pursuit of growth in a competitive market requires a balanced and competitive cost structure. As at 30th September 2005 the Group's cost/income ratio equalled 53.5%, basically in line with the 50% target for 2007; in particular costs related to growth totalled 36 million euro corresponding to 16% of the total set out in the business plan, offset by cost savings of 40 million euro due to increased efficiency of back office and central structures and reduction of costs of management of real estate assets and procurement.

Optimise risk management and capital allocation: an important lever to ensure a constant value creation is risk management in all its forms. In the last few years, Banca Intesa greatly strengthened the management of all risk categories. The Group's greater capital strength is also confirmed by the upgrading by Standard & Poor's, which increased the rating from A to A+ for long-term debts, in line with the AA objective set for 2007. Capital ratios remain at absolutely stable levels with the Tier 1 ratio at 7.95% and the Core Tier 1 ratio – that is, the ratio between Tier 1 capital net of preference shares and total risk-weighted assets – which posted a 16 b.p. improvement with respect to the figure of June 2005 and equalled 7.1%. As concerns **credit risk**, it must be noted that Banca Intesa's percentage of Investment Grade improved in 2005 by approximately 260 b.p., and that the continuous attention paid to loan portfolio enabled to achieve the practical stability in the net doubtful loans/loans to customers ratio at 0.7%, in line with the 0.9% target for 2007. As concerns **market risks**, the strengthening of the internal Risk management platforms and an effective control at desk level permitted the management of capital absorbed at a level of approximately 1.7 billion euro, compatible with the target set out in the Plan.

The sale of doubtful loans

Banca Intesa signed an agreement with Fortress and Merrill Lynch for the sale of a portfolio of the Group's doubtful loans for a nominal value exceeding 9 billion euro, and of the loan servicing business of Intesa Gestione Crediti (IGC) formed by the professional resources and instruments specifically destined to manage doubtful loans.

The sale – which will occur without recourse – involves over 70% of Gruppo Intesa's total doubtful loans made up as follows: a portfolio of nominal value of approximately 6 billion euro held by IGC, a portfolio of nominal value 2.4 billion euro held by Banca Intesa, a portfolio amounting to 0.5 billion euro held by Intesa Mediocredito and a portfolio of 0.2 billion euro held by Cariparma. Gruppo Intesa will receive approximately 2 billion euro as cash consideration, with a capital gain in the tens of millions of euro on the net book value of such loans at the end of 2004, after first-time adoption of IAS/IFRS.
Following the sale, the Group's net doubtful loans/loans to customers ratio, net of adjustments drops to 0.7%. The ratio as at 31st December 2004 restated to consider the sale would have been 0.6%, compared to 1.9%, as at the same date, after the first-time adoption of IAS/IFRS, and 2.7% reported in the Annual report 2004 before IAS/IFRS.
Furthermore, Gruppo Intesa will sell an 81% stake in the new company which will be contributed IGC's "operating engine" and realise in the fourth quarter a capital gain of approximately 49 million euro, based on a 100% valuation of the newco of 60 million euro.

Gruppo Intesa will maintain a 19% stake in the capital of the servicing company and – as customer of the company – may count on service rules specifically tailored for its strategic objectives, under the terms of a ten-year servicing contract providing mechanisms aimed at maintaining standards in line with the market's best practices.
The transaction marks the completion of the programme designed to optimise the processes for the recovery of doubtful loans, implemented by Gruppo Intesa at the end of the Nineties with the setting up of IGC.

The closing of the transaction, with the transfer of the assets and the payment of the consideration, is expected to take place within the end of the year.

The agreement with Crédit Agricole for asset management activities

The agreement regarding asset management activities signed with Crédit Agricole – which is described in greater detail in the Consolidated report as at 30th June 2005 – is another key strategic transaction for the Group's structure. The agreement sets out that Crédit Agricole Asset Management ("CAAM") will hold a 65% stake and Gruppo Intesa a 35% stake of the share capital of the asset management company resulting from the integration of Nextra Investment Management, SGR of Gruppo Intesa, and Crédit Agricole Asset Management Italia.

The transaction will be carried out based on a 100% valuation of Nextra amounting to 1,340 million euro, valuation in line with market multiples of comparables and confirmed by the analyses prepared by financial advisors of both parties.

CAAM will become one of the main European asset managers, ranked in fourth place in the Continent in terms of assets under management (exceeding 400 billion euro) in addition to being the leading player in France and second in Italy. CAAM will both offer a complete product range and have the necessary critical mass in all operating areas, with specific competencies in all strategic activities, deriving from the integration of its current areas of excellence with those of Nextra.
Gruppo Intesa will be a partner of CAAM Italia, with a 12-year distribution agreement. At the end of the agreement, Banca Intesa may exercise a put option on the 35% stake held in the SGR.

The closing of the operation is expected to take place within the end of the year and is conditional upon the authorisations by the competent Authorities.

Gruppo Intesa Financial highlights (°)

	30/09/2005	30/09/2004 including IAS 39 (*)	% change	30/09/2004 except IAS 39 (§)
Statement of income (in millions of euro)				
Net interest income	**3,936**	3,702	6.3	3,672
Net fee and commission income	**2,900**	2,551	13.7	2,549
Profits (Losses) on trading	**541**	418	29.4	662
Other operating income (expenses)	**20**	-73		-69
Operating income	**7,519**	6,713	12.0	6,930
Operating costs	**-4,019**	-4,054	-0.9	-4,081
Operating margin	**3,500**	2,659	31.6	2,849
Net adjustments to loans and receivables	**-474**	-543	-12.7	-705
Net income	**1,845**	1,354	36.3	1,396

	30/09/2005	31/12/2004 including IAS 39 (*)	% change	31/12/2004 except IAS 39 (§)
Balance sheet (in millions of euro)				
Loans to customers	**158,758**	157,430	0.8	159,568
Net financial assets held for trading	**29,319**	27,883	5.2	34,255
Financial assets available for sale	**4,501**	5,157	-12.7	–
Investments	**8,980**	8,340	7.7	14,230
Total assets	**264,129**	271,105	-2.6	276,135
Direct customer deposits	**178,677**	179,282	-0.3	182,975
Indirect customer deposits	**313,430**	292,383	7.2	292,383
including Managed funds	***124,739***	*117,288*	*6.4*	*117,288*
Net interbank position	**-5,653**	-5,770	-2.0	-5,492
Shareholders' equity	**15,389**	13,969	10.2	15,635

Operating structure	30/09/2005	31/12/2004	Change amount
Staff (number) (#)	**57,628**	57,632	-4
Branches (number)	**3,682**	3,698	-16
including Italy	***3,055***	*3,080*	*-25*
Abroad	***627***	*618*	*9*

(°) Figures from the reclassified statement of income and reclassified balance sheet as described in the report on operations.
(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets, related liabilities and income or losses after tax from discontinued operations.
(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments and registration in a specific caption of assets, related liabilities and income or losses after tax from discontinued operations.
(#) Including employees in the loan servicing business of Intesa Gestione Crediti under disposal posted in discontinued operations (484 employees as at 30/09/2005 and 476 employees as at 31/12/2004).

Financial ratios

	30/09/2005	31/12/2004 including IAS 39 (*)
Balance sheet ratios (%)		
Loans to customers / Total assets	**60.1**	58.1
Investments / Total assets	**3.4**	3.1
Direct customer deposits / Total assets	**67.6**	66.1
Managed funds / Indirect customer deposits	**39.8**	40.1
Statement of income ratios (%)		
Net interest income / Operating income	**52.3**	53.6
Net fee and commission income / Operating income	**38.6**	37.4
Operating costs / Operating income	**53.5**	59.9
Net income / Average total assets (ROA) (&)	**0.9**	0.7
Net income / Average shareholders' equity (ROE) (&) (^)	**18.1**	15.8
Risk ratios (%)		
Net doubtful loans / Loans to customers	**0.7**	0.6
Cumulated adjustments on doubtful loans / Gross doubtful loans to customers	**72.5**	72.1
Capital ratios (%)		
Tier 1 capital net of preference shares / Risk-weighted assets (Core Tier 1)	**7.10**	6.69
Tier 1 capital / Risk-weighted assets	**7.95**	7.64
Total capital / Risk-weighted assets	**10.60**	11.02
Risk-weighted assets (in millions of euro)	**186,811**	182,042
Basic earnings per share (basic EPS) - euro (&)	**0.381**	0.292
Diluted earnings per share (diluted EPS) - euro (&)	**0.380**	0.290

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of the assets, related liabilities and income or losses after tax from discontinued operations.
(&) Figures for the period have been annualised.
(^) Ratio between net income and weighted average of share capital, share premium reserve, revaluation reserves and valuation differences and reserves from retained earnings.

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.
IAS/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 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.

(*) As already mentioned, the illustrative part of this chapter, almost completely replicates the same chapter in the Consolidated reports as at 31st March 2005 and as at 30th June 2005.
As concerns figures, the tables hereafter contain figures as at 30th September 2004.
The Annual report 2005 will indicate the definitive figures relative to the adoption of IAS/IFRS since, as also set out for first-time adoption, the figures in the reconciliation tables may be subject to variations due to the introduction of new principles, to the modification of those already in force or to their different interpretation by the Competent bodies.
Another reason which may lead to the change in figures relative to FTA is the adoption, at a later date, of IAS/IFRS by companies carried at equity.

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.
Following these provisions, last July, the Bank of Italy published for consultation a particularly complex document containing the draft of the new compulsory forms and notes to the financial statements.

As concerns supervisory provisions, the Bank of Italy has not yet harmonised provisions on supervisory capital and capital requirements with the new accounting principles. Before such definitions are disclosed, the Supervisory authority asked banks which already apply IAS/IFRS to continue publishing capital and capital requirements on the basis of previous national accounting standards or alternatively, on the basis of IAS figures net of first-time adoption effects.

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 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. IAS/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 IAS/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 can be made. Such estimate should also consider presumed payment times.

[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.

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 IAS/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. IAS/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. IAS/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 IAS/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 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.

An issue related to financial instrument measurement is the accounting treatment

[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.

of derivatives hedging financial risks and the related hedged items. Under IAS/IFRS, there are the following three different types of hedging relationship: i) 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, ii) cash flow hedges, and iii) 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 the reporting 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 IAS/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 IAS/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 transition date;
- the application of IAS/IFRS in the preparation of the first set of IAS/IFRS-compliant financial statements, also for 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 IAS/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 IAS/IFRS (thus including those not required by local 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 IAS/IFRS adjustments to accounting balances should be recognised directly in shareholders' equity upon first-time adoption.

[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.

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 optional exemptions 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 30th September 2004 are not comparable as concerns the measurement of financial instruments.
However, in order to make the comparison as consistent as possible, the Group has estimated, on the basis of available data, the effects of the application of IAS 39 from 1st January 2004 on figures as at 1st January 2004 and for the year ended as at 31st December 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 IAS/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). 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, though posted among equity investments, is not carried at equity and is instead recorded at cost.
In accordance with IAS/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 optional 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 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 30th September 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), and as at 30th September 2004, as well as the reconciliation of net income as at 30th September 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 more detailed 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 regulatory provisions or 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 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 application of IAS/IFRS – in a subsequent moment – by consolidated companies carried at equity.

Since, as mentioned above, IAS 39 has been applied from 1st January 2005, for comparative purposes the Group has estimated the effects of IAS/IFRS adoption on financial instruments as at 1st January 2004, as at 30th September 2004 and as at 1st January 2005 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	30/09/2004	30/09/2004	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**	**15,109**	**15,109**	**15,564**	**15,564**
RESERVES	**–872**	**–3,400**	**210**	**–2,400**	**189**	**–2,372**
- **Due from banks and loans to customers**						
- analytical measurement of non-performing loans	–	–1,361	–	–1,340	–	–1,328
- collective measurement of performing loans	–	–290	–	–214	–	–212
- other impacts	–	–106	–	–113	–	–110
- **Financial assets held for trading**						
- fair value measurement of trading securities and related derivatives	–	63	–	–6	–	17
- fair value measurement of derivatives: credit risk adjustment and bid-ask spread	–	–165	–	–158	–	–179
- fair value measurement of derivatives: separation of embedded derivatives from bonds issued	–	–223	–	–370	–	–349
- fair value measurement of equity investments classified as held for trading	–	–154	–	–129	–	–117
- **Hedging derivatives**						
- fair value hedges: fair value measurement of hedging derivatives and hedged items	–	12	–	8	–	6
- hedge accounting adjustments	–	–215	–	–216	–	–219
- **Fixed assets and intangibles**						
- derecognition of depreciation of land	166	166	188	188	195	195
- items that do not qualify for recognition as intangibles	–16	–16	–13	–13	–14	–14
- goodwill impairment	–194	–194	–95	–95	–62	–62
- **Allowances**						
- collective measurement of guarantees given	–	–75	–	–74	–	–74
- unrecognised allowances for risks and charges and discounting of provisions	179	183	126	140	64	79
- actuarial valuation of employee termination indemnities and allowances for pensions	4	4	5	5	12	12
- **Other impacts**	–1,011	–1,029	–1	–13	–6	–17
VALUATION DIFFERENCES	**–**	**–43**	**–**	**–25**	**–**	**83**
- **Financial assets available for sale**						
- fair value measurement of debt securities	–	17	–	25	–	44
- fair value measurement of equities	–	6	–	–1	–	92
- **Cash flow hedges**						
- cash flow hedges: fair value measurement of derivatives	–	–66	–	–49	–	–53
Tax impact	**–106**	**681**	**–104**	**717**	**–112**	**687**
IAS/IFRS minority interests	**–9**	**15**	**–7**	**15**	**–6**	**7**
Total impacts of IAS/IFRS first-time adoption	**–987**	**–2,747**	**99**	**–1,693**	**71**	**–1,595**
IAS/IFRS Shareholders' equity	**14,106**	**12,346**	**15,208**	**13,416**	**15,635**	**13,969**

The table above indicates the impact on shareholders' equity of first-time adoption of IAS/IFRS. The caption "Reserves" includes adjustments which do not entail in the years subsequent to 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 may 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)

	30/09/2004	30/09/2004	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)	**1,341**	**1,341**	**1,884**	**1,884**
- Net interest income	–19	154	–16	222
- Net fee and commission income	4	9	4	9
- Profits (Losses) on trading	1	–243	1	–234
- Other operating income (expenses)	16	16	22	22
- Operating costs	–1	1	4	7
- Goodwill impairment	97	97	130	130
- Adjustments and provisions	9	–11	12	–41
- Change in the reserve for general banking risks and other reserves	–21	–21	–163	–163
- Taxes and other	–31	11	–22	5
Total impacts of IAS/IFRS first-time adoption	**55**	**13**	**–28**	**–43**
IAS/IFRS net income	**1,396**	**1,354**	**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.
The restated 2004 statement of income, set out above, includes the positive effect of the

reduction of time value on non-performing loans of previous years (+202 million euro), while adjustments include the effect of time value on loans posted in substandard loans or doubtful loans for the first time in that year (-169 million euro).

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.

The new collective measurement criteria determined an overall positive effect on the 2004 restated statement of income (+79 million euro).

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 IAS/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).

The other effects of loan measurement on the 2004 restated statement of income are mostly attributable to loans measured using amortised cost (-40 million euro in net interest income).

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 of 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 / 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	

(#) Figures do not consider the disposal of part of the doubtful loan portfolio illustrated at the beginning of this report.
(*) 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 therefore 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.
The new measurement criteria determined a negative impact on the 2004 restated statement of income (-46 million euro), recorded in profits (losses) on financial transactions.

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 IAS/IFRS, the Group considered counterparty credit risk determined using the risk adjustment, based on the rating of counterparties, 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.
The new measurement criteria of derivatives held for trading determined a negative impact on the 2004 restated statement of income of 15 million euro, recorded in profits (losses) on financial transactions.

Fair value measurement of derivatives: separation of embedded derivatives from bonds issued
Under IAS/IFRS, derivatives should be recognised separately even when embedded in host financial instruments (so-called combined financial instruments) if the latter

[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.

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. It would be necessary to make reference to the wholesale market to obtain a parameter to be used in the measurement of the sole embedded component. Therefore, under IAS/IFRS, profits on these products must 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 transition date) 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.
The 2004 restated statement of income reflects the reversal of upfront revenues received on structured bonds issued (-199 million euro in profits (losses) on financial transactions), which on application of the new principles contributed to the formation of income using the *pro rata temporis* approach (+74 million euro in 2004 recorded in net interest income).

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.
The measurement of such equity investments on the 2004 restated statement of income determined a positive effect (+37 million euro) recorded in profits (losses) on financial transactions.

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 for 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.

[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.

The change in fair value which occurred in 2004 generated a negative effect on the 2004 restated statement of income (-5 million euro).

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.

Fixed assets and intangibles

Derecognition of depreciation of land
Under IAS/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.
The restated statement of income benefits from the fact that land is no longer depreciated (+28 million euro).

Items that do not qualify for recognition as intangibles
Under IAS/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 IAS/IFRS, on the basis of its estimated recoverable amount, calculated using the future cash flows expected from the assets which originally determined its recognition.
The reversal of amortisation of goodwill determined a positive effect on the 2004 restated statement of income (+130 million euro).

Allowances

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

Unrecognised allowances for risks and charges and discounting of provisions
Under IAS/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.
The 2004 restated statement of income benefited from the lower net present value of provisions required (26 million euro), while net interest income was affected by the related time value (-17 million euro).
The allowances which have been derecognised include the reserve for general banking risks. This derecognition generated a negative effect (-163 million euro) on the 2004 restated statement of income following the reversal of the uses made in that year.

Actuarial valuation of employee termination indemnities and pension funds
IAS/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 is accounted for as a defined benefit plan, and therefore on the basis of actuarial valuations, rather than as prescribed by relevant Italian legislation.
The new measurement criteria determined a positive effect of 7 million euro on the 2004 restated statement of income.

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 of the aforementioned principles, 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
Again 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 the Extraordinary Shareholders' Meeting on 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 (-8 million euro registered in payroll), without generating a variation in shareholders' equity.

Tax impact

IAS/IFRS impact on shareholders' equity has been calculated net of the related tax impact, 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.
The overall tax impact on the 2004 restated statement of income was positive (17 million euro).

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 and 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%;

[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.
The Tier 1 ratio is the same ratio except for the fact that at the numerator includes preference shares.

- 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.

The table below sets out the changes in consolidated shareholders' equity as at 1st January 2005 following IAS/IFRS first-time adoption.

(in millions of euro)

01/01/2005	Amounts as at 31/12/2003 (*)	Changes in initial balances (Transition to IAS/IFRS - Except IAS 39)	Restated shareholders' equity as at 01/01/04	Allocation of net income		Changes in reserves	Operations on shareholders' equity carried out in the period						Net income as at 31/12/04	Restated Shareholder's equity as at 31/12/04 (§)	Changes in initial balances (Transition to IAS/IFRS - IAS 39)	Restated shareholders' equity as at 01/01/05
				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		3,076
b) other	485		485											485		485
Share premium reserve	5,404		5,404			2								5,406		5,406
Reserves																
a) legal	773		773											773		773
b) statutory	61		61	879		144				7				1,091		1,091
c) other	2,643	30	2,673			-175				-7		8		2,499	-1,751	748
Treasury shares	1,017	-1,017	0					-10						-10	-	-10
Revaluation reserves and valuation differences																
a) financial assets available for sale														-	117	117
b) fixed assets														-		-
c) cash flow hedges														-	-32	-32
d) legally-required revaluations	356		356			1								357		357
e) other	64		64			38								102		102
Net income	1,214		1,214	-879	-335								1,856	1,856		1,856
Total	**15,093**	**-987**	**14,106**	**0**	**-335**	**10**	**-**	**-10**	**-**	**0**	**-**	**8**	**1,856**	**15,635**	**-1,666**	**13,969**

(*) Determined using Italian accounting principles (Legislative Decree 87/92).
(§) Except for IAS 39.

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	31/12/2004 (A)	Impact of IAS/IFRS first-time adoption (except IAS 39) (B)	Impact of IAS/IFRS first-time adoption (IAS 39) (C)	31/12/2004 IAS/IFRS (except IAS 39) (D=A+B)	31/12/2004 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 30th September 2004

(in millions of euro)

Captions	30/09/2004 (A)	Impact of IAS/IFRS first-time adoption (except IAS 39) (B)	Impact of IAS/IFRS first-time adoption (IAS 39) (C)	30/09/2004 IAS/IFRS (except IAS 39) (D=A+B)	30/09/2004 IAS/IFRS (E=A+B+C)
Net interest income	3,710	–19	173	3,691	3,864
Dividends and income from investments carried at equity	162	–	–	162	162
Interest margin	**3,872**	**–19**	**173**	**3,853**	**4,026**
Net commissions	2,530	4	5	2,534	2,539
Profits (Losses) on financial transactions	589	1	–244	590	346
Other operating income, net	274	16	–	290	290
Net interest and other banking income	**7,265**	**2**	**–66**	**7,267**	**7,201**
Administrative costs	–3,892	–20	2	–3,912	–3,910
including - Payroll	*–2,369*	*–11*	–	*–2,380*	*–2,380*
- Other	*–1,523*	*–9*	*2*	*–1,532*	*–1,530*
Adjustments to fixed assets and intangibles	–408	19	–	–389	–389
Operating costs	**–4,300**	**–1**	**2**	**–4,301**	**–4,299**
Operating margin	**2,965**	**1**	**–64**	**2,966**	**2,902**
Adjustments to goodwill arising on consolidation and on application of the equity method	–97	97	–	–	–
Provisions for risks and charges	–109	8	10	–101	–91
Net adjustments to loans and provisions for possible loan losses	–626	1	–22	–625	–647
Net adjustments to financial fixed assets	–1	–	–8	–1	–9
Income from operating activities	**2,132**	**107**	**–84**	**2,239**	**2,155**
Extraordinary income (loss)	–70	–31	–	–101	–101
Income taxes for the period	–681	–3	44	–684	–640
Change in the reserve for general banking risks and other reserves	21	–21	–	–	–
Minority interests	–61	3	–2	–58	–60
Net income for the period	**1,341**	**55**	**–42**	**1,396**	**1,354**

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 30th September 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 commission 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	5,166			18							**5,184**
Dividends and income from investments carried at equity		155		65							**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)	–1		–9	68	–35	–103	–54	30	9		**–95**
Income taxes for the period									–788		**–788**
Minority interests										–84	**–84**
Total	**5,147**	**155**	**3,465**	**654**	**34**	**–5,585**	**–1,057**	**–109**	**–779**	**–84**	**1,841**

Restatement of the statement of income as per Legislative Decree 87/92 to IAS/IFRS statement of income: as at 30th September 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	3,864										**3,864**
Dividends and income from investments carried at equity		115		47							**162**
Net commissions	–18		2,557								**2,539**
Profits (Losses) on financial transactions	–1			347							**346**
Other operating income, net				2	47	214	27				**290**
Operating costs						–4,251	–48				**–4,299**
Adjustments to goodwill arising on consolidation and on application of the equity method											**–**
Provisions for risks and charges								–91			**–91**
Net adjustments to loans and provisions for possible loan losses							–647				**–647**
Net adjustments to financial fixed assets				3			–15	3			**–9**
Extraordinary income (loss)	–1		–2	19	–117	–48	–53	96	4	1	**–101**
Income taxes for the period									–640		**–640**
Minority interests										–60	**–60**
Total	**3,844**	**115**	**2,555**	**418**	**–70**	**–4,085**	**–736**	**8**	**–636**	**–59**	**1,354**

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 with the exception of income and losses on non-current assets and discontinued operations – described in detail in the comments on operations development – which are recorded in a specific caption in the reclassified statement of income.

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	**31/12/2003 pro forma (*) (A)**	**Impact of IAS/IFRS first-time adoption** (except IAS 39) **(B)**	**01/01/2004 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	**31/12/2003 pro forma (*) (A)**	**Impact of IAS/IFRS first-time adoption** (except IAS 39) **(B)**	**01/01/2004 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	**31/12/2004 (A)**	**Impact of IAS/IFRS first-time adoption** (except IAS 39) **(B)**	**Impact of IAS/IFRS first-time adoption** (IAS 39) **(C)**	**31/12/2004 IAS/IFRS** (except IAS 39) **(D=A+ B)**	**01/01/2005 IAS/IFRS** including IAS 39) **(E=A+B+C)**
1. Cash and deposits with central banks and post offices	1,488	–18	–	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	**31/12/2004 (A)**	**Impact of IAS/IFRS first-time adoption** (except IAS 39) **(B)**	**Impact of IAS/IFRS first-time adoption** (IAS 39) **(C)**	**31/12/2004 IAS/IFRS** (except IAS 39) **(D=A+ B)**	**01/01/2005 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 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 assets to be leased.
Column (D) of the form as at 31st December

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	31/12/2004	01/01/2005 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

2004 (IAS/IFRS – except IAS 39) presents – after a further restatement according to the classifications set out by the compulsory form of balance sheet adopted in this Consolidated report – the comparison column of the balance sheet as at 30th September 2005 included in the section Gruppo Intesa financial statements.

As already pointed out, shareholders' equity for supervisory purposes and capital ratios have been calculated on the basis of balance sheet aggregates and net income determined applying IAS/IFRS and considering the so-called "prudential filters" supplied by the Basel Committee and used for the simulation, requested by the Bank of Italy, of the impacts on capital requirements of the application of the new standards. Such filters, which have the purpose of safeguarding the quality of shareholders' equity for supervisory purposes and reducing the potential volatility induced by the application of the new principles, lead to certain corrections of accounting figures, before their use for supervisory purposes. The indications set out so far require that:
- for financial assets held for trading, both unrealised profits and losses are fully recorded;
- for financial assets available for sale, unrealised profits and losses may be offset: the balance, if negative, reduces tier 1 capital, if positive it contributes for 50% to tier 2 capital. Furthermore, any unrealised profits and losses on loans classified among assets available for sale are excluded;
- for hedges, unrealised profits and losses on cash flow hedges, recorded in a specific reserve, are sterilised whereas there is no prudential filter on fair value hedges.

Other issues, such as the treatment of the so-called "fair value option" and fair value measurement of fixed assets, are still under discussion. However, this is not material for Gruppo Intesa, which has decided not to use these options.

Independent Auditors' Report on the first-time adoption of IAS/IFRS (*)

(*) Document published on first-time adoption of IAS/IFRS and in the Consolidated report as at 30th June 2005.

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel. (+39) 02 722121
Fax (+39) 02 72212037
www.ey.com

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.

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

Chairman
GIOVANNI BAZOLI

Chief Executive Officer
CORRADO PASSERA

Retail Division

- Nextra Investment Management
- Intesa Private Banking
- Intesa Vita[1]
- Intesa Previdenza
- Sirefid
- Setefi
- Intesa Mediocredito
  - Banca CIS
- Intesa Leasing

Corporate Division

- Banca Caboto
- Zao Banca Intesa (Russian Federation)
- Société Européenne de Banque (Luxembourg)
- Intesa Bank Ireland
- Intesa Mediofactoring
- E.Tr. (Tax Collection)
  - Esa.Tri.
  - S.Es.I.T.

Italian Subsidiary Banks Division

- CR Parma
- FriulAdria
- Intesa Casse del Centro
  - CR Ascoli Piceno
  - CR Città di Castello
  - CR Fano[2]
  - CR Foligno
  - CR Rieti
  - CR Spoleto
  - CR Terni e Narni
  - CR Viterbo
- Banca di Trento e Bolzano
- Biverbanca

International Subsidiary Banks Division

- Central-European International Bank (Hungary)
- Delta Banka[3] (Serbia and Montenegro)
- KMB Bank[4] (Russian Federation)
- Privredna Banka Zagreb (Croatia)
- Vseobecna Uverova Banka (Slovakia)

(1) Company not subject to full consolidation, but carried at equity
(2) Acquired in July 2005
(3) Acquired in August 2005
(4) Acquired in September 2005

Gruppo Intesa
Financial statements

CONSOLIDATED BALANCE SHEET

(in millions of euro)

Assets	30/09/2005	31/12/2004 except IAS 39 (§)	Changes	
			amount	%
Cash and cash balances with central banks	1,203	1,470	–267	–18.2
Financial assets held for trading	53,565	58,207	–4,642	–8.0
Financial assets designated at fair value through profit and loss	–	–	–	
Financial assets available for sale	4,501	–	4,501	
Investments held to maturity	2,570	5,219	–2,649	–50.8
Due from banks	26,397	28,856	–2,459	–8.5
Loans to customers	158,758	159,568	–810	–0.5
Hedging derivatives	1,490	–	1,490	
Fair value change of hedged items	–	–	–	
Equity investments	2,583	5,054	–2,471	–48.9
Technical reserves of reinsurers	–	–	–	
Fixed assets	2,893	2,982	–89	–3.0
Intangibles	934	975	–41	–4.2
including				
– goodwill	*424*	*401*	*23*	*5.7*
Tax assets	2,993	4,447	–1,454	–32.7
a) current	*1,324*	*1,403*	*–79*	*–5.6*
b) deferred	*1,669*	*3,044*	*–1,375*	*–45.2*
Non-current assets (or disposal groups) held for sale and discontinued operations	1,800	7	1,793	
Other assets	4,442	9,350	–4,908	–52.5
Total Assets	**264,129**	**276,135**	**–12,006**	**–4.3**

(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments and registration in a specific caption of assets related to discontinued operations.

CONSOLIDATED BALANCE SHEET

(in millions of euro)

Liabilities and Shareholders' Equity	30/09/2005	31/12/2004 except IAS 39 (§)	Changes	
			amount	%
Due to banks	32,050	34,348	–2,298	–6.7
Due to customers	115,585	115,936	–351	–0.3
Securities issued	53,986	57,761	–3,775	–6.5
Financial liabilities held for trading	24,246	23,952	294	1.2
Hedging derivatives	1,176	–	1,176	
Fair value change of hedged items	–	–	–	
Subordinated liabilities	9,106	9,278	–172	–1.9
Tax liabilities	1,363	1,964	–601	–30.6
a) current	*922*	*1,462*	*–540*	*–36.9*
b) deferred	*441*	*502*	*–61*	*–12.2*
Liabilities in disposal groups held for sale and discontinued operations	43	–	43	
Other liabilities	7,373	13,260	–5,887	–44.4
Employee termination indemnities	1,084	1,105	–21	–1.9
Allowances for risks and charges	1,962	2,105	–143	–6.8
a) pensions and similar commitments	*299*	*288*	*11*	*3.8*
b) other allowances	*1,663*	*1,817*	*–154*	*–8.5*
Technical reserves	–	–	–	
Revaluation reserves and valuation differences	700	459	241	52.5
a) financial assets available for sale (+/–)	*293*	–	*293*	
b) fixed assets (+)	–	–	–	
c) cash flow hedges (+/–)	*–77*	–	*77*	
d) legally-required revaluations	*357*	*357*	–	–
e) other	*127*	*102*	*25*	*24.5*
Shares with the right of recession	–	–	–	
Equities	–	–	–	
Reserves	3,738	4,363	–625	–14.3
Share premium reserve	5,510	5,406	104	1.9
Share capital	3,596	3,561	35	1.0
Treasury shares (–)	–	–10	–10	
Minority interests (+/–)	766	791	–25	–3.2
Net income (loss)	1,845	1,856	–11	–0.6
Total Liabilities and Shareholders' Equity	**264,129**	**276,135**	**–12,006**	**–4.3**

(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments and registration in a specific caption of liabilities related to discontinued operations.

CONSOLIDATED STATEMENT OF INCOME

(in millions of euro)

	30/09/2005	30/09/2004 except IAS 39[(§)]	Changes amount	Changes %	Third quarter 2005	Third quarter 2004 except IAS 39[(§)]	Changes amount	Changes %
Interest and similar income	7,113	7,124	–11	–0.2	2,394	2,403	–9	–0.4
Interest and similar expense	–3,211	–3,454	–243	–7.0	–1,073	–1,154	–81	–7.0
Net interest income	**3,902**	**3,670**	**232**	**6.3**	**1,321**	**1,249**	**72**	**5.8**
Fee and commission income	3,321	2,971	350	11.8	1,133	992	141	14.2
Fee and commission expense	–421	–422	–1	–0.2	–157	–137	20	14.6
Net fee and commission income	**2,900**	**2,549**	**351**	**13.8**	**976**	**855**	**121**	**14.2**
Dividend and similar income	527	460	67	14.6	7	10	–3	–30.0
Profits (Losses) on trading	23	195	–172	–88.2	214	162	52	32.1
Fair value adjustments in hedge accounting	34	–	34		18	–	18	
Profit (Loss) on disposal of	–12	20	–32		–44	11	–55	
a) loans and receivables	*–17*	–	*17*		*–2*	–	*2*	
b) financial assets available for sale	*3*	*20*	*–17*	*–85.0*	*–42*	*11*	*–53*	
c) investments held to maturity	*2*	–	*2*		–	–	–	
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	**7,374**	**6,894**	**480**	**7.0**	**2,492**	**2,287**	**205**	**9.0**
Net impairment losses on	–467	–759	–292	–38.5	–154	–189	–35	–18.5
a) loans and receivables	*–457*	*–755*	*–298*	*–39.5*	*–151*	*–181*	*–30*	*–16.6*
b) financial assets available for sale	*–8*	*–11*	*–3*	*–27.3*	*–1*	*–7*	*–6*	*–85.7*
c) investments held to maturity	*3*	*3*	*0*	*0.0*	*–1*	*–1*	*0*	*0.0*
d) other financial assets	*–5*	*4*	*–9*		*–1*	–	1	
Net income from banking activities	**6,907**	**6,135**	**772**	**12.6**	**2,338**	**2,098**	**240**	**11.4**
Net premium income	–	–	–		–	–	–	
Other net income (expense) from insurance	–	–	–		–	–	–	
Net income from banking and insurance activities	**6,907**	**6,135**	**772**	**12.6**	**2,338**	**2,098**	**240**	**11.4**
Administrative expenses	–3,904	–3,886	18	0.5	–1,298	–1,260	38	3.0
a) personnel expenses	*–2,353*	*–2,386*	*–33*	*–1.4*	*–788*	*–779*	*9*	*1.2*
b) other administrative expenses	*–1,551*	*–1,500*	*51*	*3.4*	*–510*	*–481*	*29*	*6.0*
Net provisions for risks and charges	–212	–83	129		–48	–10	38	
Adjustments to fixed assets	–189	–191	–2	–1.0	–64	–61	3	4.9
Adjustments to intangibles	–183	–199	–16	–8.0	–66	–71	–5	–7.0
including – goodwill	–	–	–		–	–	–	
Valuation differences on fixed assets and intangibles designated at fair value through profit and loss	–	–	–		–	–	–	
Other operating expenses (income)	277	127	150		85	–66	151	
Operating expenses	**–4,211**	**–4,232**	**–21**	**–0.5**	**–1,391**	**–1,468**	**–77**	**–5.2**
Profits (Losses) on investments carried at equity	110	104	6	5.8	44	35	9	25.7
Profits (Losses) on investments	130	127	3	2.4	44	106	–62	–58.5
Income (Loss) before tax from continuing operations	**2,936**	**2,134**	**802**	**37.6**	**1,035**	**771**	**264**	**34.2**
Taxes on income from continuing operations	–1,018	–680	338	49.7	–348	–254	94	37.0
Income (Loss) after tax from continuing operations	**1,918**	**1,454**	**464**	**31.9**	**687**	**517**	**170**	**32.9**
Income (Loss) after tax from non-current assets (or disposal groups) held for sale and discontinued operations	7	–	7		–9	–	9	
Minority interests	–80	–58	22	37.9	–33	–23	10	43.5
Net income (loss)	**1,845**	**1,396**	**449**	**32.2**	**645**	**494**	**151**	**30.6**

(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments and registration in a specific caption of income or losses after tax from discontinued operations.

CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(in millions of euro)

30/09/2004														
	Amounts as at 31/12/2003 (*)	Changes in initial balances (Transition to IAS/IFRS - Except IAS 39)	Restated shareholders' equity 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 30/09/2004	Restated shareholders' equity as at 30/09/2004 (§)
				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											5,404
Reserves														
a) legal	773		773											773
b) statutory	61		61	879		144				7				1,091
c) other	2,643	30	2,673			–146				–7		6		2,526
Treasury shares	1,017	–1,017	0					–4						–4
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			40								104
Net income	1,214		1,214	–879	–335								1,396	1,396
Total	**15,093**	**–987**	**14,106**	**0**	**–335**	**39**	**–**	**–4**	**–**	**0**	**–**	**6**	**1,396**	**15,208**

(*) Determined using Italian accounting principles (Legislative Decree 87/92).
(§) Except for IAS 39.

(in millions of euro)

30/09/2005														
	Restated shareholders' equity as at 31/12/2004 (*)	Changes in initial balances (Transition to IAS/IFRS - IAS 39)	Restated shareholders' equity 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 30/09/2005	Shareholders' equity as at 30/09/2005
				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											3,111
b) other	485		485				35							485
Share premium reserve	5,406		5,406				104							5,510
Reserves														
a) legal	773		773											773
b) statutory	1,091		1,091	404										1,495
c) other	2,499	–1,751	748	713		2						7		1,470
Treasury shares	–10	–	–10					10						0
Revaluation reserves and valuation differences														
a) financial assets available for sale		117	117			176								293
b) fixed assets														–
c) cash flow hedges		–32	–32			–45								–77
d) legally-required revaluations	357		357											357
e) other	102		102			25								127
Net income	1,856		1,856	–1,117	–739								1,845	1,845
Total	**15,635**	**–1,666**	**13,969**	**0**	**–739**	**158**	**139**	**10**	**–**	**–**	**–**	**7**	**1,845**	**15,389**

(*) Except for IAS 39.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of euro)

	30/09/2005	30/09/2004 except IAS 39 (§)
OPERATING ACTIVITIES		
1. Cash flow from operations	3,599	3,289
2. Cash flow from decreases in financial assets	7,833	4,809
3. Cash flow used for increases in financial assets	–1,618	–12,046
4. Cash flow from increases in financial liabilities	1,336	7,125
5. Cash flow used for reimbursement/repurchase of financial liabilities	–10,443	–3,009
Net cash flow from (used for) operating activities	**707**	**168**
INVESTING ACTIVITIES		
1. Cash flow from investing activities	394	141
2. Cash flow used for investing activities	–767	–234
Net cash flow from (used for) investing activities	**–373**	**–93**
FUNDING ACTIVITIES	**–682**	**–347**
Net cash flow from (used for) funding activities	**–682**	**–347**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**–348**	**–272**
RECONCILIATION		
Captions		
Cash and cash equivalents at beginning of period	1,551	1,589
Net increase (decrease) in cash and cash equivalents	–348	–272
Cash and cash equivalents at end of period	**1,203**	**1,317**

(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

Report on operations

Accounting criteria and consolidation area

Gruppo Intesa 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 as at 30th September 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.
This resolution sets out that the contents of the report may be alternatively aligned to the provisions of Issuer Regulations (Attach 3D) or of IAS 34, relative to interim reports. The present Report complies with Attach 3D of Issuer Regulations and, furthermore, presents the information required by IAS 34.
The illustration of the impact of first-time adoption of international accounting standards required by IFRS 1 is contained in a specific chapter at the beginning of this report.

In the preparation of the present interim 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).
As is generally known, 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, Gruppo Intesa did not opt for issues carved out from the homologated principle. 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 30th September 2005 has not been audited.

Accounting criteria

The present Report is made up of the Balance sheet, the Statement of income, the Changes in shareholders' equity, the Statement of cash flows and the description of the accounting standards; 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 are the same as in the previous interim reports of 2005. They are presumed from a consultation document diffused to the banking industry by the Bank of Italy last February, as precise indications by the competent Regulatory bodies have not yet been issued.
The compulsory forms present, in addition to figures for the reference period, the corresponding comparative figures referred,

for the balance sheet to as at 31st December 2004 and for the statement of income as at 30th September 2004. The statement of income for the third quarter of 2005 is compared with the analogous period in 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 and IAS 32), which therefore reflect the means of registration and measurement set out by the former Italian accounting principles. Thus, in the measurement 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.
The restatement also does not consider the sale of part of the doubtful loan portfolio illustrated at the beginning of this report.
Balance sheet and statement of income figures for previous periods have been restated – to consider both the changes in the consolidation area and the changes due to the application of IAS/IFRS – for the purpose of ensuring a consistent comparison.

For the purpose of simplifying comparison of the figures in the various periods – as in the previous interim reports of 2005 and as specified in the introductory chapter – condensed forms which compare figures as at 30th September 2005 with as at 31st December 2004 (for the balance sheet) and as at 30th September 2004 (for the statement of income), the latter restated considering a reasonable estimate of the impacts produced by the application of IAS 39 are also supplied.
The quarterly results for 2004 have been restated with the same approach.
The condensed balance sheet and statement of income also include estimates in the relevant captions of the amounts related to discontinued operations, mostly referred to the doubtful loan portfolio and the business branch of Intesa Gestione Crediti undergoing disposal. Conversely, an analogous restatement has not been carried out for the programmed disposal of Nextra Investment Management.

For the purpose of a more effective representation of results, in the preparation of the condensed statement of income, certain reclassifications have been made compared to the compulsory form. The most significant refer to:
- dividends on shares classified as assets available for sale and as assets held for trading, are reallocated in profits (losses) on trading;
- fair value adjustments in hedge accounting, are registered in net interest income due to their close correlation;
- profits and losses on disposal of loans and receivables, are posted in net adjustments to loans and receivables;
- profits and losses on disposal of financial assets available for sale, are included in profits (losses) on trading;
- recovery of expenses and of taxes and duties, are directly deducted from administrative expenses instead of recorded in other operating income.

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 Consolidated report as at 30th September 2005 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.

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

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. - Saõ Paolo
Intesa Renting S.p.A. - Milano
SATA - Sociedade de Assessoria Técnica e Administrativa S.A. - Saõ Paolo
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 Funding plc - Dublin
Romulus Funding Corp. - Delaware

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 30th September 2004.
In the first nine months of 2005 certain companies have been merged or liquidated, such operations for their very nature produce no effects on the figures in the consolidated financial statements. It must be noted that the disposal of Intesa Fiduciaria Sim led to the restatement of just indirect customer deposits since the other captions were not material.

Equity investments for which the acquisition was completed in the third quarter, already mentioned in the Executive summary in this present Report (*Delta Banka*, *Cassa di Risparmio di Fano* and *Small Business Credit Bank (KMB)*), will be included in the consolidation area starting from the Annual report 2005, considering the necessary time required for the adoption of Gruppo Intesa's line by line integration procedures and in consideration of their limited impact on the Group's overall operations. A similar approach was adopted with regard to *Consumer Finance Holding*, the company recently acquired by VUB and which controls certain consumer lending companies.

Means of consolidation

Subsidiaries are subject to full consolidation whereas investments in associates are carried at equity.
The equity investment in the Bank of Italy – in which Gruppo Intesa holds a 26.8% stake – was maintained at cost and was therefore not carried at equity.

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 result 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. 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. Likewise, economic results of a subsidiary sold are included in the consolidated financial statements until the date in which control ceased. The difference between sale price and 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 economic return on the shares.

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 value 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 involved is recorded in the book value of the subsidiary.
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 having verified 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 figures as at 31st December 2005

Banca Intesa notifies that the draft Parent Company's report and the consolidated annual report as at 31st December 2005 will be available for Shareholders and the market instead of the quarterly report as at 31st December 2005 according to the means and timing set forth by Consob Resolution 14990 of 14th April 2005.

Accounting standards

The accounting standards used to prepare this report and already applied in the previous interim reports of 2005, are described in this chapter. These standards – with the modifications/integrations which may arise 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 derivative;
- 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 fair value, 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.

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 is made up of i) bonds which are not held for trading and which are not included in Investments held to maturity or in loans and receivables, ii) 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 iii) 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 fair value, inclusive of transaction costs and revenues directly attributable to the instrument. If recognition occurs following the reclassification of Investments held to maturity, recognition value is represented by fair value at the time of transfer.

Measurement criteria

After initial recognition, Assets available for sale are 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.
Fair value is determined on the basis of criteria already illustrated for financial assets held for trading.
Equities included in this category and any 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 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.

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 financial 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 fair value, 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 of the difference between book value and the value reimbursed at maturity.

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 maintained in the financial statements, after having verified that no contractual provisions exist which would lead them to being derecognised.

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 when 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 recorded directly 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 residual 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. 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.

The following three types of hedging transactions are used:
- 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.

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 of the derivative are recorded in equity, for the effective portion of the hedge, and these are registered 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 every close of annual or interim 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 is maintained 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

Equity investments are derecognised when the contractual rights to the cash flows from the assets expire or when the equity investment 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 required 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 higher 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 in mergers and acquisitions.

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 higher 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 rental contract.

At every close of annual or interim 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 the balance sheet on disposal and if no future economic benefits are expected.

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

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

The related 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 any financial liabilities which are not issued at 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.

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 the negative value of embedded derivatives in combined contracts but which are closely correlated to the latter.
It also includes liabilities determined by short selling generated by securities trading activities.
All financial liabilities held for trading are measured at fair value.

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 10% of net present value of rewards generated by the plan. This excess is recorded on the basis of the average expected working 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 qualify as defined benefit plans. Liabilities relative to such plans and the relative cost of current service are determined on the basis of actuarial assumptions based on the Projected unit credit method. The current value of the liability at the reference date of the financial statements is also adjusted by the fair value of any assets to service the plan.
Actuarial profits and losses are recognised in the statement of income, on the basis of the "corridor approach" only for the part of profits and losses which are not recorded at the end of the previous period which exceeds 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 recorded on the basis of the average expected working life of the participants to the plan.

For defined contribution pension funds (external funds) the contributions made by Group companies are expensed in the statement of income and determined on the basis of service.

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. Such provisions, both analytical and collective, are determined applying the same criteria set out above with reference to loans and receivables.

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 prepared in another currency 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.
Tax liabilities 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.

Any decrease in the number of financial instruments granted is accounted for as a cancellation of such instruments.

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

The gradual rise in oil prices towards new all-time peaks did not stop the expansion in world economy, which continued also in the third quarter to register growth rates in line with those observed in the first half. Signs of acceleration in growth emerged in the Euro Zone and Japan. Also in Italy the recovery recorded in the second quarter consolidated in Summer: industrial activities registered sustained growth rates in July-August, benefiting from the more robust trend in foreign demand and in consumption, and prospects appear rather favourable also for the fourth quarter: estimated growth rates for the whole of 2005, previously negative, are now marginally positive.

More in detail, the **United States** suffered the effects of two violent hurricanes, that led to a temporary worsening of economic indicators, in a phase otherwise characterised by strong rises in employment.
Recurring tensions in energy prices did not generate indirect effects on prices, even if they made central banks more watchful for signs of inflation and for risks of a sustained expansion in monetary and credit aggregates.
The trend in monetary policies remained deeply divergent. In September the Federal Reserve increased official rates from 3.25% to 3.75%, signalling to markets its intention to continue the monetary tightening also in the last months of 2005, and it actually did increase rates again at the beginning of November to 4%.

In the **Euro Zone**, instead, the ECB maintained official rates at 2% for the whole of the third quarter and never showed any intention to intervene. European monetary authorities are still influenced by modest growth rates in domestic demand; on the other hand, despite the rapid rise in monetary and credit aggregates and strong increases in energy prices, inflation remained well contained.

In **Eastern-European** Countries, the trend of interest rates was divergent and influenced by local factors: in Croatia money market interest rates registered a rise, then a reduction, whereas in Hungary they recorded an over fifty basis point drop during the third quarter. Local currencies registered, overall, modest movements, even if the Hungarian forint and the Slovakian crown highlighted a certain weakness at the end of the quarter.

In **Japan** the trend in monetary policy remained expansive, even if the Central Bank signalled that in 2006 the return to price rises will be accompanied by a reduction in money supply and, subsequently, by a normalisation in interest rates.

With regard to **financial markets**, bond markets recorded a fluctuating trend.
After a negative month, the trend of oil prices exceeding all-time peaks and the worsening of American economic figures led to an inversion in the trend. At the end of September, however, the upward revision of expectations for American official rates drove prices close to the levels recorded at the beginning of the quarter also on the European market. The yield curve gradually flattened, with a 24 basis point contraction in spreads between 10-year and 5-year interest rates. At the same time, T-Note/Bund spreads broadened for all maturities, touching 120 basis points for the 10-year maturity. Investor propensity for risk remained good, as proved by the downward trend in risk premiums on corporate bonds and, especially, on Emerging Countries bonds.

Stock markets recorded brilliant performances. The Nikkei index, sustained by rising confidence in the Japanese economy, rose by 18.9%, but also the Euro Stoxx and Mibtel indices, despite a drop between the end of July and mid-August, registered an over 8% increase during the quarter. Transactions recorded a strong rise compared to the same period of 2004.

Italian lending and deposit collecting activities

In the third quarter of 2005 **bank interest rates** recorded small fluctuations. More precisely, the price of existing loans registered a still-downward trend, whilst interest rates for customer deposits showed a more stable profile. In the July-September period interest rates for household loans dropped a few basis points. Interest rates for corporate loans evidenced the same trend, though with lower intensity. At the same time, funding rates recorded a mixed trend: in fact, the average interest rate for household and corporate deposits reached the maximum level from November 2003, whereas bond yields touched a new all-time lows by dropping 4 basis points from the end of June. Such opposite trends led to an estimated funding cost virtually unchanged from the end of June.
With regard to margins, short-term mark-up[14] decreased from 3.15% to 3.13% in the period, while the contribution margin from on demand funding[15] declined from 1.40% to 1.39%. Consequently, short-term spreads (loans with maturity under one year – current accounts) dropped from 4.55% to 4.52% in September, whilst the estimated overall spread between lending yields and funding costs decreased from 2.94% to 2.91%.

In Summer the growth rate in bank **loans** accelerated: it was again driven by the strong medium- and long-term demand, whereas short-term activities continued to be affected by the fragile economic situation, though their trend was less negative than in the previous months. Demand was strong in the private sector, whilst the average growth rate in the public administration was far more moderate. In particular, the aggregate's overall growth was again sustained by households, even if corporate demand recorded a gradual acceleration, also as a result of timid recovery in industrial activities and of improved confidence.
The strong demand for long-term loans to households and companies was not only due to exceptionally low interest rates, but also to structural factors, linked, in both sectors, to the gradual convergence to financial behaviour patterns already consolidated at the European level: for households the higher propensity towards borrowing, also to fund the purchase of durable goods or services, whereas for enterprises the trend towards the stabilisation in the maturities of financial debt.

In September, household loans increased again, in line with the growth rates recorded at the beginning of the year. The recourse to household borrowing continued, as confirmed by the expansion in mortgages and consumer loans, which support private consumption. The remaining types of lending contracts (personal loans, overdrafts, and so on) registered a growth rate in line with that recorded since the beginning of the year. The sustained trend in household loans is also due to banks' lending policies, aimed at strengthening retail activities: in fact, in the last 5 years, the incidence of household loans in the banks' loan portfolio rose from 24.6% to over 30%.
With regard to companies, in Summer the expansion in loans gradually accelerated, keeping growth rates in line with the Euro Zone average. More precisely, in September the growth in loans with maturity over 5 years registered an acceleration, whilst in the third quarter the development in loans with all other maturities slowed down.
Breakdown by industry shows that loan demand continued to be stagnant for industrial companies and strong for building and service companies. In general, it must be noted that, due to the very low cost of borrowing, enterprises have a high incentive to request funding in advance, even if they do not foresee investment opportunities in the short-term. This fact, which contributes to at least partly explain the current gap between funding and investing cycles, seems to be also linked to the gradual expansion in financial activities carried out by companies.

Despite the robust growth in loans, the overall quality of the loan portfolio continued to be high. This was mainly due to the low growth in bad corporate loans, resulting, on the one hand, from the strengthening of the loan granting criteria applied by banks and, on the other hand, from companies' improved financial situation.
In the third quarter, growth in **deposit collecting** activities remained very sustained, though showing a trend towards a gradual slowdown. In fact, the monthly rise in the

(14) Difference between the interest rates applied to households and companies on loans with maturity under one year and one-month euribor.
(15) Difference between one-month euribor and interest rates on households and companies current accounts.

period was more contained compared to the average over the twelve months.
Despite this slowdown, funding activities continued to show a very robust expansion, higher than the long-term average rate and GDP growth. This decelerating trend should however continue, despite high propensity for saving indicating that widespread uncertainty persists for households. In fact, there are signs of increasing propensity for risk in the asset allocation of financial portfolios, also supported by the recent improvement in household confidence with regard to both the evolution of individual situations and the general economic climate.
The lower aversion towards long-term investments is also derived from the evolution of the asset management component of indirect deposits, that returned to rise after over one year of continuous decline. Overall, indirect customer deposits (third party securities in custody at nominal value, excluding bank bonds and certificates of deposit) showed signs of recovery after various months of stagnation.

Economic results in the period

General aspects

The tables hereafter and the relative comments analyse the results recorded in the statement of income as at 30th September 2005 – drawn up using the new IAS/IFRS – compared to those of the same period of the previous year, restated using IAS/IFRS, including 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 loans and financial instruments, which make up the ordinary operations of a bank.
In the construction of the comparative figures for 2004, as already indicated in the previous chapters of this Report, estimates have been used where necessary. These are based on reasonable elements and therefore enable a reliable representation of the figures for the first nine months of last year.
Again in figures for 2004, income and losses on the doubtful loan portfolio and the loan servicing business of IGC which are under disposal have been estimated and recorded in a specific caption.

Figures as at 30th September 2004 with the exclusion of the effects of IAS 39 and of income and losses after tax from discontinued operations (posted in a specific caption) are indicated in the last column of the tables hereafter.

Reclassified consolidated statement of income

(in millions of euro)

	30/09/2005	30/09/2004 including IAS 39 (*)	Changes		30/09/2004 except IAS 39 (§)
			amount	%	
Net interest income	**3,936**	3,702	234	6.3	3,672
Dividends	**12**	12	0	0.0	12
Profits (Losses) on investments carried at equity	**110**	103	7	6.8	104
Net fee and commission income	**2,900**	2,551	349	13.7	2,549
Profits (Losses) on trading	**541**	418	123	29.4	662
Other operating income (expenses)	**20**	–73	93		–69
Operating income	**7,519**	6,713	806	12.0	6,930
Personnel expenses	**–2,351**	–2,356	–5	–0.2	–2,382
Other administrative expenses	**–1,296**	–1,309	–13	–1.0	–1,309
Adjustments to fixed assets and intangibles	**–372**	–389	–17	–4.4	–390
Operating costs	**–4,019**	–4,054	–35	–0.9	–4,081
Operating margin	**3,500**	2,659	841	31.6	2,849
Net provisions for risks and charges	**–212**	–122	90	73.8	–133
Net adjustments to loans and receivables	**–474**	–543	–69	–12.7	–705
Net impairment losses on other assets	**–10**	–15	–5	–33.3	–4
Profits (Losses) on investments held to maturity and on other investments	**132**	130	2	1.5	127
Income (Loss) before tax from continuing operations	**2,936**	2,109	827	39.2	2,134
Taxes on income from continuing operations	**–1,018**	–649	369	56.9	–680
Income (Loss) after tax from non-current assets (or disposal groups) held for sale and discontinued operations	**7**	–47	54		–
Minority interests	**–80**	–59	21	35.6	–58
Net income	**1,845**	**1,354**	**491**	**36.3**	**1,396**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of income or losses after tax from discontinued operations.

(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments and registration in a specific caption of income or losses after tax from discontinued operations.

Quarterly development of the reclassified consolidated statement of income

(in millions of euro)

	2005			2004 (*)			
	Third quarter	Second quarter	First quarter (#)	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	**1,339**	1,312	1,285	1,255	1,268	1,198	1,236
Dividends	**–**	12	–	–	–	12	–
Profits (Losses) on investments carried at equity	**44**	33	33	40	34	36	33
Net fee and commission income	**976**	970	954	909	857	865	829
Profits (Losses) on trading	**179**	177	185	236	122	186	110
Other operating income (expenses)	**4**	16	–	101	–133	38	22
Operating income	**2,542**	**2,520**	**2,457**	**2,541**	**2,148**	**2,335**	**2,230**
Personnel expenses	**–785**	–788	–778	–826	–769	–786	–801
Other administrative expenses	**–432**	–453	–411	–494	–423	–454	–432
Adjustments to fixed assets and intangibles	**–130**	–124	–118	–168	–131	–131	–127
Operating costs	**–1,347**	**–1,365**	**–1,307**	**–1,488**	**–1,323**	**–1,371**	**–1,360**
Operating margin	**1,195**	**1,155**	**1,150**	**1,053**	**825**	**964**	**870**
Net provisions for risks and charges	**–48**	–118	–46	–174	–18	–86	–18
Net adjustments to loans and receivables	**–153**	–133	–188	–267	–136	–311	–96
Net impairment losses on other assets	**–3**	–10	3	–16	–9	11	–17
Profits (Losses) on investments held to maturity and on other investments	**44**	27	61	57	109	22	–1
Income (Loss) before tax from continuing operations	**1,035**	**921**	**980**	**653**	**771**	**600**	**738**
Taxes on income from continuing operations	**–348**	–316	–354	–139	–248	–146	–255
Income (Loss) after tax from non-current assets (or disposal groups) held for sale and discontinued operations	**–9**	–2	18	–2	–2	–7	–38
Minority interests	**–33**	–23	–24	–25	–24	–16	–19
Net income	**645**	**580**	**620**	**487**	**497**	**431**	**426**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of income or losses after tax from discontinued operations.
(#) Figures restated due to the registration in a specific caption of income or losses from discontinued operations.

The first nine months of 2005 closed with a net income of 1,845 million euro, with an over 36% growth rate with respect to the corresponding period of the previous year. The improvement is attributable to both a good increase in operating income, up from 6,713 million euro to 7,519 million euro (+12%), and a contraction close to 1% in operating costs, down from 4,054 million euro to 4,019 million euro. The result for the period also benefited from lower net adjustments to loans and receivables, which almost offset higher provisions for risks and charges.
Net income in the quarter equalled 645 million euro, up with respect to both the first two quarters of the current year and, to a far greater extent, the four quarters of 2004.

Operating income

Operating income – that, as already mentioned, recorded a 12% rise to reach 7,519 million euro – reflected the generalised increase in all income components: net interest income recorded a growth rate exceeding 6%, net fee and commission income rose by approximately 14% and profits on trading posted a 29% improvement.

Net interest income

(in millions of euro)

Subcaptions	30/09/2005	30/09/2004 including IAS 39 (*)	Changes amount	Changes %	30/09/2004 except IAS 39 (§)
Relations with customers	**4,193**	4,184	9	0.2	4,361
Relations with banks	**–91**	35	–126		39
Securities issued	**–1,105**	–1,115	–10	–0.9	–1,166
Subordinated liabilities	**–311**	–345	–34	–9.9	–345
Differentials on hedging derivatives	**117**	–205	322		–209
Financial assets held for trading	**720**	802	–82	–10.2	802
Investments held to maturity	**83**	90	–7	–7.8	90
Financial assets available for sale	**87**	83	4	4.8	83
Non-performing assets	**184**	156	28	17.9	–
Allowances for risks and charges	**–15**	–13	2	15.4	–13
Other net interest income	**40**	31	9	29.0	30
Net interest income	**3,902**	3,703	199	5.4	3,672
Fair value adjustments in hedge accounting	**34**	–1	35		–
Net interest income	**3,936**	**3,702**	**234**	**6.3**	**3,672**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of income or losses after tax from discontinued operations.
(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments and registration in a specific caption of income or losses after tax from discontinued operations.

Net interest income with customers – if considered together with interest on related funding via securities issued and subordinated liabilities – highlighted a positive variation, especially attributable to lower overall funding cost, of 53 million euro. This result does not consider the positive differential manifested by hedging derivatives, mostly attributable to funding raised by securities issued.
Interbank relations registered a net negative variation of 126 million euro, net interest income on the trading portfolio posted an 82 million euro contraction while the increase in net interest income on non-performing assets is also attributable to higher interest collected on overdue payments.
Lastly, the caption includes fair value adjustments in hedge accounting that is the imbalance of positive and negative variations in the fair value of hedging derivatives and the relevant assets and liabilities hedged.

On a quarterly basis, net interest income confirmed the upward trend already highlighted in the first six months of the year.

Dividends and profits on investments carried at equity

The caption "Dividends" records the profits collected from unconsolidated equity investments, while it does not include dividends on shares held for trading or available for sale, that are posted in Profits (Losses) on trading. In the nine months of the current year dividends remained on the same figure of the corresponding period of 2004.

A moderate rise was instead registered by profits on investments carried at equity, which summed up to 110 million euro compared to 103 million euro of September 2004.

Net fee and commission income

(in millions of euro)

Captions	30/09/2005	30/09/2004 including IAS 39 (*)	Changes amount	Changes %	30/09/2004 except IAS 39 (§)
Commercial banking activities					
– guarantees given	**106**	106	0	0.0	106
– collection and payment services	**201**	204	–3	–1.5	204
– current accounts	**569**	579	–10	–1.7	579
– fees on credit and debit cards	**208**	194	14	7.2	194
	1,084	1,083	1	0.1	1,083
Management, dealing and consultancy activities					
– dealing and placement of securities	**396**	154	242		152
– dealing in currencies	**30**	30	0	0.0	30
– portfolio management	**556**	614	–58	–9.4	614
– distribution of insurance products	**289**	153	136	88.9	153
– other	**109**	122	–13	–10.7	122
	1,380	1,073	307	28.6	1,071
Tax collection	**190**	190	0	0.0	190
Other net fee and commission income	**246**	205	41	20.0	205
Total net fee and commission income	**2,900**	**2,551**	**349**	**13.7**	**2,549**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of income or losses after tax from discontinued operations.
(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments and registration in a specific caption of income or losses after tax from discontinued operations.

Net fee and commission income – which is the combined result of 3,321 million euro of commission income and 421 million euro of commission expense – recorded an appreciable rise to 2,900 million euro (+13.7%), confirming the increasing contribution of commissions generated on management, dealing and consultancy activities (1,380 million euro), with respect to those originated by traditional commercial banking activities (1,084 million euro). In fact, while the latter were on the same levels as in September 2004, the former recorded a 28.6% growth rate, especially due to the increasing contribution from dealing and placement of securities and the distribution of insurance policies, while commissions on individual portfolio management schemes posted a 9.4% decline due to the persisting difficulties of the asset management industry. It must also be noted that the tax collection sector benefited from the long-awaited legislation which set the same level of compensation for tax collection services as in 2004. Lastly, the rise in other commissions was mostly attributable to commission income on medium- and long-term lending.

Also considering quarterly development, the contribution of net fee and commission income recorded an upward trend. In particular, in the third quarter the mentioned benefit from tax collection services offset the lower contribution on placement activities, which was affected by seasonal effects.

Profits (Losses) on trading

(in millions of euro)

Captions	30/09/2005	30/09/2004 including IAS 39 (*)	Changes		30/09/2004 except IAS 39 (§)
			amount	%	
Interest rates	**–46**	54	–100		191
Equity	**460**	240	220	91.7	343
Foreign exchange	**112**	88	24	27.3	89
Credit derivatives (trading book)	**12**	16	–4	–25.0	19
Total profits (losses) on trading	**538**	398	140	35.2	642
Profits (Losses) on disposal of financial assets available for sale	**3**	20	–17	–85.0	20
Profits on trading	**541**	**418**	**123**	**29.4**	**662**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of income or losses after tax from discontinued operations.
(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments and registration in a specific caption of income or losses after tax from discontinued operations.

Profits (Losses) on trading includes: i) profits and losses on disposal of financial assets held for trading or available for sale, ii) valuation differences on financial assets held for trading designated at fair value, and – as already indicated above – dividends collected on shares held for trading or available for sale. More specifically, the caption was the sum of 538 million euro of net profits on trading (+35.2% with respect to the 398 million euro of September 2004) and 3 million euro of profits on disposal of financial assets available for sale (*ex* 20 million euro).

As concerns trading activities, trading on equities, mostly attributable to Banca Intesa and Banca Caboto, continued to represent the most significant component (460 million euro, compared to 240 million euro of September 2004). This result also includes the disposal and valuation effects of equity investments or derivatives designated as held for trading on first-time adoption of IAS/IFRS, among which those relative to the conversion of the Fiat *convertendo* loan and of Banco ABN Amro Real shares, which totalled approximately 140 million euro.
Profits on foreign exchange activities equalled 112 million euro, with respect to 88 million euro of September 2004, and this result was generated by the Parent Company and also, to a significant extent, by the Eastern-European subsidiaries.
Conversely, interest rate activities posted a negative result (-46 million euro) compared to the 54 million euro profit as at 30th September 2004.
Instead, the result on trading of credit derivatives remained practically stable even though on immaterial absolute amounts.

Lastly, the 3 million euro imbalance of profits on the sale of financial assets available for sale is the result of components of opposite sign, among which the most noteworthy was the negative contribution in the consolidated financial statements, amounting to approximately 54 million euro referred to the disposal of the equity stake in Banco Comercial Portugues (BCP). It must be specified that this disposal occurred at the same time as the sale, also to BCP, of the equity investment in Banco de Investimento Imobiliario (BII) with an approximately 40 million euro profit, which is allocated in a specific caption in the statement of income related to profits on sale of investments.
A further 4 million euro approximately represents the portion of net income for the period generated by BII and included in profits from equity investments carried at equity.
Therefore, the BCP-BII transaction generated an overall negative result of approximately 10 million euro in the 2005 consolidated financial statements.

On a quarterly basis, Profits (Losses) on trading recorded an upward trend despite a moderate decline in the second quarter.

Other operating income (expenses)

In the reclassified statement of income, other operating income (expenses) is a residual caption which comprises income and expenses of various nature (especially non-recurring income and expenses). This leads the caption to be somewhat volatile. The figure for the period is a net operating income of 20 million euro, compared to a net expense of 73 million euro in September 2004, which was mostly affected by the charges related to the settlement which occurred in the third quarter of last year between Nextra and the Extraordinary Commissioner of the Parmalat group, extensively described to the market.

Operating margin

Operating margin totalled 3,500 million euro, with a 31.6% growth rate compared to the corresponding period of 2004, mostly attributable to the good performance of operating income (+12%), and, though to a lower extent, to savings amounting to approximately 1% achieved on operating costs.

Operating costs

(in millions of euro)

Captions	30/09/2005	30/09/2004 including IAS 39 (*)	Changes		30/09/2004 except IAS 39 (§)
			amount	%	
Personnel expenses					
– wages and salaries	**1,644**	1,649	–5	–0.3	1,649
– social security charges	**451**	458	–7	–1.5	458
– other	**256**	249	7	2.8	275
	2,351	2,356	–5	–0.2	2,382
Administrative expenses					
– general structure costs	**379**	381	–2	–0.5	380
– IT expenses	**313**	325	–12	–3.7	320
– indirect taxes and duties	**277**	231	46	19.9	231
– management of real estate assets	**229**	235	–6	–2.6	232
– legal and professional expenses	**136**	119	17	14.3	104
– advertising and promotional expenses	**86**	78	8	10.3	78
– indirect personnel costs	**41**	46	–5	–10.9	46
– other costs	**90**	85	5	5.9	107
– recovery of expenses and charges	**–255**	–191	64	33.5	–189
	1,296	1,309	–13	–1.0	1,309
Adjustments to					
– intangibles	**189**	191	–2	–1.0	191
– fixed assets	**183**	198	–15	–7.6	199
Operating costs	**4,019**	**4,054**	**–35**	**–0.9**	**4,081**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of income or losses after tax from discontinued operations.

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The reduction in costs was marginally attributable to personnel expenses (2,351 million euro, -0.2%). However, it must be noted that the consolidated figure is the result of greater savings achieved by the Parent Company and higher costs sustained by certain bank subsidiaries as a result of both compliance to contractual wage rises and the expansion of activities and the operating network, especially abroad. In the comparison between the two periods, the Parent Company still benefited from the outflow of personnel which took part in the incentive-driven exit plan in 2005 which was only partly absorbed by the higher charges related to the renewal of the national labour contract.

Higher savings were instead achieved in administrative expenses which dropped to 1,296 million euro, with respect to 1,309 million euro in September 2004 (-1%). Among the main expense captions, decreases were recorded by general structure costs, IT expenses and management of real estate assets while, conversely, as programmed advertising and promotional expenses and consulting and professional expenses increased, in relation to certain important development projects and the rationalisation of structures and processes.
The rise in indirect taxes and duties was mostly attributable to the increase in tariffs and leads to higher recoveries from customers which – together with other reversals – are directly deducted from total administrative expenses.

Adjustments to intangibles and fixed assets summed up to 372 million euro, with a 4.4% decrease, which was more marked for intangibles (-7.6%).

Compared with previous periods, operating costs in the third quarter recommenced to decrease, after the moderate growth which occurred in the second quarter, according to a typical seasonal trend.

Income (Loss) before tax from continuing operations

Income before tax from continuing operations amounted to 2,936 million euro, with a 39.2% rise with respect to 2,109 million euro in September 2004. This result is net of provisions and net adjustments for a total of 696 million euro and after the registration of profits on the sale of equity investments of 132 million euro, approximately one third of which referred to the disposal of the stake in Banco de Investimento Imobiliario.

Net provisions for risks and charges

Net provisions for risks and charges were considerably strengthened (212 million euro compared to 122 million euro in the first nine months of 2004).
These provisions, determined using extremely prudent statistic criteria, also refer to the revocatory actions relative to the former relations with the Parmalat group.

Net adjustments to loans and receivables

Net adjustments to loans and receivables summed up to 474 million euro, 12.7% lower than in the corresponding period of 2004 and reflected adjustments of 1,133 million euro and write-backs of 659 million euro.

Considering the various non-performing loans categories, net impairment losses on doubtful loans recorded a moderate increase

(in millions of euro)

Captions	30/09/2005	30/09/2004 including IAS 39 (*)	Changes		30/09/2004 except IAS 39 (§)
			amount	%	
Net impairment losses on loans and receivables					
– doubtful loans	**–353**	–348	5	1.4	–404
– other non-performing loans	**–133**	–213	–80	–37.6	–207
– performing loans	**3**	22	–19	–86.4	–87
Net provisions for guarantees and commitments	**9**	–4	13		–7
Net adjustments to loans and receivables	**–474**	**–543**	**–69**	**–12.7**	**–705**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of income or losses after tax from discontinued operations.
(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments and registration in a specific caption of income or losses after tax from discontinued operations.

to 353 million euro compared to 348 million euro in the comparison period (+1.4%), while those relative to other non-performing loans, namely substandard and restructured loans, decreased from 213 million euro of September 2004 to 133 million euro (-37.6%), due to considerable write-backs, in presence of stable adjustments. Write-backs included the rapid return to performing of an important position classified as substandard in the second quarter of 2004.

Calculations to maintain the generic coverage of performing loans to the levels required by the respective risk configurations, evidenced a net positive imbalance of write-backs of 3 million euro.
Lastly, net write-backs of 9 million euro were posted on non-cash credit risk relative to guarantees and commitments outstanding, compared to 4 million euro of adjustments of the corresponding period of 2004.
Quarterly development shows that the downward trend which commenced in the fourth quarter of 2004 continued. The net rise recorded in the third quarter of the current year is exclusively attributable to lower write-backs while adjustments confirmed their downward trend.

Net income

Net income for the period equalled 1,845 million euro and reflected the deduction of i) current and deferred taxes on income from continuing operations of 1,018 million euro – corresponding to an average incidence just under 35% of income before taxes – and ii) the attribution to minority shareholders of the income pertaining to them (80 million euro) as well as the registration in a specific caption of income after tax from discontinued operations of 7 million euro.

Taxes on income from continuing operations

As indicated above, taxes on income from continuing operations, both current and deferred, referred to the period amounted to 1,018 million euro, with a 369 million euro rise with respect to the first nine months of 2004. The quantification of the tax burden prudentially considered the possible tightening of tax regulations on dividends currently being assessed by the Legislator.

Income (Loss) after tax from non-current assets (or disposal groups) held for sale and discontinued operations

As already illustrated, the sale to Merrill Lynch and Fortress of a portfolio of doubtful loans of nominal value exceeding 9 billion euro and the loan servicing business of Intesa Gestione Crediti dedicated to the management of such loans is currently under completion. The execution of the transaction, with the transfer of the assets and the payment of the consideration will occur before the end of the year.
Considering the binding commitment for the transfer of such assets, as provided for by IFRS 5, income and losses on such assets under disposal is posted separately and net of the related taxes.

As in the Consolidated report as at 30th June 2005, for this purpose the table below details the breakdown of income after tax from discontinued operations in revenue and cost components updated as at 30th September 2005. In order to permit a

(in millions of euro)

Captions	30/09/2005	30/09/2004 including IAS 39 (*)	Changes amount	Changes %
Net interest income	**143**	142	1	0.7
Net fee and commission income	**3**	4	–1	–25.0
Other operating income (expenses)	**11**	3	8	
Operating costs	**–22**	–31	–9	–29.0
Net adjustments to loans and receivables	**–102**	–178	–76	–42.7
Tax impact	**–26**	13	–39	
Total	**7**	**–47**	**54**	

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of income or losses after tax from discontinued operations.

consistent comparison, the corresponding figure for 2004 has also been restated in the specific caption.

Income after tax from discontinued operations, set out in the table above, is largely attributable to the sale of doubtful loans, while the component referred to the spin-off of the loan servicing business is marginal.
The difference in the sign in the two periods under comparison mostly stems from the fact that the figure as at 30th September 2004 reflected considerable adjustments on the doubtful loans to be sold; this did not recur in the first nine months of 2005, since such loans are already posted at sale price.
The high incidence of the fiscal effect on the economic components relative to the assets under disposal is connected to the increase in the revenue components subject to the IRAP tax.

Main balance sheet aggregates

Balance sheet aggregates as at 30th September 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 to the application of the aforementioned principles, including IAS 39. Furthermore, again with respect to figures as at 31st December 2004, the balance sheet aggregates related to the doubtful loan portfolio and the loan servicing business of IGC under disposal have also been highlighted.

(in millions of euro)

Assets	30/09/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Cash and cash balances with central banks	**1,203**	1,551	–348	–22.4
Financial assets held for trading	**53,565**	57,916	–4,351	–7.5
Financial assets available for sale	**4,501**	5,157	–656	–12.7
Investments held to maturity	**2,570**	2,450	120	4.9
Due from banks	**26,397**	28,557	–2,160	–7.6
Loans to customers	**158,758**	157,430	1,328	0.8
Hedging derivatives	**1,490**	1,262	228	18.1
Equity investments	**2,583**	1,979	604	30.5
Fixed assets	**2,893**	2,929	–36	–1.2
Intangibles	**934**	982	–48	–4.9
Tax assets	**2,993**	4,772	–1,779	–37.3
Non-current assets (or disposal groups) held for sale and discontinued operations	**1,800**	2,141	–341	–15.9
Other assets	**4,442**	3,979	463	11.6
Total Assets	**264,129**	**271,105**	**–6,976**	**–2.6**

Liabilities and Shareholders' Equity	30/09/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Due to banks	**32,050**	34,327	–2,277	–6.6
Due to customers	**178,677**	179,282	–605	–0.3
Financial liabilities held for trading	**24,246**	30,033	–5,787	–19.3
Hedging derivatives	**1,176**	1,480	–304	–20.5
Tax liabilities	**1,363**	1,356	7	0.5
Liabilities in disposal groups held for sale and discontinued operations	**43**	42	1	2.4
Other liabilities	**7,373**	6,850	523	7.6
Employee termination indemnities	**1,084**	1,081	3	0.3
Allowances for risks and charges	**1,962**	1,907	55	2.9
Share capital	**3,596**	3,561	35	1.0
Share premium reserve	**5,510**	5,406	104	1.9
Reserves	**3,738**	2,617	1,121	42.8
Revaluation reserves and valuation differences	**700**	544	156	28.7
Minority interests	**766**	778	–12	–1.5
Net income (loss)	**1,845**	1,841	4	0.2
Total Liabilities and Shareholders' Equity	**264,129**	**271,105**	**–6,976**	**–2.6**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

Loans to customers

(in millions of euro)

Subcaptions	30/09/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Current accounts	**18,963**	20,118	–1,155	–5.7
Mortgages	**72,923**	68,235	4,688	6.9
Advances and other loans	**57,151**	56,944	207	0.4
Repurchase agreements	**3,090**	5,660	–2,570	–45.4
Non-performing loans	**4,438**	4,738	–300	–6.3
Total loans	***156,565***	*155,695*	*870*	*0.6*
Loans represented by securities	***2,193***	*1,735*	*458*	*26.4*
Loans to customers	**158,758**	**157,430**	**1,328**	**0.8**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

Loans to customers – inclusive of loans represented by securities issued by customers – reached 158,758 million euro with a slight increase from the figure as at 31st December 2004 (+0.8%).

The slight improvement in the overall figure reflected significantly differentiated trends in the various lending contracts, with a considerable decrease in financial components represented by repurchase agreements and lower demand for short-term funding in overdrafts on current accounts (-5.7%), while – conversely – medium- and long-term lending recorded a significant growth rate. Mortgages increased by 7% to 72,923 million euro and represented approximately 46% of total loans to customers. Advances and other loans recorded a slight improvement on the considerable levels already highlighted at the end of 2004 (+0.4%). Loans granted via the underwriting of securities also increased.
If repurchase agreements were not taken into account loans to customers would have recorded a 2.6% growth rate.

Non-performing loans

(in millions of euro)

	30/09/2005			31/12/2004 including IAS 39 (*)		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
Non-performing loans	8,714	–4,276	4,438	8,644	–3,906	4,738
Doubtful loans	*4,141*	*–3,004*	*1,137*	*3,640*	*–2,623*	*1,017*
Substandard loans	*4,399*	*–1,236*	*3,163*	*4,766*	*–1,257*	*3,509*
Restructured loans	*174*	*–36*	*138*	*238*	*–26*	*212*
Performing loans	155,365	–1,045	154,320	153,759	–1,067	152,692
Total	**164,079**	**–5,321**	**158,758**	**162,403**	**-4,973**	**157,430**

(*) Comparative figures calculated using IAS/IFRS including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

Following the sale of a considerable portion of the doubtful loan portfolio, already described above, total non-performing loans, considered on a consistent basis, decreased to 4,438 million euro from 4,738 million euro of December 2004, with an incidence on total loans to customers which dropped to 2.8% from 3% at the end of the previous year. The trend recorded by non-performing loans therefore highlighted a significant net decrease mostly connected to the contraction in substandard loans.

In detail, net doubtful loans totalled 1,137 million euro, compared to 1,017 million euro of December 2004, maintaining an incidence on total loans of approximately 0.7% and a degree of coverage of almost 73%. Conversely, substandard loans recorded a contraction close to 10% to 3,163 million euro, with an incidence on total loans to customers of 2%, compared to 2.2% of December 2004, and a degree of coverage of 28%, with a one percentage point increase. Lastly, restructured loans decreased to 138 million euro, with respect to 212 million euro at the end of 2004 (approximately -35%).

Risk implicit in performing loans is calculated collectively on the basis of the risk configuration of the entire portfolio analysed via models which consider – for the majority of cases – the Probability of Default (PD) and Loss Given Default (LGD) of individual loans. Cumulated collective adjustments amounted to 1,045 million euro and represented an average percentage of approximately 0.7% of gross exposure related to performing loans to customers. Such cumulated provisions are deemed to be adequate to cover the risk physiologically intrinsic in performing loans.

Customer funds

(in millions of euro)

Subcaptions	30/09/2005	31/12/2004 including IAS 39 (*)	Changes amount	Changes %
Deposits	**11,751**	10,971	780	7.1
Current accounts and other	**83,878**	84,528	–650	–0.8
Certificates of deposit	**5,796**	5,569	227	4.1
Other	**5,393**	3,814	1,579	41.4
Repurchase agreements	**8,767**	9,367	–600	–6.4
Due to customers	***115,585***	*114,249*	*1,336*	*1.2*
Securities issued	***53,986***	*55,423*	*–1,437*	*–2.6*
Subordinated liabilities	***9,106***	*9,610*	*–504*	*–5.2*
Total direct deposits	**178,677**	**179,282**	**–605**	**–0.3**
Indirect customer deposits	**313,430**	**292,383**	**21,047**	**7.2**
Customer deposits under administration	**492,107**	**471,665**	**20,442**	**4.3**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

Direct customer deposits reached 178,677 million euro, practically confirming the figure at the end of 2004 (-0.3%), though with differentiated trends in the single contract types which make up the aggregate. Figures as at 30th September 2005 continue to reflect customers' high propensity for liquidity or, in any case, for short-term investments. Deposits and current accounts, considered together, confirmed the figures as at 31st December 2004, while the increase in the placement of certificates of deposit (+4.1%) and the rise in "other", for the issue of commercial paper carried out in the period, absorbed the decrease highlighted by bond issues (-2.6%) and subordinated liabilities (-5.2%). Also repurchase agreements decreased (-6.4%).

Indirect customer deposits

(in millions of euro)

Subcaptions	30/09/2005	31/12/2004 including IAS 39 (*)	Changes amount	Changes %
Individual portfolio management schemes	**52,077**	48,544	3,533	7.3
Assets managed by mutual funds	**74,922**	75,793	–871	–1.1
Insurance products	**27,129**	23,000	4,129	18.0
minus Funds from individual portfolios placed in mutual funds	**–29,389**	–30,049	–660	–2.2
Total managed funds	**124,739**	117,288	7,451	6.4
Assets under administration and in custody	**188,691**	175,095	13,596	7.8
Indirect customer deposits	**313,430**	**292,383**	**21,047**	**7.2**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

Indirect customer deposits highlighted a positive variation (+7.2%), ascribable both to the under administration component, which registered a 7.8% progress, and to the managed funds component (+6.4%) that, despite the unfavourable trend experienced by the sector, benefited from a significant positive contribution in the growing appreciation for products of the bancassurance sector (+18%).

Financial instruments held for trading

(in millions of euro)

Captions	30/09/2005	31/12/2004 including IAS 39 (*)	Changes amount	Changes %
Bonds and other debt securities	**30,557**	29,487	1,070	3.6
Equities and quotas of O.I.C.R.	**3,292**	3,321	–29	–0.9
Trading portfolio	***33,849***	*32,808*	*1,041*	*3.2*
Positive value of debt securities derivatives and interest rate derivatives	**16,276**	21,609	–5,333	–24.7
Positive value of currency derivatives	**1,175**	1,547	–372	–24.0
Positive value of equity derivatives and stock indices derivatives	**1,706**	1,615	91	5.6
Positive value of credit derivatives	**559**	337	222	65.9
Positive value of trading derivatives	***19,716***	*25,108*	*–5,392*	*–21.5*
Financial assets held for trading	**53,565**	**57,916**	**–4,351**	**–7.5**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

Financial instruments held for trading comprise both debt securities and equities, including certain limited cases of 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.

The trading portfolio recorded a 3.2% rise to 33,849 million euro entirely attributable to debt securities, that recorded a 3.6% growth rate, while equities and quotas of OICR, remained practically stable on the figure as at 31st December 2004.

As concerns positive value of trading derivatives (19,716 million euro, -21.5% on December 2004) the most significant component referred to contracts on debt securities and interest rates, which represented approximately 83% of the overall value.

Financial liabilities held for trading, which mostly stemmed from negative value of trading derivatives, totalled 24,246 million euro (-19.3%) and, as in the case of assets, were mostly related to derivatives on debt securities and interest rates (72% approximately).

(in millions of euro)

Captions	30/09/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Negative value of debt securities derivatives and interest rate derivatives	**17,425**	22,962	–5,537	–24.1
Negative value of currency derivatives	**1,357**	2,244	–887	–39.5
Negative value of equity derivatives and stock indices derivatives	**1,768**	1,847	–79	–4.3
Negative value of credit derivatives	**541**	460	81	17.6
Negative value of trading derivatives	***21,091***	*27,513*	*–6,422*	*–23.3*
Other liabilities held for trading	***3,155***	*2,520*	*635*	*25.2*
Financial liabilities held for trading	**24,246**	**30,033**	**–5,787**	**–19.3**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

Financial assets available for sale

(in millions of euro)

Captions	30/09/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Bonds and other debt securities	**2,256**	2,635	–379	–14.4
Equities and quotas of O.I.C.R.	**549**	89	460	
Securities available for sale	***2,805***	*2,724*	*81*	*3.0*
Equity investments	**811**	1,047	–236	–22.5
Private equity investments	**837**	1,386	–549	–39.6
Equity investments available for sale	***1,648***	*2,433*	*–785*	*–32.3*
Loans available for sale	***48***	*–*	*48*	
Financial assets available for sale	**4,501**	**5,157**	**–656**	**–12.7**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

Financial assets available for sale totalled 4,501 million euro, with a 12.7% decrease with respect to the figure of December 2004. The caption was constituted by debt securities and equities which are not held for trading of 2,805 million euro (+3%), mostly made up of securities classified as held for investment based on the former accounting principles and long-term securities in the portfolio of a vehicle company.

It also included equity investments and private equity investments of 1,648 million euro, with a net contraction of 32.3%. Among the decreases particularly noteworthy are the disposals of Banco Comercial Portugues and of the investment in Italenergia Bis.
Lastly, the caption included portions of syndicated loans to be placed with third parties, amounting to 48 million euro.

Investments held to maturity

(in millions of euro)

Captions	30/09/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Government securities	**2,293**	2,148	145	6.8
Bonds and other debt securities	**277**	302	–25	–8.3
Investments held to maturity	**2,570**	**2,450**	**120**	**4.9**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

The caption includes debt securities held by Group companies, that the relevant holding entity has declared will be held to maturity. These mostly referred to Government securities (89% of the total).

Hedging derivatives

(in millions of euro)

Captions	30/09/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Positive value of fair value hedge derivatives	**1,465**	1,233	232	18.8
Positive value of cash flow hedge derivatives	**25**	29	–4	–13.8
Positive values	***1,490***	*1,262*	*228*	*18.1*
Negative value of fair value hedge derivatives	**–1,044**	–1,398	–354	–25.3
Negative value of cash flow hedge derivatives	**–132**	–82	50	61.0
Negative values	***–1,176***	*–1,480*	*–304*	*–20.5*
Total	**314**	**–218**	**532**	

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

The table above illustrates the breakdown of hedging derivatives.

Fair value hedge derivatives highlighted an overall positive balance of 421 million euro, offset by analogous variations in hedged items.

The value of cash flow hedge derivatives presented a negative balance of 107 million euro, which is recorded, net of accruals for the period and tax effects, by valuation differences under shareholders' equity.

Equity investments

(in millions of euro)

Captions	30/09/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Equity investments in associates and companies subject to joint control	**1,598**	1,546	52	3.4
Other equity investments	**985**	433	552	
Total	**2,583**	**1,979**	**604**	**30.5**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

Equity investments in associates and companies subject to joint control are recorded in the consolidated balance sheet for a total of 1,598 million euro, calculated based on the *pro quota* value of the associate's shareholders' equity increased by the eventual goodwill.
The subcaption "other equity investments" comprised – in addition to the equity investment in the Bank of Italy which, as already described in the chapter relative to accounting criteria and the consolidation area, is recorded at cost (433 million euro) in consideration of the peculiarity of the equity investment – also the controlling stakes recently acquired in Cassa di Risparmio di Fano, Delta Banka, Small Business Credit Bank (KMB) and Consumer Finance Holding which, as already indicated above, in this quarterly report are recorded at cost, as a result of the necessary time required to align them to Gruppo Intesa's consolidation procedures. Such companies will in any case be consolidated in the Annual report 2005.

Net interbank position

(in millions of euro)

Captions	30/09/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Net interbank position repayable on demand				
– loans	**4,528**	2,727	1,801	66.0
– deposits	**–6,739**	–6,201	538	8.7
	–2,211	–3,474	–1,263	–36.4
Net interbank position with notice period				
– loans	**21,869**	25,830	–3,961	–15.3
– deposits	**–25,311**	–28,126	–2,815	–10.0
	–3,442	–2,296	1,146	49.9
Net interbank position	**–5,653**	**–5,770**	**–117**	**–2.0**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

At the end of September 2005 the net interbank position recorded a moderate contraction in its negative balance, from 5,770 million euro at the end of 2004 to 5,653 million euro (-2%).
The decrease, which occurred mostly in the third quarter, reflected the reduction in the debt balance of the "on demand" component that was not entirely shifted to the "with notice period" debt position.

Non-current assets (or disposal groups) held for sale and discontinued operations and related liabilities

As provided for by IFRS 5, assets and the related liabilities, which no longer refer to continuing operations as they are undergoing disposal, have been recorded in a specific caption. These mostly refer to assets and liabilities connected to the sale of doubtful loans described in the first part of this Report. The caption is in fact mostly made up of doubtful loans that amounted to 1,702 million euro and represented almost 97% of the total, and disposal groups of 20 million euro, mainly relative to the sale of the loan servicing business of Intesa Gestione Crediti. Furthermore, it included tangible assets referred to the building in Paris which was the Registered office of Banque Sudameris for 50 million euro and, for the remaining amount, to real estate assets of the Slovakian subsidiary VUB, minor equity investments of 3 million euro and other assets of various nature of 20 million euro. Lastly, the caption included liabilities in disposal groups held for sale and discontinued operations of 43 million euro.

(in millions of euro)

Captions	30/09/2005	31/12/2004 including IAS 39 (*)	Changes	
			amount	%
Loans to customers	**1,702**	2,017	–315	–15.6
Equity investments	**3**	7	–4	–57.1
Disposal groups held for sale and discontinued operations	**20**	16	4	25.0
Fixed assets	**55**	50	5	10.0
Other	**20**	51	–31	–60.8
Liabilities in disposal groups held for sale and discontinued operations	**–43**	–42	1	2.4
Total non-current assets and liabilities (or disposal groups) held for sale and discontinued operations	**1,757**	**2,099**	**–342**	**–16.3**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

Allowances for risks and charges

The allowances for risks and charges increased to 1,962 million euro (+2.9%) and referred to pensions and similar commitments for 300 million euro, to provisions on non-cash risk intrinsic in guarantees and commitments for approximately 367 million euro, whilst the remaining portion covered, as concerns the larger amounts, charges relative to legal disputes (over 261 million euro), revocatory actions (approximately 436 million euro), charges related to the incentive-driven exit plan (over 81 million euro) and future charges on equity investments of approximately 195 million euro.

Shareholders' equity

The Group's shareholders' equity, including net income for the period, amounted to 15,389 million euro. It included revaluation reserves and valuation differences of 700 million euro which for 357 million euro referred to legally-required revaluations recorded in the past based on specific laws and for 216 million euro derived from fair value measurement of financial assets available for sale and cash flow hedge derivatives. The remaining 127 million euro represented foreign exchange differences, 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 30/09/2005
Financial assets available for sale	117	176	**293**
Fixed assets	–	–	**–**
Cash flow hedges	–32	–45	**–77**
Legally-required revaluations	357	–	**357**
Other	102	25	**127**
Total valuation differences	**544**	**156**	**700**

(*) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

Shareholders' equity for supervisory purposes

As already indicated above, supervisory capital and capital ratios have been calculated using shareholders' equity and net income determined via the application of IAS/IFRS and considering the so-called "prudential filters" indicated by the Basel Committee and used by the Bank of Italy in the request made to banks as concerns a simulation of the impact of the new principles on prudential capital requirements.

(in millions of euro)

Total capital and capital ratios	30/09/2005	31/12/2004 including IAS 39 (*)
Total capital		
Tier 1 capital	14,856	13,900
Tier 2 capital	6,042	6,773
Items to be deducted	–1,097	–620
Total capital	**19,801**	20,053
Capital requirements		
Credit risks	13,282	13,046
Market risks	1,440	1,240
Tier 3 subordinated loans	–	–
Other capital requirements	223	277
Total capital requirements	**14,945**	14,563
Risk-weighted assets	**186,811**	182,042
Capital ratios %		
Core Tier 1 / Total risk-weighted assets	**7.10**	6.69
Tier 1 / Total risk-weighted assets	**7.95**	7.64
Total capital / Total risk-weighted assets	**10.60**	11.02
Excess capital	**4,856**	5,490

(*) 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 19,801 million euro, against risk-weighted assets of 186,811 million euro. The total capital ratio equalled 10.6% of which almost 8% referred to Tier 1 capital. The ratio between Tier 1 capital net of preference shares and risk-weighted assets (Core Tier 1) equalled 7.1%.

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

(in millions of euro)

Items	Shareholder's equity	*including net income as at 30/09/2005*
Parent Company's balances as at 30th September 2005	13,814	1,253
Effect of consolidation of subsidiaries subject to control and joint control	930	870
Effect of consolidation of subsidiaries carried at equity	–15	110
Reversal of disposal of equity investments		– 12
Allocation of consolidation differences to the value of real estate assets	204	–4
Restatement of goodwill	–7	–
Dividends collected during the period	–	–294
Other changes	463	–78
Consolidated balances as at 30th September 2005	**15,389**	**1,845**

The Parent Company Banca Intesa

Economic results

The results of the Parent Company in the first nine months of 2005 have also been determined using IAS/IFRS and for the purpose of providing a consistent comparison the results of the same period of the previous year have been restated. Restatement includes 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 of the Parent Company in the two periods under comparison.

Banca Intesa's statement of income as at 30th September 2005 – the most significant component of the Group's consolidated financial statements – closed with a net income of 1,253 million euro, with a 3% increase on the comparative figure.

The reclassified statement of cash flows highlighted **operating income** - made up of revenues, costs and valuation effects on ordinary operations - amounting to 4,769 million euro, with a 5.8% growth rate with respect to the comparative figure. On a quarterly basis, and not considering the seasonality of the dividend component, operating income in the third quarter was at the highest level from the beginning of 2005.

More specifically, *net interest income*, which amounted to 2,380 million euro, continued the upward trend which had already emerged in previous quarters, with a 5.6% increase.
As concerns the trend of single components, the decline in net interest income with customers was entirely offset by the lower incidence of costs of funding via securities, even without considering the higher positive contribution of differentials on hedging derivatives, mainly related to funding via securities.
Conversely, the positive balance of net interest on relations with banks declined. The caption also includes fair value adjustments in hedge accounting, positive for 30 million euro, that is, the imbalance of positive and negative variations in the fair value of hedging derivatives and the relevant assets and liabilities hedged.

Among *dividends*, which totalled 306 million euro, main amounts referred to: Cariparma (85 million euro), FriulAdria (31 million euro), Intesa Real Estate (30 million euro), Intesa Mediofactoring (25 million euro), Setefi (23 million euro), Intesa Casse del Centro (21 million euro) and Banca Intesa France (20 million euro). As already described in the Consolidated report as at 30th June 2005, the decrease in the total amount of the caption is ascribable to lower dividend distributions resolved upon by certain subsidiary companies for 2004, also for the purpose of maintaining a congruous capital coverage in view of the first-time adoption of IAS/IFRS.

Net fee and commissions income recorded again a positive trend, up by 12.1% to 1,720 million euro due to the confirmation of the considerable contribution of dealing, management and consulting (approximately +29%) connected to the substantial placements of bancassurance products (+122 million euro) and equities issued by third parties.

Profits on trading equalled 289 million euro, far higher than the comparative figure (115 million euro) and included profits, losses and valuation effects of assets and liabilities held for trading for a total of 239 million euro. As to the single operating areas, the negative contribution of activity in the interest rate area (-88 million euro) was amply offset by positive contribution of the equities area (272 million euro, *ex* 138 million euro), which includes the effects of disposal and valuation of certain equity investments and derivatives classified as held for trading, including those relative to the conversion of the Fiat *convertendo*, following the rise in the price of the Fiat stock in 2005. The caption also includes the contribution of foreign exchange activities (43 million euro, *ex* 26 million euro) and of trading on credit derivatives (12 million euro, *ex* 17 million euro) as well as the reversal to the statement of income of profits realised on financial assets available for sale, which totalled 50 million euro, including 24 million euro relative to the sale of the equity stake in Banco Comercial Portugues.

Again within the components of operating income, *other net operating income*, which, in the reclassified statement of income, does not include the recoveries of expenses and taxes and duties (directly deducted from administrative expenses), highlighted a decline (approximately -27% to 74 million euro).

Operating costs continued their downward trend and amounted to 2,606 million euro. The further drop (-2%) is mainly ascribable to lower personnel expenses (-3.4% to 1,524 million euro), due to the reduction in headcount (-1,230 units the average figure over the twelve months) – enacted via the activation of the Solidarity Allowance – which more than absorbed the ordinary development of compensation and the higher charges related to the new national labour contract. *Adjustments to fixed assets and intangibles* also declined (-1.2% to 243 million euro), while *administrative expenses* was in line with the figure as at 30th September 2004 (+0.2% to 839 million euro) since the higher expenses for professional services in relation to the projects for growth and rationalisation of structures and processes under way were entirely offset by the decreases in the other expense captions. On a quarterly basis, operating costs highlighted, in the third quarter a practical stability with respect to the previous period.

The balance between operating income and operating costs led to an **operating margin** of 2,163 million euro, 17% higher than the comparative figure, with a cost/income ratio down from 59% to under 55%. On a quarterly basis, as a consequence of the aforementioned trends in operating income and operating costs, and not considering the seasonal trend of dividends, operating margin was at its highest in 2005.

Income before tax from continuing operations, which reached 1,854 million euro (+12.7%), reflected the deduction of *Net provisions for risks and charges* of 147 million euro, destined to adequately cover, using the usual, extremely prudent criteria, the possible negative outcomes of legal disputes under way, including those connected to the Parmalat revocatory actions, for which provisions have been proportioned to statistic data related to charges historically borne from revocatory actions, as indicated elsewhere in the present Report and as described in greater detail in the Consolidated report as at 30th June 2005.
Furthermore, net adjustments to loans and receivables, which totalled 237 million euro, recorded a significant decrease (approximately -35%) due to both lower requirements on non-performing positions and to the registration of higher write-backs, especially for the return to performing, in the first part of the year, of an important position classified as substandard loans at the end of 2004.
The result also reflected i) *Net impairment losses on other assets* of 14 million euro related to other financial assets and ii) *Profits on investments held to maturity and on other investments* of 89 million euro, mostly made up of gains on the sale of equity stakes in subsidiaries and associates (50 million euro for Banco de Investimento Imobiliario, 14 million euro for Milano Zerotre, 14 million euro for Intesa Fiduciaria SIM) compared to 221 million euro of September 2004 mainly related to the write-back of the equity investment in Intesa Holding International (144 million euro) and Intesa Gestione Crediti (23 million euro), as well as the effects of the rationalisation of real estate assets (50 million euro).

As had already occurred in the last Consolidated report as at 30th June 2005, following the signing of the framework agreement with Merrill Lynch and Fortress within the already described sale of a portfolio of doubtful loans, income and losses on the loans under disposal by Banca Intesa have been extracted and recorded in the caption *Income (Loss) after tax from non-current assets (or disposal groups) held for sale and discontinued operations*, as provided for by IFRS 5. The corresponding

figure for 2004 has been restated on a consistent basis.
The caption, which on a net basis presented a negative balance of 6 million euro, includes net interest income, operating costs, net adjustments to loans and receivables, net of the relevant taxes. The consistent comparative figure referred to the first nine months of 2004 was a loss of 68 million euro, in relation to the adjustments recorded on such loans.

As already indicated above, **net income** totalled 1,253 million euro (+3% compared to the figure of September 2004) after the deduction of taxes of 595 million euro, far higher than the 360 million euro of the comparative period, since it prudentially considers the possible tightening of tax regulations on dividends, currently being assessed by the Parliament.

Main balance sheet aggregates

As regards balance sheet aggregates, first of all it must be noted that, as indicated in the comments to the statement of income and as provided for by IFRS 5, also assets and the relevant net liabilities which are no longer related to continuing operations as they are undergoing disposal have been recorded in specific captions of the balance sheet: "Non-current assets (or disposal groups) held for sale and discontinued operations" and "Liabilities in disposal groups held for sale and discontinued operations". Figures as at 31st December 2004, have been reclassified on a consistent basis.

As at 30th September 2005 **loans to customers** amounted to 104,231 million euro. The rise with respect to the figure at the end of 2004 (+2.0%) is ascribable to the significant rise in mortgages (+8.3% to 46,747 million euro) which represented approximately 45% of loans to customers. The positive trend recorded by this contract type enabled to more than absorb the drop in current accounts (-5.6% to 13,531 million euro), the moderate decline in advances and other loans (-1.3% to 38,545 million euro) and the decrease in repurchase agreements (-20.4% to 1,637 million euro).
Not considering this last component – which is typically of a financial nature – loans to customers would have recorded a 2.4% growth rate. Pursuant to provisions contained in IAS/IFRS, loans to customers also include securities underwritten at the time of issue for the purpose of financing the issuer, which as at 30th September amounted to 984 million euro (*ex* 604 million euro). Non-performing loans – which, as already indicated, do not include doubtful loans under sale, posted in the caption *Non-current assets (or disposal groups) held for sale and discontinued operations* – amounted to 2,787 million euro, with a decrease compared to the end of 2004 (approximately -6.5%). The rise in doubtful loans (501 million euro, *ex* 334 million euro) was entirely offset by the higher reduction in substandard loans (2,286 million euro, *ex* 2,542 million euro), also ascribable to the aforementioned return to performing of exposures of significant size. The relative cumulated provisions determined an overall coverage little under 42% for non-performing loans (69% for doubtful loans and 28% for substandard loans), while performing loans were covered by collective provisions of 489 million euro determined based on the risk configuration of the portfolio, guaranteeing a 0.54% coverage, net of repurchase agreements and loans to subsidiaries. It must also be noted that a further 108 million euro covered off balance sheet risks and 22 million euro represented collective adjustments on due from banks.

The moderately decreasing trend of *direct customer deposits*, which totalled 133,378 million euro (-1.8%), mostly reflected the transfer of positions to Intesa Private Banking – the Group's new bank specialised in serving private customers – which especially influenced the size of current accounts (-1.1% to 66,221 million euro) and, though to a lower extent, determined the decline of repurchase agreements (approximately -18% to 4,365 million euro). The decrease in the aggregate was also affected by the lower recourse to issued bonds (-1.8% to 45,365 million euro) and subordinated liabilities (-5.4% to 8,980 million euro), partly offset by the rise in certificates of deposit (approximately + 20% to 5,230 million euro) determined by short-term funding raised by foreign branches with this contract type.
Instead, the drop in *indirect customer deposits* (-3.2% to 212,597 million euro) was entirely ascribable to the aforementioned transfer of positions to Intesa Private Banking, which significantly affected managed funds (-11.3% to 66,089 million euro) while assets under

administration posted a slight increase (approximately +1% to 146,508 million euro).

Financial instruments held for trading comprised among assets (37,952 million euro in total, -0.4% with respect to as at 31st December 2004) debt securities and equities for 26,043 million euro (+3.6%) and the positive value of derivatives held for trading amounting to 11,909 million euro (–8%), mostly related to debt securities derivatives and interest rate derivatives (81% of the total). The relevant liabilities (14,685 million euro, approximately -8.6%) were mostly made up of negative value of derivatives held for trading (12,996 million euro, -10.7%).

Financial assets available for sale totalled 2,611 million euro (+3.2%) and comprised equity investments of 697 million euro, private equity investments of 832 million euro and debt securities and equities amounting to 1,034 million euro. It also included 48 million euro of loans, attributable to portions of syndicated loans destined to be placed with third parties.

The positive value of **hedging derivatives** totalled 1,167 million euro, of which 1,145 million euro relative to fair value hedges while the contracts with negative values totalled 1,045 million euro, of which 934 million euro referred to fair value hedges. In total, the value of cash flow hedge derivatives presented a negative balance of 89 million euro; the balancing entry net of accruals and considering the tax effect is recorded in revaluation reserves and valuation differences under shareholders' equity.

Equity investments, that amounted to 11,488 million euro, comprised controlling equity stakes for 9,721 million euro, equity stakes in associates of 1,420 million euro and other equity investments of 347 million euro. The rise with respect to the figure as at 31st December 2004 (+619 million euro) was the net result of increases and decreases which occurred in the period. Noteworthy increases were the capital strengthening of Intesa Holding International (+750 million euro), in relation to the expansion under way in Central-Eastern Europe, as well as the subscription of the increases in share capital of Intesa Casse del Centro (+95 million euro), Intesa Private Banking (+25 million euro) and Pirelli (+54 million euro) while the main decreases referred to the merger of Intesa Sistemi e Servizi (-296 million euro) and the disposal of Milano Zerotre (-112 million euro).

Non-current assets (or disposal groups) held for sale and discontinued operations, made up of doubtful loans under disposal, amounted to 602 million euro, while related **liabilities in disposal groups held for sale** equalled 10 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	
	30/09/05	30/09/04	30/09/05	30/09/04	30/09/05	30/09/04	30/09/05	30/09/04	30/09/05	30/09/04	30/09/05	30/09/04
Operating income	**4,016**	3,621	**1,481**	1,347	**1,131**	1,046	**824**	741	**67**	–42	**7,519**	6,713
Operating costs	**–2,177**	–2,218	**–605**	–601	**–557**	–556	**–452**	–429	**–228**	–250	**–4,019**	–4,054
Operating margin	**1,839**	1,403	**876**	746	**574**	490	**372**	312	**–161**	–292	**3,500**	2,659
Provisions and adjustments	**–248**	–228	**–89**	–190	**–95**	–109	**–84**	–74	**–48**	51	**–564**	–550
Income (Loss) before tax from continuing operations	**1,591**	1,175	**787**	556	**479**	381	**288**	238	**–209**	–241	**2,936**	2,109
Rwa (billions of euro)	**78.3**	77.0	**48.8**	46.9	**25.6**	22.9	**15.6**	13.8	**18.5**	17.9	**186.8**	178.5
Allocated capital (billions of euro)	**5.1**	4.9	**2.9**	2.8	**1.5**	1.4	**0.9**	0.8	**1.1**	1.1	**11.5**	11.0
Income from continuing operations on allocated capital (%)	**42.3%**	31.7%	**35.9%**	26.4%	**41.6%**	37.0%	**41.0%**	38.3%	**–25.1%**	–29.9%	**34.0%**	25.5%

Comparative figures calculated using IAS/IFRS including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

(in millions of euro)

	Retail Division		Corporate Division		Italian Subsidiary Banks Division		International Subsidiary Banks Division		Central Structures		Total	
	30/09/05	31/12/04	30/09/05	31/12/04	30/09/05	31/12/04	30/09/05	31/12/04	30/09/05	31/12/04	30/09/05	31/12/04
Loans to customers	**79,228**	75,916	**40,648**	43,898	**23,871**	21,970	**12,139**	10,771	**2,872**	4,875	**158,758**	157,430
Due from banks	**1,659**	689	**15,021**	14,611	**4,785**	4,882	**3,999**	3,437	**933**	4,938	**26,397**	28,557
Due to customers	**50,872**	53,014	**24,761**	23,727	**16,599**	16,603	**13,505**	12,512	**9,848**	8,393	**115,585**	114,249
Due to banks	**18,360**	18,145	**14,110**	21,138	**3,140**	2,317	**4,561**	3,678	**–8,121**	-10,951	**32,050**	34,327
Securities issued	**20,523**	25,077	**7,632**	7,333	**7,158**	6,685	**888**	823	**17,785**	15,505	**53,986**	55,423

Comparative figures calculated using IAS/IFRS including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.

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 bancassurance 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 nine months of 2005 the Division recorded a decidedly positive performance with operating income up by approximately 11% from 3,621 million euro as at 30th September 2004 to 4,016 million euro of the first nine months of 2005, representing over 53% of the consolidated operating income of the Group. Operating costs decreased by approximately 2% from 2,218 million euro to 2,177 million euro, leading to an operating margin higher by 31% to 1,839 million euro, with the cost/income ratio down from 61.3% to 54.2%. Also income before tax from continuing operations increased (1,591 million euro, +35.4%).
The Division's balance sheet figures highlighted loans to customers of 79,228 million euro (+4.4%) and customer deposits, including securities issued, of 71,396 million euro (–8.6%).

The Division's operating margin also benefited from 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 as at 30th September 2005 closed with a net income, determined according to IAS/IFRS, of 126 million euro, after having collected gross premiums of 5,090 million euro. As at 30th September 2005 Intesa Vita's technical reserves exceeded 24 billion euro, while shareholders' equity equalled 1,448 million euro.

Nextra Investment Management – which operates in the asset management sector and reports to Intesa Holding Asset Management – continued its operations in mutual funds/sicavs, in real estate funds and in individual portfolio management schemes. As at 30th September, the company managed assets of 95 billion euro, with a 2.8% reduction compared to 98 billion euro at the end of 2004 attributable to the sector's persisting difficulties. Consequently, the statement of income for the period registered a considerable reduction in commission flows, even if it benefited from a considerable increase in dividends collected from its subsidiaries (18 million euro, *ex* 3 million euro). Therefore, net income totalled 49.1 million euro compared to a loss of 56.6 million euro registered as at 30th September 2004, which was, however, penalised by the charge of 160 million euro due to the well-known settlement with the Extraordinary Commissioner of the Parmalat group.
Nextra Investment Management controls **Nextra Distribution Services** which distributes Nextra International Sicav in Italy and abroad, **Nextra Alternative Investments**, operating in hedge fund management, and **Epsilon SGR**, operating in collective asset management with use of quantitative approaches.
The three asset management companies closed the period with a net income of 21 million euro, 5.5 million euro and 3.3 million euro respectively, all higher than the corresponding figures as at 30th September 2004.

As at 30th September 2005, **Intesa Previdenza**, operating in supplementary pension funds, managed net assets of 1,130 million euro, due to the positive contribution of the open-end pension funds sector, where Gruppo Intesa maintained the leadership in terms of both assets (25.3%) and new subscriptions (27.2%).
Funding activities recorded a positive performance, with particular reference to open-end pension funds, that registered a 20% increase over the twelve months. The development of individual subscriptions was mainly pursued among self-employed workers, independent professionals and public employees, whilst the collective subscriptions sector saw the development of specific marketing initiatives targeted to subordinate employees.
The period closed with a modest net income, compared to a loss of 0.1 million euro in the first nine months of the previous year.

Setefi, specialised in management of electronic payment systems, performs the duties of acquirer for retailers, issues proprietary credit cards and manages the *Moneta* cards for Group banks. The company uses its own network of POS terminals and is in charge of the *e-money* system through the management of the *Monetaonline* site. In the first part of 2005 Setefi further expanded its activity, with an increase in total transaction volumes exceeding 10% over the twelve months. The number of directly-issued or managed cards exceeded 3.5 million while proprietary and third-party POS terminals were close to 108,000. The company closed the first nine months of 2005 with a net income of 19.6 million euro, virtually in line with the result of the corresponding period of 2004.

For **Banca Intesa Private Banking** 2005 is the first year in which it was fully operational and the first nine months recorded a net income of 25.4 million euro compared to a loss of 3 million euro in the same period of the previous year; the latter figure, was not directly comparable considering both the different operating size and the fact that it was mainly affected by the expenses linked to the organisational and corporate restructuring. In fact, company operations increased following the gradual transfer to the new bank of Banca Intesa's private customers and therefore all statement of income aggregates recorded substantial rises. As at 30th September 2005, assets highlighted indirect customer deposits of over 25 billion euro, of which managed funds amounting to over 16 billion euro and direct customer deposits amounting to 977 million euro.

In the first nine months of 2005 **Banca Intesa Mediocredito** recorded a net income of 44.1 million euro with an increase close to 14% on the consistent figure as at 30th September 2004. This result for the period was mainly due to i) operating income practically unchanged from that as at 30th September 2004, despite lower dividends collected from the subsidiary Banca Cis and a moderate reduction in commission flows, ii) a rise in operating costs, mainly due to personnel expenses, and iii) a substantial contraction in net adjustments to loans and receivables (approximately -44%).
The positive effect of lower adjustments led to an income before tax from continuing operations higher than that recorded in the first nine months of the previous year. Balance sheet figures show, compared to December 2004, an approximately 4% reduction in loans to customers, at 12,746 million euro, and a related contraction in interbank funding that, at approximately 11,200 million euro, constituted the main source of funding.

Banca CIS closed the statement of income for the period with a net income of 9.7 million euro, with an approximately 11% reduction on the consistent figure as at 30th September 2004. The contraction in net interest income, due to structurally lower unit margins, and in net fee and commission income, determined a 7.3% reduction in operating income. Effective containment of operating costs (-10.3%) and net write-backs to loans and receivables were not enough to balance the decrease in revenues.
The balance sheet highlighted loans to customers of 1,265 million euro (+3.5% compared to as at 31st December 2004), whereas net interbank funding – over 90% of total net funding – reached 981 million euro (+20.6%).

In the first three quarters of 2005 **Intesa Leasing** stipulated, through the network of Group banks, approximately 11,800 new contracts, for an overall countervalue of 2,012 million euro, with a 5.5% progress compared to the corresponding figure of September 2004. Approximately 50% of these contracts referred to the real estate sector, which was the sector with the highest growth rate. As at 30th September 2005, loans to customers, almost entirely generated by leasing operations, reached 6,319 million euro (approximately +3% on December 2004). As to the statement of income, the company closed the period with a net income of 17.2 million euro, higher than the approximately 13 million euro recorded as at 30th September 2004, attributable to slightly higher operating margin and significantly lower net adjustments to loans and receivables.

Corporate Division

The Corporate Division operates in the management and development of relations with medium-sized and large Italian and international groups, with 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 nine months of 2005 the Division recorded a positive performance, with operating income of 1,481 million euro (approximately +10% on the figure recorded as at 30th September 2004), representing approximately 20% of the Group's consolidated operating income.
Operating costs remained practically stable at 605 million euro, leading operating

margin to 876 million euro (+17.4%), with a cost/income ratio of approximately 41% (*ex* 44.6%). Also income before tax from continuing operations increased (787 million euro, approximately +42%).
Balance sheet figures show loans to customers of 40,648 million euro (-7.4%) and customer deposits, including bonds issued, of 32,393 million euro (+4.3%).

Within the Division, **structured finance** activities were characterised by the implementation of important operations in all main sectors.

The **project finance** sector continued to structure funding for specific, highly-complex and extremely large investment projects, in sectors characterised by high capital intensity. During the first three quarters of 2005 operations were performed in the TMT (Telecom, Media, Technology) sector, where Banca Intesa played the role of Mandated Lead Arranger for the funding of initiatives in the telecom industry (Towertel, H3G in Sweden) and, more recently, for the participation in the funding of the acquisition of Wind Telecomunicazioni by the Orascom group. Noteworthy operations were also completed in the following sectors: electricity (Edipower and Api Energia) and oil and natural gas (Qalhat LNG). The funding of the acquisition of the Pirelli's Cable Division by GS PIA, where Banca Intesa played the role of Mandated Lead Arranger and Facility Agent was also extremely significant.

Also activities in the **real estate** sector continued, with the aim of assisting customers in developing and capitalising on the value of real estate projects and in structuring the required financing. In detail, with regard to advisory activities, the first nine months of the year registered an expansion towards mid-corporate customers and the Public Administration. With regard to the latter, noteworthy was the mandate regarding the real estate assets owned by the City of Rome and the structuring and placement of the real estate fund with public contribution of approximately 1.5 billion euro sponsored by the Ministry of Economy and Finance.
Within financing activities, five new operations were implemented or analysed for a total exceeding 1 billion euro.

In the **leveraged & acquisition finance** sector important funding operations were structured, with particular reference to the organisation and issue of credit facilities in support of corporate customers and private equity funds.
Within distribution activities, noteworthy was the completion of the placement of credit facilities in favour of Guala Closures, whereas, regarding structuring activities, numerous operations were finalised including the refinancing of debt for Seat Pagine Gialle and operations aimed at supporting the acquisitions of IP Cleaning, Cesare Fiorucci, SISAL, Società Europea Autocaravan and others.

With regard to **securitisation** activities, in the first nine months of 2005 Banca Intesa structured and participated in the placement of the securitisation connected to the disposal of the real estate assets owned by the City of Rome and to the second operation on the health receivables of the Lazio region. Moreover, in the corporate sector, the Bank operated as sole arranger and sole bookrunner in the securitisation of Privata Leasing receivables. Within conduit Asset Backed Commercial Paper (ABCP) activities, where Banca Intesa has been active for a few years, new warehousing activities were initiated during the period, through Duomo Funding, the company established at the end of 2004. These activities enable customers, with modalities similar to those used in securitisations, to finance the build up of a loan portfolio to an adequate size for the subsequent placement on the market. Most recent operations are the securitisation of car loans with GMAC and the securitisation of a capitalisation contract with Generali, respectively in the role of joint arranger and of sole arranger.

With regard to **structured export finance** activities, traditional support to Italian exporters continued mainly addressed to developing Countries. During the period four mandates were acquired, three of which in Iran (Mapna Italia, Irasco and Danieli) and one in Turkey (AnsaldoBreda), and documentary negotiations of other important projects in Venezuela, Iran and Russia were completed.

Within **syndication** activities, Banca Intesa acted as sole bookrunner and joint bookrunner in important operations, consolidating its position in international rankings (in terms of volumes).

Also **advisory activities** continued in relation to operations of extraordinary financing performed based on mandates given by selected customers in the mid-corporate and "Public & Infrastructure Finance" segments. Particular attention was paid to the support of companies involved in development plans through acquisitions, as well as to privatisation and merger programmes in the local utilities sector.

In the first nine months of 2005 Banca Intesa performed **merchant banking** activities in the three operational areas, namely private equity, investments in private equity funds and institutional equity investments. As at 30th September the private equity portfolio amounted to approximately 242 million euro for a total of 38 equity investments. The significant operations of the period included the collection of extraordinary dividends from Mirror International, linked to the sale of Eutelsat, as well as the subsequent sale of Mirror International, owned both directly and through the subsidiary Private Equity Investments (PEI). With regard to activities in private equity funds, as at 30th September 2005, 147 million euro were invested, of which 83.5 million euro related to investments made by PEI. Finally, as concerns institutional equity investments, the most significant operations for the quarter include the sale by Gruppo Intesa to the French company EDF of all the shares held in Italenergia Bis, for an overall amount of approximately 483 million euro. With this sale Banca Intesa, along with the other Italian banks which held Italenergia Bis shares, completed the disposal of their stakes in the company.
In the same period the equity investment held in Edison was sold.
Following the aforementioned transactions, overall equity investments dropped to approximately 951 million euro.

In the first nine months of 2005, **Banca Caboto** continued to play an important role in the primary equity and bond markets. In particular, differently from the traditional seasonality of the sector and from similar periods in previous years, in the last quarter activities on its own behalf achieved positive results, especially in September, seizing the opportunities available in the market.
Also in the secondary market the bank confirmed its forefront position in the ranking of intermediaries. Noteworthy were the operations on corporate derivatives, particularly in the mid-corporate segment.
In this scenario, the statement of income for the period confirmed the considerable increase in net fee and commission income (approximately +51%), for both equity origination and bond market activities. This performance, coupled with the positive result achieved on financial transactions (approximately +23%), led to a net interest and other banking income exceeding 153 million euro, with an approximately 27% rise. Operating costs decreased by over 3%, also as a result of cost optimisation in the equity origination area and lower costs for consultancies and administrative services. Net income amounting to 31.5 million euro evidenced an approximately 22% reduction from the consistent figure, mainly attributable to the prudential decision not to record taxes on dividends, in view of the uncertainty of the current legislative context.

In consideration of the peculiarities characterising factoring activities, that are not regulated by specific IAS/IFRS, **Intesa Mediofactoring** did not drawn up the interim report as at 30th September 2005 on the basis of international standards. However, for the preparation of the Consolidated Report as at 30th September 2005, the company drew up the compulsory financial statement forms based on Group accounting principles which are in line with IAS/IFRS.
Although the subsidiary operates in a sector characterised by an unfavourable domestic situation, which led to a 2.6% reduction in turnover, the statement of income for the period – drawn up in accordance to IAS/IFRS – recorded a net income of 34 million euro, with a 14.8% increase on the consistent figure for the first nine months of 2004. The reduction in intermediated volumes and in average loans negatively affected net interest income (-5.8%) but operating income increased by 3.4% mainly due to an almost 7% rise in net fee and commission income. Also operating margin was positive (+2%) despite an 8.6% increase in operating costs. Lower net adjustments to loans and receivables (-29.4%) led – without touching the level of coverage for doubtful loans – to the aforementioned increase in net income for the period. The company's statement of income, drawn up in accordance with national accounting principles, closed with a net income of 31 million euro.

In consideration of the peculiarities of their activities, also the Group tax collection companies did not adopt IAS/IFRS. However,

for the preparation of the consolidated financial statements, their results were restated according to international accounting principles.
The statements of income of the companies in the sector – **E.Tr.**, **Esa.Tri.** and **S.Es.I.T.** – benefited from the legislative provision quantifying the compensation for tax collection companies. Net income for the period stood at approximately 30 million euro for E.Tr., 24 million euro for Esa.Tri. and 4.7 million euro for S.Es.I.T. The amount of that compensation – which as at 30th June could not be deemed certain and, therefore, be accounted for – decisively influenced results. Proceeds from tax collection activities were also satisfactory, revenues from direct payments were virtually stable and operating cost containment generated positive effects. Future prospects will be strictly dependent on the evolution of the legislative context. In fact, on the one hand, provisions for the compensation of concessionaires are confirmed for 2005 and 2006, whilst, on the other hand, the concession system for tax collection services is foreseen to be suppressed as of 1st October 2006.
According to international accounting principles the companies posted net incomes for the period of, respectively, 27 million euro for E.Tr, 22.7 million euro for Esa.Tri. and 4.3 million euro for S.Es.I.T.

Société Européenne de Banque recorded a net income of 8.3 million euro, with an approximately 6 million euro increase on the consistent figure for the same period of 2004, as a result of the consolidated effectiveness with which the company continues to operate in the Luxembourg financial market, mainly in support of corporate customers as well as in the private banking and mutual fund management areas.

Intesa Bank Ireland operated profitably in the wholesale banking sector, even after the considerable downsizing of the exposure towards large multinationals implemented in the previous year. After this repositioning, the statement of income for the first three quarters of 2005 closed with a net income of 13.1 million euro, which was therefore not comparable with the figure registered in the same period of 2004.

Zao Banca Intesa, the bank established to assist Italian enterprises operating in the Russian market and those interested in operating there, offering commercial and financial services to corporate customers, closed the first nine months of 2005 virtually at breakeven, compared to the losses recorded in previous years, that, however, were directly attributable to start-up costs and to the costs related to the strengthening of its operating structures.

Italian Subsidiary Banks Division

The business unit Italian Subsidiary Banks Division is constituted by the Italian subsidiary banks performing retail banking activities. They are medium-sized or small banks, with a markedly local vocation that, operating through almost 900 branches (in addition to the 41 branches of the recently-acquired Cassa di Risparmio di Fano) in strict coordination with the Retail Division of the Parent Company, pursue the optimisation of all possible commercial synergies and share the most important initiatives.
In the first nine months of 2005 the Division further enhanced its efficiency and profitability, consolidating its market shares and customer relations. Economic results improved, with an over 8% increase in operating income to 1,131 million euro, that represented 15% of the Group's consolidated operating income. Operating costs, at 557 million euro, confirmed the same level as at 30th September 2004, leading to an operating margin of 574 million euro (+17.3%), corresponding to a cost/income ratio of 49.2% (*ex* 53.2%).
Also income before tax from continuing operations registered an appreciable rise (+25.5%) to 479 million euro.
Balance sheet figures highlighted loans to customers of 23,871 million euro (+8.7%) and direct customer deposits, including bonds issued, of 23,757 million euro (+2%).

As at 30th September 2005, **Cassa di Risparmio di Parma e Piacenza** registered a net income of 150.4 million euro, 22.4% higher than the figure recorded in the same period of the previous year.
This result was mainly attributable to the positive trend of operating income (+9.5%). In detail, net interest income increased (+2.5%) due to higher intermediated volumes that offset the slight reduction in spreads, net fee and commission income recorded a 5.6% rise attributable to the generalised expansion of commercial banking, management and dealing

activities. Furthermore, profits on trading – quadrupling the comparative figure – also benefited from disposal of financial assets. The favourable trend of revenues allowed to absorb the contained increase in operating costs (+4.7%) – mainly determined by an expansion in the bank's operations and by higher commercial and organisational investments – leading to a significant improvement in operating margin (+13.7%). Higher provisions for risks and charges, also in connection with the Parmalat revocatory action, were balanced by significantly lower net adjustments to loans and receivables (approximately -23%).
Main balance sheet aggregates increased: loans to customers to 11,293 million euro (+8.4%), direct customer deposits to 12,018 million euro (+3.9%) and indirect customer deposits to 26,515 million euro (+11.5%).

Banca Popolare FriulAdria closed the statement of income for the first nine months of 2005 with a net income of 41.2 million euro, approximately 31% higher than the figure recorded in the first nine months of 2004. This result benefited from both higher operating income (+5%) and lower operating costs (-2.1%) in line with the trends recorded in previous quarters. With regard to revenues, increases in net interest income (+6.9%), net fee and commission income (+4.1%) and in other operating income (approximately +57%) fully absorbed the reduction in profits on trading (approximately -39%), which was affected by the valuation of assets held for trading, while the effective control of operating costs led to further savings in personnel expenses (-2%) and to the confirmation of administrative expenses at the same level as at 30th September 2004. The result for the period was positively influenced by profits generated by the disposal of real estate assets and – though to a lower extent – by lower adjustments to non-performing loans, which fully balanced higher provisions for risks and charges.
Balance sheet aggregates highlighted increases both in loans to customers (+6.4% to 3,595 million euro) and in direct customer deposits (+4.3% to 2,913 million euro), whilst indirect customer deposits confirmed the 2004 balance sheet figure (-0.2% to 5,139 million euro).

Banca di Trento e Bolzano closed the statement of income as at 30th September 2005 with a net income of 11.8 million euro, with an approximately 19% increase. In line with the trend already recorded in the first part of the year, net interest income highlighted a significant improvement (approximately +19%) in relation to the rise in intermediated volumes and to the stability of spreads. This fact, together with the good performance of net fee and commission income (approximately +14%) and high profits on trading (approximately +42%) – which benefited from the sale of Government securities classified as assets available for sale – led to an approximately 18% increase in operating income. The positive trend of that aggregate allowed to fully absorb the increase in operating costs (approximately +9%), essentially ascribable to the bank's expansion, the higher provisions for risks and charges and the higher net adjustments to loans and receivables, leading to an approximately 18% rise in income before tax from continuing operations.
As to the balance sheet, loans to customers recorded an increase from the end of 2004 (+7.2% to 1,841 million euro), whereas direct customer deposits suffered a reduction (approximately -10% to 1,513 million euro) exclusively attributable to the cease of treasury services for the Bolzano province. The closure of that relation also determined a decline in indirect customer deposits, down by approximately 9% to 1,974 million euro. Finally, in the first part of the year the bank finalised a capital increase, specifically aimed at broadening the company's shareholder base with the entry of approximately 1,200 new shareholders, that significantly strengthened company's capital position.

In the first three quarters of 2005 **Cassa di Risparmio di Biella e Vercelli** posted a net income of approximately 20 million euro, with a nearly 26% increase on the corresponding figure as at 30th September 2004. The improvement was due to revenues: identical increases (+15.2%) were recorded by net interest income, mostly in the customers and securities component, and by net fee and commission income, related to both traditional banking activities and to services, in particular insurance products and credit cards.
Notwithstanding losses on trading, operating income recorded a rise of 12.1% and operating margin of 25.3%, with administrative expenses registering a contained increase (+1.8%). Finally, net adjustments to loans and receivables were higher than as at 30th

September 2004.
Compared to the end of the previous year, balance sheet figures showed a rise in loans to customers to 2,275 million euro (+11.8%) against a consolidation in direct customer deposits that, at 2,281 million euro, slightly rose from last December.
Indirect customer deposits (3,248 million euro) recorded a 6.4% expansion, with customers confirming their preference for bancassurance products.

The Saving Banks in Central Italy, united under the control of **Intesa Casse del Centro**, registered better overall results mostly due to higher income. In fact, the aggregates highlighted an increase in net interest income and in net fee and commission income, a moderate and selective rise in operating costs also due to new investments and a downward trend in net adjustments to loans and receivables.
The Saving Banks, considered on a single basis, registered the following net incomes: Cassa di Risparmio di Viterbo, 16.7 million euro (+43.5%), Cassa di Risparmio di Ascoli Piceno, 13 million euro (+22.5%), Cassa di Risparmio di Terni e Narni, 10.6 million euro (+45.3%), Cassa di Risparmio di Rieti, 10.8 million euro (+52.1%), Cassa di Risparmio di Foligno, 8.6 million euro (+58.7%), Cassa di Risparmio di Spoleto, 7.1 million euro (+41.6%) and Cassa di Risparmio di Città di Castello, 4 million euro (more than doubled).
Compared to as at December 2004, the main balance sheet figures showed, on an aggregate basis, a rise in loans to customers (4,867 million euro, +10%) and a certain stability in customer deposits (5,334 million euro, +0.2%). Indirect customer deposits registered, instead, a good progress to 5,118 million euro (+6.5%).

Cassa di Risparmio di Fano, that entered Gruppo Intesa at the end of July and was not consolidated in the financial statements as at 30th September, closed the first nine months of the year with a net income of approximately 7 million euro.

International Subsidiary Banks Division

Positive results were also achieved by the Group entities operating in foreign markets, which find in the Eastern-European Countries, characterised by high growth rates, the most attractive growth opportunities. The Division coordinating foreign subsidiaries, recorded a positive trend. Operating income rose by over 11% to 824 million euro and represented 11% of the Group's consolidated operating income.
The programmed increase in operating costs to 452 million euro (+5.4%) was linked to the expansion of activities and of the operating network in the various areas where the Group is active, particularly in Eastern Europe. Therefore, operating margin improved by 19% to 372 million euro, with a cost/income ratio of 54.9% (*ex* 57.9%).
Income before tax from continuing operations rose by 21.3% to 288 million euro.
Balance sheet figures showed loans to customers of 12,139 million euro (+12.7%) and direct customer deposits, including securities issued, of 14,393 million euro (+7.9%).
Banca Intesa operates in Central-Eastern Europe with the fourth Hungarian bank (Central-European International Bank), the second Croatian bank (Privredna Banka Zagreb), the second Slovakian bank (Vseobecna Uverova Banka) and, after the recent acquisition of Delta Banka, with the second bank in Serbia and Montenegro.
Gruppo Intesa is also present in the Russian Federation with ZAO Banca Intesa, which was recently joined by the newly acquired KMB, in Slovenia through the activities of the Italian subsidiary FriulAdria and in Poland with the representative office in Warsaw.

In Hungary the third quarter of the year was characterised by a recovery in industrial production that revived economic growth after the slowdown of the first half. The deficit/GDP ratio was above expectations, but inflation remained stable and the local currency showed, especially at the end of the period, certain signs of weakness.
The **Central-European International Bank (CIB)** group registered a net income for the nine months of 62.9 million euro, approximately 23% higher than that of the same period of 2004. Net interest income increased (+5%), due to higher volumes that absorbed the significant contraction in spreads, and net fee and commission income recorded an even higher growth rate (+16.4%). Also profits on trading were far higher than in the same period of 2004. As to charges, impairment losses on loans and receivables continued their downward trend (-8.6% on the same period of 2004), whereas operating costs evidenced a strong increase that was directly connected to the expansion of the group's operations especially in the retail sector,

with the opening of new branches and the consequent increase in employees.
Compared to December 2004, balance sheet aggregates registered an increase both in loans to customers (4,614 million euro, +14.5%) and in direct customer deposits (3,287 million euro, +24.1%).

The Croatian macroeconomic scenario was basically positive, with the recovery of GDP, after the uncertainties registered in the first part of the year, and inflation not excessively affected by the tensions on oil prices. Last 4th October negotiations for the entry of Croatia in the European Union were officially started.
In this scenario, the **Privredna Banka Zagreb (PBZ)** group closed the first nine months of 2005 with a net income of 87.5 million euro (approximately +17%). This result was due to the good performance of net interest income (+9.4%), net fee and commission income (+7.7%) and profits on trading (+15.5%, mainly due to foreign exchange and equity market activities) as well as to lower net adjustments to loans and receivables. Among the other economic components, operating costs recorded a moderate rise mainly attributable to the increase in employees, necessary to sustain the expansion of company operations.
In fact, compared to December 2004, the main balance sheet items highlighted a rise in loans to customers (3,629 million euro, approximately +14.5%) and in direct customer deposits (+11.1%).

In the Slovakian Republic the macroeconomic scenario remained stable and GDP confirmed in the third quarter growth estimates, driven by the components of domestic demand (investments and household consumption) and by a slight decline in inflation. In such context, the **Vseobecna Uverova Banka (VUB)** group posted a net income of 73.6 million euro, with an approximately 39% increase on September 2004. This was the combined result of rises in net interest income (+12%) and in net fee and commission income (+25.5%), mainly in the asset management and credit cards sectors, whilst a slightly over 8% decline was recorded in profits on trading, mainly as a result of shrinking foreign exchange margins. The increase in operating costs was also linked to the increase in personnel expenses due to the strengthening of the managerial component. Net impairment losses on loans and receivables rose from as at 30th September 2004 mainly as a result of the notable growth recorded in the loan portfolio.
Balance sheet aggregates showed a considerable expansion of loans to customers to 1,985 million euro, with an approximately 27% increase on the normalised figure as at 31st December 2004, that is, net of a large, non-recurring short-term loan to an institution. Also customer deposits, influenced at the end of 2004 by the same phenomenon as loans to customers, reached 4,384 million euro, with an increase, on a normalised basis, exceeding 3%.

In the first nine months of 2005, the consolidated financial statements of **Banco Wiese Sudameris**, adjusted on the basis of IAS/IFRS, confirmed the turnaround already registered in the first half, compared to the same period of the previous year, and highlighted a net income of 8.2 million euro. Revenues showed increases both in net interest income (approximately +5%) and, of a much greater magnitude, in net fee and commission income (approximately +26%). The rise in revenues, coupled with the positive effect of a good contraction in operating costs, allowed to offset the considerable impairment losses on loans and receivables.
The main balance sheet items highlighted increases both in loans to customers (1,279 million euro, approximately +18%) and in direct customer deposits (2,138 million euro, approximately +19%).
On the basis of the local accounting principles the period closed with a net income of 8.3 million euro.

Banca Intesa (France) closed the first nine months of 2005 with a net income of 4.4 million euro, compared to a net income, on a consistent basis, of 13.4 million euro as at 30th September 2004, which benefited from important write-backs of adjustments to loans. The result was also influenced by lower operating income, that was not entirely balanced by significant savings in operating costs.

Delta Banka and **Small Business Credit Bank (KMB)**, that entered Gruppo Intesa respectively in August and at the end of September and were not consolidated in the financial statements as at 30th September 2005, closed the first nine months of the year with net incomes, on the basis of local accounting principles, of 12.7 million euro and 2.4 million euro respectively.

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.

Treasury and strategic finance
With the purpose of maintaining a contained requirement of short-term liquidity, **treasury** activities on the interbank market remained at the moderate levels of the previous year. With the aim of diversifying short-term funding, the recourse to US commercial paper increased, whereas the issues of European commercial paper were limited, in the wake of the start-up of the new European market "STEP" (Short Term European Paper), foreseen for 2006. Market making activities on short-term derivatives – for which the Bank holds a predominant presence in the domestic market and an important presence in the international market – continued even if lower volatility of short-term interest rates in the Euro Zone determined a sizeable reduction in volumes traded, in line with the contraction registered by the market. The gradual expansion of activities in the currencies of Eastern Europe and of other emerging markets also continued.

With regard to the proprietary portfolio, during the period, the gradual integration of management of corporates in the trading portfolio with the credit derivatives area continued. This greater integration, combined with a medium-low duration of the portfolio and with a strong diversification of industry and issuer risks, allowed to contain the negative effects of the downgrading of certain car manufacturers.
In the Government bond sector, operations focused on the Countries in the Euro Zone with higher rating.

Equity portfolio management maintained a market-neutral approach in 2005. Dynamic stock picking and use of derivative instruments allowed, in certain cases, to benefit from the upward trend that characterised the markets in the period. In specific situations profit was taken from the marked increase in volatility. Merger & Acquisition activities highlighted a relatively positive trend, though in presence of limited operations.

With reference to activities related to the alternative investments portfolio, the recomposition of asset allocation by category and strategy continued with satisfactory results in the third quarter, along the lines traced in the first part of the year. In fact, at the end of September the portfolio's overall gross performance equalled 8.24%, considerably higher than that registered by the market.

With regard to **funding** activities, the total amount of Banca Intesa's bond issues placed in the domestic market reached approximately 543 million euro, with a prevalence of structured securities (approximately 67% of the total). Breakdown by maturity highlighted a concentration on maturities between 3 and 5 years (approximately 70% of the total). The preponderant part of funding was however raised in international markets, with approximately 7.3 billion euro collected in the first nine months of the year. Also issues within the European Medium Term Notes programme – 735 million euro, mostly related to public issues – as well as medium-term funding via subscriptions by German insurance companies (approximately 154 million euro) continued.

As already mentioned previously, an agreement was signed with Merrill Lynch and Fortress at the beginning of August for the sale of the whole doubtful loans portfolio held by **Intesa Gestione Crediti (IGC)** and of the company's loan servicing business. This operation which will be completed by the end of the year, will imply a drastic change in the company's assets and liabilities and a change in its mission. The agreement provides for an adjustment of the agreed price so to attribute to the buyers financial statement effects between the reference date for the valuations and the date when the portfolio is transferred, as well as of the relevant legal expenses. The effects of these provisions were already recorded in the company's statement of income for the period, which closed with a net loss of 3.6 million euro and is, therefore, not comparable with that of the corresponding period of the previous year.

GEOGRAPHIC AREAS

(in millions of euro)

	Italy		Eastern Europe		Other Countries		Total	
	30/09/05	**30/09/04**	**30/09/05**	**30/09/04**	**30/09/05**	**30/09/04**	**30/09/05**	**30/09/04**
Operating income	**6,399**	5,756	**677**	628	**443**	329	**7,519**	6,713
Operating costs	**–3,462**	–3,510	**–364**	–323	**–193**	–221	**–4,019**	–4,054
Operating margin	**2,937**	2,246	**313**	305	**250**	108	**3,500**	2,659
Provisions and adjustments	**–481**	–490	**–47**	–60	**–36**		**–564**	–550
Income (Loss) before tax from continuing operations	**2,456**	1,756	**266**	245	**214**	108	**2,936**	2,109
Rwa (billions of euro)	**159.3**	152.7	**12.0**	10.3	**15.5**	15.5	**186.8**	178.5
Allocated capital (billions of euro)	**9.9**	9.5	**0.7**	0.6	**0.9**	0.9	**11.5**	11.0
Income from continuing operations on allocated capital (%)	**33.1%**	24.6%	**50.7%**	54.4%	**31.7%**	16.0%	**34.0%**	25.5%

Comparative figures calculated using IAS/IFRS including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.
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	
	30/09/05	**31/12/04**	**30/09/05**	**31/12/04**	**30/09/05**	**31/12/04**	**30/09/05**	**31/12/04**
Loans to customers	**140,180**	140,614	**10,276**	9,073	**8,302**	7,743	**158,758**	157,430
Due from banks	**7,921**	15,794	**2,860**	2,753	**15,616**	10,010	**26,397**	28,557
Due to customers	**85,596**	94,230	**11,404**	10,682	**18,585**	9,337	**115,585**	114,249
Due to banks	**20,009**	25,079	**3,550**	3,152	**8,491**	6,096	**32,050**	34,327
Securities issued	**50,163**	53,893	**552**	123	**3,271**	1,407	**53,986**	55,423

Comparative figures calculated using IAS/IFRS including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations.
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 84% of both operating margin and income before tax from continuing operations was generated in Italy. Eastern-European markets, that constitute the most attractive foreign operating area, contributed for almost 9% of the total. Also the ratio between income before tax from continuing operations and capital employed, over 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 88% of the consolidated total, whereas loans granted by Eastern-European Countries represented over 6%.
Approximately 80% of customer deposits, including debt securities issued, was collected by the Italian operating network whilst approximately 7% was attributable to Eastern-European subsidiaries.

Risk management and the controls system

Banca Intesa attributes great importance to risk management and the controls system as preconditions to:
- ensure reliable and sustainable value creation in a context of controlled risk;
- protect the Group's financial strength and reputation;
- permit a transparent representation of the risk profile of its portfolios.

From this viewpoint, Banca Intesa made great efforts in the last few years to obtain the validation by Supervisory authorities of the internal models for market risks and for credit derivatives, to align operating methodologies and standard practices to the indications contained in the recent regulations which discipline the definition of capital requirements to cover credit and operational risks and, lastly, to further increase the effectiveness of instruments already inserted in the processes. The definition of operating limits related to risk indicators (such as VaR) and the reference to the measurement of the "expected loss" and "capital at risk" implicit in the various portfolios, are some of the passages which make the operating declination of the strategic and operating guidelines defined by the Board of Directors, consistent along the whole of the Bank's decision-making chain, to the single operating units and to the single desk.

The company functions in charge of monitoring risks and the controls system – the **Risk Management**, **Credit** and **Internal Auditing Departments** – periodically meet with the functions in charge of operating units within certain Committees which have the role of monitoring the various risk profiles and the correct functioning of the monitoring mechanisms based on rigorous separation criteria. The most significant committees are: the ***Internal Control Committee***, the ***Group's Financial Risk Committee***, the ***Liquidity Committee***. Other risk checks are placed directly in contact with the Bank's day to day operations: ***Credit Committee, Risk Meeting***, ***New Product Committee***.

Risk management

Risk management activities are aimed at guaranteeing the constant monitoring of the main risks, regulatory compliance and an effective support to the decision-making process. This entails:
– the rigorous and timely measurement of market risks (trading and banking book), structural interest rate and liquidity risks, credit risks (trading and banking book), Country risk and operational risk. Adopted methodologies provide an integrated representation of the various risk profiles; analyses are conducted mainly on positions in the books with reference to historical and normal market conditions and are supplemented by portfolio analyses and stress test estimates, what-if and scenario simulations;
– the definition of valuation parameters and rules for contracts subject to marking-to-market and fair value, as well as structuring and direct valuation when this may not be obtained from standard tools available for the business units;
– the interaction with Supervisory authorities for the validation and maintenance of internal models as well as, in this phase, the adequacy verifications with respect to the New Capital Accord (Basel II);
– the information support to the company's planning department and to top management so that the Bank's operations may be conducted in a context of controlled risk and it is possible to assess value-generation via the measurement of "expected loss" and "capital at risk";
– the close collaboration with the operating units to extend risk management methodologies to services offered to customers;
– the support to communication to pursue the objectives of transparency with customers and the market.

Market risks

The activities for the quantification of trading risks is based on daily estimates of operating VaR 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 calculated mainly 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.

The Supervisory authority validated the internal models for the measurement of capital absorption of Banca Intesa (2001) and Banca Caboto (2003). In 2004 the model related to credit derivatives (credit default swaps) was also validated. 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 third quarter of 2005 market risks originated by Banca Intesa and Banca Caboto showed a growth which led period-end VaR to 32 million euro (average for the third quarter of 2005), up from 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 and inflation).

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

(average values in the period in millions of euro)

	3rd quarter 2005	1st half 2005	1st quarter 2005	4th quarter 2004
Banca Intesa	29.7	18.8	14.5	13.1
Banca Caboto	2.3	2.1	2.3	2.3
Total	**32.0**	**20.9**	**16.8**	**15.4**

The breakdown of risk profile in the third quarter of 2005 with regard to the various factors showed the prevalence of equity risk for both Banca Intesa and Banca Caboto (68% of overall VaR and 45%, respectively).

Contribution of risk factors to overall VaR

(period-end percentage on area total)

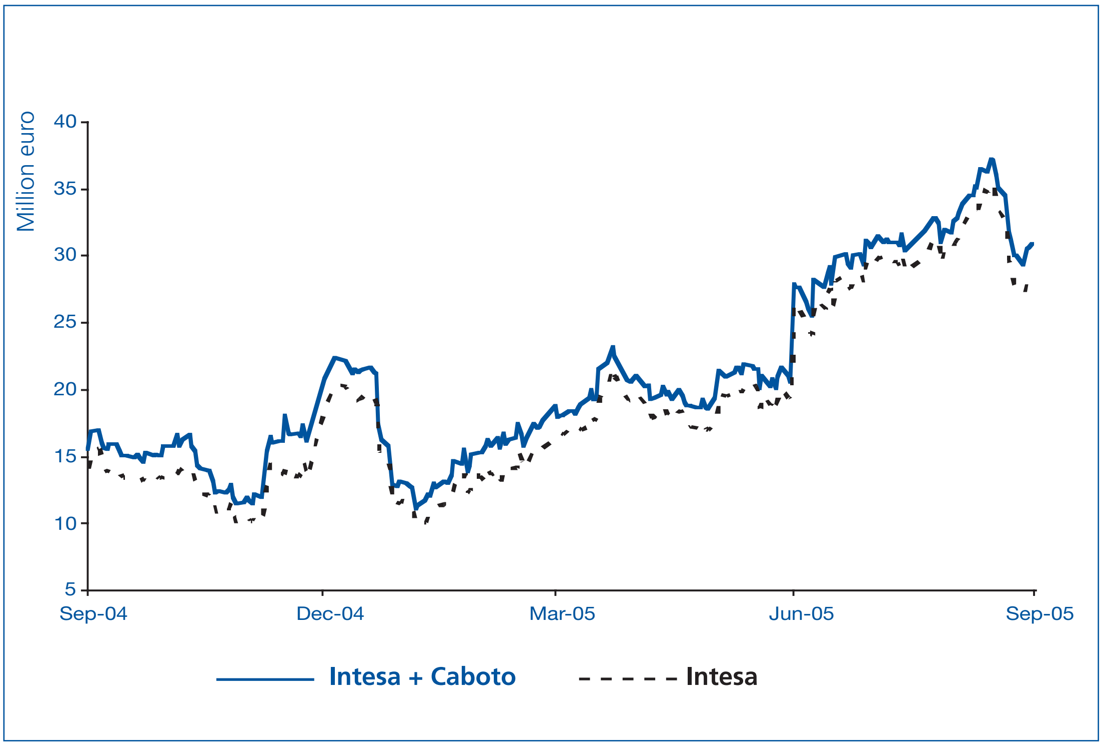
3rd quarter 2005	Shares	Funds	Rates*	Foreign Exchange	Illiquid parameters
Banca Intesa	68%	12%	19%	1%	0%
Banca Caboto	45%	0%	32%	0%	23%
Total	**66%**	**11%**	**20%**	**1%**	**2%**

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

In the third quarter of 2005 the VaR of Banca Intesa increased due to the equity component. The introduction of the new IAS perimeter for trading activities, adopted with the Consolidated report as at 30th June 2005, in particular led to the inclusion of the estimates of operating and regulatory VaR of certain equity investments previously not subject to fair value (as highlighted by the trend of VaR at the beginning of the third quarter of 2005). The interest rate component was stable on average. 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 slightly increased in particular for relative value strategies on the equity component; interest rate risk decreased with respect to the values at the beginning of 2005.

The following graph shows clearly 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 45% in Banca Intesa and 30% in Banca Caboto, also in relation to the reduced market volatilities.

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 in terms of both exposures and sector and risk class aggregates.

Credit derivatives

Risk generated by credit spread volatility on single name and index CDS trading activities is instead monitored using daily spread VaR: at the end of September time-series simulation VaR totalled 1.4 million euro. The reduction in spread VaR from June (1.9 million euro) to September is mostly attributable to the reduction in the

volatility of corporate spreads after the tensions of mid-year, in particular in the car manufacturing sector.
Breakdown of the portfolio confirmed an appreciable diversification with the significant weight of European and US corporate indices.
Trading in credit derivatives also included activities in Collateralized Debt Obligations (CDO) concentrated in the trading book and, in terms of notional, was mainly made up of synthetic senior and supersenior positions (with AAA rating). The risk generated by CDO is monitored starting from the spread of the single companies which make up the underlying portfolio and simulating time of default based on MonteCarlo simulation. Their potential impact of default is applied to the single *tranches* via the reconstruction of loss distributions.

Interest rate and liquidity risk

The Asset & Liability Management (ALM) system covers Banca Intesa's entire balance sheet and derivatives operations. Exposure to interest rate risk is maintained at modest levels, far lower than the thresholds set out by the Basel Committee: even significant movements in the yield curve generate virtually negligible variations with respect to supervisory capital. Sensitivity analysis is combined with sensitivity of net interest income, concentrated on income variations in the subsequent twelve months.
The introduction of international accounting principles facilitated a vision of interest rate risk in the banking book consistent with that used in monitoring market risks.
For the purpose of aligning the liquidity management process to international standards, a Liquidity Policy System and a Contingency Liquidity Plan are also operational and set out, among other things, the presence of a Liquidity Committee with the task of orienting decisions relative to the management of the Bank's liquidity position.
Monitoring of daily liquidity indicators related to the performance of financial markets and specific to Banca Intesa did not show any tensions in the period under examination.

Credit risk

In the third quarter of 2005 the progressive alignment to the New Capital Accord continued and it is aimed at providing the Bank with a New Internal Model.
As part of this project the phase of pre-validation with the Bank of Italy which had started implementation in the first half continued, relatively to the models developed by segments Large Corporate Italy, Foreign Corporates, Corporates, SMEs, Retail Businesses, SOHO, Individuals, Banks and Project Finance. On the basis of the verification of requirements made by the Bank of Italy, the review of the models and the implementation of the interventions identified as necessary conditions for validation are under way.
The Bank commenced the analyses of the specialistic portfolios in the Corporate area not yet covered by internal ratings; for these the development of models based on the extension of the approach adopted for Project Finance is proposed. In the general reorganisation of the project in "cantieri", activities for the estimate of EAD (Exposure At Default) also commenced while the review activities of the LGD (Loss Given Default) estimates and of those relative to the analysis of the eligibility requirements of guarantees provided for by the New Accord continued.
Furthermore, activities for the parallel calculation in 2006 of capital absorptions according to the criteria of the New Accord commenced. The area for the extension of the approach based on internal ratings (IRB – Internal Rating Based) was also defined so to comply with the requirements set by the Bank of Italy and to concentrate the efforts on the most significant subsidiaries and those which may be more directly integrated in the Parent Company's calculation systems.

Large customers

Portfolio credit risk of large international customers continues to be monitored weekly. Compared to the previous quarter a reduction in overall exposure occurred, associated to a new stability in the portfolio's geographic composition, while in terms of sector breakdown there were lower portions invested in certain classes, in particular in the Auto Manufacturers sector.
In the same period loan portfolio quality improved in terms of probability of default (expected default frequency) of companies managed.
Average EDF of counterparties decreased from 0.25% to 0.16%, especially due to the reduction of average risk for the borrowers in the speculative grade classes.

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 Countries analysed; the analysis also includes an indicator of the political situation of the Countries and an indicator of Country risk perceived by the international financial markets (Moody's Market Implied Rating).
In the third quarter of 2005 Banca Intesa's overall exposure to Countries at risk remained virtually stable compared to the first half of the year; in particular the credit portfolio – as concerns Country risk – was still concentrated in Countries with high ratings (at the end of September 70% of overall exposure related to investment grade Countries) and, in particular, with A+/A- rating (33% of the total).

Operational risk

Banca Intesa continues in the consolidation of its system for the identification, measurement, monitoring and control of operational risks, fundamental elements of its framework centred on the realisation of a new governance model and the relative rules and procedures as well as the application of standards, methodologies and instruments which permit to evaluate and monitor risk exposure and the effects of mitigation of each Operating Unit.
The path which has been started will lead to a proactive management of risk, which is based on the management of events and on the valuation of risks and is aimed at controlling and mitigating them.

Banca Intesa's Internal Model is structured so to integrate the results deriving from qualitative analyses based on Self Risk Assessment and quantitative analyses, from statistical calculation of loss data.
In particular, in the third quarter approximately fifty Operating Units have been involved in Self Risk Assessment and have been asked to assess risk exposure, the main vulnerability areas, quality of existing controls and planned or implemented mitigation interventions.

Quantitative figures, recorded monthly by the Operating Units, are analysed by the Operational Risk Management Unit, which periodically prepares reports for management. In particular, in the third quarter a new quarterly report was formalised, with the purpose of stimulating the integration of operational risk management with daily operations and supply information to support decision-making processes; the same figures and an estimate of the risk profile are reported every three months to the Risk Committee.

To support with continuity the Change Management programme under way and spread the operational risk management culture, the training of the people actively involved in the operational risk management process continued.

In the quarter the development of the integrated system for the management of damages with the software to support the management of operational risks continued.

Credit granting process

The 2005-2007 Business Plan does not entail significant changes in the corporate/retail asset mix and Italy/Abroad asset mix achieved with the implementation of the previous 2003-2005 Business Plan. It focuses on the Group's growth, also for the Corporate Division which, after the recent restructuring of its loan portfolio, is set growth targets especially concentrated in the following segments: mid-corporate, Public Administrations and, in general, infrastructures.

The improvement of loan portfolio quality is pursued by specific operating checks for all the phases of loan management (analysis, granting, monitoring, management of non-performing loans). The management of credit risk profile is pursued starting from the analysis and granting phases via:
- checks on the existence of the necessary conditions for creditworthiness, with particular focus on the client's current and prospective capacity to produce satisfactory income and congruous cash flows;
- the assessment of the nature and size of proposed loans, considering the actual requirements of the party requesting the loan, the course of the relationship already

in progress with the Group and the presence of any relationship between the client and other borrowers;
- the search of a structure of loans so to favour the flow of operations to be carried out on the specific fiduciary relationship and, possibly, via cross selling of banking products and services.

The internal rating, introduced in Banca Intesa's operating activities in 2004, is prescriptive in the granting and monitoring of positions to the various customer segments. In fact, such positions, if they present a PD (Probability of Default) exceeding a predetermined threshold, must be approved by a higher competent body with respect to that determined with ordinary criteria. Consistently with the above-mentioned rule, the automatic review procedure excludes from that process positions with a PD exceeding a predetermined threshold.
The progressive rollout of the rating system adopted by the Parent Company Banca Intesa to subsidiary banks is under implementation.

Surveillance and monitoring activities are currently based on an internal controls system aimed at the optimal management of credit risk.
In particular, such activities are carried out using measurement methods and performance controls that permitted the construction of a synthetic risk indicator, available on a monthly basis. It interacts with processes and procedures for loan management (periodic reviews, loan applications, watchlist loans) and for credit risk control and permits to formulate timely assessments when any anomalies arise or persist. Extraordinary maintenance interventions on the risk indicators were carried out in 2005 reducing its volatility and increasing its forecasting capability, with an overall improvement of its performance.

The positions to which the synthetic risk index attributes a high risk valuation, which is confirmed over time, are intercepted by the Doubtful Loan Process.
The latter, supported by a dedicated IT procedure, enables to constantly monitor, largely with automatic interventions, all the phases for the management of anomalous positions.

Furthermore, all fiduciary positions are subject to a specific periodic review carried out for each counterparty/economic group by the competent central or peripheral structures based on the credit line limits; moreover, an automatic ad hoc audit procedure is in place for fiduciary relationships of small amounts and with low risk indices.

The Information Portal of the Credit Department offers both the Retail Division's operating units and the structures of Intesa's Corporate Division access to a wide range of reports dedicated to the loan portfolio of competence, updated monthly and to a series of "Alerts" which enable to identify the potentially-critical situations among those analysed.

The exchange of basic information flows among different Group entities is assured by the Group's "Centrale Rischi" (exposure monitoring and control system) and by "Posizione Complessiva di Rischio" (global risk position), that enable to highlight and analyse credit risks for each single client or economic group both towards Gruppo Intesa as a whole and towards individual Group companies.

Furthermore, a new Client rating procedure is operational as of June 2005 which permits to visualise the probability of default of the individual counterparty and of lists of clients belonging to the interrogating structure (Branches, Areas, Head Office Departments).

Internal controls system and auditing

With reference to internal auditing, the Internal Auditing Department is attributed the responsibility of surveillance on the regular proceeding of the Group's operations, processes and risks, assessing the overall functionality of the internal controls system. It also guarantees the effectiveness and efficiency of Company processes, the safeguard of asset value and protection from losses, reliability and integrity of accounting and management information, as well as transaction compliance with the policies defined by the Company's governance bodies and with internal and external regulations.
A compliance function has been set up within the Internal Auditing Department and is responsible of guaranteeing over time the presence of rules, procedures and

standard practices which effectively prevent violations or infringements of regulations in force as concerns financial intermediation and anti-money laundering. This structure, in line with provisions set out by the Basel Committee, also has the responsibility of "Internal Control Function" pursuant to the regulations regarding investment services.

Surveillance was carried out directly for the Parent Company Banca Intesa and for certain subsidiaries which have an "in service" contract for risks control; second level control was conducted for other Group companies.

Indirect supervision was carried out via direction and control over the adequacy and functionality of the internal auditing structures of Group subsidiaries in Italy and abroad. Direct review and verification interventions were also conducted.

In carrying out its interventions, the Internal Auditing Department uses preliminary methods of analysis of risks, defining the plan of the subsequent verifications based on the priorities which emerge from the preliminary valuations; this criterion used for planning interventions, based on risks, has been integrated with the objective of in any case guaranteeing that operating units, in particular the Network, are provided with adequate temporal and physical coverage.

Any weak points have been systematically notified to the units involved for prompt improvement actions which are monitored by follow-up activities. The valuations of the internal controls system deriving from the checks have been periodically transmitted to the Company Bodies in charge of management and control and the most significant irregularities have been promptly signalled to the Board of Statutory Auditors. The synthetic results of the controls system within the Group are also periodically discussed with the Internal Control Committee, which requests a timely update on the state of solutions being implemented to the functions involved. An analogous approach was introduced also in terms of responsibilities of the administrative bodies of companies as set out by Legislative Decree 231/01.

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, as communicated to Consob on 30th September 2005, 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	17.80	17.84
Fondazione CARIPLO	535,485,244	19,093,075	554,578,319	8.95	9.27
Generali group	381,954,943	16,974,535	398,929,478	6.38	6.67
including					
• *Assicurazioni Generali*	*1,290,949*	*975*	*1,291,924*		
• *Alleanza Assicurazioni*	*248,169,637*	*67,201*	*248,236,838*		
• *Other subsidiary companies*	*132,494,357* (a)	*16,906,359*	*149,400,716*		
Fondazione CARIPARMA	254,375,410	6,139,792	260,515,202	4.25	4.35
"Gruppo Lombardo"	184,541,810	13,693,759	198,235,569	3.08	3.31
including					
• *Banca Lombarda e Piemontese*	*139,963,274*	*5,059,638* (b)	*145,022,912*		
• *I.O.R*	*29,578,536* (c)	*1,675,058*	*31,253,594*		
• *Mittel*	*15,000,000*	*6,959,063* (d)	*21,959,063*		
Total Shareholders in the Syndicate	**2,421,184,708**	**58,497,419**	**2,479,682,127**	**40.46**	**41.44**
Total other Shareholders	**-**	**3,503,692,160**	**3,503,692,160**		**58.56**
Total	**2,421,184,708**	**3,562,189,579**	**5,983,374,287**		**100.00**

(a) Aachener und Münchener Lebensversicherung AG, Aachener und Münchener Versicherung AG, Assitalia S.p.A., Central Krankenversicherung AG, Cosmos Lebensversicherungs AG, FATA - Fondo Assicurativo Tra Agricoltori S.p.A., Generali Assurances Iard S.A., Generali Investment Management (Ireland) Ltd., Generali Versicherung AG (A), Generali Versicherung AG (D), Generali Vita S.p.A., GPA-VIE S.A., Ina Vita S.p.A., La Venezia Assicurazioni S.p.A., UMS - Generali Marine S.p.A., Volksfürsorge Deutsche Lebensversicherung AG.

(b) Including 4,855,302 shares via the subsidiary Banco di Brescia.

(c) Shares with beneficial interest in favour of Mittel.

(d) 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.

Transactions with related parties

Within Gruppo Intesa, the relationships among its various economic entities are inspired to centralisation criteria as regards basic management and control activities,

integrated with direction and assistance activities performed through consultancies in the fields of law, economic analysis, organisation and resource management. Instead, product companies have the task of managing financial products and services – ranging from mutual funds to bancassurance products to fiduciary services – and near-bank services, such as leasing, factoring and long-term credit and are assigned to the sales networks of Group companies.
The relationships with subsidiaries are seen within the normal operations of a multifunctional Group and mostly refer to relations for services rendered, deposits and financings which in the case of some subsidiaries are destined to finance activities performed in various sectors. Agreements were stipulated between the Parent Company Banca Intesa and certain Group companies regarding, as mentioned, the distribution of financial products and/or services or assistance, consultancy, and more generally the provision of services complementary to banking activities.
The economic effects connected with the above-mentioned relationships are normally regulated on the basis of market conditions applied to primary customers. In the case of services given by the Parent Company as part of normal group synergies, economic relations are usually regulated at the minimum level, equal at least to the recovery of specific and general costs.

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.

It is worth noting that there are collaboration agreements with certain primary groups already amply described in the Reports of previous periods.
In particular, Gruppo Intesa continued to place insurance policies on behalf of Intesa Vita, company of the Generali group. In the nine months these activities generated commission income of 145 million euro.
Again with the Generali group, Intesa Fiduciaria Sim was sold to Banca Generali for a consideration of 20 million euro. The valutation was confirmed by a fairness opinion issued by JP Morgan.
The collaboration with Crédit Agricole in the consumer credit sector continues.
Moreover, as already described, the Board of Directors of Banca Intesa of last 30th May approved a strategic agreement regarding asset management activities which sets out that Crédit Agricole Asset Management will hold a 65% stake and Gruppo Intesa a 35% stake of the share capital of the asset management company resulting from the integration of Nextra Investment Management, asset management company (SGR) of Gruppo Intesa, and Crédit Agricole Asset Management Italia thus forming one of the leading European asset managers.

Lastly, also relationships with groups managed by directors continue; all are regulated at standard market conditions.

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 in terms of capital gain and dividends was approximately 82%;
- market capitalisation increased by 10.5 billion euro between the end of 2002 and the end of 2004.

Managing Director and Chief Executive Officer Corrado Passera and the top executives exercised their options within the period 2nd-13th May 2005, and complied with provisions contained in the Internal dealing code. In total, within the period 2nd-31st May 2005, 67,667,061 ordinary shares were subscribed following the exercise of the aforementioned options. Of these 41,173,761 shares were later sold in the "block market". Following such subscriptions share capital increased to 3,596,249,720.96 euro.

Stock price performance

In a weaker economic context than the European average, the Italian stock market, though it closed the first nine months of the year with a 14% rise with respect to the end of 2004, underperformed the European markets by 3% (+17.7% the DJ Euro Stoxx index in the first nine months of 2005). The Italian banking sector overall, was instead positively influenced by certain international transactions: tender offers have been launched on medium-large Italian banks and, for the first time, an Italian bank has launched an important cross-border bid on a European banking group. In this context, the Italian banking index closed the first nine months of the year with a 20.7% progress with respect to the end of 2004, thus outperforming both the European banking index (+17.6%) and the Comit index (+14.0%).

The Banca Intesa ordinary share registered a 9.5% performance with respect to the beginning of the year while the Banca Intesa saving share registered a 14.6% progress, thus reducing its discount with respect to the ordinary share to 7% from 11% at the end of 2004.

Earnings per share

The 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	2,264	5,946,057,893	0.381
Diluted EPS	2,264	5,963,665,434	0.380

(*) Net income is not indicative of forecasted net income for the whole of 2005, since obtained by annualising net income for the first half and deducting estimated dividend reserved to saving shares and the estimated net income reserved to the Allowance for charitable contributions.

Dividend yield

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

As is generally known, on 1st October the Court of Parma homologated Gruppo Parmalat's arrangement before bankruptcy. Consequently, the increase in share capital resolved upon by the "new" Parmalat S.p.A. and the payment of the creditors admitted to the arrangement to the extent set out by the court ruling came into effects.
Gruppo Intesa companies have been attributed over 36 million shares, equal to approximately 2.3% of the share capital of the new company.

At the end of October, Banca Intesa – as programmed – purchased from Deutsche Bank AG, London, following the offering launched by the latter and destined for institutional investors, 13,416,561 RCS MediaGroup ordinary shares, corresponding to approximately 1.8% of the company's ordinary share capital, for an overall countervalue of approximately 58 million euro. The above-mentioned shares will be entirely vested in the RCS MediaGroup Block and Consultative Shareholder Syndicate Pact. As a result of this transaction, Banca Intesa's stake in the RCS MediaGroup ordinary share capital vested in the Shareholder Syndicate Pact is equal to approximately 4.77%, with an average carrying value per share equal to 3.76 euro.

Again at the end of October, the merger of IAF S.p.A. in Sirefid, Gruppo Intesa's fiduciary company was completed.

Projections for the whole year

Forecasts for the whole of 2005 are absolutely positive and make it reasonable to confirm that it will be possible to achieve the profitability targets set out in the Business Plan for 2005.

The Board of Directors

Milano, 11th November 2005

Attachments

- List of IAS/IFRS homologated by the European Commission
- Consolidated financial statements as at 30th September 2004 and as at 31st December 2004
- Parent Company's financial statements as at 30th September 2005
- Reconciliation of Parent Company's shareholders' equity and net income as per Legislative Decree 87/92 to IAS/IFRS shareholders' equity and net income at the dates of transition

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 30th September 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 30th September 2004 and as at 31st December 2004 are included hereafter.

In particular, the attachments as at 30th September 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 30th SEPTEMBER 2004

(in millions of euro)

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

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

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

(1) Figures restated on a consistent basis considering the consolidation area as at 30th September 2004.

RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME AS AT 30th SEPTEMBER 2004 (*)

(in millions of euro)

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

(1) Figures restated on a consistent basis considering the consolidation area as at 30th September 2004.

(*) With respect to the reconciliation tables presented in the chapter relative to IAS/IFRS first-time adoption, figures as at 30th September 2004 show certain marginal differences attributable to variations in the consolidation area.

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)

	2004	2003 pro forma [1]	Changes amount	Changes %
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	Changes %
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	Changes %
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 30th September 2005

The Parent Company's separate financial statements set out hereafter are:

- Parent Company's balance sheet as at 30th September 2005;
- Parent Company's statement of income as at 30th September 2005;
- Changes in Parent Company's shareholders' equity;
- Parent Company's statement of cash flows;
- Parent Company's reclassified balance sheet as at 30th September 2005;
- Parent Company's reclassified statement of income as at 30th September 2005.

Furthermore, the Reconciliation of Parent Company's shareholders' equity and net income as per Legislative Decree 87/92 to IAS/IFRS shareholders' equity and net income on IAS/IFRS first-time adoption is also included.

Comments on the Parent Company's performance are contained in a specific chapter of this Report, which considers the Parent Company's reclassified financial statements.

PARENT COMPANY'S BALANCE SHEET AS AT 30th SEPTEMBER 2005

(in millions of euro)

Assets	30/09/2005	31/12/2004 except IAS 39 (§)	Changes amount	Changes %
Cash and cash balances with central banks	599	655	–56	–8.5
Financial assets held for trading	37,952	40,334	–2,382	–5.9
Financial assets designated at fair value through profit and loss	–	–	–	
Financial assets available for sale	2,611	–	2,611	
Investments held to maturity	–	717	–717	
Due from banks	36,332	36,664	–332	–0.9
Loans to customers	104,231	102,874	1,357	1.3
Hedging derivatives	1,167	–	1,167	
Fair value change of hedged items	–	–	–	
Equity investments	11,488	13,435	–1,947	–14.5
Fixed assets	1,416	1,423	–7	–0.5
Intangibles	393	406	–13	–3.2
including				
- goodwill	–	–	–	
Tax assets	2,047	2,646	–599	–22.6
a) current	*985*	*1,684*	*–699*	*–41.5*
b) deferred	*1,062*	*962*	*100*	*10.4*
Non-current assets (or disposal groups) held for sale and discontinued operations	602	–	602	
Other assets	2,728	4,231	–1,503	–35.5
Total Assets	**201,566**	**203,385**	**–1,819**	**–0.9**

(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments and registration in a specific caption of assets related to discontinued operations. The effects of the merger of Intesa Sistemi e Servizi in Banca Intesa are also included.

PARENT COMPANY'S BALANCE SHEET AS AT 30th SEPTEMBER 2005

(in millions of euro)

Liabilities and Shareholders' Equity	30/09/2005	31/12/2004 except IAS 39 (§)	Changes amount	Changes %
Due to banks	31,488	27,488	4,000	14.6
Due to customers	79,034	80,129	–1,095	–1.4
Securities issued	45,365	48,817	–3,452	–7.1
Financial liabilities held for trading	14,685	14,237	448	3.1
Hedging derivatives	1,045	–	1,045	
Fair value change of hedged items	–	–	–	
Subordinated liabilities	8,979	9,385	–406	–4.3
Tax liabilities	607	411	196	47.7
a) current	*462*	*277*	*185*	*66.8*
b) deferred	*145*	*134*	*11*	*8.2*
Liabilities in disposal groups held for sale and discontinued operations	10	–	10	
Other liabilities	4,336	6,129	–1,793	–29.3
Employee termination indemnities	847	841	6	0.7
Allowances for risks and charges	1,356	1,564	–208	–13.3
a) pensions and similar commitments	*109*	*105*	*4*	*3.8*
b) other allowances	*1,247*	*1,459*	*–212*	*–14.5*
Revaluation reserves and valuation differences	1,173	987	186	18.8
a) financial assets available for sale (+/–)	*240*	–	*240*	
b) fixed assets (+)	–	–	–	
c) cash flow hedges (+/–)	*–54*	–	*54*	
d) legally-required revaluations	*987*	*987*	*0*	0
e) other	–	–	–	
Shares with the right of recession	–	–	–	
Equities	–	–	–	
Reserves	2,282	3,121	–839	–26.9
Share premium reserve	5,510	5,406	104	1.9
Share capital	3,596	3,561	35	1.0
Treasury shares (–)	–	–	–	
Net income	1,253	1,309	–56	–4.3
Total Liabilities and Shareholders' Equity	**201,566**	**203,385**	**–1,819**	**–0.9**

(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments and registration in a specific caption of liabilities related to discontinued operations. The effects of the merger of Intesa Sistemi e Servizi in Banca Intesa are also included.

PARENT COMPANY'S STATEMENT OF INCOME AS AT 30th SEPTEMBER 2005

(in millions of euro)

	30/09/2005	30/09/2004 except IAS 39 (§)	Changes amount	Changes %	Third quarter 2005	Third quarter 2004 except IAS 39 (§)	Changes amount	Changes %
Interest and similar income	4,787	4,852	–65	–1.3	1,619	1,649	–30	–1.8
Interest and similar expense	–2,437	–2,622	–185	–7.1	–826	–899	–73	–8.1
Net interest income	**2,350**	**2,230**	**120**	**5.4**	**793**	**750**	**43**	**5.7**
Fee and commission income	1,918	1,726	192	11.1	589	585	4	0.7
Fee and commission expense	–198	–191	7	3.7	–72	–65	7	10.8
Net fee and commission income	**1,720**	**1,535**	**185**	**12.1**	**517**	**520**	**–3**	**–0.6**
Dividend and similar income	540	767	–227	–29.6	46	14	32	
Profits (Losses) on trading	5	107	–102	–95.3	111	91	20	22.0
Fair value adjustments in hedge accounting	30	–	30		15	–	15	
Profit (Loss) on disposal of	50	9	41		34	6	28	
a) loans and receivables	–	–	–		–	–	–	
b) financial assets available for sale	*50*	*9*	*41*		*34*	*6*	*28*	
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	**4,695**	**4,648**	**47**	**1.0**	**1,516**	**1,381**	**135**	**9.8**
Net impairment losses on	–251	–546	–295	–54.0	–89	–122	–33	–27.0
a) loans and receivables	*–237*	*–546*	*–309*	*–56.6*	*–86*	*–120*	*–34*	*–28.3*
b) financial assets available for sale	*–8*	*–6*	*2*	*33.3*	*–1*	*5*	*–6*	
c) investments held to maturity	–	*6*	*–6*		*4*	*–7*	*11*	
d) other financial assets	*–6*	–	*6*		*–6*	–	*6*	
Net income from banking activities	**4,444**	**4,102**	**342**	**8.3**	**1,427**	**1,259**	**168**	**13.3**
Administrative expenses	–2,568	–2,576	–8	–0.3	–871	–850	21	2.5
a) personnel expenses	*–1,559*	*–1,594*	*–35*	*–2.2*	*–531*	*–521*	*10*	*1.9*
b) other administrative expenses	*–1,009*	*–982*	*27*	*2.7*	*–340*	*–329*	*11*	*3.3*
Net provisions for risks and charges	–147	–38	109		–25	–7	18	
Adjustments to fixed assets	–104	–101	3	3.0	–37	–33	4	12.1
Adjustments to intangibles	–139	–145	–6	–4.1	–52	–55	–3	–5.5
including - goodwill	–	–	–		–	–	–	
Other operating expenses (income)	279	254	25	9.8	114	106	8	7.5
Operating expenses	**–2,679**	**–2,606**	**73**	**2.8**	**–871**	**–839**	**32**	**3.8**
Profits (Losses) on investments	89	221	–132	–59.7	52	58	–6	–10.3
Income (Loss) before tax from continuing operations	**1,854**	**1,717**	**137**	**8.0**	**608**	**478**	**130**	**27.2**
Taxes on income from continuing operations	–595	–395	200	50.6	–191	–175	16	9.1
Income (Loss) after tax from continuing operations	**1,259**	**1,322**	**–63**	**–4.8**	**417**	**303**	**114**	**37.6**
Income (Loss) after tax from non-current assets (or disposal groups) held for sale and discontinued operations	–6	–	6		–6	–	6	
Net income (loss)	**1,253**	**1,322**	**–69**	**–5.2**	**411**	**303**	**108**	**35.6**

(§) Figures restated under IAS/IFRS, except for IAS 39 relating to financial instruments and registration in a specific caption of income or losses after tax from discontinued operations. The effects of the merger of Intesa Sistemi e Servizi in Banca Intesa are also included.

CHANGES IN PARENT COMPANY'S SHAREHOLDERS' EQUITY

(in millions of euro)

30/09/2004

	Amounts as at 31/12/2003 (*)	Changes in initial balances (Transition to IAS/IFRS - Except IAS 39	Restated shareholders' equity 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 30/09/2004	Restated shareholders' equity as at 30/09/2004 (§)
				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
Reserves														
a) legal	773		773											773
b) statutory	61		61	1,024										1,085
c) other	1,585	-339	1,246									6		1,252
Treasury shares	1,015	-1,015	0											0
Revaluation reserves and valuation differences														
a) financial assets available for sale														–
b) fixed assets														–
c) cash flow hedges														–
d) legally-required revaluations	987		987											987
e) other	–		–											–
Net income	1,359		1,359	–1,024	–335								1,322	1,322
Total	**14,745**	**-1,354**	**13,391**	**0**	**–335**	**2**	**–**	**–**	**–**	**–**	**–**	**6**	**1,322**	**14,386**

(*) Determined using Italian accounting principles (Legislative Decree 87/92).
(§) Except for IAS 39.

(in millions of euro)

30/09/2005

	Restated shareholders' equity as at 31/12/2004 (*)	Changes in initial balances (Transition to IAS/IFRS - IAS 39)	Restated shareholders' equity 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 30/09/2005	Shareholders' equity as at 30/09/2005
				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				35							3,111
b) other	485		485											485
Share premium reserve	5,406		5,406				104							5,510
Reserves														
a) legal	773		773											773
b) statutory	1,094		1,094	404										1,498
c) other	1,254	–1,418	–164	168		0						7		11
Treasury shares														–
Revaluation reserves and valuation differences														
a) financial assets available for sale		169	169			71								240
b) fixed assets														–
c) cash flow hedges		–6	–6			–48								–54
d) legally-required revaluations	987		987											987
e) other														–
Net income	1,309		1,309	–572	–737								1,253	1,253
Total	**14,384**	**–1,255**	**13,129**	**0**	**–737**	**23**	**139**	**–**	**–**	**–**	**–**	**7**	**1,253**	**13,814**

(*) Except for IAS 39.

PARENT COMPANY'S STATEMENT OF CASH FLOWS

(in millions of euro)

	30/09/2005 (*)	30/09/2004 except IAS 39 (§)
OPERATING ACTIVITIES		
1. Cash flow from operations	2,275	2,168
2. Cash flow from decreases in financial assets	1,215	10,486
3. Cash flow used for increases in financial assets	–2,108	–12,864
4. Cash flow from increases in financial liabilities	3,949	6,178
5. Cash flow used for reimbursement/repurchase of financial liabilities	–4,195	–5,612
Net cash flow from (used for) operating activities	**1,136**	**356**
INVESTING ACTIVITIES		
1. Cash flow from investing activities	160	126
2. Cash flow used for investing activities	–753	–227
Net cash flow from (used for) investing activities	**–593**	**–101**
FUNDING ACTIVITIES	**–599**	**–333**
Net cash flow from (used for) funding activities	**–599**	**–333**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**–56**	**–78**
RECONCILIATION		
Captions		
Cash and cash equivalents at beginning of period	655	641
Net increase (decrease) in cash and cash equivalents	–56	–78
Cash and cash equivalents at end of period	**599**	**563**

(*) The statement of cash flows as at 30th September 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 and registration in a specific caption of assets and liabilities related to discontinued operations.

PARENT COMPANY'S RECLASSIFIED BALANCE SHEET AS AT 30th SEPTEMBER 2005

(in millions of euro)

Assets	30/09/2005	31/12/2004 including IAS 39 (§)	Changes	
			amount	%
Cash and cash balances with central banks	**599**	655	–56	–8.5
Financial assets held for trading	**37,952**	38,088	–136	–0.4
Financial assets available for sale	**2,611**	2,529	82	3.2
Investments held to maturity	**–**	–	–	
Due from banks	**36,332**	36,983	–651	–1.8
Loans to customers	**104,231**	102,222	2,009	2.0
Hedging derivatives	**1,167**	962	205	21.3
Equity investments	**11,488**	10,869	619	5.7
Fixed assets	**1,416**	1,423	–7	–0.5
Intangibles	**393**	406	–13	–3.2
Tax assets	**2,047**	3,243	–1,196	–36.9
Non-current assets (or disposal groups) held for sale and discontinued operations	**602**	762	–160	–21.0
Other assets	**2,728**	2,740	–12	–0.4
Total Assets	**201,566**	**200,882**	**684**	**0.3**

Liabilities and Shareholders' Equity	30/09/2005	31/12/2004 including IAS 39 (§)	Changes	
			amount	%
Due to banks	**31,488**	27,539	3,949	14.3
Due to customers	**133,378**	135,833	–2,455	–1.8
Financial liabilities held for trading	**14,685**	16,059	–1,374	–8.6
Hedging derivatives	**1,045**	1,337	–292	–21.8
Tax liabilities	**607**	547	60	11.0
Liabilities in disposal groups held for sale and discontinued operations	**10**	10	0	0.0
Other liabilities	**4,336**	4,319	17	0.4
Employee termination indemnities	**847**	841	6	0.7
Allowances for risks and charges	**1,356**	1,268	88	6.9
Share capital	**3,596**	3,561	35	1.0
Share premium reserve	**5,510**	5,406	104	1.9
Reserves	**2,282**	1,778	504	28.3
Revaluation reserves and valuation differences	**1,173**	1,150	23	2.0
Net income (loss)	**1,253**	1,234	19	1.5
Total Liabilities and Shareholders' Equity	**201,566**	**200,882**	**684**	**0.3**

(§) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of assets and liabilities related to discontinued operations, as well as the effects of the merger of Intesa Sistemi e Servizi in Banca Intesa.

PARENT COMPANY'S RECLASSIFIED STATEMENT OF INCOME AS AT 30th SEPTEMBER 2005

(in millions of euro)

	30/09/2005	30/09/2004 including IAS 39 (§)	Changes amount	Changes %
Net interest income	2,380	2,253	127	5.6
Dividends	306	505	–199	–39.4
Net fee and commission income	1,720	1,535	185	12.1
Profits (Losses) on trading	289	115	174	
Other operating income (expenses)	74	101	–27	–26.7
Operating income	**4,769**	**4,509**	**260**	**5.8**
Personnel expenses	–1,524	–1,577	–53	–3.4
Other administrative expenses	–839	–837	2	0.2
Adjustments to fixed assets and intangibles	–243	–246	–3	–1.2
Operating costs	**–2,606**	**–2,660**	**–54**	**–2.0**
Operating margin	**2,163**	**1,849**	**314**	**17.0**
Net provisions for risks and charges	–147	–58	89	
Net adjustments to loans and receivables	–237	–367	–130	–35.4
Net impairment losses on other assets	–14	0	14	
Profits (Losses) on investments held to maturity and on other investments	89	221	–132	–59.7
Income (Loss) before tax from continuing operations	**1,854**	**1,645**	**209**	**12.7**
Taxes on income from continuing operations	–595	–360	235	65.3
Income (Loss) after tax from non-current assets (or disposal groups) held for sale and discontinued operations	–6	–68	–62	–91.2
Net income	**1,253**	**1,217**	**36**	**3.0**

(§) Comparative figures calculated using IAS/IFRS, including estimated impact of application of IAS 39 relating to financial instruments and registration in a specific caption of income or losses after tax from discontinued operations, as well as the effects of the merger of Intesa Sistemi e Servizi in Banca Intesa.

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

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	30/09/2004	30/09/2004	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**	**14,600**	**14,600**	**14,547**	**14,547**
RESERVES	**–1,283**	**–3,073**	**–153**	**–2,114**	**–96**	**–2,023**
- Due from banks and loans to customers						
- analytical measurement of non-performing loans	–	–480	–	–538	–	–558
- collective measurement of performing loans	–	–199	–	–140	–	–123
- other impacts	–	–131	–	–123	–	–113
- Financial assets held for trading						
- fair value measurement of trading securities and related derivatives	–	76	–	2	–	12
- fair value measurement of derivatives: credit risk adjustment and bid-ask spread	–	–150	–	–146	–	–165
- fair value measurement of derivatives: separation of embedded derivatives from bonds issued	–	–223	–	–370	–	–349
- fair value measurement of equity investments classified as held for trading	–	–154	–	–129	–	–117
- 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	181	181	185	185
- items that do not qualify for recognition as intangibles	–1	–1	–1	–1	–1	–1
- goodwill impairment	–34	–34	–31	–31	–29	–29
- Allowances						
- collective measurement of guarantees given	–	–69	–	–68	–	–68
- unrecognised allowances for risks and charges and discounting of provisions	41	44	40	54	43	57
- actuarial valuation of employee termination indemnities and allowances for pensions	–8	–8	–7	–7	–2	–2
- Dividends accrued	**–481**	**–481**	**–336**	**–336**	**–293**	**–293**
- Reserve for own shares	**–1,015**	**–1,015**	**0**	**0**	**–**	**–**
- Other impacts	**45**	**–250**	**1**	**–294**	**1**	**–294**
VALUATION DIFFERENCES	**–**	**95**	**–**	**91**	**–**	**163**
- Financial assets available for sale						
- fair value measurement of debt securities	–	12	–	12	–	12
- fair value measurement of equities	–	93	–	89	–	161
- Cash flow hedges						
- cash flow hedges: fair value measurement of derivatives	–	–10	–	–10	–	–10
Tax impact	**–71**	**376**	**–61**	**452**	**–67**	**442**
Total impacts of IAS/IFRS first-time adoption	**–1,354**	**–2,602**	**–214**	**–1,571**	**–163**	**–1,418**
IAS/IFRS Shareholders' equity	**13,391**	**12,143**	**14,386**	**13,029**	**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)

	30/09/2004	30/09/2004	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)	**1,204**	**1,204**	**1,141**	**1,141**
- Net interest income	–9	55	–12	84
- Dividends	145	145	189	189
- Net fee and commission income	–	–	–	–
- Profits (Losses) on trading	–	–264	–	–255
- Other operating income (expenses)	–	–	–	–
- Operating costs	10	10	17	17
- Goodwill	–	–	–	–
- Adjustments and provisions	8	36	14	36
- Change in the reserve for general banking risks and other reserves	–	–	–	–
- Taxes and other	–36	31	–40	22
Total impacts of IAS/IFRS first-time adoption	**118**	**13**	**168**	**93**
IAS/IFRS net income	**1,322**	**1,217**	**1,309**	**1,234**

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

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